



Corporate Office Perspectives

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“The San Francisco office market has continued to tighten in the fourth quarter, falling 50 basis points to 13.2 percent, according to the latest market report from Colliers International. The rate – the lowest in four years – is down 200 basis points from this time last year and may venture into the single digits by the end of 2007,” according to the report. *CityFeet* (1/10/06) “The San Francisco commercial property market is climbing its way out of a downward spiral that began with the dot-com bust. As of the third quarter of this year, the office-vacancy rate was down to 12.5 percent – the lowest level since early 2001. Tenants are filling up buildings, rents are being bumped up and office users are leasing more space than they are vacating.” *Investors Business Daily* (12/30/05)

Here comes the new wave of office development – this will start slowly and in spurts and accelerate as the gap between today’s office rents and new construction proforma rents narrow. “Developer Jay Paul of San Francisco has tied up 52 acres in the Sunnyvale Moffett Business Park with visions of a stabilized 1.6 million sf Class A office park worth \$750 million ... the plan is to complete the entitlement process and close on land in the spring and then break ground in the summer.” *CityFeet* (12/04/05) “Tishman Speyer is planning to begin developing San Francisco’s largest entitled office site as soon as next year (2006) – with or without a tenant, The New York firm is fine-tuning plans to transform a parking lot at 555 Mission St. into a 547,000 square foot office building. Its goal is to break ground mid-2006 and deliver the space in early 2008.” *San Francisco Business Times* (11/25/05)

In just the month of December 2005, the State of California added 24,300 jobs, pushing the unemployment rate down to 5.1 percent. For all of 2005, employers created 233,700 jobs, a growth rate of 1.6 percent that brought California payrolls to about 14.9 million in December. *San Francisco Chronicle* (1/21/06) “The East Bay accounted for about 60 percent of all the new jobs created in the Bay Area during 2005 ... producing nearly 10 percent of the 233,700 new jobs gained in all of California. What’s more, some analysts who track the economy in the Alameda-Contra Costa region and elsewhere say the area is poised to become even stronger in 2006.” *Contra Costa Times* (December 1/21/06)

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Enhancing employee collaboration, increasing communication while increasing space efficiencies ... finding a way to make a hallway or gathering space do more than one thing. “By increasing the width of a circulation hallway or space pocket, and placing soft seating and a teaming table there, we’re able to maximize use of that space by creating an informal collaboration hub,” according to Carol Rickard with Little Diversified Architectural Planning. “Employees are able to concentrate on a project alone if necessary, but can correspond with colleagues at a moments notice with the informal meeting area located just steps away from individual workstations. We call it ‘chair ballet,’ says Rickard, people literally wheel themselves over to the table and are able to meet. Even the walls reflect this concept: They’re covered with material that turns the surface into a dry-erase board, which can be used for formal presentations or spur-of-the-moment discussions. ‘Conference rooms really are not an efficient use of space, because they’re dedicated to one function that’s used only 15 to 20 percent of the time,’ says Rickard. Companies are starting to look at their bottom line and say; ‘How do we make our space do more?’ *Buildings* (December 2005)

“The Outsourcing Reality – Backlash against outsourcing to India has diminished, primarily because corporate America stopped talking about it. But it hasn’t stopped doing it. Today, experts estimate that one-half to two-thirds of Fortune 500 companies have sent jobs to India because they can’t afford not to do so” ... U.S. commercial real estate brokerage and development companies have landed in India during the past 10 years, and with an estimated 2 million IT/ITES workers expected to be added to India’s labor pool in the next four to five years, at 100 sf per person this would translate to a need for 150 to 200 million square feet of additional office space. *Commercial Investment Real Estate* (Jan/Feb 2006)

“Planning for Disasters – The recent hurricanes that struck the Gulf Coast region and parts of Florida have shown the need for better disaster planning on the part of building owners and managers. From data protection to site selection, a host of technologies are available to help facilities better prepare. The location of a data center is critical for the survival of a facility and its tenants in the event of a disaster. Basements are among the worst places for a data center, due to their tendency to flood. The top floor is also a bad place, meaning that the building’s central core is ideal. Fuel needs to be available for a building’s back-up generator. Consequently, it becomes important to know how much will be needed in the event of a disaster. A multi-fuel generator is recommended, one that can run on both gasoline and natural or LP gas.” *Today’s Facility Manager* (October 2005)

A few interesting snippets from a recent article on corporate real estate trends ... “Despite a push away from real estate ownership, U.S. corporations invested \$1.2 trillion in their facilities, such as office buildings, industrial campuses and call centers, in 2004.” That figure, according to Ernst & Young LLP’s recent U.S. Investment Monitor, was the highest since 2000. Of that amount, \$270 billion was spent on new properties and \$950 billion was used to replace or renovate existing assets. The survey also indicated there have been sizable investments in new back-office and call center facilities in the U.S., “even taking into account all of the stories about the explosion of offshoring,” says Chris Steel, “a business location specialist with Ernst & Young’s BRS practice in New York City ... And despite their high business costs, New York and California continue to see new construction coming from the biotech, publishing and high-tech sectors.” *Real Estate Forum* (December 2005)

Outsourcing ... “Equinox is a company in Irvine that processes mortgage documents in India for America lenders. Chisk Inc., is exploring ways to outsource routine legal-discovery work to India. India is making a transition from being only a back office. In the pharmaceutical industry and others, you will see India’s companies playing a bigger role in the world.” *San Ramon Times* (12/15/05)

“While cheaper labor is the main reason companies take business overseas, offshoring also is boosting corporate bottom lines through capital savings,” according to a Boston Consulting Groups study. In a rapidly developing economy, a company can add about 6 percent to the return on capital expenditures such as manufacturing facilities, researchers found. By using locally made equipment, companies save 20 percent to 80 percent on fixed assets, and since labor is cheaper, they use more labor and less or older machinery. Better productivity is an added bonus as most offshore locations have six-day work weeks and lower pay for overtime and holidays.” *Commercial Investment Real Estate* (Jan/Feb 2006) Not including the great benefit packages and pension plans offered overseas ...

In reading “Contra Costa’s credit rating falls due to declining reserves,” *San Ramon Times* (12/1/05), leads me to wonder if all city, county and state governments understand that the past four years of housing fury which generated huge amounts of government tax revenue might not be sustainable and future budgets should reflect this ...

Just in case someone stops you in the hallway and asks if you know what BACnet is (no, its not a tennis term ...) BACnet is a data communication protocol for Building Automation and Control Networks. BACnet is an American national standard, a European pre-standard and an ISO global standard, and has the ability to tie in utilities, financial systems, work order systems and other enterprise-level systems to share data for a more efficient, coordinated facility. If you’d like more information please go to www.bacnet.org.

Insourcing – “Insourcing is defined as jobs created by U.S.-based subsidiaries of corporations based in other countries. California is in the forefront of insourcing, according to a report released Wednesday by an association of foreign companies with U.S. operations. The Golden State has the most ‘insourced’ workers of any state in the country, with 561,000.” *San Ramon Valley Times* (12/1/05)

Deals & Rumors: Vacancy rates continue downward and here’s why: In **San Francisco**, Advent Software leased 100,000 sf at 600 Townsend St.; Stub Hub leased 18,000 sf at 55 Second St.; Surplus Line Associates took 19,000 sf at 50 California St.; Pepler Mastromoncaco LLP leased 11,000 sf at 100 First St.; Barclays Global Investors preleased 321,000 sf at 400 Howard St., to be built as part of Foundry Square; GSA leased 70,000 sf at 50 Beale St. as well as 71,000 sf at 120 Montgomery; GroundWork Open Source Solutions will be relocating from Emeryville to a 15,000 sf sublease at 139 Townsend St.; Blue Shield is still rumored to looking at renewing or relocating 250,000 sf in San Francisco, and CitiCorp might be looking for 90-100,000 sf; Clarium Capital Management took 22,000 sf at the Lucas campus in the Presidio; Kirshenbaum Bond & Partners leased 20,000 sf at 1596 Howard St.; Alaska National Insurance inked for 10,000 sf at 601 California St.; and Yahoo just expanded by 43,000 sf at 475 Sansome St. Up in **Novato**, Bank of Marin leased 30,000 sf at Pell

Plaza. Down the Peninsula, in **South San Francisco**, Genetech expanded once again by 125,000 sf at 681 Gateway Blvd. Virgin America will be leasing 42,000 sf at 555 Airport Blvd. in **Burlingame**. In **Foster City**, Entelos Design Labs is reportedly searching for 400,000 sf, with one source reporting a possible LOI at Pacific Shores in **Redwood City**, and in the same city, Merced System leased 28,000 sf at 333 Twin Dolphin Dr. Over the Bay in **Emeryville**, ZipRealty expanded to 23,000 sf at Watergate, and in Downtown **Oakland**, the University of California is planning a 11-story office building with 190,000 sf for 2008. In **Concord**, John Muir is rumored to be doing a 70,000 sf build-to-suit in North Concord and Fidelity Home Warranty is rumored to be leasing 33,000 sf at One Concord Gateway. In **Walnut Creek**, the 100,000 sf Class A 2700 Ygnacio Valley Rd. just sold, as did the 28,500 sf 100 N. Wiget Lane office building. In **San Ramon**, Bedford sold his two office buildings on Crow Canyon and Taylor Woodrow leased 18,000 sf at Bishop Ranch 8. In **Pleasanton**, Tanner Insurance expanded to 34,000 sf at 4480 Willow Road, MacKay & Somsps expanded from 11,000 sf to 20,000 sf at 5142 Franklin Dr. I sold the 67,000 sf 6101 Stoneridge Drive former PeopleSoft/Oracle building to Thoratec Laboratories for their headquarters, the 200,000 sf Hacienda Lakes just closed escrow last month, and the 285,000 sf Cisco buildings across from the Pleasanton BART Station are rumored to be in escrow to an owner/user.

Office environments affect creativity ... “More than half, 55 percent, of 250 advertising and marketing executives polled said their office environments ‘greatly’ affect innovation. And, 38 percent responded that their workplaces impact staff creativity ‘somewhat.’” The survey was conducted by an independent research firm for The Creative Group, a staffing agency based in Menlo Park. “Physical surroundings can heavily influence an employee’s ability to concentrate and perform well,” said Tracey Fuller, executive director of the Creative Group. “Companies can encourage productivity and innovation by providing staff members with comfortable, attractive areas for team meetings, as well as individual work stations that can be tailored to personal needs and preferences.” To create stimulating work environments, The Creative Group suggests: having “creative zones” where informal meetings can occur; offering private sanctuaries where employees can work without distractions; maximizing opportunities to benefit from natural daylight; installing an “idea wall” where employees can post ideas; and, holding meetings in unusual places to spark creativity.
East Bay Business Times (11/25/05)

“The U.S. Bureau of Labor Statistics reports that building materials spiked in 2005, with asphalt increasing 25 percent and plastic plumbing soaring 39 percent during the 12-month period ending on Nov. 30.” *BOMA* (1/19/06)

If you would like to view the Colliers International Office Real Estate: Vision 2006 Forecast, go to www.officetimes.com/Office06RE.pdf. Features include Top 10 Trends, including Acute shortages of large blocks of space will increasingly be reported. A handful of markets are going to be the catalyst to push rents significantly higher; and the Office – Investment Market Summary (core buyers will pursue Class A, value-add buyers, Class B, and Class C real estate will disappear for adaptive re-use). There is also a 12-month office forecast.

The case for wireless – Building automation through a wireless system incorporating HVAC, door locks, security, lighting and any other system that a facility manager wants to include ... “Wireless is fast becoming one of the best ways to monitor and report system alarms, HVAC failures, or emergency occurrences such as frozen pipes, water in the sump area, carbon monoxide, fire or medical emergency. One of the problems with adopting any new technology is the question of reliability. And rightfully so. A facility manager has the option of installing a redundant system at the central station, composed of a second receiver and monitor. Planning for backup batteries for portable units and backup power will facilitate a seamless operation. In most cases, access control and key infrastructure protection are the major beneficiaries for a wireless-based system. Intrusion and equipment sensor monitoring provide the most tangible potential benefits for facility managers. Once the HVAC, access control, and lighting systems have been incorporated into the wireless system, the building can begin to run much more efficiently. Costs from having maintenance staff on hand can be reduced, and rather than having to access the lighting system from a terrestrial computer station, a facility manager can access it wirelessly and shut the lights off from anywhere. This contributes to energy conservation and reduces costs. A wireless system is highly superior in a disaster. Sensors/transmitters are generally not affected and continue to perform and connect back to the central station, providing data on a continuous basis through the crisis. Because the system continues to operate, not even something as catastrophic as a hurricane or earthquake will force the wireless system to stop working. There is no ‘cutting’ a wireless network or infrastructure. By contrast a Sonet ring or cable can be physically damaged or severed, thus interrupting terrestrial connectivity.” *Today’s Facility Manager* (November 2005) Every time I see the phrase “terrestrial connectivity,” I flash on ET and his outstretched fingers, not building systems ...

Jobs for 2006? “Will new and better-paying jobs provide the income boost consumers need to keep the economy bustling in 2006? Even if the economy adds another 2 million jobs each year until 2010, total employment growth from 2000-2010 will be about 14 million – the lowest figure of any decade since the 1950’s, according to Torto Wheaton Research. Economists say today’s more efficient companies have simply learned to grow with fewer new hires.” *National Real Estate Investor* (December 2005)

“The Tri-Valley region including San Ramon, Dublin, Pleasanton and Livermore filed three times the per capita rate of patents as compared to the State of California and five times higher than that of the United States. Forty-four percent of Tri-Valley residents have bachelor’s degrees or higher. Since 1990 more than 18,000 new companies have been created here.” *Diablo Magazine* (January 2006)

“Despite falling vacancies and limited new construction, the national office market is experiencing only a modest uptick in rents. Landlords in tight markets like Washington, D.C. and New York City are two notable exceptions to the rule. Data from New York-based REIS shows that average effective rents nationally increased by just 0.9% between mid-year and the end of September when they hit \$20.45 per sq. ft. And rents are still well below the \$27.35 per sq. ft. peak achieved in late 2001 ... How can that be? One explanation behind the slow office recovery is the rise in worker productivity since the recession. Also, corporate real estate executives have become more adept at controlling occupancy costs. The prospect of slower job growth, higher energy costs and rising interest rates in 2006 could only compound the problem for landlords.” *National Real Estate Investor* (December 2005).

There are several additional factors having a major impact on office absorption. Leasing velocity is still relatively slow, particularly in office leases of more than 10,000 sf. I have reported every 10K and larger transaction in the Bay Area every other month for the past 25 years. Comparing current and near-recent figures (please go to www.officetimes.com to see past OfficeTimes newsletters) with the heyday of 1999-2001 or the early 1980s boom years illustrates this trend. Also, the effect of offshoring may be larger than many want to think – there have been huge amounts of job growth created during the past few years by U.S. corporations, but these jobs are occurring in India, China, the Philippines and not on American soil. A third major reason is telecommuter/virtual office/cube sharing etc. which for a number of corporations has allowed significant office space reductions while still maintaining or even increasing employee headcount.

“Sun Microsystems has been a pioneer in driving down occupancy costs. Through its iWork Solutions initiative, more than half the company’s workforce – 20,000 out of 35,000 employees – don’t have assigned seats. Workers can enter any Sun Microsystems facility around the world, log on to a computer, and access their own files and have calls routed to their workstations. By taking that aggressive stance, Sun Microsystems has been able to shed millions of square feet from its real estate portfolio and trim its annual real estate operating budget from approximated \$1 billion in 2000 to \$450 million today.” *National Real Estate Investor* (December 2005). In the “good old days” there would be frequent media announcements of huge corporate hirings and with that major office expansion ... now we see headlines such as on November 29, 2005 “Merck to slash 7,000 jobs” or “Ford rumored to be laying off 30,000 including 12% of their office workers” ... and it takes a lot of 2 to 7,000 sf startups to fill these shoes ...

The Dead Zone: “Everyone has had the frustrating experience of a cell phone call being dropped in a dead zone. This occurrence can range from a minor inconvenience to a major disruption in business. Assuming the user is in a populated area that has reasonable good cell coverage, this problem can be related to either a coverage hole or structural interference. The solution to both coverage holes and structural interference is the same: a cell phone repeater system. These systems are fairly simple to install and quickly and economically solve cell signal problems.” *Today’s Facility Manager* (November 2005)

Near Stockton/Tracy, Mountain House has been going gangbusters building out an entirely brand new city of 45,000 residents. Now to go along with all this new population construction is about to begin on a 1.7 million-square-foot business park, with 1 million square feet of Class A suburban office, 250,000 square feet of office/flex, 300,000 square feet of retail and two new hotels. Please call me if you want to tour this project or get additional information.

One approach to hiring ... “To lure workers, Google offers perks, including free cafeteria meals, free use of laundry machines, a child care center, a free annual one-night ski trip, dog-friendly offices and an on-site doctor. Engineers can devote 20 percent of their time to projects of their choice. What’s not mentioned is that much of the largesse is designed to keep workers at their desks longer.” *San Francisco Chronicle* (12/15/05). This gives new meaning to the dog days of summer, there’s no such thing as a free lunch, and keeping your dirty laundry out of the office ...

“The U.S. markets seeing strong population growth are those with high-paying jobs and high quality of life. Well-established markets with low salary and benefit ranges are also seeing population inflows. But as markets with strong in-migration continues to grow, housing affordability could drop. Top in-migration cities by market type: High-tech swing cities are Austin; Denver; Raleigh-Durham; San Jose; Seattle ... quality job centers are Nassau-Suffolk, N.Y.; Orange Co., CA; San Diego, CA; Washington, D.C. Affordable job centers are Atlanta-Charlotte, N.C.; Dallas-Fort Worth; Houston; Orlando; Tampa-St. Petersburg, Fla.” *Realtor Magazine* (December 2005)

At the recent World Economic Forum awards program held in Davos, Switzerland, which recognizes on an international business basis those companies whose technology could transform commerce and society, almost half of the 36 awardees are based in the United States, and of those 17 firms, 11 came from Northern California. *San Francisco Chronicle* (12/15/05)

I’ve heard a lot of complaining and hand-wringing about all the American jobs that have been offshored. It’s as if we are losing entire sectors of industry that formerly employed American workers on American soil. Let’s step back and look at this objectively versus emotionally. There are at least five reasons that support the premise that global offshoring might be good for America. First, this is a global economy and in order to be globally competitive, American companies must utilize all methods and processes that can keep costs down. I had an international engineering client that was losing international jobs to foreign competitors who hired engineers in India for \$20,000/year versus my client whose per-engineer overhead in the U.S. was \$100,000/year. They recently packed up and moved these jobs offshore. There is a lot of corporate profit today in American companies and part of this is due to usage of lower cost goods and services offshore. Second, if we were to keep these low-paying jobs, either minimum wage laws would prohibit them or Americans wouldn’t want to work for \$5 or \$7 per day. Third, our unemployment rate is 5.5 percent, and my friends running companies tell me it is extremely hard to find new qualified employees as everyone seems to already have a job, Fourth, I have a lot of faith in American creativity, tenacity and doing whatever it takes to succeed, and we are and will continue to be at the forefront of creating the technological, biological and other tools needed for tomorrow’s industry. Fifth, we flattened the world ourselves creating computers, intranet, fiber, high-speed transmission, software and everything else that China, India and other countries are utilizing. We sold it to them, so why should we complain when these clients actually use our products to facilitate offshoring?

“Oracle Corp. plans to add 1,400 employees to its sales, consulting and support operations in India, as it focuses on expanding business among small and mid-sized companies in the country’s towns and rural areas. Oracle already operates in six Indian cities, and it plans to set up shop in nine more in the next eight months, as it adds to its Indian workforce of 8,600. “This expansion can give us a whole wave of growth,” said Derek Williams, executive vice president for Asia Pacific at the Redwood City software company. He said India is one of Oracle’s fastest-growing markets in Asia and called the country’s smaller towns the “up-and-coming economic engines of India.” *San Francisco Chronicle* (1/11/06) Microsoft will invest \$1.7 billion in India during the next four years and nearly double its employee ranks in the nation, its chairman, Bill Gates, said. “We have about 4,000 people; we would be growing that by over 3,000 in the next several years.” *Contra Costa Times* (12/8/05) “J.P. Morgan Chase said it plans to double its staff of 4,500 employees in India by 2007.” *Tri-Valley Herald* (12/12/05) “Intel announced that it will invest \$1.1 billion in India over the next five years, hiring more people in India to tap into a highly educated work force that can be employed at a fraction of costs in the United States.” *San Francisco Chronicle* (12/6/05) So hang on tight, this ride has only begun!

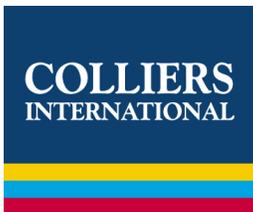
“ProLogis Corp’s \$5.5 billion acquisition of Catellus Development Corp. resulted in a portfolio comprising 372 million sq. ft. in 2,336 properties in 75 markets around the world.” *Real Estate Forum* (November 2005)

The last few months have been filled with special family moments. My wife and I took our two children, Jordan, 8, and Madison, 3, to Monterey for several days of visiting the Monterey Aquarium and checking out Cannery Row. During the December holidays we learned to appreciate the basics as up at Lake Tahoe, we were totally without power (as were 10,000 other homes) for more than two days. Candlelight is romantic but with two kids used to the DVD player, the toaster, microwave and lights, it became quite an adventure playing board games and putting together puzzles by flashlight. It actually turned into one of the most special family events I’ve ever experienced! In January, Madison started ski lessons for the first time while my wife, son and I explored the upper regions of Squaw Valley’s famed slopes. By the time you read this, we will be completing a six-day ski clinic where all four of us will be taking all day lessons at Taos, New Mexico. For those unfamiliar with Taos, the base is 9,500’ and rises to more than 12,500’ with some of the most spectacular ski runs in the world. Please go to www.officetimes.com/JMFeb2006.htm if you’d like to see photo’s of their recent adventures.

I hope you have the best winter ever, whether you are in Minnesota or Hawaii, and if we can assist you or your company in any way please don’t hesitate to call. Thank you!

Sincerely,

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