

Corporate Office Perspectives

December 1, 2004

ISSUE: 148

Where is the current state of the Northern California office market? I have been asking dozens of landlords, real estate directors and senior office brokers this question the past several weeks. There are a few bullish landlord and landlord-reps who believe the market has begun its recovery. One major landlord who specifically asked not to be quoted told me there would be a number of major office deals in the Spring which would deplete a number of our I-680 larger blocks of vacant office space. However, most office industry professionals felt the current office market to be sluggish, most active in the under 7,000 sf category, and in several major sub-regions a near-absence of tenant activity. Sometimes I feel like I'm sticking my neck out, as I have for the 147 previous newsletters spanning the past 24 years, but the overall Greater Bay Area marketplace is not robust, there are still tens of millions of feet of vacant office/flex space (50+ million), there are still big blocks about to come on the market in 2005, and when you examine most of the leasing activity it is either lateral or downsizing movement (i.e. Bechtel signing for 170,000 sf, down 130,000 sf from its former 300,000 sf). In the East Bay as I write this, Oracle has just won the vote to acquire PeopleSoft, which may place about 800,000 to 1 million sf of Class A office space on the market, possibly in 2005 or 2006. Global offshoring has increased following the presidential elections. Our state, among others in the country, is out of money and job layoffs from local city level on up to state level is inevitable. Our federal \$450 billion deficit suggests job cutbacks on the federal level at some future point. The bottom-line: some sub-regions have recovered, aggressive and creative landlords are filling their projects, but overall I just don't see significant new job creation in the Bay Area anytime in the near 2005/2006 future.

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
jweil@colliersparrish.com
www.OfficeTimes.com

Lowered cost of office building management: *National Real Estate Investor* (September 2004) reported that Equity Office, the largest office landlord in the US revamped procurement strategy, increased use of technology and reduced personnel by 15 percent, thereby saving \$100 million and sharing those savings with its tenants. They informed 75 percent of their tenants that 2004 operating costs will decrease as compared with 2003, and only 1 percent of its tenants will see an increase. "Using Angus Systems Group software, tenants can send work-order requests online to the engineers, who receive them via a text message on their phones. Teams exclusively perform preventative maintenance on buildings in a respective city. Other landlords are also embracing technology to improve tenant service and lower costs. Another of the country's largest landlords, Shorenstein, uses Workspeed, which enables tenants to click on a computer icon and send a

work-order to a facility worker's PDA. Hines uses Database Aware and CarrAmerica uses Essention's InfoCentre, as well as EnfoTrak, which processes the company's utility bills and tracks energy consumption."

Today's Facility Manager (September 2004) Editor Heidi Schwartz reported on the top three IMFA (International Facility Management Association) issues for facility professionals: 1) Budget constraints 2) Cost reductions 3) Security

"Infosys, the Bangalore software-services company, and other top Indian outsourcing rivals, including Tata Consultancy Services and Wipro Technologies, are doing application development and maintenance work in China as they grow rapidly to keep up with booming demand from the West for their services." *Research Rant* (11/8/04) ... "Vietnam is making a push to turn itself into an outsourcing powerhouse. Mathematics instruction has long been the strong suit of Vietnam's educational system, and now the country's government is trying to train people across the country in computer skills. At the same time, wages remain extremely low: World Vest Base hires recent graduates with accounting and finance degrees, but no experience, for a starting salary of \$100 a month, little more than an unskilled factory worker earns in neighboring China ... Atlas Industries Ltd. has 100 people in Ho Chi Minh City, formerly Saigon, performing the technical tasks of turning architectural drawings from Britain into detailed blueprints that can be used by British construction companies." *San Ramon Valley Times* (10/1/04)

The future for corporate real estate directors according to CoreNet Global ... "CoreNet's latest industry research and leadership initiative – Corporate Real Estate 2010: Enabling Work in a Networked World – surveyed corporate real estate leaders at 125 leading multinational firms, including Cisco Systems, Walt Disney, Microsoft and Whirlpool to assess the changing face of corporate real estate use. Major changes at the cubicle level are making their way up to the executive level and observers say those who don't go with the flow may become extinct. Those who do embrace change, however, will be in a prime position to add value to their company's bottom line. CoreNet is predicting that strategic real estate functions will be performed in the context of enhancing worker productivity and company competitiveness through a fully integrated infrastructure that will include human resources, information technology, real estate and other support functions. Corporations will require less space to perform effectively, ... right now just seven percent have workers spending 25 percent to 50 percent of their time in unassigned office space. By 2010, 21 percent of companies will have their employees working remotely up to half the time. The work environment will be defined more as connectivity – a network of places both geographic and virtual – that commercial real estate executives will manage as much as occupancy in facilities." *Sacramento Business Journal* (10/22/04)

"Bangalore, India may be on the verge of overtaking Silicon Valley as home to the world's largest concentration of technology workers, as U.S. companies expand their use of offshore workers. The high-tech Indian city now employs 160,000 tech workers to Santa Clara's 175,100 ... the region will exceed 200,000 by next year, as IT and business outsourcing companies continue to rapidly hire workers." *San Francisco Chronicle* (7/29/04)

Some Americans may gripe about US firms sending work overseas, but let's face facts - It is relatively expensive to do business anywhere in America, and even if you avoid the high housing costs of New York, Boston, San Francisco and other areas, and go to "affordable" mid-West communities where \$200 to \$300,000 still buys a decent house, this is still many times the cost of housing in a Third World

country. Health care benefits, retirement benefits and regulations on top of regulations in employee hiring and firing ... the list goes on and on. Travel to a Third World major city (which I did last month) and note the very-inexpensive public bus services, sometimes costing only a few pennies to ride, and also note the buses do not have motorized wheelchair lifts, they are usually packed to the gills, don't ask if the drivers have any medical or retirement benefits ... What most Americans take for granted is only a dream to most of the rest of humanity. Americans (as do almost every nationality) always want to pay the lowest price, get the best deal – just witness the success of Costco and Wal-Mart. Look where your DVD, PC, tools, toys, clothes and it seems most goods are made, and it's a fair bet USA is not the label on the bottom – those jobs used to be here in the US, now they're overseas, and we adjusted and re-engineered our workforce – what makes global offshoring of desk jobs any different?

The State of California recently completed the California Performance Review, “The 2,700-page report offered more than 1,000 recommendations and claims the state could save more than \$32 billion in five years if implemented ... Many of the companies involved in shaping the CPR report have sent jobs overseas ... the most immediate impact may be that thousands of state jobs will be outsourced overseas.” *California Real Estate Journal* (10/4/04)

Deals and Rumors: Let's start in **Emeryville**, where Kaiser Permanente leased 58,000 sf at 2100 Powell Street. In **Oakland**, the big news was the recent BART expansion of 101,000 sf at 300 Lakeside Drive, and Knox Ricksen leasing 11,000 sf at 1300 Clay Street. In **Berkeley**, Dynavax Technologies leased 67,000 sf at 2929 Seventh Street. In **Walnut Creek**, Encore Credit took 21,000 sf at 2999 Oak Road. In **Concord**, T-Mobile USA leased 33,000 sf at 1855 Gateway Blvd. Down in **San Ramon**, General Electric Mortgage is relocating a group from Orange County and leased 55,000 sf at 6121 Bollinger Canyon Road. In **Pleasanton**, Wholesale American Mortgage leased 23,000 sf at 6200 Stoneridge Mall Road. Over on the Peninsula in **San Mateo**, Envivo expanded to 11,000 sf at 400 Oyster Point, and Wholesale Lending Online is taking 30,000 sf at 1350 Old Bayshore Highway in Burlingame. In **San Francisco**, UCSF will be purchasing another 10 acres in Mission Bay, enough to build up to 1 million sf of lab/medical space; PricewaterhouseCoopers may be relocating to 150,000 sf at Embarcadero Three; Intrax Cultural Exchange just leased 30,000 sf at 600 California St; Thompson Financial signed for 76,000 sf at 425 Market St; Bechtel will be downsizing from its current 300,000 sf to 170,000 sf at 50 Beale Street; DMJM leased 12,000 sf at Foundry Square; Bonneville International leased 27,000 sf at 201 Third Street; Acacia Pacific Holdings sublet 75,000 sf at 50 California Street; California Culinary Academy leased 100,000 sf at 350 Rhode Island; Omnicom leased 108,000 sf at 555 Market Street; AKQA leased 29,000 sf and OutCast Communications leased 14,000 sf, both at 123 Townsend Street; and lastly, Think Equity Partners will be subleasing 20,000 sf at 600 Montgomery Street.

National Real Estate Investor (November 2004), “So, offshoring will take some jobs from the US, but the US still has history's most dynamic job-creating economic engine. A number of academic and government institutions project that by 2015, 3.3 million US jobs will move overseas, but the US economy is projected to create 22 million new jobs during that period. The changes driving jobs overseas are not significantly different from the changes that technologically evolving economies have experienced over the past few decades ... Offshoring is another example of innovation driving a healthy, growing office market and has four primary benefits: First, reduced operating costs ensure that US businesses remain competitive worldwide. Second, companies that move jobs overseas buy additional goods and services from other US firms, creating export revenue. Third, US companies that use foreign labor repatriate the earnings back to the US, which fund future business growth and are taxed at all levels. Fourth, US workers engaged in low-value services are then able to pursue higher-level jobs. Any attempt

to limit offshoring will certainly lead to reciprocal action that retards the influx of jobs from foreign companies that currently employ 6.5 million US workers.” Not sure I agree with all of that, particularly the part that using foreign labor repatriates the earnings back to the US and that section about laid-off workers getting an opportunity to pursue “higher-level jobs”...if they could do that in the first place, why would they even be in low-value occupations?

Wireless update: “Within five years, you’ll be able to use your computer anywhere, without wires. You’ll flip open your laptop and tap into WiFi signals in almost every city and town in the world. It may be a commercial service, but it won’t cost much. If city governments get involved, it might even be free.” *Business 2.0* (Sept. 2004) ... “Forrester Research found earlier this year that just 20 percent of the US corporations it surveyed were equipped with wireless local area networks. That’s about to change. WiFi security has improved dramatically, and state-of-the-art authentication, encryption, and network management tools are standard in the latest generation of industrial-strength Wi-Fi gear.” A basic guide to setting up a wireless workplace was published in *Business 2.0* (November 2004). In *Buildings* (October 2004): “WLAN Security has come a long way. New standards for encryption and authentication enable wireless users to have the same level of security as wired users.” Of course, there is also WiMax, “A wireless standard that makes WiFi look mini, WiMax is designed to replace your internet connection with one up to twenty-five times faster than today’s broadband, goes through walls and has a maximum range of 30 miles. Hardware makers, led by Intel, are banking on a WiMax boom. The first products are expected to rollout early next year.” *Wired* (October 2004)

In an article published in *Expansion Management* (September 2004) by the Chief Editor, Bill King, “Seven Good Reasons Why Companies Relocate” ... “1) To lower operating costs 2) To be closer to a large segment of their market 3) To be closer to certain suppliers or natural resources 4) To access a better or larger labor pool 5) To be closer to similar companies 6) To increase the quality of life 7) To modernize equipment and facilities.” These may be more applicable to manufacturing and distribution versus office occupants, where other factors such as proximity to the workforce, image of the company, efficiency of the space and, of course, proximity to senior management residents come more into play ...

Infosys, the second-largest software exporter in India, saw its sales climb from \$121 million in 1999 to \$1 billion in 2003. They are launching Infosys Consulting and hiring, an all-star team of consultants from Deloitte, EDS and IBM. Every year Infosys receives 1 million job applications. *Business 2.0* (November 2004) ... *Contra Costa Times* (10/19/04) “Corporate offshoring on upswing,” “Despite the recent reluctance of US companies to talk about moving jobs overseas, the practice is accelerating, according to outsourcing-company executives and financial results of the biggest Indian outsourcing firms ... But while companies have become quieter about their plans, the pace of outsourcing continues to increase as businesses seek to use lower-cost labor overseas.”

“Region’s economy is picking up, but pace is still slow ... employers are still only guardedly optimistic, lacking the confidence to support solid payroll job growth.” *SF Chronicle* (11/14/04) ... “AOL plans to cut 5 percent of workforce.” *CC Times* (11/3/04) ... “East Bay leads area job growth ... This is good evidence that things have turned around. We are seeing job growth all over the Bay Area.” *SR Valley Times* (11/16/04) ... “AT&T plans to lay off 7,500 more workers.” *Santa Cruz Sentinel* (10/8/04) ... “Most of PeopleSoft’s 11,225 employees, including the estimated 3,500 in PeopleSoft’s Pleasanton headquarters will likely lose their jobs, analysts said.” *Times* (11/3/04) ... “I don’t think the rate of employment growth

we saw in the 1990's – 50,000 jobs a year – will ever come back. It will be a long time before the Bay Area gets those 400,000 jobs back. Not this decade, and I don't know when in the next decade," Stephen Levy, director, Palo Alto's Center for Continuing Study of the California Economy, *SF Chronicle* (10/24/04) ... "Bank of America to cut 4,500 more jobs." *CC Times* (10/8/2004) ... "Worker optimism aside, employers did announce plans in October to cut 101,840 jobs nationwide, according to the latest monthly report from the global outplacement firm of Challenger, Gray & Christmas. That comes on top of 107,863 job cuts announced in September, meaning it's the first time since January and February 2003 that more than 100,000 cuts were announced in back-to-back months." *SF Chronicle* (11/20/04) ... Well, that sure clears up which way our economy is headed ...

New telephone technology with peer-to-peer software called Peerio that's built right into the handsets allows office workers to use their phones wherever there's a broadband connection. The "old-fashioned" system for a 1,000 person office costs \$1 mil; the IP-based system costs \$500K; the Peerio system costs \$100K. *Business 2.0* (December 2004)

"The nation's buildings are getting smarter. At Dallas/Fort Worth Airport, the lights are controlled by sensors that measure sunlight. They dim immediately when it's sunny and brighten when a passing cloud blocks the sun. A wall of windows at a University of Pennsylvania engineering building has built-in blinds adjusted by a computer program that tracks the sun's path. At a new middle school in Washington, the air conditioner shuts off when a window is open." We have a long way to go – "Of the roughly 4.7 million commercial buildings in the United States (use that fact on your next trivia game ...), only 10 percent have energy management systems or time clocks that turn lights on or off, based on the time of day." *San Francisco Chronicle* (10/25/04). Back in the late 1980s when we had 30 percent office vacancies, I still remember one developer's comment, "The smart office building is one fully leased and cash flowing ..."

McKesson Corp., the nation's largest drug distributor, was quietly exploring ways to outsource its call-center operations ... which primarily deals with thousands of pharmacies nationwide. Overseas call-center workers are said to earn about a third of the up to \$12 an hour paid to their US counterparts. *San Francisco Chronicle* (10/3/04)

Today's Facility Manager (September 2004) on post 9/11 building security: "For many facilities, applying transparent security, invisible to the public eye, is an appropriate solution," states Barbara Nadel, FAIA, author of *Building Security: Handbook for Architectural Planning and Design*. "Implement transparent security where possible and avoid creating a fortress look within the workplace or public building. Carefully review design plans to maintain the integrity of the built environment, while ensuring public safety. Owners and facility managers must determine when and where visible security measures are appropriate."

In a recent May 2004 facility management study undertaken with more than 4,000 respondents, 70 percent of whom were managers or directors of facilities. In the study, 29 percent reported to a corporate director, 25 percent reported to a corporate VP and 19 percent to the CEO/COO/CFO; 50 percent of the respondents managed in excess of 750,000 sf of space. The top challenge for 43 percent was managing a facilities department with insufficient funding. The second most pressing challenge, mentioned by a third of respondents, is deferred funding and the associated maintenance project backlog; 24 percent said they lack staff, 28 percent don't have enough time to complete their work, and when asked what they would

most like to change about their work, 22 percent mentioned adding better qualified and experienced staff, while 17 percent wished senior management understood the complexities of their work. If you'd like a more complete summary of this IFMA research report, please go to <http://www.ifma.org>.

Madison, our 27-month old daughter, and Jordan, our 7½ year old boy, continue to enjoy life to the fullest. I helped coach Jordan's soccer team, the Falcons. They finished their season accomplishing all three major goals – the boys all had a blast and most, if not all, plan to return next year, no one got hurt and they learned a ton of techniques and skills. I'm already thinking of coaching Madison in indoor hockey when she turns 4 – the local YMCA has a fabulous little-tyke program. Out here in Northern California the ski season is in full swing, (although we still need more snow), with a few resorts having opened mid-October so both Jordan and Madison will be hitting the slopes within the next few weeks. (Madison in her second year should have an attention span of about 30-45 minutes total). Last month we took Jordan to Japan and the Philippines. You can view Madison and Jordan's recent adventures at <http://www.officetimes.com/JMDecember04.htm>, and he is an awesome little traveler. Thank goodness for compact DVD players and Gameboy! I hope you and your family have one of the best holiday seasons ever, stay warm, drive safe and cherish what we all are truly blessed with – each other!

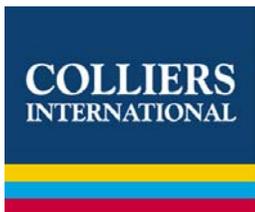
Thank you!

Jeffrey S. Weil, MCR.h, CCIM, SIOR
Senior Vice President
(925) 279-5590



Jeffrey S. Weil, MCR.h, CCIM, SIOR
Senior Vice President
1850 Mt. Diablo Blvd., Suite 200
Walnut Creek, CA 94596
(925) 279-5590
www.OfficeTimes.com

Newsletter
December 2004



Jeffrey S. Weil, MCR.h, CCIM, SIOR
Senior Vice President
1850 Mt. Diablo Blvd., Suite 200
Walnut Creek, CA 94596
(925) 279-5590
www.OfficeTimes.com

Newsletter

December 2004