

What is the “Big Picture” macro view for the 2009/2010 office space market in the United States? I post almost-daily blogs on commercial real estate at <http://jeffreyweil.blogspot.com/> and it has been increasingly difficult to report positive news about the office market from just about any angle, unless you are an office tenant currently in the market or about to renew, expand or relocate with a current 2009 or 2010 lease expiration. In this case, almost all the news that is dismal to office landlords, lenders and listing brokers is music to the tenant’s ears ... there are regional submarket exceptions but overall, “How much in tenant improvements did you want the landlord to contribute?” or “How much free rent will it take to entice your tenancy?” Daily layoff announcements, office lender concerns about property tenant quality, term rosters and massive amounts of space coming back to the market unexpectedly due to the Wall Street meltdown, and the tightening of the credit markets have put increased pressure on companies now struggling for survival. Mervyns and Circuit City declaring bankruptcy has also impacted office landlords now faced with unforeseen office vacancy. This 2008 holiday season is expected to be the worst in decades and what additional company closures might be announced in early 2009 as a result? If you’re a major office user with a lease coming up in 2010 do you extend short-term and try to catch the market at its bottom, or do you take advantage of the amazing lease terms available now from still-solvent landlords with still-accessible tenant improvement dollars? Of what value is it to a major corporation waiting for the absolute best “deal” only to watch their “institutional” landlord go under with possible building maintenance and operational issues like we saw back in the early 1990s? How thoroughly have you investigated who really owns your Class A trophy office building? Golden names of the past like Lehman Brothers, Wachovia and Merrill Lynch turned out to be only goldplated at best ... it is an entirely new game with rules being written as we play each round. Perhaps ask your exclusive tenant rep broker to provide a detailed ownership breakdown of your landlord(s) and check with your legal counsel regarding your lease subordination and attornment status ...

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If you think commercial real estate development during normal times in the United States is challenging, with city design review boards, planning departments and neighbor associations primed to protest, what about India ... with convoluted rules surrounding land ownership, and civil issues mediated by the courts with a near-endless appeal process that could easily last 15 years ... Bangalore office space in 2001 sold for \$1 a square foot but now can go for \$400 a square foot ... some 85 percent of citizens occupy land illegally ... 40 percent of land transactions occur on the black market ... an avalanche of corruption blamed on the outsourcing boom ... IT companies work with people who have only a shady title to the land ... then they occupy buildings that are constructed illegally, without permission from the authorities ... huge companies build illegally here ... *Wired* (November 2008)

San Francisco East Bay Commercial Real Estate Update: Retail – Downtown Walnut Creek still strong, but East County retail in a downturn with the next possible wave of business closures being restaurants: retail foreclosures coming, but as our retail guru Deborah Perry answered when asked if there were upcoming retail center “bargains” – “You wouldn’t want them as they shouldn’t have been built in the first place!” Commercial centers in East County were hot two years ago, but now we are beginning to see several go into foreclosure with pricing 40 percent less than originally sold. In Silicon Valley, the industrial market is 8 percent vacant but office vacancy has jumped to 19 percent. San Francisco has been hammered with reports of 2008 negative absorption in the 700,000 sf range as companies continue to dump sublease space.

Oil skyrockets from \$60 a barrel to \$140 a barrel and all of a sudden SUVs are albatrosses, Prius commands a price premium and office commuters are frantic. Oil drops back, gas prices come down and SUVs don’t look as evil ... if you think future gas prices won’t at some point spike back up and maybe stay at much higher levels ... but to see the long time effect on employee surveys, Robert Half recently did a survey on commute costs and found 44 percent said higher gas prices are affecting their commutes, up from 34 percent two years ago. The top three changes cited by the group are increased carpooling, driving a fuel-efficient car and telecommuting more frequently. Three in 10 respondents said they are looking for a new job closer to home. The report, “What Employers Are Doing to Help Their Employees with High Gas Prices in 2008” describes benefits that companies are offering, including a flexible work schedule (26 percent), telecommuting (18 percent) and public transit discounts (14 percent), *San Francisco Chronicle* (10/19/08).

“Lending Crisis to Worsen Before It Gets Better” ... “Traditional capital for real estate has dried up in the past year and will get worse before it gets better. Banks we all know and love are in a capital crisis themselves. We created these conditions over a long period ... we’re not going to cure them in a short period of time,” *Real Estate Forum* (October 2008).

Deal and Rumors: We’ll start in **Oakland** for a change ... Tetra Tech leased 17,000 sf at 1999 Harrison St.; California Endowment sublet 23,000 sf at 1111 Broadway; and Hanna Brophy sublet 11,000 sf at 555 City Center. **Emeryville** was fairly active, with rumors of Inovis relocating from Emeryville and possibly leasing 16,000 sf at 6425 Christie Ave. and Wham-O leasing 13,000 sf at 5903 Christie Ave. In **Pleasanton**, I represented Individual Software in their 19,000 sf lease renewal at 4255 Hopyard Rd. and Adept leased two buildings, 5960 Inglewood for 34,000 sf and

35,000 sf at 5627 Gibraltar, vacating their former Livermore digs which are now part of the 219,000 sf Comcast facility on Triad. Up in **San Ramon**, Coca Cola sublet 20,000 sf at 2603 Camino Ramon. I represented Air Liquide in a 10,000 sf office/warehouse lease at 4000 Nelson, but the big rumor in **Concord** is Bank of the West possibly consolidating all their East Bay office operations to 300,000 sf at the BofA Tech Center near the Concord BART Station. Across the hills and the Bay, Ziosoft leased 19,000 sf at 1000 Bridge Parkway in **Redwood City** and King & Spalding took 28,000 sf at 333 Twin Dolphin Drive. McDermott Will & Emery leased 80,000 sf at 275 Middlefield Road in **Menlo Park**. In **San Mateo**, Webcor Builders leased 21,000 sf at 951 Mariners Island; Dun & Bradstreet sublet 31,000 sf at 2207 Bridgepoint Parkway, and in **South San Francisco**, ComScore leased 17,000 sf at 4000 Shoreline Court. In **San Francisco**, SmartTurn leased 14,000 sf at 177 Fremont St.; Elastron Corp. took 17,000 sf at 160 Pacific Ave.; AKQA expanded by 22,000 sf to 50,000 sf at 118 King St.; HDR Architects is relocating to 21,000 sf at 560 Mission St.; Weisscom Partners leased 16,000 sf and Comcast Spotlight took 34,000 sf, both at 50 Francisco St. in Waterfront Plaza; liveBooks, Inc. leased 16,000 sf at 989 Market St.; TRUSTe sublet 18,000 sf at 55 Second St.; Del Monte sublet 18,000 sf at 50 California St., and N24 took 20,000 sf at 201 Third St.

“Construction loan delinquencies nationally rose to 10 percent in the third quarter of 2008. The delinquency rate was 8.1 percent at mid-year, 7.2 percent in the first quarter and 5.5 percent in the fourth quarter of 2007. The increase is being driven by a sharp rise in nonaccruals – past due loans on which the lender has stopped accruing interest because full repayment is doubtful. The main source of the problem is single-family residential construction lending ... and the delinquency rate for commercial mortgages has been rising steadily since mid-2007,”
GlobeSt.com (11/5/08).

Good news for the San Francisco commercial market ... The Urban Land Institute and PricewaterhouseCoopers (hope they don't do more mergers ...) reported that San Francisco is Number one for development and homebuilding, and also a strong buy for apartments and offices! ... the report went on to say that commercial real estate will see its worst year since the wrenching 1991-1992 industry depression. Values could easily sink 15 percent to 20 percent from their mid-2007 peaks, with losses possibly even more severe for lesser-quality commercial properties in secondary markets ... and I was hoping it would be all good news ...

Telecommuting 2008 update: “Though a third of the more than 150 million working Americans telecommute at least occasionally, most do so just a few days each month. Only 40 percent of companies permit any sort of work-at-home arrangement, which means most insist on full-time attendance. According to a 2006 survey by the Telework Exchange, the top fear among resisters is that they’ll lose control of their employees, whom they doubtlessly envision frittering away the hours between 9 and 5 playing Minesweeper and munching Cheetos. Telecommuting’s foes couldn’t be more misguided... time and again, studies have shown that telecommuters are every bit as engaged as their cubicle-bound brethren – and happier and more productive to boot. Last year, researchers from Penn State analyzed 46 studies of telecommuting conducted over two decades and covering almost 13,000 employees. Their sweeping inquiry concluded that working from home has ‘favorable effects on perceived

autonomy, work-family conflict, job satisfaction, performance, turnover intent, and stress' ... Earlier this year, an IDC report from Asia found that 81 percent of managers believe telecommuting improves productivity, up from 61 percent in 2005. The increase is attributable largely to the proliferation of unified communications technologies – tools that connect mobile and remote workers. These include products like LifeSize Express, the first hi-def videoconferencing system priced at less than \$5,000, as well as Web-based services like Google Docs and Glance, which let users view a remote colleague's onscreen work in real time ... and it costs more than \$15,000 per year to provide an employee with 200 square feet of cubicle. So the savings would be significant – so great, in fact, that companies would still come out thousands of dollars ahead after springing for workers' broadband and VoIP expenses," *Wired* (October 2008).

The U.S. office vacancy posts fourth consecutive increase... the overall vacancy rate is 13.69 percent. For this Colliers Third Quarter 2008 report with a complete city-by-city breakdown report go to <http://officetimes.com/Market%20Reports/NA.Office.pdf>.

The Institution Recycling Network (IRN) works with more than 200 colleges and universities, hospitals, private firms, public and private schools, and state agencies to match office furniture, lab equipment and other surplus items with U.S.-based and international charities involved in disaster relief and economic development programs. There is a charge for these services, but IRN states the cost for handling the reuse items is typically 10 to 30 percent less than disposal and recycling. For more info go to www.ir-network.com/prog_prop.html, *Today's Facility Manager* (October 2008).

October and November were filled with weekend soccer games. Madison, who is 6 and playing her first season for Mustang Soccer (our local league with more than 5,000 kids) with her Superstars team. Madison loves soccer and averaged at least one goal every game this season. Her dad coaching nine 6 year old girls on usually balmy weekend days – what could be better? Jordan is 11 and is playing in a slightly more competitive Boys White Plus team – amazing defense and this season for the first time did leaping ball blocks and aggressive one-on-one ball control. Jordan is also an active Boy Scout, has just received his First Class and is working on a host of merit badges ranging from Family Life, Dog Care and Citizenship. One weekend we had six soccer games between both kids and after the 2 p.m. Saturday game was over, we hurriedly changed into the Scout uniform, led an overnight camping trip on Mt. Diablo complete with hiking and the boys cooking three meals, then Sunday morning, changed back into soccer uniforms and raced over to the 9:30 on Sunday game (followed by 11 a.m. Madison game and 2 p.m. Jordan second game). Don't worry, all weekends aren't this packed and the kids have plenty of "play" time! For recent photos of Madison and Jordan's adventures go to <http://officetimes.com/2008/Dec2008/JMDec08.htm>.

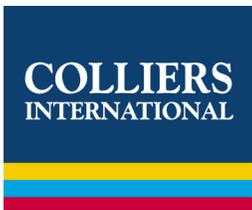
Stock market swings of 500 or 800 points in a day, household corporate names announcing insolvency, an \$11 trillion dollar national debt that is beyond comprehension, global warming and yet if one tries very diligently to not get caught up in all the doom and gloom avalanche, this is still an awesome time to be in commercial real estate. As an exclusive tenant rep broker, Corporate

America needs me more than ever to help keep their office occupancy costs as low as possible and make sure their facility solutions match corporate objectives. By the deluge of e-mails, we know landlords need us more than ever to help them fill vacancies and reduce tenant turnover. Lenders need us to stabilize their loan portfolio tenant rent rolls, the foundation of their security risk. My company needs me to be a role model to younger brokers, a mentor to those who need assistance, and an income-producer so my company can survive and thrive through these challenging times. My community needs me to help volunteer in the classroom, on the sports field and give financial support to those less fortunate. Most importantly, my children, wife and family need me to be strong and there for them, even when the financial day has been less than kind to myself or my clients. To each his or her own, whether it be a good book, special glass of wine, time in the garden or being with friends, but being able to escape and get mini-rejuvenated makes it so much easier to go back into battle the following day. As we approach this holiday season with its own set of stresses, please remember what your personal “de-stresses” are, make time to do them and remember the age old saying, “this too will pass,” Peace!

Remember... please call me for all your commercial real estate needs anywhere in the world!

Sincerely,

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