



Corporate Office Perspectives

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For office building landlords, good news left and right (but for office tenants news that may be economically painful in the future) ... Recent headlines: "Revival In Office Rentals," *SF Chronicle* (4/9/05); "Finally, An Uptick in Office Rents," *National Real Estate Investor* (May 2005); "Large Blocks of Office Space Are Becoming Scarce," *City Feet* (4/3/05); "East Bay's Office Vacancy Rate Dropping," *Tri Valley Herald* (4/19/05).

California is still the #1 biotech capital of the world. The *SF Chronicle* (4/27/05), "California hasn't lost its edge in biotech despite raids by other states eager to lure away its high-paying jobs, a report on the state's biotech industry concluded. Although more firms left California than moved in, a report from the Public Policy Institute of California found that the 52 departures cost California only 815 jobs, while the 45 arriving firms brought in 1,739 positions." The *Tri-Valley Herald* (4/28/05), "California continues to attract high-paying biotech jobs and is home to one-quarter of the nation's biotech positions ... The state's biotech companies generated \$13 billion, or 53 percent of the industry's U.S. revenue in 2002." *California Real Estate Journal* (4/11/05), "California already has more biomedical companies than any other state, counting 2,600 firms, and has been the birthplace of one-third of all U.S. biomedical companies."

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An interesting article on the human impact of facility change, *Today's Facility Manager* (April, 2005), "As a building is renovated or built from scratch, the facility manager very seldom calculates the financial gain or loss from that transaction. As a result, the financial pressure is to work at reducing budgets and operating costs and make decisions that may adversely affect the occupant population. And yet, the most expensive part of a project of this kind is its impact on occupants. It is broadly accepted that people account for at least 90 to 95 percent of the total costs incurred by a company at a given site. If occupants react negatively to the facility, they may re-evaluate the quality of the organization and other aspects of their jobs ... Studies have demonstrated that when the new or renovated facility is opened, when occupancy quality performance standards have been met, organization, work task, and compensation quality rankings improve even if they were good before. In areas of the new facility that do not meet occupancy quality standards, the rankings of environmental and work station quality are often lower compared to the old

facility. Rankings of organization, work task, and compensation quality are also ranked lower than in the old facility.”

According to the *SF Chronicle* (5/4/05), “U.S. companies that transplanted some operations overseas to reduce costs have since cut outsourcing by a quarter because it didn’t save them enough, a new study shows. Some 25 companies, with average revenue of \$50 billion, shifted course because of hidden costs, according to a report released Tuesday (5/3/05) by the consulting unit of Deloitte & Touche LLP. The study found that 70 percent of the companies had a negative experience with outsourcing projects and that 44 percent didn’t cut costs.” Interesting ... the article directly below in this same newspaper, “VeriSign Inc., the Mountain View company that runs the Internet’s key address books, opened a research and development center in India on Tuesday and plans to make it the company’s largest abroad. VeriSign is hiring programmers in Bangalore to develop software to manage wired and wireless networks and to keep Internet transactions secure” ... “The company hopes to hire 500 employees in India within five years. We will ramp up in the U.S. also, but the ramping up here will be faster,” said Senior Vice-President Aristotle Balogh. And in the *Tri-Valley Herald* (5/4/05), “Oracle Corp., which purchased PeopleSoft this year, said it exercised an option to buy two PeopleSoft software development centers in Bangalore, India and absorb the workers in the two units. Oracle’s India unit has more than doubled the number of workers to 6,900 from 3,200 in July 2003.” Didn’t anyone tell Oracle and VeriSign that outsourcing doesn’t work?

Overall, it appears the Bay Area office market bottomed-out sometime in 2004, with most submarkets reporting an incremental firming-up of rental rates and in a few cases even rate increases for smaller, prime Class A view spaces. However, there is still a lot of vacant Bay Area office space, and several submarkets are still experiencing 20+ percent vacancy factors. Also, due to recent major mergers and continued offshoring, in the East Bay alone almost 600,000 sf of Class A vacant office space will reenter the marketplace during 2005. Office buildings are selling briskly at record prices, but it will be several years before rental rates catch up. Until then, in most markets and in most size and location categories, tenants still have a number of alternatives with the motivated, aggressive and perceptive landlord winning the competition for tenancy.

Deals and Rumors: Over on the quiet Island of **Alameda**, Marina Village has been busy leasing office space including Berkeley Heartlab for 12,000 sf; Keen Footwear for 12,000 sf, and Weinberg Roger and Rosenfeld which leased 20,000 sf. Across the hills in **Pleasanton**, Wholesale America Mortgage took 23,000 sf at 6200 Stoneridge Mall and in **Dublin** Front Range Solutions sublet 30,000 sf at 2140 Dublin Blvd. Up the I-680 corridor in **Walnut Creek**, IndyMac Bank might be looking for 25,000 sf in Downtown Walnut Creek; North Tahoe Power Tools leased 20,000 sf at 2033 N. Main St. and Sysmaster is rumored to be leasing 18,000 sf at 350 N. Wiget Lane. In **Concord**, BioCave took 17,000 sf at 40 Pike Lane. A few major deals signed in **Emeryville** that will be reported in the next issue. In **San Carlos**, Nuvelo Inc. inked 55,000 sf. In **San Francisco**, Six Apart took 14,000 sf at 548 Fourth St.; Intrax Cultural Exchange leased 30,000 sf at 600 California St.; Adteractive may have taken 36,000 sf at 303 Second St.; Hanson Bridgett Marcuss Vlahos Rudy signed for 79,000 sf at 425 Market St.; Blue Shield is rumored to have an LOI out on 260,000 sf at One Front St.; McKenna Long and Aldridge leased 26,000 sf at 101 California St.; Interpublic Group of Companies took 53,000 sf at 1160 Battery St.; The Institute for OneWorld Health sublet 19,000 sf at 50 California St.; UCSF is

rumored to be taking 75,000 sf at 50 Beale St; at 274 Brannan St., Accelerated Funding leased 4,308 sf and First Albany Companies leased 20,000 sf at One Montgomery St. In **South San Francisco**, Rinat leased 106,000 sf at 230 East Grand Ave.

According to a Bureau of Labor Statistics report earlier this year, “More than 80 percent of the world’s top 2,000 corporations will have established significant outsourcing operations overseas by the end of 2005, as political opposition to the trend diminishes and the pressure to cut costs grows, according to a study conducted by NeoIT, a Silicon Valley and Bangalore, India consulting group. It also says small and mid-sized businesses are increasing looking to outsource services to India and other developing countries and that Japanese and European companies also are investing heavily in the offshore model. NeoIT expects manufacturing, health care and retail to be the sectors that particularly will embrace outsourcing next year.”

Expansion Management (December 2004) headlined, “China, India Surpass U.S. As Leading Investment Destination” ... “In the past year, the United States was overtaken by China and India as the leading investment destination, both in the number of projects and in the number of jobs involved in these projects, said Roel Spee, associate partner for IBM-PLJ. Reasons for this recent trend are the cost attractiveness of India and China, combined with the presence of a strong skill base.”

PikeNet (4/11/05), recently reported on Cisco’s innovative office environment – wireless phones, tables on wheels, desks with hydraulic height adjustments, moveable partitions, conference rooms with interactive whiteboards and video conferencing, paper mail is scanned and delivered by email ... “Normally Cisco would fit 68 people into 10,000 sf, (Bldg 14). Currently there are 120 people assigned to Building 14, and that’s headed to 200 people, (50 sf per person). But according to Cisco’s Barbara Sullivan, you’ll never win the debate focused on costs. You need to show Cisco’s business units that this kind of flexible officing promotes collaboration and effectiveness. Now imagine if just 10 percent of the U.S. workforce could organize itself in a similar mode. How would the market adjust to this reduced demand for office space?” Not that Cisco doesn’t have a huge vested interest in turning the entire office environment wireless ...

The next round of new office construction, whenever it comes, may be quite a bit more costly. *The California Real Estate Journal* (4/11/05), reported that during the past year, steel prices increased almost 47 percent, lumber 25 percent, rebar 45 percent and gypsum wallboard 21 percent. Former office sites are being sold left and right for residential development, sometimes at several times what they would have sold as office land. Also, the operating expense component is at an all-time high and this trend is not expected to reverse in future years.

Are local governments lucky or what? The huge spike in both residential and commercial real estate has brought windfall revenues to local governments everywhere. *SF Chronicle* (5/2/05), “The so-called real estate transfer tax revenue to the city for the fiscal year ending June 30 is now expected to reach \$106.5 million, which would be \$10 million higher than originally projected ... The extra money will be used to help close a projected \$102 million shortfall for the upcoming fiscal year.” Another similar article in the *SF Business Times* (5/6/05), “This year is tracking to beat expectations by more than \$40 million” ... Todd Rydstron, director of San Francisco budget and analysis, warned against counting on the transfer tax as a stable revenue stream. “We know it’s unprecedented and

unsustainable.” What this may have done is delay millions of square feet of government-leased office space throughout California from coming back on the market.

It is sometimes hard to believe the San Francisco Bay Area survived the closure of so many military bases between 1994 and 1999. Just counting the six largest bases which totaled 38,194 acres, we lost 49,489 jobs, and have since regained 8,337 jobs and opened up some of the most spectacular scenery in the world to the public.

“Microsoft has outsourced part of its web-based technical support to Wicresoft, a 400-employee joint venture between Microsoft and Shanghai Municipal Government” ... “Forget about cheap labor and factories churning out shoes and toys, some Chinese companies now want to become known for developing software programs and providing back-office services for U.S. companies – just like their counterparts in Bangalore, India ... Wicresoft’s English-speaking employees teach Chinese co-workers about American e-mail protocol and help polish the wording to sound more colloquial. Their mission: to make sure Microsoft customers won’t realize they are exchanging e-mail with someone abroad.”

As reported in the *SF Business Times* (5/6/05), “Shenzhen is the new hot spot for in-the-know IT outsourcers ... labor is half the cost of that in India, and educated workers are plentiful. With over 150,000 tech workers and a population of 9 million, Shenzhen has become the Silicon Valley of China due to its entrepreneurial character, world-class technology infrastructure and talented labor pool,” said San Francisco-based Freeborders co-founder, John Cestar.

The East Bay job forecast for 2005 is one percent growth, according to the UCLA Anderson Forecast, “But next year will likely be a poor year as the now sizzling housing market – which is fueling a home-building boom that is creating jobs in the East Bay – starts to cool off,” *Tri Valley Herald* (5/15/05).

Offshoring myths? *Business Facilities* (March 2005), “There are some indications that offshore outsourcing, the practice of moving jobs to other countries, is not creating the havoc that many believe. The Government Accountability Office recently said that of the 1.5 million U.S. jobs lost last year in mass layoffs, fewer than one percent could be attributed to offshoring.”

For those of you who experienced a modern-day life with kids, sports and a seemingly endless list of activities, life at times can be a blur, with racing from a Little League game to one of your children’s playmate’s birthday parties then back home to change and head off with the wife to theater or a benefit. Just as traveling too quickly through Yosemite or other scenic wonders might also be a blur, when one slows down the frame-speed to appreciate each experience, life can be pretty amazing. Being there when your son hits a solid triple and rounds the bases or catches an incredible fly-ball, or when your almost-3-year old daughter is able to change her clothes by herself for the first time, or out of nowhere begins singing an entire song from memory – you know these are special moments. Just as one chooses whether to drink a fine wine sip by sip, savoring the flavors and sensations, or just “down” it by the glass, the choice is usually up to us. Jordan just turned 8 last week, and for his birthday, my wife and I took him and almost-3-year old sister to Disneyland. The past two months have been full of Little League games where Jordan and his Single A Yankees are having the time of their life, and family outings to the Oakland Zoo, Children’s Fairyland, Marine World and spending

time at home with their new pets; two small rabbits and a hamster named Snowflake. For pictures of their recent adventures, please go to www.officetimes.com/JMJJune05.htm. Spring days disappear all too quickly, but slowing the “blur” into appreciated experiences has been an enrichment to our entire family.

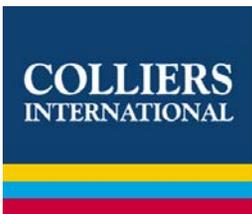
We hope you also have a memorable spring and summer, as always call me if we can assist in any way with your commercial real estate needs. We will be back to you on August 1!

Thank you!

Sincerely,



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