



officetimes.com

Corporate Office Perspectives

December 1, 2001

ISSUE: 130

I recently gave a Greater Bay Area office market overview at the Northern California CCIM chapter meeting. The handouts are available at www.officetimes.com/ccim4.pps. One portion of the talk was regarding office building industry changes due to 9-11-01. These changes include expected major increases in commercial property insurance premiums, more stringent security measures (especially in trophy Class A buildings such as eliminating all but one egress into the building), strict sign-in procedures and banning certain trucks from underground garages; other changes might include securing access to the HVAC systems, re-examining disaster recovery procedures and a possible future reluctance of some corporations to relocate to or remain on upper high-rise floors. One of our associates in New York has heard the 32nd floor might be one benchmark. In the *San Francisco Chronicle* (11/4/01), "In Manhattan for example, there are widespread doubts about the long-term fallout of the World Trade Center tragedy on the values of commercial real estate. If tenants no longer want to pay high rents for offices in landmark buildings, or if they consider the city too risky, the market values of properties could be severely impaired. Similar fears have been expressed around the country about higher-profile properties that could be terrorist targets." Another effect has been to scatter employees into multiple locations versus centralization. This might change corporate operations across the United States. In the *Contra Costa Times* (9/30/01), "Concerns raised or exacerbated by last week's terrorist assault - a shortage of first-class office space in Lower Manhattan, fears about security and the business risks of having too much of a company's operation in a single place - are driving many of those decisions to disperse." According to the *San Francisco Chronicle* (10/9/01), "In particular, Morgan Stanley executives worried about concentrating too many of its workers in one area...and wanted to disperse some of them following the attacks."

Editor:

Jeffrey S. Weil,
MCR.h, CCIM, SIOR
Senior Vice President

1850 Mt. Diablo Blvd.
Suite 200
Walnut Creek, CA 94596

Phone: 925.279.5590
Fax: 925.279.0450
www.officetimes.com
jweil@colliersparrish.com

According to the *San Francisco Business Times* (10/12/01), "Bay Area bankers will see more trouble ahead for their commercial real estate loans as the region's lease rates plummet and vacancies rise. Defaults on real estate loans will soon start hitting the banks' books, causing banks to miss earnings, say area bankers and analysts." However, this will not be like the late '80's when an estimated 15 to 20 percent of all Bay Area office buildings went into foreclosure. Most commercial property today is held by strong institutional ownership like insurance, pension or REIT investors. Potential submarkets which may be affected include San Francisco's South of Market and portions of Santa Clara. In the *San Francisco Business Times* (11/9/01), "As Bay Area office rents continue to fall, landlords with empty properties or technology tenants are finding it increasingly hard to get permanent financing. "Weak tenants don't get (good) loans," said Don Eaton of San Mateo-based Argis Financial, who arranges financing for clients. "Empty buildings don't get loans at all." Lenders are in many cases avoiding San Francisco

because of the market's rapid decline in rents and flood of sublease space from downsizing companies. Rents have fallen by a half in a year. Leasing is almost at a standstill. With so few deals and falling rents, values are hard to peg. "It's hard to pick value when you are catching a falling hatchet," Diane Olmstead, an executive vice president for commercial real estate lender, iStar Financial.

There is an excellent article on tenant improvements taxation titled, "Tax Tips for TI's" by lawyer Cris K. O'Neill, *Real Estate Southern California* (September 2001). He discusses how there are two primary ways tenant improvements can be over-assessed. First, property owners and tenants may not know who owns the TI's, with both reporting them leading to double-taxation. The improvements might be incorrectly classified, with regular maintenance items taxed when they might not have required an assessment in the first place. Mr. O'Neill can be reached through his firm's website at www.rodipollock.com.

It appears we may be safer than we think...In the *Contra Costa Times* (11/4/01), titled "Engineers design newer buildings to reduce bioterrorism risks," "... engineers and terrorism experts say that advances in building design over the past five to ten years have left the nation surprisingly well prepared to reduce the danger from insidious threats such as airborne anthrax spores. Those advances, many involving indoor air quality and energy efficiency, have grown out of mundane needs filtering small particles from the air to prevent "sick-building syndrome" or reducing the amount of outdoor air leaks inside, raising utility costs. "There are also ventilation and filtering systems available that can further reduce biological exposure, and even placing air intakes in new buildings high above the ground in a protected area, went a long way toward one of the most feared types of attack, in which an agent is poured directly into the ventilation system."

During a recent presentation someone in the audience asked my opinion of when the office market will recover. In the Bay Area we currently have about 48 million square feet of available office space. There are very few prospects of more than 10,000 sf when touring just about any of our submarkets. When I open the paper on almost any given day, I am confronted by headlines such as these, from *San Francisco Chronicle* (10/25/01), "Sears to cut 4,900 jobs in corporate facelift," "Ariba sales down," "Dreyer's third-quarter earnings fell 45 percent," "Struggling Kodak cuts up to 4,000 more," all of which leads me to believe the bottom is still somewhere in front of us, the office market still lags layoffs and sales earnings by 6 to 24 months, and this may be a tenant's market until 2003 or longer.

According to *Time* (10/8/01) in an article titled "Girding Against New Risks," "And since last month's terror attacks on the Trade Center and the Pentagon, executives around the U.S. and the world have been taking action to reduce the risks to their employees, and their businesses. Evacuation plans are being scrutinized, and corporate security consultants are being inundated with requests for 'crisis management' reviews. The stakes are high for both lives and property." According to Gartner Research, based in Boston, 40 percent of businesses that are hit by disasters such as earthquakes and fires close within two years. "Companies that can't get up and running within 10 days aren't likely to survive," says Colin Rankine of the Giga Information Group. Here are some of the issues involved: Develop A Smart Evacuation Plan; Back Up Your Bits and Bytes; Have an Alternative Office Ready; Lower Your Profile; Check Employee Backgrounds; Study Your Insurance Policy's Fine Print; Reconsider Air Travel. We have set up a Disaster Recovery web link page with resource links to checklists, processes and guidelines for Disaster Recovery at www.officetimes.com/DisasterRecovery.htm.

Deals and Rumors: In **Walnut Creek**, I helped UFCW lease 25,000 sf in Treat Towers at 1277 Treat Blvd., and also assisted Quest Diagnostics Incorporated sublease 11,000 sf at 6665 Amador Plaza in **Dublin**. Over in **Oakland**, JWD Architects sublet 24,000 sf from Versata at 300 Lakeside Drive and San Francisco State University leased 30,000 sf at 2201 Broadway. Up in **Richmond**, Simeon Properties purchased the 86 acre Zenica research laboratory facility, and in **Hercules**, Investigen will be doing a 27,000 sf build-to-suit at North Shore Business Park. In **San Francisco**, Blue Jeans Equities West took 33,000 sf at Levi Plaza; Sutter Health leased 17,000 sf at 345 California St.; Bechtel took 31,000 sf at 50 Beale St.; Telephia leased 38,000 sf at 945 Battery St.; Critical Path is rumored to be out for 75,000 sf; Tilia, Inc. sublet 46,000 sf at 303 Second Street from SBC; AutoDesk leased 46,000 sf at One Market St.; ESurance took 18,000 sf at 747 Front St.; Walden International leased 16,000 sf at One California; Harmonic

Communications sublet 25,000 sf from Macromedia at 650 Townsend; and Philip Williams Associates leased 12,000 sf at 720 California St. In **Daly City**, Digidesign committed for 127,000 sf at Pacific Plaza, and in **Belmont**, Thomson Learning sublet 66,000 sf at 20 Davis St. Lastly, in **Palo Alto** Pillsbury Winthrop, LLP announced an 83,000 sf build-to-suit at 2475 Hanover St.

I was very fortunate to have been nominated for two wonderful awards during the past few months. First, I was nominated for Corporate Service Provider of the Year for the Northern California NACORE organization, and last month I was nominated for the Broker of the Year award by the East Bay Business Times. Colliers International also just gave me an award for being the Top Referring Broker in the Western U.S. Region. Thanks to all!

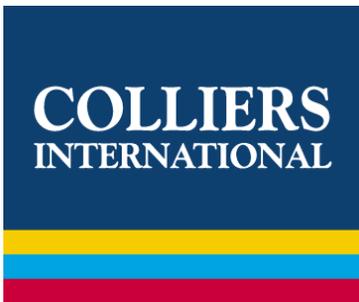
I recently spotted an interesting classified ad in the "Seeking Commercial Space" section of a local business paper. It listed the various requirements, and then at the bottom: 'Negative bidding starts at \$18.00. Lowest qualified bid wins'...

Just as we globalized manufacturing 40 years ago, so too might we be on the cutting-edge of globalizing information and knowledge-based industries. In an article titled, "The Real E-Revolution" published in *Internet World* (October 2001), "So it isn't the corporation's low-level, low-wage jobs, nor the non-mission critical activities that are being globalized. Finance and accounting services for GE Capital worldwide is managed from India. Basic research is booming in Russia. Here are some indicators from India: American Express processes internal financial transactions for all of Asia and employs 600 people while the U.S. finance organization has shrunk by 60 percent; GE Capital employs 2,000 people managing global payroll, call centers, mortgage, and insurance claims and is expected to have 8,000 by the end of 2003." I'm not exactly sure what this all means, but I don't think this trend will help our domestic office over-supply...

My son, Jordan, is now 4 ½ and can tell you who the President, Vice President and California U.S. Senators are by name. We are working on our state and local politicians, but it's a real kick helping in the learning process. Jordan actually loves to practice writing (I never did as a kid) and thinks flossing is fun! I have to keep a straight face whenever he tells me that...Recently Jordan caught his first fish, including a very nice 27" striped bass, and he can now do a butterfly stroke the length of the pool, which is more than I can say for his dad. Last week we took a boat ride under the Golden Gate Bridge, and tomorrow, we head down to Monterey to see the aquarium. Jordan's recent photos can be viewed at www.officetimes.com/JordanDec.2001.htm. Jordan, my wife, Lisa, and I wish all of you a safe and healthy holiday season!

Sincerely,

Jeffrey S. Weil, MCR.h, CCIM, SIOR
Senior Vice President



Jeffrey S. Weil, MCR.h, CCIM, SIOR
Senior Vice President
1850 Mt. Diablo Blvd., Suite 200
Walnut Creek, CA 94596

Newsletter

December 2001