



October 1, 2007

Issue: 165

“On August 28th, 2007 at precisely 3:25 p.m., the office investment market peaked – however, it may take buyers and sellers up to six months before they fully realize this phenomenon.” I made this statement almost a month ago when I was giving a speech on the current and future state of the San Francisco Bay Area office market to the Investment Marketing Forum. Let’s face it, in the past six months, investment sales can be best described as “Hyper-Frenzied” ... office buildings selling at 4 percent cap rates, record prices almost equaling (and sometimes exceeding) the cost of new construction, underwriting based on some mythical future rent rate figure with often no underlying validation based on the actual market rate or trends ... the catalyst that stopped all this was the collapse of the residential lending market, with subsequent repercussions in the commercial lending arena. We are now seeing more conservative equity requirements and rental rate assumptions, and a shift from “optimistic” to “realistic” valuations. In conversations with major commercial escrow agents during the past 30 to 45 days, a number of pending major transactions have fallen through, buyers have gone back to sellers for repricing and sellers have withdrawn properties from the market. A number of recent articles have appeared on this ... “Commercial real estate prices depressed ... commercial real estate prices may fall as much as 15 percent over the next year in the broadest decline since the 2001 recession as rising borrowing costs force property owners to accept less or postpone sales,” *SF Chronicle* (9/6/07) “Credit Crunch Takes Bite Out of Commercial Lending Capacity,” *California Real Estate Journal* (9/4/07). One side effect of note is when the new buyers who paid top-dollar for their office building acquisition take over operations which in many cases rental rates are raised substantially. Usually these asking rental rate increases have no relationship whatsoever to the actual market and I’ve seen many instances where, with the same quality and location, the rent differential may be as high as \$0.50/rsf per month (\$6/sf annum). An astute tenant with an equally astute leasing representative might come to the conclusion that, even with the cost of a move, relocating to the project next-door and a new more efficient layout could provide substantial savings. To see a Class A 2003-2007 Office Rental and Vacancy Comparison for the major Bay Area regions as well as my comments, please go to www.officetimes.com/ratecomparison.pdf.

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Desires and wishes versus reality ... “In a survey that formed the basis for the ‘Energy Challenge: A New Agenda for Corporate Real Estate,’ a report recently

released by CoreNet Global and the Rocky Mountain Institute, nearly every executive picked ‘important’ or ‘most important’ to describe the significance of energy efficiency (94 percent) and sustainability (83 percent) among all issues affecting corporate real estate. Unfortunately, the same report found that fewer than half of participants have energy policies or consumption targets in place, and less than a third of the firms surveyed are working on finding no-cost and low-cost ways to lower energy consumption,” *Real Estate Forum* (June 2007).

I’m not sure if you or I will be still actively working, but California’s population is expected to increase from its current 36 million to 60 million by 2050 with the highest rates of growth in Southern California, *East Bay Business Times* (7/13/07).

In the North American Office Real Estate Highlights, 2nd Quarter 2007, “US office vacancy posts modest decline ... Office rents surge higher – For the sixth consecutive quarter, both downtown and suburban asking rents registered substantial increases.” *Colliers International* – to see the entire report with more detailed information on more than 100 cities please go to www.officetimes.com/officerealestate2Q2007.pdf. If you’d like to see the Colliers Mid Year 2007 Global Office Report Real Estate Review, please click www.officetimes.com/globalofcrev07.pdf.

Interested in easy ways to get in shape at the office? Check out www.officetimes.com/getinshape.htm for a number of solutions to this with our “Getting In Shape At The Office” section.

California Assembly Bill 32, enacted by the California legislature in September 2006, “establishes a goal of returning California to 1990 greenhouse gas emission levels by 2020 – roughly a 30 to 35 percent decrease from business as usual. Furthermore, via executive order 5-3-05, Governor Schwarzenegger has mandated that by 2050, GHG emissions are to be ‘capped’ at 80 percent below 1990 levels,” *Perspectives on Apartment Management* (July 2007). Let’s see, earlier I quoted the California population increase going from 36 to 60 million ... Wonder how this will all work out with 24 million more emissions generators ...

Deals & Rumors: Let’s start with the Peninsula for a change ... IBM leased 60,000 sf at 1000 East Hillside Blvd. in **Foster City** and in the same city VEGA took 13,000 sf at 348 Hutch Dr. Farther down in **Palo Alto**, Goodwin Proctor LLP leased 21,000 sf at 181 Lytton St. Google sublet 180,000 sf at 901 Cherry St. in **San Bruno**. In **Redwood City**, Checkpoint Software Technologies sublet 48,000 sf at 800 Bridge Parkway and Model N. expanded by 12,000 sf to 50,000 sf at Redwood Shores. In **San Mateo**, Newscall, Inc. sublet 32,000 sf at 2215 Bridgepointe Parkway and Guidewire Inc. sublet 88,000 sf at 2211 Bridgepointe Parkway. In **South San Francisco**, Elan Corp. leased 38,000 sf at 601 Gateway. Across the Bay in **Fremont**, Mobius Power Inc. took 12,000 sf of R&D space at 46840 Lakeview Blvd. and DSL Labs Inc. leased 22,000 sf of R&D space at 47633 Westinghouse Dr. In **Hayward**, Mendel Biotechnology sublet 54,000 sf at 3929 Point Eden Way and Prologix leased 33,000 sf at 3544 Arden Rd. In **San Leandro**, Greater Bay Bank took 11,000 sf at 1495 E. 14th St. Up in **Oakland**, VRT Insurance doubled to 11,000 sf and Kimley-Horn & Assoc. doubled to 12,000 sf, both occurring at Oakland City Center, and Saylor & Hill expanded to 10,000 sf at 1999 Harrison; **Emeryville** was very active, with Amyris expanding by 70,000 sf at Emery Station East, where Novartis Vaccines will be taking 36,000 sf; Ink 2 leased 12,000 sf at 4062 Watts St. and Bayer took 10,000 sf at 5762 Peladeau St. Across the hills in **Walnut Creek**, I represented Longs Drug Stores on a 51,000 sf office lease renewal at 575 Lennon Lane, Littler Mendelson took 11,000 sf

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at 1255 Treat Blvd.; Group LLC leased 11,000 sf at 2121 N. Calif. Blvd., and Residential Pacific Mortgage took 12,000 sf at 2175 N. Calif. In **Lafayette**, California Bank of Commerce will be taking 10,000 sf at Lafayette Mercantile. In **Concord**, Eskanos & Adler leased 10,000 sf at 2300 Clayton. Down the I-680 in **Pleasanton**, Transdyn Inc. leased 21,000 sf at 4256 Hacienda Dr.; Frontrange Solutions relocated from Dublin to 5671 Gibraltar, and Gatan expanded to 38,000 sf at 5794 W. Las Positas. In **Livermore**, National Food Laboratories signed a long-term lease for 30,000 sf, relocating from Dublin; Tosoh SET may be looking for 35,000 sf in the Livermore area and LAM Research may be buying the KLA Tencor 240,000 sf R&D facility at Collier Canyon. Hop-scotching over to Marin, Stormfront Studios leased 24,000 sf at 1600 Los Games Rd. in **San Rafael**. In **San Francisco**, Bloomberg LP leased 31,000 sf at Piers 1 ½, 3 & 5; Novacea Inc. leased 25,000 sf at 400 Oyster Point; Bridgespan Group took 16,000 sf at 465 Calif. St.; Bankserv signed for 18,000 sf at 333 Bush St.; Salesforce expanded by a total of 100,000 sf with 40,000 sf expansion at One Market Plaza and 63,000 sf at 1 Calif. St.; RREEF is expanding into 44,000 sf at 4 Embarcadero Center; Goodwin Proctor LLP will be expanding and relocating to 26,000 sf at 3 Embarcadero Center; Moderati Inc. took 18,000 sf at 795 Folsom St. At 71 Stevenson, VMWare will be expanding by 14,000 sf; Intuit will be taking 14,000 sf and Regus Group will be leasing 18,000 sf; Peckar & Abramson PC leased 12,000 sf at 455 Market St.; Dolby took 33,000 sf at 475 Brannon St.; Bebo, Inc. leased 31,000 sf at 795 Folsom St.; SF Sentry expanded to 14,000 sf at 100 Pine St.; Kirkland & Ellis LLP expanded by 25,000 sf at 555 Calif. St. Not including lease renewals, this past 60-day list totals 1,645,000 sf ... not too shabby!

An Evacuation Planning Matrix that offers planning considerations and online resources to reduce susceptibility to terrorist acts is available at www.osha.gov/dep/evacmatrix/index.html. The matrix covers the broad aspects of emergency planning and includes questions to help you review your existing plan. It also offers basic planning and preparedness measures for workplaces in each of the three risk zones (most likely, possible and not likely) *Buildings* (July 2007).

New construction rents depend on the particular project, location, density, land cost, etc. As a general ballpark, for most of the East Bay for a new Class A office building, figure \$3.00 to \$4.00/rsf, nnn, and fully serviced, \$3.75 to \$5.00/rsf including a \$50/rsf tenant improvement from warm shell. In San Francisco, the premier future office project may be the 80-story Transbay development with potential rents averaging \$100/sf per annum up to \$130/rsf for upper floors.

Wi-Fi for commercial buildings – “The latest figures from a July 2005 *Black’s Guide* study on commercial real estate trends show the majority of those surveyed, 33 percent, said Wi-Fi was the most popular amenity demanded by tenants nationally. In Los Angeles alone, 32 percent of tenants requested Wi-Fi in their buildings,” *California Real Estate Journal* (8/20/07). However, who will pay for Wi-Fi in a building and how does this investment show a return? Is a fully integrated wireless building system enough of a tenant amenity to allow higher rents, will it lower turnover, or will tenants who really want this feature do it on their own anyway?

Global Warming ... Buildings account for 38 percent of CO2 emissions in the United States ... Buildings consume 70 percent of the U.S. electricity load ... according to the USGBC, in the next 25 years, CO2 emissions from buildings are projected to grow faster than any other sector, with emissions from commercial buildings projected to grow the fastest ... Four Ways to Shrink Your Building’s Carbon Footprint: Know the size of your footprint – understand what effect your buildings

are currently having on the environment, then: #1 Pinpoint opportunities for reduction (i.e. turn off lights when not using them, use occupancy sensors, shut off computers, monitors, task lighting when the occupant is away for a significant time) #2 Trade out old systems – invest in high-efficiency products that will reduce energy usage even more – instead of continuing to replace motors and parts in your 20 year old HVAC units, is it time to change over to new units that might be 35 to 50 percent more efficient? #3 Make use of green power, i.e. solar panels, wind power #4 Purchase carbon offsets/credits which create incentives for someone else to generate carbon-neutral power in a different place, *Buildings* (August 2007).

My undergraduate alma mater, Haas School of Business, ranked number three in *BusinessWeek's* annual undergraduate business school assessment of U.S. schools. Haas also ranked third in the *U.S. News & World Report* ranking. Go Cal!

The latest North American CBD Parking Rate Survey is out. San Francisco median unreserved stalls go for \$350/month, Oakland \$177.50/month and Walnut Creek \$65/month. Midtown New York is \$630/month, Boston \$460/month, and Phoenix is \$35/month. If you'd like to see the entire survey, please go to www.officetimes.com/NAParkingSurvey.pdf.

Inc. magazine's annual list of the 500 fastest-growing private companies in America included 40 from the Bay Area and 91 from California. For a full list, go to www.officetimes.com/Inc500FastestGrowingCal2007.pdf, *San Francisco Chronicle* (8/24/07).

21st Century Security ... one significant development is with surveillance cameras. While older models are usually 12" to 14" in diameter, today tiny dome cameras typically measure about 4" in diameter and include full pan-tilt-zoom capabilities. Night vision is inexpensive and commonplace. Digital networked video allows signal transmission through the Internet vs. coaxial cables. Some managers are no longer using on-site security personnel to watch video camera feeds. Instead, they are consolidating personnel remotely into security offices that can access video of multiple locations from a single site, reducing labor costs. Using wireless broadcasting, security officers in the field can use pocket-sized computers to watch without being seen. PatrolBots feature wireless cameras that can navigate through facilities including elevators without bumping into walls or people, *Today's Facility Manager* (July 2007).

One big question is, how will the collapse of the residential real estate market affect overall employment and economic viability? "East Bay jobs rise as housing falls ... Goodbye housing, and hello, health care ... even if some industries have imploded, the East Bay continues to gain jobs overall. Employment improvement has occurred during the most recent month and the past year," *Contra Costa Times* (9/22/07).

The Concord Weapons Station planning currently underway for the 5,028-acre former base may allow 5 to 7.9 million square feet of new commercial space with 17,000 to 29,000 jobs, and 8,000 to 13,000 residential units. Parks, recreation and open space range from 47 to 69 percent of total acreage. It will be several years before this project actually moves from concept to construction reality.

The "Greenest" City Hall in California is in Orinda. "The most novel features in Orinda's new City Hall aren't the cork floor tiles, or the ceiling fans, or the bathroom partitions made of recycled yogurt containers. What's unique is a series of wall signs that bear the words 'open windows.' They light up when City Hall's cooling system snaps off, alerting workers to take advantage of the buildings

potential for natural ventilation.” (Back to the Future – openable windows in office buildings used to be standard until the 1970’s). The Orinda City Hall was awarded a coveted Gold rating. For more info go to www.officetimes.com/OrindaCityHallGreen.pdf, *San Francisco Chronicle* (9/5/07).

Who are your future tenants? Office Employment in the United States 2004-2014 ... I bet you didn’t know that in 2004 there were 60.035 million office workers in total, which was 41.2 percent of all employed persons. The largest occupational category by far was Office Support Occupants, with 23.907 million workers. Between 2004 and 2014, management is expected to increase 11.32 percent, or 1.032 million; business and financial operations 19.12 percent, or 1.123 million; computer and math 30.67 percent, or 967,000; architects and engineers 12.49 percent, 315,000; health diagnosing and treating 27.21 percent, 1.140 million. Source: *National Center for Real Estate Research, National Association of Realtors* (January 2007).

Just last month “California energy regulators decided to let commercial building owners charge their tenants for the amount of electricity each uses, a seemingly small change that could save the state a lot of power. Until now, owners of a large office building or other commercial property had to pay the utility bill for the entire facility and then recoup the money through rents. Owners will now be allowed to install electricity meters for individual tenants and have tenants pay for the exact amount of power they use ... building owners will not be required to install meters for their tenants and can stick with the old system if they wish. Tenants would have to agree to the change,” *SF Chronicle* (9/7/07).

What a great August and September our kids had! Madison, who turned 5 on August 23rd is in two different city soccer programs and absolutely loves the sport. When dad wearily walks in the door at the end of a weekday, Madison eagerly asks if he can practice with her so she can show off whatever new technique she just learned. She is also taking a dance class and swim lessons. Madison just started kindergarten, and is blessed with a fabulous teacher at Alamo School, Mrs. Nelson. Jordan, our ten-year-old son went to Europe during August with his parents and his 82-year-old grandfather, Arthur. He was an awesome traveler, and saw Pompeii, the Roman ruins, the incredible Amalfi coast, and picturesque medieval coastal villages like Portofino and Dubrovnik. He spent several days in Venice, checking out the Guggenheim, the Campanile and St. Mark’s Square. Then it was off to Paris by sleeper car, going up to the top of the Eiffel Tower, seeing Mona Lisa at the Louvre, Notre Dame and of course Rodin. The last stop was London, with the Crown Jewels, the London Eye, Salvador Dali Museum and lots of rides on the Tube. Now it’s back to soccer, Boy Scouts and school. Photos of these recent experiences are at www.officetimes.com/JMOct2007.htm.

Sincerely,

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