



Corporate Office Perspectives

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What an office market! On the one hand, there are encouraging signs of improvement, and yet a number of submarkets report excitedly about the positive absorption getting the local vacancy rate down from 17 to 16 percent or 25 percent down to 20 percent, or in a relatively “hot” market, down to 12 percent. Yes, the trends are positive, but many sellers are still using proforma 5 percent vacancy factors, and in the old days even a 10 percent vacancy was not good for landlords. We see reports that Corporate America is finally going to add jobs and then two days later see reports that a recession is just around the corner. Much of the corporate shadow space (office space vacant or underutilized but not formally on the availability list) is quickly being reduced, and much of the long-term quality bargain office sublease space is now gone. In the same breath global offshoring is predicted to increase 25 to 30 percent annually for the foreseeable future. Office building sales are setting record per square foot prices, with \$250/sf in the suburbs and \$400+/sf in the downtown Financial District, yet in a few of the more prominent Bay Area submarkets, landlords are still doing \$30/sf full-service leases, including \$12 to \$15/sf operating expenses, and also including a \$40 to \$50/sf TI allowance ... I guess it all depends on what side of the fence one is on and the objective of the story they are trying to tell ...

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National Real Estate Investor (2/1/05), “Corporate America has become highly adept at squeezing more productivity from existing resources. Annual output per hour increased 4.4 percent in both 2002 and 2003, making those two of the five most productive years since the Bureau of Labor Statistics began tracking worker output in 1947. Instead of absorbing space, Corporate America in recent years largely has been shedding excess real estate to trim costs. The national office vacancy rate registered an unhealthy 16.6 percent in the third quarter of 2004, according to Reis, a New York-based research firm.” But here comes the good news ... In a recent study to hundreds of corporate users, 57 percent plan to increase their existing occupancy in primary markets, compared with 31 percent in last year’s survey. “Few corporations expect space reductions to continue this year ... only 6 percent of corporate respondents plan to reduce their holdings in primary markets ... ”

Wow, we have been writing this newsletter for corporate office professionals every other month for 25 straight years! Supposedly it is the oldest individual newsletter of its type in the US, but hey, it’s free! My first issue was one page and I not only signed every individual newsletter (which I stopped doing when it got into the thousands), I even hand-wrote notes on many of them as I was on a first name basis with the 400 original subscribers. Our website, www.OfficeTimes.com, is also one of the oldest corporate real estate websites and loaded with hundreds of articles and information on

corporate real estate sales and leasing. On behalf of myself and our great team who gets this done correctly and on time, thank you!

Current range of San Francisco Bay Area operating expense budgets: Suburbs, no frills \$.65/sf month, (\$7.80/sf/year); Suburbs Class A, \$.83 to \$1.00/sf month (\$10 to \$12/sf/year); Downtown San Francisco, \$1.25 to \$1.33/sf/month (\$15 to \$17/sf/year). What are some of the factors behind the differentials? Suburban garden-office with surface parking, no on-site security, single-floor (without elevator of course), costs less to operate than an office project with structured parking, on-site security, elevators and Class A amenities. Non-union janitorial is usually less costly than unionized labor. Lower-priced suburban office buildings that are on the tax-rolls with a low-tax basis offer a much lower property tax component than a \$250/sf suburban Class A office building that just changed hands. Local city taxes or assessment districts can also increase the property tax component considerably.

Outsourcing update: "India's downside includes inadequate roads, a shortage of hotel rooms, insufficient power, traffic jams, too few overseas flights and high telecommunication fees," (*SR Times* 2/12/05). But in spite of all this, growth is still projected to continue at a rate of 25 to 30 percent per year. "In the meantime, larger outsourcing companies have taken matters in their own hands, building suburban campuses with luxuriously landscaped gardens, swank office buildings, food courts, gyms, swimming pools, supermarkets and clothing stores. They run their own bus services to ferry employees to and from work and operate generators to meet their energy requirements. Infosys is also building a 500-room hotel on its campus" ... "Other Indian campuses have Western-quality housing, work recreational and shopping facilities and 24/7 power back-up."

Office buildings across the nation are selling left and right. As reported in *National Real Estate Investor*, (March 2005), according to NY-based real estate research firm Reis, "In 2004 office buyers and sellers completed 2,200 transactions over \$2 million each valued at \$53 billion. To put those figures in perspective, the number of transactions rose 22 percent over 2003 while the total dollar value of the transactions spiked 32.5 percent."

Deals and Rumors: In **San Francisco**, Severson & Werson leased 39,000 sf at One Embarcadero; Tenyson sublet 10,000 sf at 555 California St.; Burns & Wilcox took 13,000 sf at 100 Pine St.; Sasaki Associates leased 12,000 sf at 77 Geary St.; Rutherford and Chekene took 20,000 sf at 55 Second St.; Esurance leased 11,000 sf at 747 Front St.; Webcor Interior leased 14,000 sf at 250 California St.; Barclay's is rumored to still be working on their 270,000 sf consolidation; Media Smith took 10,000 sf at 274 Brannan St.; Sen Sage leased 10,000 sf at 55 Hawthorne St. and Spanish Broadcast System may have inked a 11,000 sf lease at 455 Market St. In **Oakland**, IXIS Asset Management Advisors leased 12,000 sf at 1999 Harrison and in **Berkeley**, Lawrence Berkeley National Laboratory leased 72,000 sf at 717 Potter St. In **Lafayette**, I helped sell the World Savings building for \$440/sf. In **Walnut Creek**, StorageTech expanded to 10,000 sf at 1277 Treat Blvd. In **Concord**, Mortgage IT expanded to 10,000 sf at 1855 Gateway Blvd. In **San Ramon**, Warmington Homes and United Credit each leased 17,000 sf, both at 2010 Crow Canyon Place, and 7-11 leased 11,000 sf of office space at 4301 Hacienda Drive in **Pleasanton**. Overall, one of the slowest 60-day periods in many, many years!

"SBC deal will cut 13,000 jobs, in addition to the firm's current plans to eliminate 12,000 positions," ... (*SR Times* 2/2/05); "State sheds 25,000 jobs," (*Sacramento Bee* 1/15/05); ... "The real estate market accounted for 70 percent of the jobs added by the economy in the past two years ... reduced growth foreseen," (*SF Chronicle* 3/15/05); "Job growth remains slow ... companies are reluctant to bulk up their work forces," (*Tri-Valley Herald* 2/5/05); "Job growth in Bay Area should improve modestly this year and next, according

to a forecast issued Thursday by the Association of Bay Area Governments,” (*SF Chronicle* 1/28/05); “Job growth better in East Bay ... Employment gains above Bay Area average, according to an economist with Wells Capital Management, a unit of Wells Fargo Bank,” (*SR Times* 3/19/05). “Reduced growth foreseen ... California’s economy will be hard pressed to generate more than tepid growth in the next few years as the real estate market begins an inevitable slow down, according to the quarterly *UCLA Anderson Forecast* to be released today. The recent economic expansion is nearing an end, and the next national recession could be as soon as next year.” (*SF Chronicle* 3/15/05) If these headlines sound confusing and contradictory, you’re not the only one!

There are two high-profile cases involving financial incentives offered by different state governments in order to attract major business expansions, according to *Expansion Management* (February 2005). At issue is the constitutionality of one state aggressively offering incentive packages to entice corporations to locate to its state because it unfairly interferes with interstate commerce. “While it is certainly the business of Ohio taxpayers how their state government spends their tax dollars, it’s not a federal issue. Clearly, differing local tax climates have an impact on the relative business competitiveness of the states. However, so do differences in weather, topography and demographics.” I could be wrong, but California may stand to benefit if other states aren’t able to offer huge financial incentives to leave our Golden State ...

I pulled out my first newsletter issue from 1980, and here are a few interesting tidbits: “Almost everybody reports tight money and projects without financing commitments may be delayed until it loosens up. Least motivated tenants seem to be mortgage, real estate and title insurance. Activity from San Francisco is still good – space quotes there for 1981 run \$15 to \$26/sf per year, and the gas situation combined with the difficulty in locating space, should continue this transbay relocation. Park Shadelands (Walnut Creek) - \$0.97/sf, fully serviced! Downtown Walnut Creek - \$.95 to \$1.30/sf.” Well, one of our strongest market segments today is mortgage, real estate and title insurance, and few firms in San Francisco are contemplating a transbay relocation. Rental rates doubled over 25 years, but if you had just invested in a US savings bond during the same 25-year period ...

Shanghai Jiao Tong University compiled an online academic ranking of 500 world universities. The United States had eight of the top 10 institutions: Harvard, Stanford, Cambridge, University of California - Berkeley, MIT, California Institute of Technology, Princeton, Oxford, Columbia and University of Chicago. (I received both my BS and MBA from UC Berkeley, so hooray!)

The Institute of Real Estate Management (IREM) just released a new edition of *Before Disaster Strikes: Developing an Emergency Procedures Manual*. The manual provides information and guidelines to assist property managers and owners in developing emergency plans and procedure manuals for the properties they manage, covering 22 different types of emergency situations. It comes with a CD-ROM which has emergency planning forms that you can customize. For more information please go to www.irem.org.

“Bioscience outsourcing is rising roughly 20 percent annually, twice the pace of five years ago. Some 75 percent of US companies advanced pharmaceutical intermediates – the active base ingredients for drug experiments – are now made in India and China and increasing amounts of preclinical research is also heading there.” (*SF Business Times* 3/4/05).

Want to know the best places to locate a nanotechnology production or research facility? According to *Expansion Management (EM)* (February 2005), “Industry forecasters estimate spending on nanotech products could reach \$1 trillion annually by 2015, according to *The Wall Street Journal*.” Here is how *EM* ranked the top 10 states: California, Massachusetts, New Mexico, New York, Texas, Illinois, Pennsylvania, Michigan,

Connecticut, Ohio ... Wonder if this industry has extremely small space requirements?

My entire family is sad to see the end of winter as this means the end of a terrific ski season. However, with recent summer-like weather, Little League is in full swing, and life does not get much better than being on the field with your son and his 12 teammates, watching them correctly field the ball, throw a quick out and occasionally execute a successful double-play! Jordan is in his third year, in the A-level and it is a true honor to be a coach for his Yankee team. Madison, who will turn three this May, is a total ball of energy. Singing, dancing and loving life makes her a real joy to be around. My wife has her in music class, and in a few months she will start swim lessons. For pictures of their recent adventures, please go to www.officetimes.com/JMApril05.htm.

We are all here so briefly and yet there are few limits to how deeply we touch and impact other lives. I hope this spring is your absolute best ever, and if I or my team can assist in your commercial real estate needs, please don't hesitate to call. Thank you!

Thank you!

Sincerely,

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