



Corporate Office Perspectives

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What's my opinion of the current office market? Glad you asked ... In general, in 2004 the U.S. office market bottomed. In most, but not all regions, rents are beginning to creep up, vacancies are diminishing and at least in California, office land and obsolete buildings are being converted to more valuable residential development. There is leasing activity – however Corporate America is not racing out to lease millions of feet of office space (at least not in the U.S.). The major growth engines are the 2,000 to 10,000 sf offices, and it takes a lot of these to backfill a major U.S. corporation which just downsized or offshored. Smart landlords will aggressively make the best deals they can at the time, and rents will go up in spite of major corporate layoffs and slowly changing vacancy rates.

“The value of all Santa Clara County real estate and business equipment jumped nearly eight percent during the past year – almost four times last year’s rate – leading Assessor Larry Stone to say the area’s long-slumping economy appears to be turning the corner. None of this has translated into job growth in Silicon Valley, said Steve, noting that the county still has about 60 million square feet of vacant commercial and industrial space. So, there’s not a lot of job growth because of outsourcing and because of increased productivity, he added.” (*San Francisco Chronicle* 7/7/05). “In the last three years, profits at the seven largest companies in Silicon Valley by market value have increased by an average of more than 500 percent while Santa Clara County employment has declined to 767,600 from 787,200 ... In part, the change is driven by the very automation that Silicon Valley has largely made possible, allowing companies to create more value with fewer workers. (*CC Times* 7/7/05). For the Bay Area as a whole, aggregate revenue for the top 200 public companies rose 14 percent in a year. Aggregate profits rose 93 percent (*SF Business Times* 6/3/05).

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Is it a dream or are you awake? “Live rock music, beach volleyball and endless lap pools. It’s noon on Google’s campus in Silicon Valley ... any service that you might need is available without leaving the campus. Much of it for free. Starting with free meals at Charlie’s Place (a huge food court). And moving on to the numerous “micro kitchens” for snacking, scattered throughout the four main buildings. Need to do your laundry? Drop off your dry cleaning? Change the oil in your car? Wash your car? Get your hair cut? Visit a doctor or a dentist? Or just relax playing ping-pong, billiards or foosball? Don’t move. It’s all on Google’s campus.” *Pikenet Dispatch* (6/7/05), www.pikenet.com

“Heavy layoffs concern analysts ... Hewlett-Packard to eliminate 14,500 jobs ... IBM has begun its own restructuring program which also is expected to cost 14,500 positions

... Kodak will cut 10,000 more jobs ... GM to cut 25,000 jobs by end of 2008.” Of course, for some portions of these industries there may be a positive spin on this. “Experts see move as sign of tech’s vigor, not falloff ... Silicon Valley companies are growing in sales, productivity and profits, but they’re not hiring people back at the same rate because our productivity per worker is higher than any region in the United States, said Doug Henton, president of Collaborative Economies, a Mountain View firm that produces an annual snapshot of the region’s economy for Joint Venture: Silicon Valley. Santa Clara and San Mateo counties produce \$224,000 of value per employee; for the nation as a whole, the number is \$85,000.” (*SF Chronicle* 7/1/05)

A new product on the market, Babble, will make it impossible for a listener standing near two people conversing in an office to understand what they’re saying. Babble is a device composed of a sound processor and several speakers that multiply and scramble voices that come within its range. The system will be introduced by a new subsidiary of Herman Miller and will sell for less than \$400. (*CC Times* 5/3/05). As reported in *Wired* (July 2005), “in theory, an office with an open floor plan makes for better, more collegial communication among coworkers ... Noise is the leading complaint in U.S. workplaces, and new privacy legislation requires tighter controls to prevent employees from overhearing customer information. So designers and acoustics experts are racing to improve the ABC’s of sound control – absorb, block, cover – to achieve more Zen-like cubicles.” Reminds me of the babble when my 3-year old daughter enthusiastically speaks and I have no clue what she is saying ...

IBM Corp., which is cutting as many as 13,000 jobs mainly in Europe, plans to hire 14,000 workers in India by year end (*Tri-Valley Herald* 6/25/05). Bay Area start-ups are turning to China, India and other low-cost labor markets for production and design work to capture the same benefits that drew America’s Fortune 500 to those locals.” (*SF Business Times* 7/1/05) “Companies that offshore IT work to China or India are saving 20 percent to 30 percent over U.S. expenses, while those sending work to ‘nearshore’ destinations such as Canada or Mexico are saving only 10 percent to 15 percent, reports San Ramon neoIT. The savings may seem modest ... that’s because of the hidden costs of outsourcing” (*SF Business Times* 6/10/05). “Information technology workers in the United States earn about \$80 per hour, compared with \$22 per hour in India ... hiring an experienced system analyst will cost \$53,000 per year in the United States and just \$11,000 in India. Often, one IT worker is needed in the U.S. for every 3 or 4 working overseas ... thus a 'blended rate' averaging \$37 an hour.” (*San Francisco Chronicle* 6/21/05) “U.S. lawmakers passed the Sarbanes-Oxley corporate governance law three years ago ... a growing number of companies are looking to India’s information technology outsourcing firms to cut the cost and time needed to comply with the law.” (*SR Times* 7/15/05)

"Cisco Systems plans to boost China's share of its outsourcing budget to 40 percent by the end of 2006," (*SF Chronicle* 6/23/05) Intel Corp. expects its \$375 million chipset factory to be completed this year in Chengolv, China, with enough space for four factories that would make Intel's largest test and assembly site worldwide. (*SF Chronicle* 5/31/05) Gosh, we'd better raise our domestic minimum wage, increase benefits, pass more regulations, shorten the work week, make sure our office buildings are 100% fireproof and in general get more competitive ... (I'm writing this having put in a 10-hour Saturday workday ...) Intel also announced it will build a \$3 billion state-of-the-art chip fabrication plant in the Phoenix suburb of Chandler. Because of a recent tax reduction formula just passed into Arizona law May 20, 2005, “Arizona tax officials estimated that the optional formula will cost the state \$8 million its first year and gradually increase to \$150 million annually, once fully implemented. (*SR Valley Times*, 7/26/05)

Real Estate Forum (June 2005), “Court Ruling to Abolish Tax Breaks May Impact Site Selection Decisions,” regarding the recent Federal ruling that “struck down the long-standing and widespread practice of states offering tax credits as an inducement to encourage corporate investment and employment in targeted areas ... a sweeping rule by the courts to ban incentives could accelerate the rate of outsourcing of jobs and functions

overseas.” (Good thing for Intel it's not retroactive ...)

Of the 100 fastest-growing technology companies in the world as ranked by business magazine *Business 2.0* (June 2005), 32 percent are California based ...

Need a checklist for an office relocation? Want all the Bay Area public transit links? Want to know how to control your TI costs? How about an article titled “Global Offshoring and Its Effect on United States Office Space Demand? All those and hundreds more are available at www.officetimes.com.

Deals & Rumors: Almost all the reported deals went down in **San Francisco** so we'll hit the outlying areas first ... In **Fremont**, Genitope leased 220,000 sf at Ardenwood Technology Park. In **San Ramon**, MDL signed 63,000 sf at Bishop Ranch 6 for a relocation from San Leandro. In **Pleasanton** the big rumor reported in most of the local papers is Kaiser Permanente possibly purchasing the vacant 382,000 sf PeopleSoft office complex. In the **Walnut Creek** area Wild Packets is out for 35,000 sf. In **Emeryville**, Orb leased 18,000 sf at EmeryBay. Next door in **Oakland**, SAIC took 16,000 sf at 1000 Broadway; Northgate Environmental leased 13,000 at 300 Frank Ogawa Plaza; McNery & Dillon leased 11,000 sf at 1999 Harrison St.; Kaiser Foundation signed for 25,000 sf at 1438 Webster St.; and Service Employees Union took 11,000 sf at 7677 Oakport. On the Peninsula, Sony expanded by 40,000 sf to 320,000 sf at Metro Center in **Foster City**. IronPort took 88,000 sf at **San Bruno's** Bayhill Office Complex. In **San Mateo**, CNF, Inc. leased 49,000 sf at 2855 Campus Dr. Farther North in **South San Francisco**, Future Networks committed for 42,000 sf at 4000 Shoreline Court. Okay, for **San Francisco's** office deals, hold on tight and here we go! USI Holdings Corp. leased 12,000 sf at 50 California St.; Finaplex took 26,000 sf at 601 Montgomery St.; The UC Regents leased 57,000 sf at 50 Beale St.; Pacific Maritime Association leased 20,000 sf at 555 Market St.; Wells Fargo increased its office occupancy to more than 1,000,000 sf by purchasing 340,000 sf at 550 California and 635 Sacramento; Gap is putting Old Navy into the 280,000 sf which was vacant at Mission Bay; Omnicom leased 115,000 sf at 555 Market St.; Bule Jeans Equity West is taking 26,000 sf at 1160 Battery St.; Low Income Investment Fund signed for 11,000 sf at 100 Pine St.; Korn/Ferry International will be taking 17,000 sf at One Samsome St.; Blue Shield is rumored to be narrowed to a few 200,000 sf relocation candidates and Barclays Global may be looking at 50 Beale St. for its 230,000 sf requirement; Luce, Forward, Hamilton, Scripps took 21,000 sf at Two Rincon Center; SBC Communications leased 68,000 sf at 525 Market St.; MD Beauty, Inc. may have signed for 35,000 at 71 Stevenson St.; Dow Jones & Co. took 46,000 sf at 201 Calif. St.; Cal Pacific Medical Center has been rumored to be looking closely at 168,000 sf in the Lucas Presidio Digital Center; where Pacific Union GMAC Real Estate may be signing a 37,000 sf lease; Hemming Morse Inc. leased 29,000 sf at 160 Spear St.; CaseCentral, Inc. signed for 23,000 sf at 760 Market St.; Business Wire expanded to 45,000 sf at Montgomery St.; Salesforce.com leased 74,000 sf at One Market St.; and finally UCSF may be expanding by 40,000 sf at Mission Bay. Whew!

Ah, unbiased business surveys ... awhile back I came across a survey with which Cisco was in some way involved, and it listed “connectivity” as the #1 office facility concern. Earlier in this newsletter you read where “noise” is the #1 concern. In the May 2005 issue of *Today's Facility Manager*, “more than privacy, noise levels, or even employee restrooms, the nation's office workers are most interested in improving the indoor air quality (IAQ) in their workplace, according to a survey conducted by Kimberly Clark Filtration. In fact, just under half (49 percent) of office workers polled in the national survey selected IAQ as the condition they would most like to improve in the office where they work.” Something does smell funny about these self-serving surveys ...

Business Facilities June 2005, on terrorist threats to corporate America: “The most common terrorist weapon has been the explosive, whether it is a small briefcase or a large truck ... The main goal of a terrorist is to create fear and panic. The next most likely threat is an attack on the general public with either a toxic,

chemical or an explosive device containing some kind of radioactive material. *The Wall Street Journal* has reported that corporate America has spent well over \$50 billion since the September 11, 2001 attacks on new security protective services. Yet survey after survey show that American workers still do not feel safe ... Seventy-five percent of security failures are a direct result of human actions. People propping open doors and letting people in without authorization will render a multi-million dollar high-tech security system useless. Remember, effective security doesn't necessarily mean spending more money."

With Chinese companies attempting to purchase Maytag and Unocal, "right now thousands of entrepreneurs from the People's Republic are trolling the United States for acquisitions, part of a worldwide shopping spree the Chinese government calls the "go global" initiative. This year China could pour as much as \$15 billion into overseas acquisitions. The prime targets? American brands and manufacturers, as well as distributors that peddle Chinese goods. The Chinese want to cut out the middleman by buying him, says John Rogers, a Chicago lawyer who last year formed the Midwest U.S.-China Association to play matchmaker." *Business 2.0* (June 2005) (Sounds like China should purchase Wal-Mart ...)

"The new Chinese-made automobile, an SUV, will be hitting Europe this year and will invade the U.S. in 2007. An hour of assembly line labor costs about \$55 in Detroit and about \$30 in Germany" ... "In Poland the average laborer earns less than \$5 an hour" ... "In China, wages are about \$1.50 an hour." In case you're even slightly skeptical, take a look at the country of manufacturer for your camera, computer, flat screen TV, iPod, tools, refrigerator, air conditioner etc. etc. ... don't kid yourself if you think our U.S. office market won't be affected ...

"In an agreement that underlines the growlingly global nature of the technology industry, Microsoft Corp is teaming up with the Indian outsourcing firm, Tata, and the Chinese government to form a software company in Beijing ... The joint venture ... will provide technology outsourcing services both to the global market and domestically in China." *San Francisco Chronicle* (7/1/05)

"Tech's profound impact on facility demand will not really be felt for at least another 10 years; predicts Kenneth Riggs, CEO of Chicago-headquartered Real Estate Research Corp. Yes, average net office space per employee will continue to decline, though at some point it will stop falling. A decade or so ago, the figure was 225 to 250 sf versus around 200 sf today. Maybe certain larger companies can get their per-employee office space usage down to earlier expectations of 125 to 150 feet, but our country still has a lot of relatively smaller firms." (*Real Estate Forum* May 2005)

The sky-is-the-limit prices ... In Sacramento, the 25-story U.S. Bank Plaza may be selling for \$160 million, almost \$400/sf, (*Sacramento Bee* 7/9/05), and the San Francisco Bank of America Center is for sale for \$1.25 billion, about \$700/sf. (*SF Chronicle* 7/9/05) (Wonder what types of rental rates are required to support these purchase prices ...)

The ultimate office makeover – workstations that combine a computer, desk and treadmill into one unit. Carpeted track around the office perimeter for talking business while walking laps. This from Dr. James Levin's research at the Mayo Clinic to make work healthy (or healthy workers?) *San Ramon Valley Times* (6/8/05)

"The U.S. office market is the preferred property type among foreign real estate buyers. Nearly 75 percent of acquisitions by foreign investors during the first three quarters of 2004 were in the office sector, with retail finishing a distant second." Of these office sector investments, 49 percent went into Manhattan buildings. (*National Real Estate Investor*, January 2005)

Telework, which encompasses not just working from home, but working from anywhere: a client's office, a Starbucks, an airport lounge, replaces the term "telecommuting." "Sun Microsystems says telework has saved it millions because the company needs less office space and fewer system administrators, but most companies adopt telework for other reasons: increasing employee satisfaction and productivity and planning for disaster recovery." For a number of web links to Telework Resources go to www.officetimes.com/Telework.htm (SF Chronicle 7/8/05)

The National Association of Realtors (July 2005) Forecast: "By the end of 2006 the national office vacancy will be 12.2% - the result of an increase in demand and a slow down in the addition of new supply. Rent growth is expected to approach the five percent level by the end of 2006."

Real Estate Forum (March 2005): The outsourcing phenomenon, already established in the U.S., is now influencing decision makers across the world ... more than 25 percent of the firms surveyed have outsourced some operations while nearly 20 percent are thinking of outsourcing to Central and Eastern Europe.

San Jose, California thinking big ... The San Jose City Council laid the foundation for massive growth of industry and housing in North San Jose, setting the stage for long-term growth by allowing 226.7 million square feet of industrial office space, 1.7 million feet of new commercial space and 32,000 new residential units. (SR Valley Times 6/22/05)

So how is our local economy doing? "55 percent of the employers in Alameda County and 54 percent in Contra Costa said they were likely to hire workers this year." (CC Times 5/26/05) "A new survey of Bay Area business executives found that 39 percent plan to increase their workforce in the next six months." (Tri-Valley Herald 5/13/05) "The economy of the East Bay is projected to grow 14.6 percent in the coming five years." (CC Times 6/29/05). "The East Bay continues to see moderate job growth, with much of the increase fueled by jobs in the home-building industry." (Tri-Valley Herald 7/23/05) It's not our software, banking or financial-services sectors but new housing construction that just might be affected should mortgage rates increase ... In regard to that topic, I've read several reports stating 65 percent of all recent home loans in the Bay Area are interest-only, and 35 percent of these recent loans are non-owner occupied (i.e. speculative investors) ...

I won't put one of the nation's largest office building owners on the spot, but in its First Quarter 2005 market report, it touted an improving office market and pointed to a 0.1 percent decline in sublease space and a 0.2 percent reduction in direct space as evidence of this office recovery. While I agree that most of our U.S. office markets bottomed in 2004 and are slowly on the way back up, using a one-fifth of one percent improvement appears to be a statistical stretch ...

I've been asked by a number of readers how this Corporate Office Perspective newsletter gets produced. First, I subscribe to dozens of corporate office trade publications, business magazines, outside-the-box publications (i.e. *Wired*), and many daily and weekly newspapers. I take three weekday lunches to read, absorb and cut out what I think would be of most interest to you. Then, every two months I lock myself in a room for 6 to 8 hours, usually on a beautiful Saturday when everyone else is golfing or at the beach, and I write furiously until literally my hand hurts, my mind is shot, and all the material has been put to paper. We then do 6 to 8 drafts in-house, it then goes to a professional editor, two more internal drafts and then onto your desktop. For past issues please go to www.officetimes.com and if you agree or disagree with anything I've written, please send me a note to jweil@colliersparrish.com. Thanks!

What an interesting past six months of weather, with record snow in the Sierras, the first month of Little League rained out, and now incredible heat waves! Jordan and Madison had the time of their lives at the end of May when they went mid-week for four days ... to Disneyland. Minimum lines, maximum rides and did we

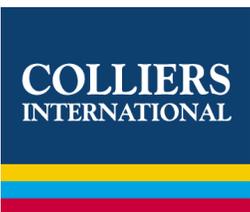
then do 6 to 8 drafts in-house, it then goes to a professional editor, two more internal drafts and then onto your desktop. For past issues please go to www.officetimes.com and if you agree or disagree with anything I've written, please send me a note to jweil@colliersparrish.com. Thanks!

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Thank you!

Sincerely,

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