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Okay, where the heck is the good news in today's office market...the few silver linings are ample building parking (usually), less commute traffic, some of the lowest prices on office space in the past 15 years (in many areas), and it's a lot easier to get a table at your local restaurants for business lunches. Overall, the San Francisco Bay Area currently has an estimated 65 million square feet of available office and R&D space. Silicon Valley leads the pack with more than 40 million feet of this, followed by San Francisco with 14 million feet. San Mateo, Alameda and Contra Costa make up the balance. Submarket vacancies range from 10 percent for Class A Walnut Creek office space to 30 to 40 percent for Class A space in Emeryville. Landlord agents can put a positive spin on market definitions, and varying vacancy rates for the same market can be attributed to how "vacancy" is defined. As an example, Cisco has millions of feet of "vacant" office space, i.e. non-occupied, yet at the present time not all of this space is on the market. Other firms may be occupying hundreds of thousands of feet of office space but with a skeleton crew on site, which to some brokerage houses defines the space as "occupied" and not vacant. However, any way you slice it, 65 million square feet of office space with prospective tenants far and few between is not a healthy market by anyone's definition...

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In my June 2002 *OfficeTimes* newsletter I stuck my neck out in predicting 30 to 60,000 telecom jobs might be cut during 2002. This was before WorldCom, and boy, was I conservative... The *San Francisco Chronicle* July 9, 2002 stated "WorldCom, SBC Communications and other communications firms announced plans to shed nearly 166,000 jobs through the first half of the year – putting the battered sector on pace to surpass last year's bloodletting. Overall, telecom firms have eliminated close to half a million jobs since January 2001, accounting for a fifth of all layoff announcements."

Bay Area corporations doing 20-year projections on where future workforce might be coming from should take note that out in San Joaquin Valley, the city of Lathrop (near Tracy) is planning a 25 to 30,000 resident community on 4,800 acres with house prices starting at \$150,000. Included in the development plans is a business park envisioned for 15,000 jobs and executive housing with backyard boat docks accessible to the 1,000 miles of Delta waterways. Add this to Mountain House, also near Tracy, which will be home to 44,000 residents, and you can envision the next Contra Costa I-680 Corridor...

In the *San Ramon Valley Herald* 6/26/02, mention was made of a number of California cities that now do not allow compact parking spaces, recognizing that when the compact stall trend first began in the 1970s, we were all supposed to be driving little compacts with great gas mileage, but in reality, the SUV and minivan craze has created a parking nightmare for many. "In 2001, small cars represented just 41.2 percent of automobile sales nationally, down from 23 percent a decade earlier. Over the same period, sales of SUVs, vans and light trucks increased to 44.9 percent of motor vehicles sold in 2001, up from 33.3 percent in 1991." How many times

have you found a compact car in a full-size stall, thus forcing larger cars into compact spaces? Older buildings do not have the luxury of making all stalls full-size or they would lose 20 percent of their parking. Many office building leases have a clause allowing the landlord to make changes in parking configuration and charges. What about sending a notice to the tenants informing them that there will be a \$20/month additional charge for compact cars tagged parking in a full-size stall? Give the \$20/month collected to the property manager in charge of enforcement, or use the money to give ice cream or BBQ parties for all the tenants who comply with these new regulations.

Another element also emerged during this Realcomm conference...the click-to-brick concept of just a few years whereby an office tenant would use the Internet to search for space, do market comparables, take a virtual tour of the space, negotiate on-line, hammer out the lease terms and language on-line, and then sign digitally, thus going from A to Z using the power of the Internet. Many industry professionals now view this to be an unrealistic objective. Instead, portions of the transaction will be expedited and enhanced through the Internet. Property management, tenant interaction and hundreds of other aspects of leasing, managing and owning commercial real estate will be vastly improved through harnessing the increasingly powerful and user-friendly Internet, but this does not mean everything has to go on-line. Just as few folks would buy a home, site unseen, without at least a personal inspection of the neighborhood, views, layout, etc., so too will human interaction still be a required element in the leasing and purchasing of commercial real estate. (Whew, I almost thought I was out of a job!)

Deals and Rumors: I helped UFCW sell its 55,000 sf two-building office complex at 150-190 N. Wiget Lane, **Walnut Creek**, and assisted IBEW in its office site purchase in **Vacaville** for a 20,000 sf build-to-suit. In **Pleasanton**, KB Homes sublet 20,000 sf at 6700 Koll Center Parkway, Team Health sublet 12,000 sf at 5000 Hopyard Rd., Trapeze Networks leased 38,000 sf at 5753 W. Las Positas Blvd. and Litrex leased 15,000 sf at 6670 Owens Drive. In **Livermore**, Allstate Insurance leased 28,000 sf at 2600 Gateway, and the University of Phoenix just leased 27,000 sf at the Tri-Valley Business Center. Over the hill in **Emeryville**, Avalon Publishing leased 14,000 sf at EmeryTech; Thios Pharmaceuticals is taking 18,000 sf of lab space at EmeryStation, where Kaiser is rumored to be looking at a 60,000 sf lab location and Pixar is planning a 200,000 sf expansion of its Emeryville campus. In **Berkeley**, Bayer Pharmaceutical will be expanding by 80,000 sf. In **Oakland**, the big rumor is Kaiser's contemplation of 200,000 sf at 555 12th St., which another rumor has as now on hold; also where Meyers, Nave, Riback, Silver & Wilson leased 29,000 sf. In **Hercules**, Shields Nursing is rumored to be leasing 19,000 sf of office space. Up in **Novato**, SpatiaLight took 14,000 sf at Hamilton Landing. In **San Rafael**, GSA Federal leased 10,000 sf at 100 Smith Ranch Rd. In **San Francisco**, Offit Hall Capital Partners sublet 21,000 sf at One Maritime; Zelle Hofman, Voelbel, Mason & Gette took 14,000 sf at 44 Montgomery; Shea Labagh Dobberstein leased 15,000 sf at 505 Montgomery; AKQA sublet 13,000 sf at 1035 Battery St.; UBS Warburg took 14,000 sf at 101 California St.; Actify, Inc. sublet 13,000 sf at 60 Spear St.; and ATEL Capital Group leased 20,000 sf at 600 California St. In **South San Francisco**, Genentech has a 125,000 sf expansion in planning and just leased 30,000 sf at 801 Gateway. In **San Mateo**, TeraRecon sublet 23,000 sf at 2955 Campus Dr., and down in **Redwood City's** Pacific Shores Dreamworks signed for 120,000 sf (earlier reported at 100,000 sf), while ArQuel leased 35,000 sf, and Recourse and Nextance combined sublet 60,000 sf from Broadvision, all at Redwood Shores. Also in **Redwood City**, E2open signed a 37,000 sf lease at 1600 Seaport Blvd.

Our building management systems are becoming more computerized and Internet-driven, with hand-held PDA interface and Bluetooth wireless connectivity to the central systems. Computerized sensors on the HVAC components can now signal when a system is acting even slightly erratic or is potentially about to experience mechanical failure. Security systems can be integrated in doors and hallways, and monitoring systems are available at relatively inexpensive costs for every exterior and interior building point imaginable. However, with recent suspected terrorist hackers trying to access government systems, how susceptible are these new office building systems to outside intruders? According to the *San Ramon Valley Herald* 8/27/02, "Suspected al-Qaida cyber terrorists have been quietly casing the computers that govern the Bay Area's powerplants, water systems and emerging response capabilities, prompting a high-priority security push by the FBI and experts at Lawrence Livermore Labs...U.S. investigators have found evidence that al-Qaida operators spent time on Internet sites that offer software and programming instructions for the digital switches that run power, water, transport and communication grids." If a coordinated cyber-attack on trophy properties were part of a larger scheme, will our building systems function to protect us or can they be turned against us? If a ventilation system control was turned the wrong direction during a chemical attack, or the wrong doors were locked or unlocked, what might the result be?

At the recent Realcomm Commercial Real Estate Tech Conference in Las Vegas, I moderated a panel comprised of leading

REIT and institutional owners titled “Who’s Pushing the Envelope?”. One of the many interesting concepts discussed was the impact of the global economy on the way we think about our business. A long time ago (i.e. 1960s and before), American factories produced a great amount of our goods. In the 1980s and 1990s, our factory production shifted to Mexico and other less expensive nations. In the *San Francisco Chronicle* 6/21/02, “Since the end of 2000, about 250,000 factory workers in Mexico have lost their jobs. Some of the same work that left North Carolina textile plants and Chicago auto parts assembly lines for Mexico in the 1980’s is now moving to Asia. The reason is the same : cheap labor.” In the *CC Times* 6/14/02, “About 100 credit card call-center employees at ChevronTexaco Corps’ Concord office will lose their jobs in November or December as part of a move of some call-center operations to a new office in the Philippines.” So what does this have to do with REITS and institutional investors? An increasing number of commercial property ownership and management functions do not have to be done on site, in the same region or even in the same country. Property analysis prior to acquisition can, in part, be done in India the same as many highly technical engineering and programming assignments are currently done digitally. With many surveillance camera systems now capable of being done off-site through secured Internet sites, does the monitoring have to be done in the U.S. Pinkerton office or can it be done in the Pinkerton office in Brazil? (assuming they have one there...) Local security can be notified should a physical investigation be required. What other functions can be done elsewhere by highly trained professionals at a fraction of the current cost?

According to a recent article in the *San Francisco Chronicle* 6/02/02, “California’s bioscience industry is expected to add nearly 40,000 jobs by 2005...The more than 800 bioscience companies in Northern California employ in excess of 85,000 people, including about 52,000 in the Bay Area...” At first glance this looks like a partial cure for the Bay Area’s severe office/R&D space “hangover.” Many lab users have a much lower space utilization density than traditional office users, i.e. a normal office density of 200 sf per person means this job influx might represent 8 million square feet of space. For lab usage, it might represent as much as 20 to 30 million square feet of lab space. However, the bioscience industry likes unique, specialized labs with lots of fume hoods, special gas piping, very specialized heating, cooling, air filtering, mechanical systems, etc., which is why, in spite of today’s huge excess space inventory, Genentech is building its own expansion facility, as are Bayer and numerous other lab users...

Did you know that new personal computers might be emitting enough pollutants to impair typing skills? According to a recent article in *Tri-Valley Herald* 7/3/02, a study done in Denmark found that “Most pollutants come from the monitor, where the hot cathode ray tube in a running computer causes more volatile chemicals to escape into the air. The flame retardant used in computers is also a source of the chemicals.” Errors jumped an average of 22 percent when workers used the new PCs versus three-month-old models (and I thought I was being nice letting my staff get the newest equipment...).

Buildings (June 2002), in an article titled “The Next Evolution of Data Center Design,” stated that data center design has not changed for more than 30 years, but computer equipment has changed drastically. “The existing method cannot effectively cool the heat dissipation generated by today’s computers...Today’s computers dissipate heat at up to 10 times faster than what was produced just three years ago.” One solution – cool the cabinet, not the room, taking the conditioned supply air and pushing it through the electronic equipment ... for more information, contact the author R. Stephen Spinazzola at website www.RTKL.com.

In the July 1, 2002 *California Real Estate Journal*, “According to a 1999 nationwide study by Knoll Inc., a global office furniture manufacturer, the cubicle size for midlevel professionals has shrunk in the past decade from an average of 10 feet by 8 or 10 feet, to 8 feet by 6 or 8 feet. This space reduction has affected not just those relegated to cubicles. During the same time, the density of employees in offices has nearly doubled...The 360 full-time office workers who responded to the Knoll Study said the number one impact of increased office density is a lack of adequate storage, followed by problems with HVAC control, followed by acoustics, all of which can be detrimental to worker productivity and satisfaction.” I try to remind my clients that the cost of real estate is far surpassed by the cost of employees, and at some point diminishing returns means lowered productivity, a dissatisfied workforce and higher turnover. In other words, be careful how far you take your employee density...

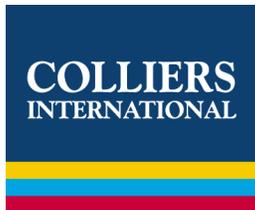
I recently took a 1,000 mile road trip with the family through Northern California and even though I am a native Californian, driving along Highway 1 with the beautiful coastline, quaint towns like Mendocino and Ferndale, and then going through the huge redwood forests up near Humboldt – this is one incredibly beautiful state! When you are in Los

Angeles or the Bay Area everything seems so hectic and populated. But get out of the metropolitan regions and I'd venture to guess 80 percent or more of California is undeveloped, and much of this is in state and national parks to ensure the beauty will remain for future generations. We took our five-year-old son, Jordan, and two of his cousins up to Southern Oregon to stay in Treehouses, where the "hotel" rooms are complete with bathtubs and all the amenities built high atop trees connected by swinging bridges. Jordan learned to rope climb and rapel down trees, horseback ride, and basically be in boy-paradise with a mountain spring-fed pool, rope swings, and lots of places to jump and climb. If you'd like more information on this wonderful place, please check out www.treehouses.com. Back at home we are working on his batting and catching skills. It's amazing at this age, how quickly their physical coordination changes – what was impossible just six months ago is so doable today... Jordan's recent photos can be viewed at <http://www.officetimes.com/jordanaug02.htm>.

As always, don't hesitate to e-mail or call me if we can be of assistance in your corporate expansion, consolidation, renewal or overall strategic planning. Have a great, safe rest of your summer!

Sincerely,

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