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Corporate Office Perspectives

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I hosted an office broker program titled "I-680/Tri-Valley Office Market Melt-Down or Just a Blip?" last month with an open forum between the 65 East Bay office leasing agents and a number of invited media. We polled the group as to how long they thought our current down-turn would last and the majority felt we would not be out of the woods until late 2002 or early 2003. In my opinion, just think about companies such as Cisco which went through great lengths to hire, train and culturize new employees and then painfully downsized a significant portion of its workforce. Even if Nasdaq goes up and stays up there will still be a lag factor before the giants begin massive rehiring, necessitating additional office space. Plus, there are those like myself who feel we haven't yet reached bottom. In the *San Francisco Chronicle* (May 27, 2001) the headline says it all, "Announced layoffs just tip of iceberg." "It's no secret that dot-coms and Silicon Valley giants such as Cisco Systems and JDS Uniphase are slashing their workforces. But that's just the beginning. Scores of companies – ranging from retailers to tiny manufacturing shops – are quietly shuttering their offices and slashing jobs"… If you want to see our presentation made at the event mentioned above, including "Ten Signs to Tell When the Office Market Has Bottomed" just go to **www.officetimes.com/ trivalleymarket.htm.**

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In a recent study conducted by economists at the Progressive Policy Institute and Case Western Reserve University, the nation's 50 largest metropolitan areas were ranked using 16 indicators including the availability of high-tech workers, online population, Internet infrastructure and computer use in schools. According to the *San Francisco Chronicle* (April 19, 2001), "The survey of the nation's 50 largest urban areas found the San Francisco-San Jose-Oakland region at or near the top of almost every measure used to determine an area's ability to take advantage of the 'new economy,' ranging from online population and number of Internet domain names to the availability of venture capital. San Francisco scored 95.6 of 100 possible points on the survey's new economy index. Austin, Texas was next highest with 77.9 points, followed by Seattle (68 pts.), Raleigh-Durham (61.4 pts.), San Diego (61.4 pts.) and Washington (60.6 pts). One of the study's authors, Robert Atkinson, credited the Bay Area's 'historic commitment to higher education, large quantities of Federal research dollars in Santa Clara County and the region's remarkable quality of life' for propelling it into the lead. The West has thrived in part, because it's newer than anywhere else. It doesn't have all the old economy institutions, culture and people that the rest of the country has."

A number of online tenant amenity programs are beginning to surface which offer great convenience and a wide variety of services to the tenants. Dripping faucets or burned-out light bulbs can be reported at a click of the button to be efficiently routed to maintenance and tracked until the repair is completed. Business-to-business services including office supplies, office furniture and overnight courier services can qualify for group discounts when ordered through the building online portal. RexOffice, E-Tenants and Brickwire are three of the current leaders in this emerging new industry.

As of April 2001, the most expensive office space was in London ($110 to 150/sf), Tokyo ($130/sf) and Hong Kong ($90/sf). Silicon Valley used to be next in price, and San Francisco was also on the top 10 list but I would guess both of these two regions now awash in vacant space have dropped off. Other top 10 cities included Paris, Bombay, India and New York.

There is a great one-stop source for most of the corporate/commercial real estate newsletters available for free e-mail subscription - just go to **www.officetimes.com/newslettersonweb.htm** and review the best e-mailed newsletters available. Most offer free subscriptions and you can subscribe right off our website.

Thought-provoking questions in the March 2001 *Today's Facilities Manager* regarding corporate real estate department determining how to Web-enable operations. "What impact is e-commerce having on your company and its competitors? What is your e-commerce strategy? How developed is it? How is e-commerce changing your employee relationships? Do you track service requests on the Internet? How is e-commerce changing your vendor/ supplier relationships? Do you buy building supplies or MRO over the Internet? Administer service contracts on the Internet? Track orders and pay bills online? Have you benchmarked your e-commerce efforts against other CRE/ FM departments? Are you ahead or behind? How are you responding to changing real estate requirements? Does your workforce have the skills and training to operate in an e-commerce environment?"

This past week I attended a venture capital conference where a panel of some of the top VC's and angel investors were asked their opinion as to when the venture capital market would come back, when new formations would resurge, and also when the larger corporate players like Cisco would get through their current challenges. The consensus, not quite unanimous, was for VC activity to pick up in 2002 but overall recovery would not occur until sometime later. In a recently published Quarter 2, 2001 Silicon Valley VC Confidence Survey report by Deloitte & Touche, "Venture Capitalists forsee investments to stay flat into 2002." It appears many VC's are spending 60 to 70 percent of their time taking care of their existing portfolios versus funding new ventures.

Each time I write OfficeTimes I keep all the source material filed for two months in case one of our readers questions some fact or issue reported. As I was throwing away the April 2001 file I spotted the *SF Business Times* article from only a few months ago titled "$110-per-square-foot lease defies RE market doomsayers." Juicy quotes like "For the better space in town, rents appear to be holding nicely" and other statements supporting a "sustainable" Class A office market in 2001. Well, here it is June 2001, and even most of the top-end Class A rents have dropped $30 to 40/sf in just the past 90 days…what a quick ride up, and an even quicker ride back down!

Deals and Rumors: I recently sold a 16,000 sf office building at 2870 Howe Road in **Martinez** to an owner/user, Security By Design. At Hookston Square in **Pleasant Hill**, Great West Life just leased 16,000 sf. In **Walnut Creek** at 2637 Shadelands Drive I helped Fresenius USA negotiate a 10-year lease renewal for 85,000 sf. In **Livermore**, Paychex is rumored to be looking for 32,000 sf and Tyco Grinnel just leased 51,000 sf at 6952 Preston Ave. At Pacific Corporate Center, also in **Livermore**, Ingenuus Corp. leased 19,000 sf. Extreme Networks leased 60,000 sf at Hacienda Business Park in **Pleasanton**. In **San Ramon**, Odyssey Pharmaceuticals sublet 13,000 sf of lab space at Norris Tech Center. In **Concord,** Advant may be taking 13,000 sf at Sutter Square and Kyocera 15,000 sf at 1855 Gateway Blvd. Over in **Emeryville**, Fair Isaac and Whole Foods each leased 15,000 sf of office space in EmeryStation, and Andros leased 68,000 sf of flex space in **Point Richmond**. In **Hercules**, Bio-Rad just leased 18,000 sf at 800 Alfred Nobel Drive. Up in **Santa Rosa**, Triformix leased 16,000 sf at 487 Boulevard. In **San Francisco**, Global Crossing took over the 41,000 sf First World space at 466 Townsend, Merrill Lynch has renewed and expanded into a total of 190,000 sf at One Market where Wit Sound View leased 55,000 sf and Epicentric took 75,000 sf; Travelocity took 42,000 sf at 303 Second Street; Radium leased 16,000 sf at 319-321 11th Street; Covalent Technologies sublet 16,000 sf at 645 Howard St. from Brightware, Inc.; CG Time sublet 12,000 sf from Looksmart at 625 Second Street and ABM Industries leased 45,000 sf at 420 Taylor Street; and The Wharton School leased 19,000 sf at 101 Howard Street. Ipedo took 10,000 sf at 1001 Marin St. in **Redwood City** and Kensington Technology Group sublet 36,000 sf from Franklin Resources at 2000 Alameda de La Pulgas in **San Mateo**. Unfortunately, the list of space 'unleased' during the past 60 days is much longer and millions of square feet deep. Space bargains galore but few seeking…

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As reported in *Small Business Computing* (March 2001), "Many businesses lease space in buildings and office parks where landlords require all tenants to sign up for high speed Internet access (and even phone service) through one Internet service or telecommunication provider. The Federal Communications Commission recently took action to ensure business tenant's right to choose. Since the FCC has no jurisdiction over landlords or building owners, it moved against telecommunications providers, essentially forbidding them from entering into exclusive contracts to provide services to buildings or office complexes. In its initial action, the FCC also required that utilities, including Local Exchange Carriers, must afford all telecommunications carriers and cable service providers reasonable and nondiscriminatory access to conduits and rights-of-way in customer buildings and campuses."

Real Estate Forum (April 2001), in an interview with Dale Anne Reiss, who heads up Kenneth Leventhal Real Estate Group, responds to the question "Is there a technology trend right now that should be on everyone's front burner?" with the following reply "The one thing that should be on people's front burner is web-enabling your business. The way we do business will contribute to change radically in the years ahead by our use of the web." I think I know how the farmer felt after the turn-of-the century, when he had the opportunity to trade in his reliable horse for the novel but noisy horseless carriage. Hey, if the darn thing isn't broke why replace it? I remember the crazy comments I received 22 years ago when I installed my first car phone (the size of a suitcase, mounted in the trunk) or when I began our **www.officetimes.com** web site almost nine years ago. Getting "web-enabled" is a scary proposition, and with so many varying platforms, software, bundled-services or separate solutions, one can easily get overwhelmed at just the thought of making such a change when everything is working okay the way it is. That is why I so strongly recommend involvement in professional organizations such as NACORE, BOMA, IFMA and other groups that offer education, case studies and peer networking so we all don't have to keep reinventing the same wheel.

With the glut of almost-new office furniture available in Northern California I wondered why more firms were not taking advantage of these bargains until I read an article titled "Why Aren't You Using Refurbished Furniture?" in *Today's Facilities Manager* (April 2001). Here are a few salient quotes from facility managers on this subject. "One very powerful reason holding me back is the familiarity factor. I like the vendors I work with and depend on them for camaraderie, integrity, and reliability. Change is not easy and not always worth it." Here's another: "I've also found that newer units possess a contemporary, sleek, state-of-the-art look that our company strives to attain – especially for the staff and the clients we serve. With new furniture, I know I can call my local vendor and order a replacement part. That is very reassuring to me as a facility manager." And lastly from the third interviewee, "I've had vendors call me with offers for used furniture, but I'd rather buy new merchandise as long as it's fairly priced and of the best quality."

I recently had a chance to do an informal survey to 45 of the top Northern California office and industrial brokers on the long-range economic viability of Internet property listing services. This particular group had closed more than $1 billion in leases and sales last year so they were a great representation of the movers and shakers of our industry. First, I asked for a list of the top services utilized, which were Loopnet, CityFeet, CoStar, and Sublease.com. Next, I asked how many used these sites at least once a month: 80 percent. At least once a week: 50 percent. How many would continue using these sites if there were a nominal fee like $25 a listing: 0. I repeated the question to make sure I hadn't missed the message, and again, not one hand went up. So if these on-line services can keep operating without charging on either the listing side or the searching side most of my industry will still access these sites. However, if there ever comes a point in time where the site has to turn profitable, unless there are lots of expensive banner ads once a fee structure is implemented, most of the users may drop out. Also, one of the common complaints about almost all of these types of sites is that property data is often out-of-date, i.e. the property was leased months ago but not deleted from the site, etc. I surveyed a number of brokers on this, and it is just human nature that if you have 10 to 30 listings at any given time, while you might take the time to post the site because it might make you money, after the property gets leased or sold taking the listing down is often not a priority and sometimes doesn't get done for weeks or months. I'm not sure what business model would address these concerns to get sales and leasing onto the Internet on an economically viable, but practical basis … In the *San Francisco Chronicle* (May 21, 2001) titled "Industries cut out the e-marketplace middlemen with their own consortium," reference is made to the numerous e-commerce exchanges shutting down in a variety of other industries such as

chemicals, shipping and automation products. "Over the next 12 to 18 months you'll see most of the independent marketplaces run out of funding or close their doors due to lack of volume," said Forrester Research (Cambridge, Massachusetts technology analysis firm) Analyst Matt Sanders. Again, I'm not sure if this applies to our industry but it might be food for thought…

We've updated our Greater Bay Area office rental summaries and have a list of more than 3 million sf of sublease space posted at **www.officetimes.com.**

Here's a novel amenity for your employees … in San Jose, they have a day care with jungle gyms, toys, games and dozens of friends to play with … for dogs! (Reported in *Silicon Valley Business Ink*, April 27, 2001)

Last weekend on May 26, my little guy Jordan turned four. He had been talking about this upcoming birthday for the past four months, which I guess is normal for kids at that age. At my age I'm reluctant to even acknowledge I'm another year older! In March Jordan and I joined a number of other Dads and 3 ½ year olds and went snowmobiling. Helmets, flat track and cautious speed, of course! Two weeks ago my wife and I joined a convoy of all-terrain vehicles and took Jordan out into the Cabo San Lucas (Mexico) desert. Our little guy loved it and you can see his expressions by going to **www.officetimes.com/jordanjunepage.htm**. Well, here it is June already. I hope this is the best Spring of your life. We will get past the dotbombs, power crisis, Nasdaq and whatever else might be lurking out there – hey, if it was easy they wouldn't need either of us!

Sincerely,

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