



Corporate Office Perspectives

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Slowly, in some regions steadily, the U.S. office market continues to improve, inching its way down the vacancy chart and in a number of subregions gradually firming or increasing rental rates. In the San Francisco Bay Area, on the surface it appears we have substantial vacant office and R & D space, with some estimates still in the 65 to 75 million square foot range. However, if you are seeking a 150,000 sf block of vacant East Bay office space, there are only a handful from which to choose, and the same holds true if your desire is a 5,000 sf view space in one of San Francisco's premier office locations. Meanwhile, we are selling office land for residential development and converting existing office product into residential condos, and steel, concrete and other construction costs have skyrocketed. When the next generation of office buildings arrives, expect rents substantially higher than tenants enjoy today. In the meantime, savvy office owners are aggressive in their lease proposals in order to keep their buildings full, and smart tenants are making sure they have long-term leases at today's affordable rates.

Editor:

Jeffrey S. Weil,
MCR,h, CCIM, SIOR
Senior Vice President

1850 Mt. Diablo Blvd.
Suite 200
Walnut Creek, CA 94596

Phone: 925.279.5590
Fax: 925.279.0450
jweil@colliersparrish.com
www.OfficeTimes.com

A recent article in *National Real Estate Investor* (July 2005) titled "Goodbye, Cube Farm - the open office format sounds like a 90's idea that should be over by now. On the contrary, the idea is gaining momentum. Corporations as varied as computer software giant, Microsoft, and health benefits provider, CIGNA, have found that by using this new style – less private space, more shared space, and increased reliance on mobile technology – they can reduce their overall office space needs by 30 percent or more. Planners say advances in technology have made workers more mobile while reducing their need for paper files and bulky hardware. More laptops, slimmer desktop monitors, wireless computer networks, telephones routed over the Internet and the growing use of online databases instead of books and paper files are all reducing the need for square footage ... for sales reps and other highly mobile workers, seven people – or even more – can share a single desk ... during the last five years the average office space per employee has shrunk by more than 20 percent ... from 250 sf to 190 sf. Corporate space planners believe they can shrink space another 21 percent without affecting productivity."

BOMA recently published its 2005 Experience Exchange Reports with the U.S. office market at the end of 2004 reporting a 5 percent increase in Net Operating Income and a decrease of 6 percent in total expenses. To view more on this or to order the entire report please go to www.boma.org.

The lead article on www.officetimes.com is Disaster Planning for Small & Medium Businesses, with the best links I could locate on checklists, recommended planning and tips for business disaster planning.

A great tool that is becoming increasingly common is the Facility Manager website, offering virtually an unlimited wealth of communication with tenants, contractors, clients, and other departments. Here are a few ideas from *Buildings* (August 2005): 1) Online request forms for repairs and services, with a feature that allows the requestor to “check in” on work order status throughout the process. 2) Safety tips and bulletin info on emergency evacuation, disaster preparation, how to locate and use fire extinguishers, etc. 3) Purchasing guidelines for office equipment, computers and other devices to ensure tenants are checking energy-efficient products. 4) An explanation of policies regarding lighting, temperature and actions that tenants/occupants can take to contribute to your goals (the office temperature is still one of the top three complaint sections!) 5) Building facts and figures. 6) A map showing nearby restaurants, banks, shops, with links so you can view menus, order on-line (I added this one, probably a way to link with local chamber or other directives already on-line). No limit to how powerful this tool can be ...

“Annual salary increases are averaging 15 percent to 20 percent in India and China over the past several years, and are likely to continue at that pace for the next several years. Still, the latest NeoIT survey shows India and China as two of the three lowest cost places to do offshore IT in the world, and salary differentials are still on the order of 5:1 to 10:1, compared to U.S. salaries.” *East Bay Business Times* (7/28/05). Why Latin America is the New India ... After sending thousands of technology and call-center jobs to India and the Philippines, major U.S. companies including Dell and Procter & Gamble are now looking to Latin America to meet their outsourcing – or rather, “nearshoring” – needs. “In Latin America as a whole, the number of call-center workstations will hit 730,000 in 2008, up from 336,000 in 2004, according to market-research firm Datamonitor,” *Business 2.0* (August 2005). A few spot-quotes from Tapan Munroe, *Contra Costa Times* (7/31/05) on Global Offshoring ... “by the end of 2005, Accenture and IBM will be adding 15,000 R&D positions in India ... of the \$30 billion spent in 2001 by the U.S. pharmaceutical industry in R&D, nearly 25 percent was spent in overseas positions.” *Western Real Estate Business* (August 2005), “Labor costs in this country are \$21 per hour compared to \$1.70 in Mexico, \$0.92 in China and \$0.70 in India.” And in *Real Estate Forum* (July 2005) ... “over 54 percent of India’s population, or more than 600 million people, are under the age of 25 ... the country has the largest reservoir of skilled labor in the world, with over 8.8 million people graduating from colleges each year ... the Indian economy has been expanding at an aggressive yet stable pace of 6 to 8 percent and is expected to continue to increase by 5 percent for the next 30 years.” “In India, call-center rookies make about \$2,400 a year – roughly twice the pay of first-year teachers, accountants or lawyers – and work in air-conditioned offices, many of which have health clubs and well-stocked cafeterias.” *Contra Costa Times* (9/21/05)

U.S. News & World Report ranked UC Berkeley as the No. 1 public university in the country. Berkeley, which was also ranked first last year, topped the University of Virginia, UCLA and the University of Michigan for the top public spot. I received my Bachelor of Science and Masters of Business Administration degrees at Cal, was in the Cal Marching Band, the Cal Jazz Ensemble, and a staff photographer for the Daily Cal. I would like to make the following offer – for all new clients with assignments completed between now and the end of 2006, I will donate to UC Berkeley 25 percent of all commission income you send me to UC Berkeley (after company split) – new clients only, so give me a call and we can both help Cal!

Deals & Rumors: For a change we'll start with **Walnut Creek**, where I just helped BEI Technologies lease 47,000 sf at 355 Lennon Lane; our office sold 1485 Treat Blvd., a 15,000 sf office building; PacTen is rumored to be leasing 10,000 sf at 1340 Treat Blvd.; in Downtown I represented Golden Gate University for a 10,000 sf new campus at 1990 N. California Blvd.; The 140,000 sf Bank of the West building on Treat Blvd. just sold for \$300/sf; CalTrans may be about to sell its 37,000 sf office building at Olympic and Alpine St. In **Concord** I sold the seven-acre former Systron Donner HQ site to a residential developer, Concord Airport Plaza with 350,000 sf sold for \$60.6 million to Prentiss Properties; T-Mobile expanded at 1855 Gateway Blvd. to 17,000 sf, next door at 1850 Gateway Blvd., First NLC took 27,000 sf. Out along the I-680 Corridor, Verizon may be looking for 40,000 sf and FKI for 20,000 sf. Down in **San Ramon**, Elsevier MDL leased 65,000 sf at Bishop Ranch 6, relocating from San Leandro, and I represented SBE in their expansion to 23,000 sf at Bishop Ranch 8. In **Dublin**, Eksigent Technologies leased 43,000 sf at 5875 Arnold Rd. Since my last newsletter, Kaiser Permanente made its purchase of the 370,000 sf former Oracle/Peoplesoft campus in **Pleasanton** official, paying a rumored \$76 million. In **Oakland**, McNerey & Dillion leased 11,000 sf at 1999 Harrison and in **Alameda** Peets Coffee might be looking at a 130,000 build-to-suit on Harbor Bay. Across the Bay, FactSet Research Systems leased 17,000 sf at 2600 Campus Dr. in **San Mateo**. In **San Francisco**, SBC Services leased 63,000 sf at 795 Folsom St.; Kirkpatrick & Lockhart Nicholson Graham LLP expanded to 53,000 sf at Four Embarcadero; Yahoo may have signed an LOI at 475 Sansome St. for 200,000 sf; Google is also rumored to be looking for 200,000 sf; HS Technologies sublet 38,000 sf at 55 Second St.; Dechert LLP leased 16,000 sf at One Market; ACLU sublet 25,000 sf at 39 Drumm Street; Laughlin, Falbo, Levy & Moresi leased 25,000 sf at 255 California St.; Bohlin Cywinski Jackson took 13,000 sf at 49 Geary St., and GMAC/Pacific Union leased 35,000 sf at One Letterman Drive at the Presidio.

Hard to believe this is Issue 153, but back in Issue Three (10/1/80) I lamented on how costly it was to build out office improvements from warm shell, with costs running \$12 to 14/rsf. Of course, Class A office rents at the Walnut Creek BART Station were hitting \$1.30/rsf full-service, and San Francisco rents for new 1982 projects were at \$2.17 to 2.50/rsf. Today tenant improvement costs from warm shell seem to run from \$35 to 50/rsf, space in Downtown Walnut Creek building is getting \$2.75/rsf, and space in Downtown San Francisco ranges from \$35-60/rsf per year depending on view, floor, size, and the particular building.

Talk about huge... “Within five days, all 2,145 units in the first residential component of the massive New Songdo City project going up on Icheon, South Korea were presold, netting \$1 billion. Built on 1,500 acres along the city’s waterfront, New Songdo City will eventually include 50 million sf for office uses, 30 million sf of residential space, 10 million sf of retail, 5 million sf of lodging accommodations, 10 million sf of public space and two schools.” *Real Estate Forum* (July 2005) Must be incredibly large schools to accommodate 100,000+ residents ...

Yes, the San Francisco Bay Area is an expensive place to be. I sure wish this was different, but speaking as a native born and raised here, there is nowhere else I’d want to call home. On a recent front page, the newspaper warned of potential weekend traffic bottlenecks, as at the same time within a 45 minutes drive, there was a major league baseball game, two major league football games, a huge car show expected to draw tens of thousands, an Indy Grand Prix race, more than 100 live theatre and hundreds of live music venues... within a 45 minute drive you could reach the Napa wine country, two hours put you in the heart of the Monterey Coast, in three hours one could be sitting on a beach at Lake Tahoe, and add another 50 to 100 scenic wonders (Yosemite, Muir Woods, waterskiing in the Delta, etc.) and all at perfect temperature with no humidity ... and here I am on such a beautiful day working on this newsletter!

In an article titled, “Getting a Rise Out of Productivity – Adapting to the Changing Worker,” *Buildings* (July 2005), “Worker satisfaction is an important marker of facilities success, despite the lack of empirical evidence tying it to productivity. Surrogate markers such as satisfaction, turnover, and absenteeism are linked to productivity because of the difficulties of measuring productivity, especially in creative or knowledge work. Workers today do not feel particularly satisfied with their workstation. The areas of lowest satisfaction center on disturbance-free work areas, concealing wires, and availability of smart/efficient storage ... The paradox that many organizations face is to have an open environment yet provide distraction-free, private work areas.” Here are a few of the options available: Taller space dividers that utilize glass or translucent materials; provide areas or kiosks; dedicated collaboration areas; white noise; office protocols; easily adapted teaming areas. If you’d like more information on this, please contact Kelly Sterk at sterkk@allsteeloffice.com.

From 1990 to 2000, China created 146 new cities with populations exceeding 1 million – while 800 million people remain in the countryside, *Business 2.0* (August 2005). Somehow, some way this will have a major long-term impact on the U.S. office market ...

According to a recent office building parking study by Colliers International, with 48 U.S. markets analyzed, the monthly unreserved high was \$798 in Midtown New York and a low of \$20 in Memphis. The top five on an average basis: New York Midtown (\$492), New York Downtown (\$444), Boston (\$425), San Francisco (\$321) and Philadelphia (\$318). To check out this complete study please go to [www.officetimes.com/Office Buildings Parking Study.htm](http://www.officetimes.com/Office_Buildings_Parking_Study.htm).

Business Facilities (July 2005) ranked U.S. cities for bachelor's degrees, and the Top 10 nationally included Oakland, Sacramento and San Jose. For the best workforce educational levels, Top 25; Oakland was #5, Sacramento #10, San Francisco #14 and San Jose #17. For the 20 Hottest Headquarter Metros in the 21st Century, #1 was Nashville; #2 West Palm Beach – Boca Raton; #3 Richmond-Petersburg VA; #4 Greensboro – Winston – Salem, NC; #5 Grand Rapids, MI; #6 Houston; #7 Atlanta; #8 San Francisco – Oakland – San Jose. On which lists was California totally absent? Best states for cost of labor; manufacturing; state business tax climate. No surprises there ...

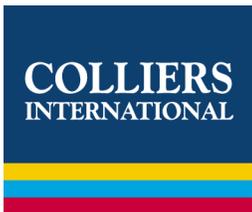
If you would like to view the Economic Overview and Perspectives on the U.S. Real Estate Market 2005 by Ross Moore, Director of Research, Colliers International, you can visit the website by going to [www.officetimes.com/US RE Market 2005.pdf](http://www.officetimes.com/US_RE_Market_2005.pdf).

The office building investment market continues to roar. In *National Real Estate Investor* (July 2005), office purchases increased 28 percent from 2003 to 2004, cap rates according to REIS average 7.5 percent, with CBD towers trading at 100 basis points less than average and suburban properties selling at about 50 basis points higher, "...this has got to be the best time to sell, because office cap rates have never been as low as they are now," says NREI.

While many of my friends are experiencing the mixed emotions of sending their children off to college and transition to empty-nesters, I am still at the other end of the spectrum. My 3-year old Madison is about to outgrow my rocking her to sleep at night simply due to the fact that she is getting too tall to fit in my arms ... She just started preschool last month, and totally loves it. Art, learning colors and shapes, new songs and most of all, new friends in a very supportive setting – how come they didn't have that when I was growing up? Of course, we didn't have air bags, rear seatbelts, or video games either ... Jordan just took his first music class last week, and loves it. He has been awesome on the soccer field, whether a back or mid, and even asks for additional practice time, a coaches dream! To see photos of their recent adventures go to <http://www.officetimes/JMOct2005.htm>. Watching the horrific Katrina events is a sharp reminder of how fleeting life can be, how difficult it is to expect the unexpected, and also how much love and goodness there is in our world. Take care as the days become shorter while we head to the closing months of 2005.

Sincerely,

Jeffrey S. Weil, MCR,h, CCIM, SIOR
Senior Vice President
(925) 279-5590



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