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For the past several years it has been a dilemma on how to start off this first OfficeTimes paragraph about the current and near-future state of the office market. Doom and gloom, or try to paint out something positive? Here is the good news, from my Exclusive Tenant Representative perspective – although landlords cringe at this concept, this is the best office tenants' market I have ever seen, in terms of the high quality of office space, the extremely low effective rental rates, high levels of landlord tenant improvements included in many transactions, and in many cases additional concessions such as relocation and furniture allowances – a key consideration is to make sure the ownership is ethical, well-capitalized and ready to deal. What good is a concession-laden lease if the landlord defaults and there is no money to build out the tenant improvements? And as difficult the economics might be to the landlord in signing these tenant-favored leases, the alternative is usually worse – keeping space vacant which does nothing to mitigate the cost of operating the building. If we all had crystal balls we would have sold all our real estate back in 2006 at 5 percent cap rates and then unloaded stock portfolios in 2007. We all know a few who actually did this, but for the rest of us, we just move on. With values down 30 to 50 percent from 2007 and commercial financing scarce, billions of dollars of office, industrial, retail and multi-family residential have begun to go into default and foreclosure, with billions of bargain-hunting investment dollars sitting like the symbolic vulture waiting and watching down below.

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

"The reason swarms of distressed owners haven't sold their properties is that today's conservative underwriting for acquisition loans requires adequate debt-service coverage from the outset. In other words, investors can't get loans to buy properties with no cash flow. By the same token, lenders have been reluctant to sell foreclosed properties, which would force them to realize losses. More than 525 U.S. office properties representing almost $18 billion have fallen into distress since February 2008, according to Real Capital. In the first half of 2009, banks sold just 13 of those real estate owned (REO) office properties to third-party buyers," *National Real Estate Investor* (July/August 2009).

CFO Magazine surveyed more than 400 finance executives about what they're doing to prepare for the future – and how different they think that future will be. When the economic recovery takes hold, 88 percent believed American companies will operate in a new environment, and the size/composition of the workforce was believed by 51 percent to be one aspect that will be approached differently as a result of the

recession, more than half of survey respondents say they expect to approach their staffing needs differently in the future. While that means a bit more outsourcing at some companies or moving to a shared-services model at others, there are few wholesale shifts to report. Instead, what may persist is the relatively new notion of hiring people for a shorter workweek and less pay. Other CFOs say it's a prime time to reevaluate how many people they really need in a given function and how they might reshuffle assignments. Another way of lowering labor costs coming out of this recession is to shift operations permanently to lower-cost countries, *CFO* (September 2009).

What we have is not just one overall recession but multiple recessions occurring simultaneously … we have the ER, Economic Recession, the HR, Housing Recession, the CRE, Commercial Real Estate Recession and the JR, Job Recession, and each of these will be recovering at different rates at different times in different sub-regions of the U.S. … **www.blog.officetimes.com/** (the best commercial real estate blog go to **http://feeds2.feedburner.com/officetimes** and click on **subscribe to this feed**)

Office and retail buildings are relatively safe places to be … statistics from the National Fire Protection Agency's August 2009 report, "Fire Loss in the United States 2008," cited nationwide civilian deaths in non-residential structure fires to be only 120 for all of 2008. Just think how many tens of millions of folks spend their days in office or retail buildings and day after day we can begin to appreciate our great fire departments, and current and past building codes … Out of the total 515,000 structure fires last year, only 20,500 of these occurred within stores and offices, representing just 4 percent of the total structure fires, *NFPA* (August 2009).

In the 2009 Business Facilities Rankings Report, California ranked Number One in the Top Ten Greenest States, Number One by Number of Financial Incentives for Renewable Energy, Number One by Number of LEED-Certified Projects, Number One with the Best Transportation Infrastructure, and Number One in Overall Biotechnology Strength, *Business Facilities* (July 2009).

2009 North America Office Highlights – office space markets continue to falter, but at a reduced rate. Vacancies continue to go up. Office tenants are still returning space to the market. Rents continue to decline. Office development pipeline continues to empty out. For the complete report please go to **www.officetimes.com/MarketReports/OFCHILI3Q09.pdf**

Check with your tax expert but thousands of people who invested in 1031 tax-deferred exchanges may be finding out the hard way that even if they sell the property at a loss, capital gains taxes on all the deferral might be triggered. I've heard of REIT horror stories where investors unable or unwilling to make cash calls (invest additional money to cover ongoing losses) face out-of-pocket tax bills, when the property finally gets foreclosed and all the tax deferrals come back to haunt … *California Real Estate Journal* (September 2009).

Job-loss Recovery – now the fear is not that we might have a ways to go before new job creation takes hold as the economy recovers, but that the economy will recover while hundreds of thousands of jobs are still trimmed each month … not good news for office building owners, office furniture dealers or office supply stores, but on the other hand, if companies have figured out how to be more efficient, more profitable and can do more with less in a capitalistic society, is this such a bad thing?

Case in point why local and state governments need to be very cautious about their spending habits … Even if the general economy recovers there may be a lingering fallout effect on greatly reduced property

tax revenues … as an example, out here in Northern California, an investor just agreed to pay $1.5 million for a 91,000 sf retail building which formerly housed the bankrupt Gottschalks department store, and according to a recent news article the assessed value of the building in July 2008 was $9.5 million … just imagine the differential effect on tax revenue, and then multiply this by the potential flood of commercial properties that might be similarly impacted …

Pricing Pricing Pricing ... remember when it used to be Location Location Location? And during this commercial real estate loan crunch many have been blaming today's problem on liquidity, but a recent article by Christopher Macke holds that pricing is the problem, not liquidity, and when the values get low enough to make financial sense, buyers will buy and lenders will lend, *Real Estate Forum* (October 2009).

In a midyear report, foreign investors surveyed say they expect to invest three times more than their current investment levels year-to-date, and equity players expect to place seven times more than current YTD investments. "Investors' ranking of the three cities they expect to recover first, and thus the top three markets for their investment dollars – Washington, D.C., New York City and San Francisco" – with Washington named twice as often over second place New York, *Real Estate Forum* (July/August 2009).

Deals and Rumors: Relatively speaking, **San Francisco** has been a much hotter market these past 60 days! Del Monte Foods expanded by 30,000 sf, consolidating into 152,000 sf at One Maritime Plaza; Pattern Energy Group will be relocating to 13,000 sf at Pier 1; Premier Legal might be out for 40,000 sf; and Ropes & Gray leased 50,000 sf at Three Embarcadero Center. The EPA should have selected its 200,000 to 300,000 sf location by the time you read this. Exigen took two different 17,000 sf office subleases, both at 345 California St.; Lennar Homes sublet 16,000 sf at One California St.; IWin Inc. leased 15,000 sf and Brighterion took 11,000 sf, both at 150 Spear St.; Salesforce is reportedly out looking for 100,000 sf; Shiff Hardin may downsize to 40,000 sf from 70,000 sf; Kimpton Hotels is rumored to be looking for 20,000 sf; LookSmart took 13,000 sf at 55 Second St.; Integro leased 10,000 sf at 1 Bush St.; and ZoomSystems sublet 21,000 sf at 22 Fourth St.; Nektar Therapeutics did a 10-year sublease of 100,000 sf at Mission Bay; Obscura Digital leased 36,000 sf at 2130 3rd St.; Golden Gate Urology committed to 11,000 sf at 139 Townsend; Playdom and Zendesk each leased 10,000 sf at 410 Townsend; Twitter tweeted up to 31,000 sf at 795 Folsom St.; Morrison & Foerster is rumored to be on the hunt for 200,000 sf and Morgan Lewis is reportedly scouting around for 150,000 sf; Cisco Systems expanded by 37,000 sf and iCrossing expanded by 11,000 sf, both at China Basin; State of the Netherlands leased 13,000 sf at One Montgomery St. In **South San Francisco**, Actelion Pharmaceuticals purchased a 138,000 sf building to occupy at 5000 Shoreline Ct., and Genentech leased 75,000 sf at 601 Gateway Blvd. In **Brisbane**, Shopping.com took 25,000 sf at 8000 Marina Blvd. In **San Mateo**, DemandTec leased 82,000 sf at 1 Franklin Parkway; PBC San Mateo leased 19,000 sf and Keyrose Corp. 14,000 sf, both at 1900 South Norfolk St., and InterComponentWare (say that 10 times fast…) took 10,000 sf at 1320 Gateway Drive. Over in **Foster City**, Adchemy, Inc. leased 29,000 sf at 1001 Hillsdale Blvd. Third Pillar Systems signed for 18,000 sf at 577 Airport Blvd. in **Burlingame**. In **Redwood City**, MOKAS leased 15,000 sf at 475 Broadway St., Yottamark expanded to almost 12,000 sf at 1400 Bridge Parkway, down the street at 2200 Bridge Parkway Openlane leased 13,000 sf, at 275 Shoreline Dr. Care2.com relocated to 12,000 sf and Quinn Emanuel leased 35,000 sf at 555 Twin Dolphin Drive; and in **Menlo Park**, Landec Corp. took 15,000 sf of R&D space. Across the Bay in **Oakland**, two leases at 1111 Broadway, with First Solar taking 22,000 sf and iParadigms leasing 26,000 sf. In **Pleasanton**, I represented Elavon, Inc. in a 10,000 sf relocation to 4234 Hacienda Drive. In **Dublin**, Tria Beauty leased 39,000 sf at 4160 Dublin Blvd., and up in **Fairfield** Solano County may have taken 12,000 sf at 431 Executive Ct. as well as 20,000 sf at 435 Executive Ct. I represented 20,000 sf of office renewal,

relocation, and terminations, relocating HF&H to 201 N. Civic Drive in **Walnut Creek** where I did an early lease termination for Gallina – and in **Pleasant Hill** I did a lease renewal at 246 Golf Club Road for International Education Center.

A recent survey by Robert Half on green business initiatives found that 1,400 CFOs responded with 68 percent saying they anticipate no changes in their company's green initiative emphasis, and 28 percent saying they expected an increased focus on this issue … two possibilities for these answers … companies may already be focused on green initiatives and not feel the need to increase these efforts … or priorities have shifted to profitability with environmental initiatives on the temporary back-burner … for the complete report **www.roberthalfmr.com/PressRoom?id=2540**

According to Chuck Wilsker, president of the Telework Coalition, "Companies save an average of $20,000 per full-time teleworker from reduced real estate and office supply costs," *San Francisco Chronicle* (August 20, 2009).

Deep-pocket lenders contemplating taking back a property through foreclosure may be subject to various liabilities including code enforcement for code violations perhaps not pursued when the financially weaker prior owner had title. Some cities are jumping at these opportunities to assess penalties and force mitigation of violations, *California Real Estate Journal* (November 9, 2009).

Green to save green – The U.S. Green Building Council released Top 10 Ways to Use Recovery Funds for Green Building – "U.S. buildings are responsible for 39 percent of CO_2 emissions, 40 percent of energy consumption, and 13 percent of water consumption …" For more information visit the website **www.usgbc.org/** *Buildings* (July 2009).

I received my BS and MBA from UC Berkeley's Business School, and am very proud that the Haas School was named by *Economist* Number One in the U.S. and Number Three in the world. Any new business in 2010 (new clients only please) who let me know up front – I will donate 25 percent of my earnings in your name to the Haas School!

I remember back during the last commercial real estate upset in the early 1990s. When properties change hands involuntarily there is sometimes confusion during the property management transition between the former owner, who ran it one way sometimes for years, and the new owner/lender/receiver, who might have a totally different way of managing the property, and unfortunately sometimes when a property is wrenched away the records do not always get transferred in an orderly process. Who often bears the pain? The tenants …

I just received a solicitation offering administration assistance for under $3/hour and full-time dedicated admin for $480/month from India … I don't think my current admin staff are concerned about this employment competition, but there are hundreds of thousands or perhaps millions of jobs that 20 years ago would still be in the U.S. that are now being globally outsourced, and this trend is here to stay. The effect on demand for U.S. office space? Huge …

How does an office broker evaluate office buildings? There are many approaches in determining whether an available office space is worthy of showing prospective tenants, especially in markets where there may

be 30 to 50 available spaces in the desired size and location range, and neither the client or the broker has the time available to tour every space … how the property is maintained and managed can be determined by reputation, current tenant comments, fellow broker conversations, looking at the building as to how the landscaping is kept up, how the restrooms are maintained and even how clean the fire escape stairwells are kept. Is the property well-financed and not in danger of foreclosure? Does the landlord do what they say they will do, or is their reputation one of promises without reality? Does the landlord pay their vendors on time, i.e. the tenant improvement contractor, the building architect and the brokers, or are they slow to pay and require phone call after phone call just to collect past-due monies? Is the lease fair and the lease process relatively straight-forward, are they flexible with lease terms or do they follow some corporate mandate which makes negotiation difficult and frustrating? Are they quick in response or do they have to get approval from another office on the other side of the continent that might take days or weeks for each round of negotiation? Is the listing broker a straight-shooter or someone who plays games? Does the landlord have a long-term reputation of respecting tenants and brokers, or does he only cater to them when desperate for tenants? Are they long-term owners or are they transitional landlords looking for quick profits? If I missed any, please email these to **jweil@colliersparrish.com**.

I am so proud of our son, Jordan, who at 12 has become an amazing young man. His mom taught him solid study habits and it is common for Jordan to get up at 6:00 a.m. or earlier on his own to study, which has resulted in great grades. In Boy Scouts he just achieved the rank of Star and will be the Senior Patrol Leader at his Troop's summer camp in Wente. He played an outstanding soccer season as sweeper and most of all his team had a blast playing. Does he always listen to me? Of course not! But I often break out into a smile just reflecting on some past zany antic of his (but Dad, camping in the rain without a tent was cool!) … His younger sister, Madison, also had a terrific soccer season, scoring most of her team's goals for the season – next year hopefully she will learn how to pass and share the glory – and she shows the same amount of enthusiasm for her tap dance class. For recent photos of their adventures go to **www.officetimes.com/2009/Dec09/JMDec09.htm**.

Those of you who either know me or are regular readers of OfficeTimes know that I am one of the assistant scoutmasters of a large (120 scouts) Boy Scout Troop, and coach soccer and girls softball, and am involved in other volunteer activities. I'm not sure how this works in other countries but in the United States we have so so many volunteers helping our local communities in so many ways, youth sports, PTA, school boards, city councils, design review committees, planning commissions, food banks, religious organizations – it's amazing we still have time left over to work for a living! There are so many fulfilling ways to give back to society and help make this a better place to live. I have visited dozens of third-world countries and have realized that even in spite of the difficult times here in America, most of us are very fortunate to not have to worry about sheer survival. Count your blessings and have a great, sharing, caring and joyous holiday season! Any new business generated through this December 2009 OfficeTimes issue will have 20 percent of my earnings donated in you or your company's name to the local Food Bank, so please call me with your business!

Sincerely,

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


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Senior Vice President
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