



## Corporate Office Perspectives

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National and Greater Bay Area Big Picture on Office Leasing: During the past several weeks I have met with some of the top office brokers from across the country as part of my 20-year involvement with SIOR (Society of Industrial and Office Realtors), who are usually the top 5 percent of their industry. Overall, the economy seems to be coming back slowly in many parts of the country, but most senior brokers don't expect huge office leasing windfalls. There are submarkets where the vacancy rate is creeping downwards, while other regions are still experiencing jobless claims and an increase in office vacancy rates. The overall consensus is that this will be a slow recovery, and while certain sectors are experiencing a strong pick-up in sale, either this is not translating into new jobs, the global offshore impact is offsetting U.S. job growth, companies still have massive amounts of vacant space inventoried, or one sector's success is offset by job cuts in other job sectors. Computer hardware and software sales appear strong, the medical industry seems to be on the upswing and investment banking may be back in favor. I see the more sophisticated landlords hunkering down for the long haul, shown by their aggressive office pricing and willingness to commit to long-term leases at today's market rents. There are other landlords who held out in 2002 and 2003, and are still holding onto their vacant space in 2004 hoping for an office rebound that will justify their above-market rents. Brokers and office landlords are by their very nature optimistic creatures, or why would they even be in this industry? One San Francisco office broker was exuberant over a first quarter report that there was 250,000 sf of positive office absorption. Of course, one could extrapolate that based on the current 13 million vacant feet of office space we still had a 12+ year supply. Similarly, Silicon Valley may have had 4 million sf of positive absorption, but with 66 million feet still available there is still 16+ years of space left. Of course, we could just be starting another boom cycle to surprise us all (I, for one, would be very surprised ...).

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Good news, bad news department ... Infosys Technologies, India's second-largest outsourcing company plans to hire 500 workers in Fremont to sell technology and back-office services (i.e. global offshoring) that will largely be completed overseas. The foxes will be living in the henhouses ... and to further muddle the murky waters of what is good for Corporate America, IBM just announced it is buying the third-largest call center company in India. Does this mean the offshore employees working for this company, Dakesh Eservices, are employees of IBM? If so, does this mean we are doubly benefiting if we send even more jobs offshore to Dakesh/IBM? Too confusing for me ... AMD just announced it is setting up a design center in Bangalore and hiring 120 engineers ... *SF Chronicle* (4/18/04), "Are biotech jobs next to go?" "Biotechnology, a burgeoning industry born in the Bay Area, is often cast as the savior that will help replace the hundreds of thousands of jobs lost to offshoring, the trend by U.S. firms to cut costs by sending work overseas. But there are signs that the nation's biotech industry may be on the verge of an offshoring wave of its own, awakened to an international climate where firms can get qualified workers for as little as a tenth of the U.S. cost." "Some of the best minds in

biotech are in India,” said Clyde Prestowitz, president of the Economic Strategy Institute in Washington, D.C. “You’d be foolish not to take advantage of them.” Our recent article, “Global Offshoring and Its Effect on the United States Office Space Demand” can be found on our website at [www.OfficeTimes.com](http://www.OfficeTimes.com).

One of my associates, who specializes in San Francisco office leasing, recently told me that it was getting harder to locate 5,000 sf San Francisco office suites with a view, there are only a handful available, but if you needed 50,000 sf all on one floor, there were dozens available. The market velocity is still most active in the under-7,000 sf range, and developers are slowly (and still reluctantly due to the conversion costs included) cutting larger floors down to meet the market demand for smaller space. *National Real Estate Investor* (April 2004), “Will Small Business Lead the Recovery?” Historically that’s the case, say industry experts, and new research lends credence to that argument. Small businesses are poised to lead job growth because of their flexibility and cutting-edge nature, say economists and researchers, which is a healthy sign for the nation’s office markets. UBS Securities, in a recent report on the U.S. office market, stated that in 1992, small businesses created 641,000 jobs, while companies with more than 100 employees posted a net decrease of 142,000 positions. “We believe small businesses will be a major influence of office employment growth in 2004, as they did in 1992 following the last U.S. recession,” wrote UBS Securities. “Because small businesses tend to be risk takers, they will drive the general recovery by being the first to demand more space,” says Joe Costello, senior economist at Torto Wheaton Research in Boston, “Businesses will have to hire employees to keep up with increased production levels, and small businesses will lead the jobs recovery in part because they can react quickly, economists say.”

*Buildings* (April 2004) in an article titled, “The Next Generation – Office design trends and the restored economy” discusses office design changes forecast for the rest of this decade. “What do you do when people come back to the office? Our question is: Are people going to come back in the traditional way that we think?” asks Kim Heartwell, vice president, RKT Associates, Washington, D.C. In the next two years, businesses are predicted to see a major growth in Teleworking, according to a new AT&T survey ([www.att.com/telework](http://www.att.com/telework)). Responding senior executives worldwide indicate the percentage of companies where almost no one works from home on a regular basis is expected to drop from 46 percent today to just 20 percent two years from now. In Europe, by 2005, the number of mobile workers is expected to triple to 20.1 million, and the number of telecommuters is expected to more than double to 8.7 million. “The newest generation of workers wants to be much more mobile and is interested in the new technology and more balanced work-play lifestyles ... to achieve this flexibility, organizations have to understand the different generations within the workforce. It is not uncommon to have four generations working in the same organization. This is the first time in the history of the office that there have been so many age groups working together.”

Commercial building security issues 2004 and beyond: Loading docks have different security than the front of buildings. How do you handle access control to different levels within your organization? A few users are requiring a 50-foot no-parking buffer around the building. How secure is your mailroom or area where your mail is sorted? What are the tradeoffs between appropriate front-desk security and making it so tough that clients are scared off (“What do you mean, retinal scan, fingerprints and a blood sample just to see my CPA?”)? Are your truck docks left unsecured? How stringent is access to multi-tenanted telephone rooms? How trained are your building’s on-site guards? How susceptible are the building ventilation shafts to chemical inducement? What is your project’s proximity to potential other “targets”? We will be doing an in-depth article on this topic to be posted at [www.OfficeTimes.com](http://www.OfficeTimes.com) sometime in the near future.

*Deals and Rumors:* In **San Francisco**, Munger, Tolles & Olson LLP sublet 32,000 sf of office space at 560 Mission St.; Venables, Bell & Partners leased 15,000 sf at 201 Post St.; Xoom Corp. leased 10,000 sf at 425 Brannan St.; BDO Seidman took 19,000 sf at One Market Plaza; RWS signed for 650 Townsend; BAR Architects leased 21,000 sf at 543 Howard St.; JMP Securities committed for 33,000 sf at the Transamerica Pyramid; Bay School of San Francisco leased 62,000 sf at 35 Keyes Ave. in the Presidio; California Culinary Academy cooked up a 100,000 sf lease at 350 Rhode Island St.; Long & Levit leased 16,000 sf at 465 California St.; Omnicom will be consolidating

six locations into 107,000 sf at 555 Market St.; Conifer Securities expanded by 12,000 sf to total 48,000 sf at the S.F. Ferry Building; Steefel Levitt & Weiss might be negotiating on a 60,000 sf sublease at 555 California St.; and Bechtel Corp. is rumored to be seeking 150,000 sf of back-office space. In **South San Francisco**, Bechtel leased 18,000 sf at 651 Gateway Commons. In **San Mateo**, Teleras leased 26,000 sf at 1400 Fashion Island; Link Allen took 13,000 sf at Three Waters Park; and FactSet Research Systems leased 19,000 sf at 2600 Campus Drive. In **San Carlos**, George P. Johnson Company leased 36,000 sf at 999 Skyway and Fox Hollow took 61,000 sf at 740 Bay Road in **Redwood City**. Down in **Mountain View**, Mercury Interactive leased 252,000 sf at 369-399 N. Whisman. In **Emeryville**, Mavericks leased 26,000 sf at 6005 Shellmound Rd. and Pixar is rumored to be looking for 20,000 sf as temporary space until its campus expansion is completed. Next door in **Berkeley**, MPR Associates leased 17,000 sf at 2150 Shattuck Ave. In **Oakland**, Kivera took 11,000 sf at 300 Lakeside Dr. and Comcast is doing a 50,000 sf build-to-suit on Hegenberger Rd. at the Lincoln Airport Business Park. In **Concord**, Hartford Steam Boiler will be relocating to 11,000 sf at 2300 Clayton Rd. In **San Ramon**, Paychex will be relocating 35,000 sf from Pleasanton to Bishop Ranch One; Lenar Homes leased 50,000 sf at Bishop Ranch; and Diablo Funding expanded by 10,000 sf at 100 Park Place. In **Pleasanton**, 1<sup>st</sup> United Services Credit Union leased 19,000 sf at 4695 Chabot Dr.; Zantax expanded by 11,000 sf at 4234 Hacienda Dr.; Intera Group leased 20,000 sf at 6920 Koll Center; and EMC Corp. took 22,000 sf at 6701 Koll Center. The big news in Livermore is Topcon vacating 50,000 sf from Pleasanton and moving into 68,000 sf this summer at Livermore's National Business Park.

Office building value forecast: According to *The Wall Street Journal* (4/28/04), "Now that it's when, not if, the Federal Reserve will raise interest rates, the question for commercial real estate investors is what will happen to property values? According to forecasts from at least three real estate research firms, values and prices will decline sharply for office properties. And values are expected to either fall – though not as sharply as they will for office buildings – or remain flat for apartment houses, industrial buildings and retail properties."

I was on a panel a few years back at RealComm, and the issue of Internet and property acquisition and disposal came up. It was felt back then that the Internet is a powerful information source, an incredible tool for getting product availability, details, comparables and a host of other data pieces, but it wasn't (and in my opinion, still isn't) the single one-step place to buy or lease a property. Just as most of us would hesitate to purchase our home without physically touring the future residence, investigating the neighborhood, schools, etc., it is rare when a company leases a sales office (other than in an executive suite) sight unseen. Case in point: An entire California town named Bridgeville – composed of 10 houses and four cabins, located 270 miles northwest of San Francisco – was posted on eBay. It received 136,000 hits, 249 bids and a winning bid of \$1.7 million. During inspections, the buyer backed out, as did the next dozen buyers, so the seller then listed the property the old-fashioned way with a real estate broker and sold it for \$850,000. Guess I can get a good night's sleep knowing that at least for now my job is still safe!

Some of my clients have been raving about a new UPS (uninterrupted power supply system) utilizing a flywheel energy storage system backed up by a separate diesel generation system. In *Buildings* (April 2004), this system is described, "... the flywheel is similar to a static battery type system except that the DC battery plant is replaced with a flywheel kinetic energy device. The inertia and energy of a rotating flywheel is used to provide uninterrupted power ride-thru capability in the event of a normal power loss for the 10 to 15 seconds it takes to start the on-site backup standby generator system. Another alternative would be to utilize the flywheel-energy-concept UPS with the backup engine generator directly coupled to the system." We will get a more detailed article regarding this subject posted at [www.OfficeTimes.com](http://www.OfficeTimes.com) in the near future.

The largest corporate construction project ever awarded a gold rating by the U.S. Green Building Council, the new 624,000 sf Torrance, California, Toyota campus features more than 250 miles of reinforced building framework steel which came mostly from recycled cars (so that's where my mother-in-law's Camry went ...), recycled water is used for landscaping, cooling towers, toilets and chemically treated waterless urinals add up to an expected annual water savings of 11 million gallons; and drought-resistant native plants were used to conserve more water; 53,000

square feet of solar panels generate 536 kilowatts; 95 percent of all construction waste was recycled or reused; there are refueling stations for hydrogen cars.

In Business 2.0 (May 2004) regarding job recovery, “In a typical recovery, growth in economic activity and corporate profits inevitably lead to new demand, and higher prices, for labor. But as every overworked wage slave is well aware, this two-year-old recovery has yet to produce solid job growth. What’s different this time is that many of the jobs lost in the current downturn appear gone for good, eliminated by bankruptcy, automation, or offshore alternatives. So a hiring rebound won’t come from employers recalling laid-off workers, as it has in the past; it will rely on the creation of entirely new positions, at start-ups or at new divisions and product lines within existing companies.”

According to the Milken State Technology and Science Index study released March 31, 2004, Massachusetts is ranked number one and California number 2, with Colorado slipping to number 3.

Exodus out of downtown Walnut Creek? Maxis Software just vacated 50,000 sf; Royal Insurance is leaving 40,000 sf; Fremont Investment & Loan vacated 35,000 sf; Tier Technologies announced two weeks ago it is giving up 19,000 sf; and Jacuzzi Whirlpool HQ will vacate 35,000 sf this year, all locations within two blocks of the Walnut Creek BART station.

In the *Tri-Valley Herald* (5/18/04), “Offshore outsourcing of U.S. jobs increasing . . . New figures on offshore outsourcing suggest that American companies are sending even more white-collar jobs to low-wage countries such as India, China and Russia than researchers originally estimated. Roughly 830,000 U.S. service-sector jobs – ranging from telemarketers and accountants to software engineers and chief technology officers – will move abroad by the end of 2005, according to a report released by Forrester Research Inc. Forrester also increased its long-term job loss prediction, estimating that 3.4 million jobs will leave the United States by 2015. Forrester analysts boosted their short-term job loss expectations by 40 percent based on updated job data provided by the U.S. Department of Labor. Lead researcher John C. McCarthy said widespread publicity over the cost savings associated with offshoring may have hastened the trend. The average computer programmer in India earns roughly \$10 per hour, compared to more than \$60 per hour for the average American.” First off, just the short-term loss of 830,000 jobs represents 166 million square feet of office space (200 sf per worker), which won’t be leased on U.S. soil between now and the end of next year. Second, I feel guilty for being a tiny part of the “trend hastening” due to the continued exposure we have been giving this topic over the past several years, but if you are a major office user about to sign a huge long-term U.S. office lease for your back-office operations, isn’t it better to know about these alternatives before you sign?

A great workplace environment is where employees feel valued, where they feel demands between their work and personal lives are balanced and where employees trust management. As reported in the *San Francisco Business Times* (4/2/04), “It probably costs more money to have a bad environment,” said Robert Levering, co-founder of the San Francisco-based Great Place to Work Institute and co-author of the Fortune 100 Best Companies to Work For, “There are added costs in the sense of showing recognition, but what I’ve heard from lots of management people is that it usually means they spend a lot less time at the other end in productivity issues and have a lower turnover.” Genencor realized that many people were taking care of personal business at work and also taking care of Genencor business at home so the company instituted on-site services and conveniences including a concierge service available to employees and their spouses, back-up child care service, a fleet of cars available for personal use during the workday, film processing, dry cleaning, eyeglasses and on-site auto service. Another company said, “Our buildings are beautiful, our cafeteria is actually really good . . . and we’ve got a great fitness center on-site that is staffed.”

Talk about long-range planning: According to *Silicon Valley Biz Ink* (3/26/04), “Despite the current glut of commercial space in San Jose, the San Jose Redevelopment Agency says it is taking a long-term approach, “There

is office space vacancy now, but the reality will be very different in 2030. As stewards of the future, our economic development study tells us vacancy will be absorbed and there will be increased demand for industrial space,” says Paul Krutko, director of economic development for San Jose. I don’t know about you, but how many of us will still be on the job in 26 more years! Just think of the slogan possibilities. Instead of “Stay Alive Until 2005” or “Feeling Fine in 2009,” it could be “Get Down and Dirty Until 2030” or “Office Rents Back to Party in 2030” ...

In two major publications there were opposing opinions about the office market. In the *Costar Advisor* (Winter 2004), “Office Vacancy Rates Level Off in 2003” and “In Silicon Valley, the market has definitely improved.” In *Silicon Valley Biz Ink* (4/9/04), “Rents continue to fall, vacancies edge down” ... negative net absorption which in 2001 according to one broker was 5.5 million square feet, negative 1.9 million sf in 2002 and in 2003 was only 656,000 sf negative shows that less negative is positive ...

For the past 60 days, I kept track of every job hiring or layoff notice and here it is: Cisco recently announced it is hiring 1,000 new employees, all U.S. based ... SAP is adding 500 employees ... J. P. Morgan will be hiring 700 people just in California ... Accenture is hiring 8,000 U.S. tech consultants ... MCI announced plans to eliminate 7,500 jobs this year ... Alameda County Medical Center fires 340 workers ... DuPont will cut at least 2,500 jobs companywide ... Gateway announced 2,500 employees will lose their jobs ... Baxter says it will cut up to 4,000 jobs ... Bank of America announced it will cut 12,500 jobs during the next two years. Bottom-line – net loss of 19,140 jobs reported in the past 60 days. However, recent government reports show huge job growth, which might be in the small and medium-sized company sector.

In San Francisco, with between 13 and 17 million square feet of vacant office space, it is taking on average between 10.5 and 19 months for the largest landlords to fill their Class A space, according to a recent article in *San Francisco Business Times* (5/14/04).

Offshoring item, *East Bay Business Times* (4/8/04), “A cost analysis by one Silicon Valley employer, Solidcore Systems and reported by Challenger, supports the view that it is becoming increasingly difficult to operate a tech firm without outsourcing. Solidcore calculated the cost of keeping on tech employee in Silicon Valley at \$15,000 per month, which includes salary and benefits, hardware, software, taxes and real estate costs while in New Delhi, India, a worker with the same skills and responsibilities costs the employer a total of \$2,500 per month. That represents a savings of \$12,500 every month or \$150,000 per year. By sending 10 jobs to India, a start-up can eliminate \$1.5 million from its payroll, Challenger noted.”

*The Wall Street Journal* (5/5/04) reported a new CoreNet Global survey, “A new CoreNet Global survey finds that a greater number of corporate real-estate decision makers are planning to increase the amount of space their companies currently occupy instead of cutting back. This marks the first time such optimism has been recorded in the two years CoreNet has been polling its members on the subject. The Atlanta-based firm’s most recent quarterly survey shows that 41 percent of the almost 60 respondents expect their companies to increase the amount of space occupied during the next six months. During the previous quarter, only 20 percent noted such plans. Meanwhile, another 33 percent of respondents say they expect to maintain current space levels; and 29 percent plan to scale back their space.” Not to be a negative thinker, but at least a portion of those expanding occupancy will do so in company-controlled space, muting the impact on the vacant office space market. It is also interesting to note that even in a recovering economy, almost 30 percent of corporate America still expects to downsize in the future.

Check with your tax and legal experts, but a recent report in the *California Real Estate Journal* (3/29/04) reminded us of the Job Creation and Workers Assistance Act of 2002 which created the 30 percent bonus depreciation provision, and the Job Growth Tax Relief Reconciliation Act of 2003 which increased the 30 percent bonus depreciation to 50 percent. This applies to improvements contractually entered into and placed in service after May 5, 2003 and before January 1, 2005. “The bonus depreciation is an element to consider in the lease negotiations. Tenant improvements of \$100,000 will generate \$50,000 of bonus depreciation in the first year of the tenant’s

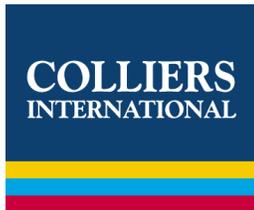
occupancy in addition to the annual depreciation on the remaining tax basis.” Again, please check with your tax advisor for the details.

My wife, two children and I spent spring break visiting close friends in Raleigh, North Carolina ... beautiful woods, rolling grass, gorgeous homes and folks with down-home Southern hospitality. Two weeks ago at the National SIOR convention in Scottsdale, Arizona, I was with 800 of the top U.S. office and industrial brokers from all brokerage companies. It seems to be the same everywhere – we share many of the same fears, worries and also are excited about the future – no matter where we come from. The rising price of gas, our governmental taxation and business attitude, job security, corporate downsizing, the rising cost of housing, the quality and availability of good education, Iraq, global offshoring, and most of all, the well-being of our children and loved ones. How do we get the right amount of balance? I coach Little League three days a week, work 60 hours a week helping clients with their commercial real estate needs, attend my children’s school functions, Cub Scout meetings, friend’s and family’s birthdays, try to spoil my wife (not as successfully as I would like), and still come up for air. We all do similar routines, some more hectic, others more laid back – and I’m sure most of us still wonder how we can find enough time to get it all done. Please let me know if you have the answers! For recent photos of both Jordan and Madison, please visit [www.OfficeTimes.com/JMJun04.htm](http://www.OfficeTimes.com/JMJun04.htm).

Thank you!

Sincerely,

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# Newsletter

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