



## Corporate Office Perspectives

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A bit of good news in the hiring department, but mostly still a continuation of the past three years of corporate realignment, consolidation, cost-cutting, offshoring and other factors that have brought about the constant job layoffs. According to the *San Ramon Valley Times* (9/16/04), "J. P. Morgan Chase & Co. says it will rehire 4,000 workers whose jobs it had outsourced to IBM, bucking a corporate trend in information technology. J.P. Morgan said it will return the outsourced workers to its payroll in January." On Sept. 10, 2004, the same news source announced "Alaska Airlines is cutting nearly 900 jobs ..." and the same day, same paper, in a comment about the recent Oracle/PeopleSoft events, "... Oracle officials said during the recent federal trial that the company might cut 6,000 jobs if its takeover succeeds." On this triple-down day, the same paper reported, "Troubled technology giant Electronic Data Systems could eliminate 15,000 to 20,000 jobs - up to one-sixth of its workforce - in coming years to help reduce costs by about \$3 billion." On Sept. 23, 2004, the *San Francisco Chronicle* stated, "As it makes the tough transition from analog to digital photography, Kodak is slashing its payroll. By 2007, its workforce is expected to drop by 12,000 to 15,000 World War II-era levels of around 50,000." On August 16, 2004, *The California Real Estate Journal* stated, "New Report Proposes Sweeping Overhaul of State Government ... Plan would eliminate 12,000 jobs; merge hundreds of boards and commissions."

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One Bay Area shining star is our biotech and laboratory industry. This month the J. David Gladstone Institute opens its 190,000 square foot, \$72 million center for biomedical research on the San Francisco Mission Bay Campus. DuPont is rumored to have recently signed a 55,000 sf letter of intent for lab space in Redwood City, and in South San Francisco, Genetech may be purchasing 20 acres to accommodate 600,000 sf of additional growth.

The trophy commercial real estate investment market continues to sizzle. In *Commercial Investment Real Estate* (Sept. 2004), "The lack of for-sale trophy buildings is an investor's biggest hurdle." "An abundance of capital and intense competition has created an overheated office investment market." "Across the country, cap rates average 7 percent for top properties. These low rates are a function of the enormous amount of capital vying for properties, inexpensive financing, and the limited number of properties on the sale block." "... trophy properties are limited, and those that do hit the market quickly are enmeshed in

bidding wars.”

I'm not sure what this has to do with office space, but trends are inter-connected ... The growth in China's automobile production during 2002 to 2003 was a 35 percent increase, with almost 4.5 million vehicles produced in 2003. If we think some of our offshore friends will be buying more of our U.S. goods with their new offshore income, maybe, maybe not ...

There is a very informative article on Telecommuting Policy which sets the guidelines and rules from the U.S. House of Representatives for employing offices that choose to establish their own telecommuting programs. It is fairly detailed with checklists and employer/employee agreements. Please go to [www.house.gov/cha/tr.html](http://www.house.gov/cha/tr.html) if you're curious about this.

What's the update on global offshoring? *Tri-Valley Herald* (8/12/04), “Drug makers in the United States and Europe are increasingly moving clinical trials and research work to India ... In five years, Indian firms are expected to be earning revenues of \$5 billion (up from \$54 million in the last fiscal year) from outsourcing of biotechnology-related services. Kiran Shaw, president of the Association of Biotech-Led Enterprises, said, “We see outsourcing in this area growing exponentially over the next few years and giving us the same success that India had in software.” In the *Silicon Valley Biz Ink* (7/30/04), “The cost differences between the United States and China are dramatic. To set up a lab with a Ph.D. researcher, including salary, benefits, and lab space, costs an average of \$250,000 annually in the United States, Jonathon Wang, managing director of WI Harper Group, said, “In China, cost can be as little as \$30,000.” Of course, in order for anything done in China to be acceptable in the United States, other than early stage research, the U.S. Food and Drug Administration must approve the labs and experimentation methods being used.” *The Tri Valley Herald* (9/27/04) headlined, “Governor's state overhaul may be tied to offshore jobs. Governor Arnold Schwarzenegger constantly urges consumers to buy California products and keep jobs in the state, but if he follows the recommendations of his California Performance Review, the most immediate impact may be that thousands of state jobs will be outsourced overseas.”

First phase, have the fast-food order taken by a microphone with the faceless fast-food operator watching a monitor. Second phase, McDonalds has a location near Cape Girardeau, Missouri, but the order taker is a call center in Colorado Springs, Colorado, more than 900 miles away. This particular McDonalds owner linked four McDonalds' franchises for lower costs, greater speed and fewer mistakes. Possible future third phase, call center based in India, Thailand or China ... (with the slightly-higher paid English-speaking Texas drawl workforce)?

Contra Costa County, according to a recent ABAG report, which currently has one million residents, can anticipate another 250,000 joining them during the next 25 years, along with 140,000 new jobs.

*Deals and Rumors:* Once again most of the Bay Area activity was in **San Francisco**, where California Pacific Medical Center leased 45,000 sf at 1 South Van Ness; Sedgwick, Detert, Moran & Arnold is taking 115,000 sf at One Market; Savvis Communications leased 11,000 sf at 100 Pine St.; Regent Business Center sublet 29,000 sf at 555 California St.; The Smith Group sublet 15,000 sf at 300 California St.; Wells Fargo expanded by 16,000 sf at 160 Spear St.; Blue Jeans Equities West leased 57,000 sf at 1355 Sansome St.; Cavalry Asset Management took 33,000 sf at One California St.; Chubb Insurance may be leasing 42,000 sf at 275 Battery St.; Planet Out leased 57,000 sf at 1355

Sansome St.; Text 100 Corp. signed for 13,000 sf at 77 Maiden Lane; Marsh & McLennan may be doing a gigantic consolidation to 250,000 sf at One Front St.; Riverdeep took 14,000 sf at 100 Pine St.; and Ropes & Gray will be relocating to 19,000 sf at One Embarcadero Center. In **Burlingame**, Virgin America leased 40,000 sf at The Forbes Building; and DuPont may be taking 55,000 sf of lab space at 700 Bay Road in **Redwood City**. Across the Bay, in **Fremont**, University of Phoenix will be opening a 20,000 sf campus at 40440 Encyclopedia Circle; and the Northern California Cancer Center leased 40,000 sf at 2201 Walnut Ave. In **Oakland**, Knightsbridge Solutions leased 11,000 sf at 475 14<sup>th</sup> St.; SEIU Local 616 took 16,000 sf at 155 Myrtle St.; and Beyer Weaver & Thomas is relocating to 12,000 sf at Oakland City Center. In **Emeryville**, Onyx Pharmaceuticals is vacating 52,000 sf in Richmond to sublease 23,000 sf at 2100 Powell St.; New York Life Insurance is taking 12,000 sf at 5980 Horton St.; and Med America leased 23,000 sf at 2100 Powell St. In **Walnut Creek**, the Bank of the West leased 18,000 sf at 3000 Oak Road. In **Concord**, Fremont Investments expanded by another 12,000 sf to now total 72,000 sf at 1401 Willow Pass Road. In **Pleasanton**, Fidelity National Title Company took 11,000 sf at 7011 Koll Center; The Dahlin Group just purchased the 21,000 sf former State Farm building on Owens Drive; and Inovys Corp. is taking 24,000 sf at 6940 Koll Center Parkway.

How will WiMax affect the office of the future? WiMax is just now being rolled out for testing, with the potential to send broadband Internet signals up to 50 miles. Tech firms are planning to begin building and selling WiMax receivers next year that will give homes and businesses wireless broadband Internet access from service providers' towers that could be miles away. Is it inconceivable that at some point the security for this system will be as robust as a hard-wired system, and the range could be 500 miles? Will hard-wire be a thing of the past?

In the *San Ramon Valley Times* (8/18/04), "From 2003 to 2004 Deloitte Research found in a survey of 43 financial institutions in seven countries, including 13 of the top 25 by market capitalization, firms in North America and Europe increased jobs offshore to an average of 1,500 each from an average of 300. The Deloitte study said that about 80 percent of this went to India. Deloitte said the unexpectedly rapid growth rate for offshore outsourcing showed no signs of abating, despite negative publicity about job losses. Although information technology remains the dominant service, financial firms are expanding into other areas like insurance claims processing, mortgage applications, equity research and accounting. In a recent report "Offshoring, A Detour Along the Automation Highway," Michael Haney, a senior analyst at research firm Celent Communications, estimated that potentially 2.3 million American jobs in the banking and securities industries could be lost to outsourcing." Let's see, at 200 square feet per person that works out to 460,000,000 million square feet of potentially unneeded U.S. office space ...

For an expert opinion on the office market, to quote the editor of *Real Estate Forum* (July 2004), Cynthia Hoffman, "Yes, things could be worse. Developers have shown tremendous restraint this time around, holding off on new projects until a considerable amount of space has been preleased. Also, the surfeit of sublease product that produced migraines for many landlords and building agents is no longer the problem it once was. But my guess is that it'll be at least 2006 before office building owners can start breathing easier, and even then, it's going to be a tenants' market for a long time to come."

Several of my broker brethren, all landlord representatives, from time to time ask me why I am not more positive on the state of the Bay Area office market. Although as a tenant representative I may not be trying as hard as possible to paint a rosy picture, in fact it is my opinion that our current office market is an ideal one from the tenant's perspective (low rents, lots of available space, flexible landlords). For the entire Bay Area the office/flex availability figure is somewhere in the 105,000,000 square foot range, and yes, there are markets which are demonstrating to a slight degree an improving market. In San Francisco, there are between 13 to 17 million square feet of available office space, (different brokerage firms calculate this differently), but one senior broker told me last week that almost every major Class A block of space more than 50,000 sf is in play, not necessarily from expanding companies but from firms wishing to consolidate, upgrade, or otherwise take advantage of the current soft market.

In Santa Clara, where the bulk of the vacant space is located, there appears to be an up tick in activity, although experts said last week that at the current rate they have enough space to last until 2010 or beyond. During the past 90 days in the East Bay, we were notified that Bank of America will be vacating 200,000 sf of Class A space in Concord, AT&T is giving up 250,000 sf of Class A space in Pleasanton, and several unnamed major employers will be shedding upwards of another 500,000 sf of office space during the next year (identities are confidential). I spent part of an afternoon with the entire editorial department of a major newspaper, getting grilled about the current and future state of our office market. I asked the group to tell me which industry will be the driving force in upcoming months to hire massive numbers of new office workers. Who will be locating these operations in the pricey Bay Area, where our "starter homes" go for \$350,000 to 500,000 and still require a two-hour daily commute? While there is a huge list of reasons to want to live and work in the Bay Area, we also have our shortcomings, like our workers comp, our taxation structure, our California employee/employer rules which sometimes do not favor the employer and other aspects that may have taken some of the shine off our "Golden State." This group could not come up with an industry poised to hire massive numbers of employees to fill our vacant office space, and if you have ideas about this, please e-mail them to [jweil@colliersparrish.com](mailto:jweil@colliersparrish.com).

As reported in the *Silicon Valley Business Ink* (9/3/04), The International Telework Association and Council (ITAC) reported 23.5 million Americans employed full-time by a company but working from home, up from 11.6 million in 1997. Its study also reports the annual employer savings from telecommuting is about \$5,000 a year, due to increased productivity and unneeded office space.

If you would like another resource on air quality, there is a free publication available for download from the Environmental Protection Agency, "Building Air Quality: A Guide for Building Owners and Facility Managers" ([www.epa.gov/iaq/largebldgs/index.html](http://www.epa.gov/iaq/largebldgs/index.html)). According to *The Today's Facility Manager* (July 2004) this site has checklists and forms to assist in remediating air quality issues. I checked out the site, and it has an overwhelming amount of information ...

*Tri-Valley Times* (9/14/04) headlines "Job Market takes turn for the worse," *San Francisco Chronicle* (8/14/04) "State loses 17,300 jobs - experts are puzzled," and in an article in *The Tri-Valley Times* (8/6/04) "Bay Area hiring will continue to tick up over the next six months, but an alarming number of businesses have considered moving jobs out of the region, according to a survey of business executives ... Nearly one in four Bay Area companies have "seriously considered" moving their entire

operations out of the nine-county Bay Area during the past two years, 31 percent have considered shifting business functions outside the region, and 18 percent have considered offshoring jobs now in the Bay Area.”

On building security, in *Buildings* (September 2004), “In the past, companies expended a lot of effort to fulfill insurance requirements and to appease tenants’ concerns. One of the biggest mistakes building owners and security heads make is to rely only on guard services. Optimal programs, however, combine security personnel knowledge with technological know-how. Security is not only how to get people in the door; it is also how to get secure packages in the door and how to handle the delivery process. It is important for building owners to identify risk potentials and to find the security solutions that fit.”

The magazine, *Business Facilities* (August 2004) predicted tech growth both as size and rapidity, using 27 different occupations. For the Big Tech Growth States 2000-2010 (projected number of jobs): 1) California 2) Texas 3) Virginia 4) Colorado 5) New York 6) Florida 7) Illinois 8) Massachusetts 9) North Carolina 10) New Jersey. For the Rapid Tech Growth States (projected average percentage increase): 1) Colorado 2) Nevada 3) Idaho 4) Utah 5) Virginia 6) Kentucky 7) California 8) Tennessee 9) Arkansas 10) Arizona.

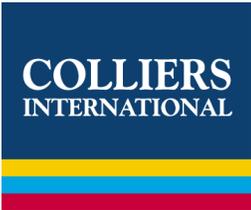
I’m helping coach my son’s soccer team for the second year, and it once again is a highlight of the week. It is amazing how much effort and volunteer time goes into this #1 American youth sport. In our little region of Danville/Alamo, we have 5,000 kids in our league, with 350 teams playing every week. Each team has 1 to 2 coaches, 1 to 2 parent referees, parents helping set up and take down the field, and this is a typical microcosm of what goes on all across America. It struck me once again this past week how rapidly kids grow and gain maturity. For the first time, my son was allowed to walk by himself (with Dad nervously watching the entire time) to visit his best friend at the end of our cul-de-sac. Then a few days ago, for the first time, little Madison, who just turned 2, was able to stand on her stepstool to get her hands under the faucet instead of Dad having to hold her up. I’d better take another look at their college fund! For photos of their recent adventures and travels around the U.S., please check out [www.officetimes.com/JMOct04.htm](http://www.officetimes.com/JMOct04.htm).

So as our Summer season begins to change into Fall, and as the days grow shorter, please stay safe, and give your kids a hug for me. I still can’t believe that next week on October 11 marks the beginning of my 29<sup>th</sup> year still having a great time helping clients lease and sell commercial properties! As always, don’t hesitate to call me if I can be of service ...

Thank you!

Sincerely,

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# Newsletter

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