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## Corporate Office Perspectives

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General market overview: The Greater Bay Area office market, overall, still offers approximately 50 million square feet of available office and flex space. In several submarkets such as San Francisco and Downtown Walnut Creek the under-10,000 sf tenant activity is brisk. Several additional types of office space also seem to be more desirable, particularly high-quality, long-term, well-located office sublease space with full plug & play (please see the latest article on Plug & Play at [www.officetimes.com](http://www.officetimes.com)) including almost-new state-of-the-art workstations, conference and private office furniture, phone switch and phone systems, and even full audio-visual setups, all usually thrown into the deal just to get the sublease signed. A 40,000 sf office tenant would save close to \$1 million dollars in FF&E alone, representing \$0.42/sf during a five-year term. This of course is on top of the deep-discount rental rate. The third category of space which seems to be moving is by aggressive, proactive landlords who roll up their sleeves and successfully compete against the bargain subleases. Through free rent or extensive furniture allowances, they are able to secure credit tenancies while other landlords stand on the sidelines hoping the marketplace will at some point turn in their direction (it will--it always does--just sometimes it can take a few years...). Have we hit bottom yet? No, we still have 30 to 40,000 telecommunications jobs to shed (some estimates double this) but we seem to be near the bottom, and I would expect us to bump around for a while before the market starts its recovery in 2003 or 2004. The Deals & Rumors section to follow actually had a number of good-size office leases to report. Most of the new office projects are now complete and slowly leasing. There are firms actually expanding. However, there are still more significant blocks of office space about to hit either the sublease or give-back market, and until this trend completes its cycle it will remain a tenant's market. Tenants take heed, those days are numbered, so if you're budgeting 2004 or beyond, factor in increased occupancy costs once the landlords regain control...(reminds me of Jurassic Park...)

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Synthetic leasing is under scrutiny, particularly after the collapse of ENRON and the concern that special purpose off-balance sheet financing may make it more difficult for investors to ascertain a company's real debt level. The FASB (Financial Accounting Standards Board, the folks who brought us GAAP) will be issuing a preliminary ruling on this shortly. For a more in-depth discussion of this please go to [www.officetimes.com](http://www.officetimes.com), at the bottom under Hot New Topics For June is an article titled "Synthetic Leasing – Mid-2002 Update."

Bay Area Operating Expense Ballparks: San Francisco Class A: \$14 to 18/sf/year, downtown Walnut Creek: \$9 to 11/sf/year, suburban garden office: \$7 to 9/sf/year. Differential due to property taxes, structured parking, 24/7 security, high-rise elevators versus single-story flex, local tax policy.

Anthony Downs, in his *National Real Estate Investor* (February 2002) column titled "When will real estate recover?"..."But even if the general economy recovers quickly in 2002, how soon will commercial real estate markets emerge from their current overbuilt phase? As readers of this column know, the commercial real estate markets have three phases: the development boom phase, the overbuilt phase and the gradual absorption phase... Sometime in 2003, the overbuilt phase will give way to the gradual absorption phase. In that phase, demands for space are rising but have not yet driven vacancies low enough, or rents high enough, to stimulate new building. If the recovery then continues strongly, the gradual absorption phase should soon lead into the next development boom

phase. But I do not anticipate that happy day occurring until 2004 or even later.” Nor do I, reasons of which has been on the [www.officetimes.com](http://www.officetimes.com) web site for several months in an article titled “A Discussion of Why The Office Market Might Not Turn Around Until 2004 (or later).”

[www.officetimes.com](http://www.officetimes.com) offers hundreds of relevant articles on office leasing, tenant improvement issues, links to hundreds of office furniture dealers, space planners, TI contractors, links to the current and historical CPI Index, the calendar for all the Bay Area commercial real estate organizations (CoreNet, CCIM, IFMA, BOMA, and many more), links to every Bay Area transit schedule for BART, bus, ferry, articles on setting up a home office, telecommuting and hundreds more topics and links, [www.officetimes.com](http://www.officetimes.com), the #1 Corporate Real Estate Professional’s Web Information Resource!

According to a *San Francisco Chronicle* (4/22/02) article on office building parking, a recent study conducted by the State of California Legislative Analysts’ Office found that 86 percent of California commuters drive to work; and 95 percent park free when they arrive. RIDES for Bay Area Commuters’ 2001 Commute Profile found that at work sites with free parking, 76 percent of employees drive alone, while at those without free parking only 48 percent of employees drive alone. The survey also found transit use jumps significantly when employers don’t offer free parking.

I hope some of our readers are planning to attend the upcoming June 17-19 Realcomm Commercial Real Estate Business Solutions and Technology Conference later this month in Las Vegas. I’ll be moderating several panels including automating Internet-Based Transactions, reducing expenses through technology, and speaking on Pushing The Commercial Real Estate Envelope. The organizer of this highly-successful program, Jim Young, is the #1 commercial real estate/technology guru in the world and the more than 50 program sessions will show you the future of corporate real estate technology and tools. More than 2,000 attended last year, and if you’re interested please go to [www.realcomm.com](http://www.realcomm.com) or call Janice Young at 760-736-2627.

*Deals and Rumors:* I represented Educational Testing Systems in its 52,000 sf office lease at 2731 Syston Drive; Verio leased 32,000 sf at 1255 Gateway Blvd., both transactions in **Concord**. In **Walnut Creek**, I leased Longs Drug Stores 40,000 sf at 575 Lennon Lane, and Bank of the West is rumored to be expanding by an additional 41,000 sf at 401 Lennon Lane. In **San Ramon**, ADP is rumored to be leasing 100,000 sf at the new BR1, and Irwin Home Equity might be subleasing 38,000 sf from Verizon at BR15. In **Pleasanton** the big news was Safeway’s 145,000 sf lease at 4410 Rosewood Drive, CPU Technologies taking 41,000 sf at 5731 W. Las Positas, and Trapeze Networks taking 38,000 sf at 5753 W. Las Positas. In **Emeryville**, Leapfrog expanded by 30,000 sf at Hollis Business Park. Over in **Alameda**, TheraSense is doing a 64,000 sf build-to-suit at 1360 Southloop Road. In **Downtown Oakland**, BART is rumored to be looking closely at 1945 Broadway for 200,000 sf, Franz leased 10,000 sf, and IDG Game Pro 24,000 sf, both at 555 12<sup>th</sup> Street. Also in **Oakland**, Computer Sciences took 36,000 sf at 1111 Broadway. Up in **Novato’s** Hamilton Landing in Marin County, AT&T Broadband leased 26,000 sf. Over in **Fairfield**, Copart just leased 70,000 sf at Green Valley Corporate Park. Down in **Milpitas**, Credence Systems will be moving into 180,000 sf, formerly occupied by Sun Microsystems. In **San Francisco**, The Mexican Consulate is buying the 30,000 sf office building at 532 Folsom St., LeBoeuf Lam Green & Macrae is leasing 14,000 sf at 505 Montgomery St., WeatherNews sublet 11,000 sf at 195 New Montgomery; EGM Capital signed for 11,000 sf at Two Embarcadero; HOK Architects leased 34,000 sf at One Bush Street, Howrey Simon Arnold & White leased 26,000 sf at 525 Market Street; Hoeffler & Arnete leased 11,000 sf at 555 Market St., Synarc took 12,000 sf at 575 Market Street; Covalent Technologies sublet 20,000 sf and Advent Software leased 48,000 sf, both at 303 Second Street; Merrill Lynch just sublet 20,000 sf to Grand Central at 50 Fremont; Bonneville Broadcasting System expanded by 10,000 sf at 400 Second Street; Cobra Solutions leased 10,000 sf at 55 Hawthorne St., and Intershop Communications leased 10,000 sf at 410 Townsend Street. **South San Francisco**, Elan is expanding by 66,000 sf at 1000 Gateway, and in **San Mateo** Serena Software sublet 27,000 sf from RSA Security at 2755 Campus Drive. In **Daly City**, Kaiser Permanente leased 160,000 sf at 395 Hickey Blvd. for medical offices, and in **Redwood City** Camitro Corp. leased 33,000 sf and DreamWorks is rumored to be leasing 100,000 sf, both deals at Pacific Shores.

Update from CCIM headquarters (and I’ve been a member for 21 years) on the new leasehold improvement deduction ruling: “Owners of nonresidential rental property who made leasehold improvements in the last quarter of 2001 and who already have filed their 2001 tax return may wish to check with their tax advisors to be sure they claimed the 30 percent depreciation allowance enacted in March. The new rule permits a 30 percent deduction for the cost of any leasehold improvement made after 9/11/01. Commercial property owners who made the improvements and who have already filed their 2001 tax return may wish to check with their tax advisors to be sure they received the benefit.” More info is available at <http://www.ccim.com/govt/depreciationstimulus.htm>.

Our newspapers one-day business section headlines: *San Francisco Chronicle* (4/26/02): JDS announces more layoffs; Newark losing 800 Ross jobs; McKesson cuts 100 jobs; Tyco to cut 7,100 jobs, close 24 plants; VeriSign cuts 10 percent of workforce; just to check the market pulse right before sending this newsletter out, *San Francisco Chronicle* (5/29/02), Vodafone posts record \$24 billion loss, Deutsche Telecom to cut 22,000 jobs... nope, the recovery is still not here yet...

September 11 after-effects on the office leasing industry: Can landlords pass onto their tenants whatever new security measures are being taken? What about costly barrier erection to protect buildings from cars/trucks crashing into the building? What about increased or enhanced guard service or monitoring services? What about costly terrorism insurance? Should an office tenant be concerned about leasing in or near a “trophy” building? Are the words “trophy” and “target” interchangeable when it comes to potential terrorist acts? How vulnerable is your building’s common area and parking facilities? Can the landlord restrict access to an underground parking garage due to security concerns? How would this affect your business if these restrictions were long-term in nature? Is your building in the vicinity of potential terrorist targets, i.e. federal/state offices, power plants, national monuments, transit hubs, etc? What could happen to your business if your building were damaged or destroyed and the landlord did not have terrorist insurance? What rights do you have under your own insurance policy?

Offices of the Future... *In The California Real Estate Journal* (3/11/02), ten features predict the future design of office space.

- 1) Advanced security systems, from minicams to X-ray and screening stations; biometric thumb, hand and retina scanning; special mail distribution site ventilation systems
- 2) Efficient communication systems: wireless, high-speed broadband Internet accelerating the pace of e-mail and web access
- 3) LCD flat screens: use less power and less space with crisper, higher quality displays
- 4) Gas plasma screens for large presentation formats
- 5) High-tech conference rooms featuring touch-panel control systems with cutting-edge audio and video conferencing, mini camera projection screens (reminds me of the 3-D video conference at last years RealComm – Wow!)
- 6) LEDs and natural lighting to be used for future lighting applications, with LED bulbs running on one-fourth of the energy and lasting ten times longer
- 7) Environmental friendly materials using recycled elements, minimized polystyrene, foam, plastic usage
- 8) Advanced HVAC systems that are cleaner, more efficient
- 9) Flexible work spaces: smarter workspaces with movable/expandable walls
- 10) Comfort ergonomics, with adjustable, ergonomic furniture the standard in the office of the future.

*Buildings* (May 2002), regarding noise distraction and employee satisfaction/productivity: “Two recent studies clearly show that speech distraction is rated by employees as the #1 facilities problem that affects their satisfaction and productivity. The two most prominent office acoustical problems are excess noise distraction in an open plan, and a lack of protection for confidential conversations in private offices.” Manage office noise problems with the following cost-effective solutions: 1) Quantify acoustical performance with Computer Acoustical Modeling - This software predicts the level of workstation-to-workstation speech privacy that will result from the current design, while still in the planning stage. 2) Provide higher absorption ceilings, and/or sound masking systems. 3) Select appropriate furniture panel height and acoustical performance. 4) In private offices, use wall systems that minimize sound transmission. 5) Use sound absorption ceiling tiles; treat open-air grilles with sound baffles. 6) Add sound masking.

Spot check on vacancy rates: Downtown San Francisco: 18 to 21 percent, Emeryville Class A: 42 percent, Pleasanton: 12 percent, Downtown Oakland/Walnut Creek: 12 percent, Silicon Valley: 17 percent.

A new Contra Costa power plant just came on-line with enough juice to serve 800,000 homes, or every household in Contra Costa, Alameda and Solano Counties.

In the *Contra Costa Times* (5/19/02), California’s population was chronologically laid out as follows: 1941, 7 million residents; 1960, 14 million residents; 2000, 33 million residents, and a sobering prediction that by 2040 there will be an additional 24 million folks living in California, with the population expected to reach 52 million by 2030 and 58 million by 2040. Air quality, water availability, transportation systems are all in jeopardy without sufficient and comprehensive proactive planning (short of “planning” to close the state border....).

It can’t be good news for the office vacancy rate... The *San Francisco Chronicle* (2/20/02) reported that in 2001, 1.49 million businesses and individuals filed for bankruptcy: “Last year’s filings probably don’t represent the high-water mark for this economic cycle. Even though the recession is coming to an end, bankruptcies are likely to rise again in 2002, experts said.”

The other side of the coin... The *San Francisco Chronicle* (5/7/02), “Bay Area executives bullish on local economic growth?” “Bay Area executives were much more optimistic about the region’s economy in April than they were three months ago, according to a survey to be released today... 73 percent said they expected the Bay Area economy to improve during the next six months... 39 percent of those responding said they expect to add employees in the next 12 months, while 8 percent said they anticipate workforce cuts.”

According to the *Palo Alto’s Center for Continuing Study of the California Economy*, “Propelled by its dominance in technology and other fast-growing sectors, California will bounce back from recession, gaining jobs and income at a faster pace than the rest of the nation over the next eight years.” This was published in the *San Francisco Chronicle* (4/22/02), and continues, “By 2003, tech will be on the mend and the state’s advantages should come to the fore, the center predicts.” California’s strong position in such areas as trade, entertainment and tourism, in addition to tech, will help it create more than 3.5 million jobs through 2010.

That represents growth of more than 22 percent during the decade, well above the gain of just 15 percent projected for the nation as a whole. The Metro Area 2000-2010 projected job growth: Los Angeles: 20.6 percent, Bay Area: 24.1 percent, San Diego: 33.7 percent, Sacramento: 28.9 percent.

Long-range workforce supply: Mountain House, the giant planned community between Tracy and Livermore is ahead of schedule, with the main roads planned for June 2002 paving and the first residents expected to move in early 2003. During the next 25 years, Mountain House will be home to 44,000 residents. Those of you who remember what Concord and San Ramon looked like in the early 1970s can envision where San Joaquin County is headed during the next 20 years...

As reported in *Buildings* (May 2002), Top 9 Reasons Companies Outsource: 1) Reduce and control operating costs 2) Improve company focus 3) Gain access to world-class capabilities 4) Free internal resources for other purposes 5) Resources not available internally 6) Accelerate re-engineering benefits 7) Function difficult to manage/out of control 8) Make capital funds available 9) Share risks

Jordan Weil has had another awesome past sixty days, culminating with his 5<sup>th</sup> year birthday party this past week on May 26. Last month Jordan and several of his buddies went up to Lake Tahoe, which during the season transition is a very special place to be. Snowball fights in the morning, and then miniature golf in spring sunshine in the afternoon. Two weeks ago we went on a two-hour train ride/wine tasting event through the Pleasanton/Fremont countryside, sampling some of the 24 wines that have put the Livermore Valley on the winemaking map. Bumper bowling is one of Jordan's favorite sports, and it is something to see a young child roll a bowling ball so slowly you keep waiting for the ball to stop midway but it keeps going, hitting the pins in slow motion. Great kids expressions! Jordan also went to the Half Moon Bay Fly-In annual event where they have hundreds of antique and souped-up cars, World War II planes, helicopter rides, and tractor/truck pulls which for non-farmers like us was a hoot to watch. The highlight was a huge F-18 jet fighter doing flyovers wing-to-wing with its counterpart fighter plane from WWII, an almost 60 years age spread in technology. His most recent photos can be seen at <http://www.officetimes.com/JordanPage6-02.htm>. Thanks for taking the time to read this, and as always please feel free to call me at 925-279-5590 if you want any more information on just about anything!

Sincerely,

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# Newsletter

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