



## Corporate Office Perspectives

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In the last *OfficeTimes* issue, December 1, 2003, I stuck my neck out and declared the official “bottom” of the office market. During the past 60 days, numerous economist and brokerage reports seem to support this. However, we are not quite out of the woods yet, as several submarkets are still experiencing downward-trending rental rates and Corporate America is still “right-sizing” its workforce, albeit at a much slower layoff pace than we experienced in 2002 and 2003.

Job layoffs still far outnumber new hire announcements. While IBM may be hiring an additional 1,000 workers in 2004, AOL announced 400 layoffs; Washington Mutual: 7,500 jobs on the line; AT&T: 8,500 jobs to be cut; Bayer: 190 to be terminated; SBC: 4,000 employee reduction; ChevronTexaco: 200 to go; and the JP Morgan Chase/BankOne merger may cause 10,000 employees to be looking for new employers. During the past few months I’ve called on a number of local firms, and software companies between 10,000 and 75,000 sf have suddenly shut their doors or disappeared in the night. National retailers are moving regional offices either into distribution centers or to other parts of the state or country, totally vacating leased space at expiration. During just a two-week period I encountered more than 200,000 sf of local companies that had, or were about to, completely vacate their space. When you compare this to the Deals and Rumors section of this newsletter, there seems to be no sign of positive office absorption at this point in time. Also, IBM may have had a big press release on new job hiring, but in a much smaller news column, “IBM plans to move up to several thousand skilled software jobs from the United States to India, China and other countries, which could amount to one of the biggest such actions yet in the technology industry. IBM documents obtained by the *Wall Street Journal* said about 4,700 programming jobs could be shifted overseas to save costs, a growing high-tech industry trend known as offshoring.”

I’m writing an article on the effect of the recent national push to remove unused wiring from office buildings, usually above the ceiling, and this will be posted on the home page of [www.OfficeTimes.com](http://www.OfficeTimes.com) by February 15. I interviewed a number of both large and independent telecommunications wiring/installation vendors. Ballpark, it appears that for a typical 10,000 square foot office space, 70 percent open and 30 percent hard-wall, the cost to remove previous tenancy wiring is about \$3,000 to \$5,000, or \$0.30 to \$0.50/square foot. I asked vendors what they are installing the most of, and some smaller vendors were recommending Cat 5 as they felt other than web designers/software programmers, this had sufficient capacity for corporate use. When I checked in with one of the larger install vendors, they use almost exclusively Cat 6, which costs 15 percent to 20 percent more, but they felt future technology capacity warranted this

*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](http://www.OfficeTimes.com)

greatly increased capacity.

The top two office complaints, as reported in the *Contra Costa Times* (1/21/04), “A 2003 survey by the International Facility Management Association found that, of the top 10 office complaints, “It’s too cold” and “It’s too hot” ranked Nos. 1 and 2, respectively, the same as in 1997 – but a major reversal from 1991, when “It’s too hot” beat out “It’s too cold” by a degree or two.” “It turns out,” says Dan Int-Hout, chief engineer for Krueger, an air-conditioning equipment manufacturer in Richardson, Texas, “that if you think you have control over your environment, it may be more important than actually having control over your environment.” In addition to actually making sure the HVAC system is working at peak performance and is balanced between different exterior sun exposures, other “fixes” include installation of a placebo-stat which allows the office worker to change the settings to allow them to feel in control, while in reality the stat is not hooked up to anything. It seems men are usually hot and women are usually cold, which may be a function of what the different sexes wear to work. Having an HVAC specialist “tinker” with the system in visible sight of complaining workers sometimes creates an illusion that the system is fixed when in reality no changes were actually made. One thought: When I was getting my MBA at Cal, there were a number of studies that showed money is only ranked number 7 on an employee’s top 10 list – the cost to remedy indoor air temperature might be relatively insignificant but produces a very high rate of return in employee satisfaction ...

*MONEY* Magazine ranked cities and towns with fewer than 100,000 residents. In the Western United States, Danville placed seventh, Dublin placed ninth, Pleasanton placed 10<sup>th</sup>, San Ramon placed 12<sup>th</sup> and Livermore placed 13<sup>th</sup>.

Offshoring Update: There are a number of downsides to sending jobs overseas, including management control, confidentiality, the time and cost for travel to check on the overseas unit, and losing sleep at night over the U.S. jobs that now may be permanently ensconced in another part of the world. However, there may be additional benefits not as visible or as widely reported in addition to the huge cost savings. Just reflect on all the issues that U.S. H.R. departments are faced with in hiring, the forms, the governmental reports, the wrongful termination litigation exposure, the cost of severance packages in times of layoffs, and even dealing with whether an employee is too hot or too cold ...

*Wired* (December 2003), “Workers in India, China and the Philippines earn about 40 cents per hour to manually turn pages that are zapped by \$15,000 overhead scanners. Carnegie Mellon’s Million Book Project alone employs more than 100 Indians for this activity. The Indian government views it as a boon to local employment.”

As reported in the *San Francisco Chronicle* (12/14/03), SBC may be cutting expenses by reducing the weekly trash pick-up from cubicles to a maximum of once per week, and building maintenance “will be performed on a priority basis” and “employees should expect longer response times for lower priority issues.” “Office temperatures also will be higher on hot days and cooler on cold days.” This seems to run counter to the relatively low cost of making sure employees are comfortable and happy. Just think of the cost-saving possibilities taking this a few steps farther. “Cost savings accrue as employees take their office trash home,” “Space-savings due to total elimination of employee lunchrooms,” “Firms require employees to use personal cell phones for office calls, thereby allowing cancellation of business phone service”...

*Deals and Rumors*: In **Emeryville**, the big news was the Department of Treasury 82,000 sf lease at 1650 65<sup>th</sup> Street. Next door in **Oakland**, Clear Channel leased 10,000 sf at 555 City Center. In **Pleasanton**, I assisted Individual Software in the long-term lease extension of their 20,000 sf facility at 4255 Hopyard Road; World Savings and Chicago Title subleased 20,000 sf and 12,000 sf, respectively, at the Schwab Corporate Commons

office project at Stoneridge; and Birio Networks leased 10,000 sf at 4457 Willow Road. In **Dublin**, OnWafer Technologies leased 10,000 sf at 6591 Sierra Lane. In **Walnut Creek**, John Muir Hospital is rumored to be leasing space at 3000 Oak Road. Up the road in **Pleasant Hill**, I represented Pacific Business Center in the long-term extension of their 14,000 sf facility at 3478 Buskirk Ave. In **Rodeo**, I was involved in the sale of 18 acres of industrial land to ConocoPhillips Refinery. In **Alameda**, St. Francis Medical Technology leased 13,000 sf at 960 Atlantic Ave. Up in **Rohnert Park**, Kaiser Permanente leased 33,000 sf at 5900 State Farm Drive. Skipping down to the Peninsula, The Lash Group took 28,000 sf at the Bayhill Office Center in **San Bruno** and Genentech bought a 65,000 sf building for its own use at 550 Broadway St. in **Redwood City**. IGN Entertainment leased 25,000 sf at 800C Marina Blvd. in **Brisbane**. **San Francisco** clearly was where all the action was located. Zinio took 11,000 sf at 139 Townsend; Primitive Logic leased 11,000 sf at 704 Sansome St.; State Farm Insurance leased 13,000 sf at 60 Spear St.; Keker & Van Nest took 64,000 sf at 633 Battery St.; The Fourth Firm signed for 19,000 sf at 225 Bush St.; Harb Levy & Weiland leased 19,000 sf at One Market; Macy's will be consolidating its offices to 120,000 sf at 22 Fourth St.; KPMG will be relocating to 90,000 sf at 55 Second St.; Gymboree is now rumored to be eyeing a 160,000 sf sublease from Sun at Foundry Square; The California Culinary Academy is rumored to be leasing 85,000 sf at 550 Rhode Island; Godfrey & Partners sublet 10,000 sf at 153 Kearny St.; Jewish Vocational Services leased 22,000 sf at 225 Bush St.; Krieg Keller Sloan Reilley & Roman LLP expanded to 16,000 sf at 114 Sansome St.; Human Service Management/PACE took 16,000 sf also at 114 Sansome St.; Barger & Wolen leased 23,000 sf at 650 California St.; Driver Alliant Insurance Services sublet 20,000 sf at 600 Montgomery St; and Cloudmark leased 15,000 sf at 128 King St. There, enough for now ...

Recent headlines tell the story on Offshoring ... "Tax preparers sending work abroad without telling clients," "Relentless pressure on costs driving tech jobs overseas," "Silicon Valley prefers to hire overseas workers," "Dell shifts work from India to U.S.," "Indian employees make \$2,800 to \$8,000 per year, compared with \$30,000 to \$45,000 for comparable workers in the U.S.," "Technology giants defend moving jobs – Companies say positions must be deployed overseas to keep competitive edge," "Economists back tech industry's overseas hiring," "Startup fever in Silicon Valley dulled by preference for overseas locations," and on and on. Bottom-line, how will this affect long-range demand, rents and availability of U.S. office space?

After our last *OfficeTimes* issue, one of the real estate directors sent this, "Jeffrey: Just finished your newsletter and found it an interesting read – thanks. Something you might find of interest, last week I was in Thailand and read an article about how there was a protest in Bangkok from some workers complaining about their jobs being "outsourced" to China. We are not alone in this!"

A few weeks ago my family had a chance to visit Hotel Del Coronado in San Diego, and we rode the "lift," still operated by the "lift operator." This brought to mind all the elevators of the 1930s through 1960s that each had a person bringing you up and down, before automated elevators became the norm. In my parent's era there were tens of thousands of telephone switchboard operators connecting your phone calls, and even I remember always having to speak to a live operator before automation rendered these and millions of other jobs obsolete. Did our economy collapse? No, but it was a painful retraining process and through this our country became stronger, more progressively modern, and better able to compete globally. I remember life before cell phones, and do not want to return to those less-convenient days, and this same ever-changing process is now focused on global offshoring. Our country will become stronger and will continue quantum leaps into future technology because of this shedding of the old skin of lower-level, back office or digitally transferred work formats.

January 23, 2004: "Alameda County eyes layoffs," "Oakland faces cuts, Brown says," "Kodak forced to cut positions, cutting up to 15,000 jobs." This brings to mind, what if government was as nimble and unfettered

by cumbersome union, seniority, political and social service restrictions? Not necessarily a good thing, but when business starts to bleed, it begins employee layoffs and cost-reduction programs, which may continue well after profits return, while government, knowing it faces deficits and declining revenues, often has its hands tied so tightly they are unable to proactively, or even reactively, reduce expenses in a timely fashion. Private companies seeking lower-cost operations may send a portion of operations offshore, but could you imagine the uproar if your state call centers were in India? Then again, if going partially offshore allowed you to keep more social programs in place versus cutting needed services, why would this be an unwise move?

Sound advice: According to *Building Operating Management* (December 2003), “More and more facility executives are realizing that sound matters. Noise in open-space office plans can be a significant source of distraction and can reduce productivity.” “Ceilings are critical because they’re the largest, most unencumbered area in a facility,” says Jonathan Leonard, vice president with Leonard Acoustics Corp. Studies by Dynasound show that 52 percent of employees in open-plan office environments feel that the level of noise in their workplaces is stressful, says Fred Folsom, executive vice president with the company. Facility executives will want to examine the material choices for ceilings. Typically, fiberglass ceilings work well in large open-plan areas, as they absorb a large amount of sound. Mineral fiber ceiling panels often are a better choice in private offices, because they block conversation from traveling to another office. If a facility has a highly sound-absorbent ceiling, but no sound-masking system, conversations might be heard at longer distances because the office will be so quiet. On the other hand, installing a sound-masking system without an acoustically designed ceiling might mean that many sounds will reverberate back into the space.”

Small office users are the most active component in many office markets. According to the *East Bay Business Times* (12/12/03), “The large corporate user, the 50,000 square foot-plus user is not out there. Where the action is, is the 3,000 to 4,000 to 5,000 square foot tenant,” said Mark Geisreiter, senior vice president at Equity Office Properties. “Small businesses are starting to lead the country in terms of job growth. It makes sense that smaller users are leading the market.” As Geisreiter pointed out, “If a company only has 5,000 square feet of space, there is not much room to grow when expansion occurs, compared with large users, many of whom have shrunk through layoffs and have plenty of vacant space.”

We just published an article titled, “HVAC After-Hours Issues and Recommendations” which can be found at [www.OfficeTimes.com](http://www.OfficeTimes.com). It deals with different ways to set up after-hours HVAC and lists a number of potential high-cost areas of concern, which, through proper corporate management, can be alleviated. If any of you have groups or divisions that work after-hours or on weekends, this article may be worth reading ...

According to *Commercial Investment Real Estate* (Jan./Feb. 2004), the Lend Lease *Directions 3Q 2003* report predicts that “the office market should hit bottom in 2004, but it’ll be 18 to 24 months before modest rent growth resumes.”

Flashback to September 2000 ... *Real Estate Forum*. “Synthetic leasing ... is being favored by many growing technology companies ... Since rents in Silicon Valley have climbed and are continuing to climb at such high rates, synthetic leasing has become the vehicle of choice for qualified public companies.” Oh, what a difference a few years and an Enron-or-two can make ...

*National Real Estate Investor* (December 2003) reports, “Surging worker productivity is great news for the U.S. economy because ultimately it leads to job creation. But in the near term, high productivity gains pose a major challenge for the struggling office market. A smaller, more productive workforce means less demand for office space. Worse yet for office owners, Corporate America is doing everything it can to lower occupancy costs by consolidating staff and investing in new technology. Since 1991, the average amount of

space per worker has shrunk by roughly 14 square feet, and now stands at 202 square feet, reports Torto Wheaton Research. That figure is expected to dwindle to almost 195 square feet by 2007.” “At many companies cubicles are going from 12 square feet down to 8 square feet. Tenants have a much clearer strategy with their real estate than they did in the late 1990’s,” says Ray Torto, principal of Torto Wheaton Research. “Economists now say that many of the nearly 3 million jobs lost during the recession simply won’t be replaced.” According to the *San Francisco Chronicle* (1/1/04), “The phenomenon of rising production and stagnant payrolls reflects a new dynamic in the economy, analysts say. Facing global competition and intense profit pressure, Corporate America is struggling to keep costs down. Rather than taking on new workers, employers are squeezing more production out of their existing workforce by installing labor-saving technology and increasing workloads.”

Just for the record, I do not consciously look for one biased-side of a topic and ignore the other viewpoint. If there were any published reports on positive trends for increased office demand in any of the 40 trade journals and newspapers that I use for source material, this would be in our *OfficeTimes* newsletter. Here’s another article on reduced corporate office demand ... The *Sacramento Bee* (12/1/03) reports, “Firms cut costs by cutting ... cubicles.” Executives at Cisco Systems, Sun Microsystems, Hewlett-Packard and Intel say they have reduced their building needs by hundreds of thousands of square feet – or expect to do so in the near future – by eliminating offices for many of their employees. “This is a pretty important trend,” said Mark Gulan, vice president of real estate and workplace resources for San Jose-based Cisco Systems. “We will actually be able to use significantly less space.” “Over the next three to five years,” he added, “the company could cut out 15 percent to 20 percent from its real estate costs. Part of this is accomplished by moving employees out of fixed cubicles and putting them into shared-space or equipping them for totally mobile work environments.”

Bayer Healthcare LLC sold its 933,000 sf four-story laboratory/office complex in Elkhart, Indiana for \$1.00 to Feed the Children Inc. Bayer’s other option would have been demolition costing \$20 million.

Temporary Bonus Depreciation Rules at a Glance, from *Commercial Investment Real Estate* (Jan./Feb. ’04), and of course please check with your own CPA ... 50 Percent Bonus Depreciation available for leasehold improvements placed in service after May 5, 2003, and then only if no binding agreement was in effect prior to May 6, 2003. What’s eligible? Certain improvements made to non-residential building interiors if the landlord or tenant makes the improvements under the lease terms. For complete rules and guidelines, visit the Internal Revenue Service’s website at [www.irs.gov/businesses](http://www.irs.gov/businesses).

According to the *East Bay Business Times* (1/12/04), “Downsizing in the tech sector appears to have stabilized, which suggests that the business is not getting worse. Whether a strong rebound will occur in the near future remains to be seen,” said John Challenger, chief executive officer of Challenger, Gray & Christmas, “There does not seem to be any pent-up demand for technology equipment and, as a result, there is no pent-up demand for technology workers. Making matters more difficult for job seekers in this sector is that in areas where there is demand, more and more companies are turning to less costly offshore outsourcing to get the job done.”

Our 6-year old boy, Jordan, and his 15-month old little sister, Madison, had an incredible past few months. Over the holidays they went on a Celebrity Cruise down the coast of Mexico, stopping at Acapulco to see the cliff divers, Puerto Vallarta to ride on a pirate ship, and other coastal visits to check out the local markets, museums and culture. Jordan then went skiing the next two weekends, and finally graduated to level nine as he can comfortably ski down many of the black diamond runs at both Northstar and Alpine Meadows. The days of skiing with his parents appear numbered ... please check out [www.OfficeTimes.com/JMFeb04.htm](http://www.OfficeTimes.com/JMFeb04.htm) to

view Jordan and Madison's latest adventures.

I'm writing this just returning from a trip over the Sierras, reflecting on how much beauty we have in almost every part of this great country. Yes, Lake Tahoe is special, but having visited the Dakotas on a motorcycle in my younger days, or Montana with its magnificent countryside, or crossing the Mississippi and looking on in awe at its incredible waterway, and reflecting back to when I briefly worked on a farm in Kansas and appreciated what hard work and nature can provide, most of us in America are truly blessed. One of my ski instructors told me to really take in the views at the top of each peak, and not just hurry down the mountain, and so it is with life. Be safe this winter, and share with me an appreciation not for what we are missing, but for what we already have.

Thank you!

Sincerely,

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](http://www.OfficeTimes.com)

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