

From the Silicon Valley / San Jose Business Journal:

<http://www.bizjournals.com/sanjose/print-edition/2011/12/30/companies-gobble-up-space-but-guarded.html>

2012 Forecast: Real Estate

Companies gobble up space, but guarded optimism reigns

Premium content from Silicon Valley / San Jose Business Journal by Mary Ann Azevedo, Reporter

Date: Friday, December 30, 2011, 3:00am PST

Related:

[Banking & Financial Services](#), [Commercial Real Estate](#)



Mary Ann Azevedo

Reporter - *Silicon Valley / San Jose Business Journal*

[Email](#)

*In more than 25 years with **Sares Regis Group of Northern California**, [Jeff Birdwell](#), president of the commercial division, has developed 5 million square feet of office and industrial buildings for public and private companies and acquired several million square feet of office and industrial buildings. His first job was as a union laborer with Local 300 (in Los Angeles) where he worked nights doing demolition and placing concrete on the remodel of a former I. Magnin & Co. store in Sherman Oaks. He has a B.A. in economics and undergraduate and graduate degrees in engineering at **Stanford University**.*

Q: What were the biggest things coming out of 2011 for the commercial real estate industry?

A: A dramatic shift occurred late last year where we saw a reemergence of corporate activity in Silicon Valley. The large publicly traded companies have come back. This time the change in the cycle started with large users – those seeking more than 300,000 square feet. They were absolutely absent for the prior three years and completely in retrenchment mode. But now there's probably between 6 million and 8 million square feet of large-scale corporate requirements in the Bay Area.

Q: What's the most disruptive development in your industry, and how will it affect 2012?

A: The disarray and chaos at the state and federal government levels that's trickled down to the local government. This means a lack of dollars to invest in those communities. One of the main concerns is the governor's efforts to dismantle the redevelopment agencies. For example, cities like San Jose and Redwood City did a lot of great work through the RDAs, and that is now threatened. In 2012, I think the prospects for local government will look much brighter to the extent the economy comes back and businesses can grow and add jobs. When that returns, some of the structural deficits cities and counties are facing will turn around. There seems to be a bit of a new paradigm in the post-financial crisis world. I think we will all continue to run much leaner.

Q: What's the general sentiment for 2012?

A: Generally guarded optimism. In my 25 years here, this has been far and away the worst economic cycle we've seen. And it's not over. What I worry about is an international global economic shock. If Europe doesn't get its ducks in a line, we are not immune to the global economy by any means. There is a level of optimism, driven by the economic engine of the private sector. I hope and believe we'll be strong this year. As for the large users, there's no evidence of retrenchment.

Q: Where do you see growth and where will it be slow in 2012?

A: Valley tech companies are the best poised for growth. As for slowing down, well, single family home development has been dead for years and it's not showing signs of recovery. The demand in multifamily in construction and rentals is continuing.

Q: Is there any particular technology affecting your industry?

A: BIM modeling, or virtual building tools, reduces many conflicts within a product delivery cycle. More important, it allows a tremendous amount of prefabrication, or off-site fabrication, to occur. It was originally rolled out in the commercial world, and

now we're seeing it come into more common usage in a broader array of product types.

Q: What could the government (local, state or federal) do or not do to impact you?

A: Getting their house in order would be so helpful. I don't know if there's any prospect that the California Environmental Quality Act (CEQA) could be reformed (beyond what the governor has already signed: "Jobs and Economic Improvement Through Environmental Leadership Act of 2011" and the "Small & Neighborhood Business Protection Act").

It just gets more complicated as the years go by, and has become a tool to disable projects as opposed to enabling them. What was originally conceived as something to identify and mitigate the impacts of a project has turned into a tool to slow down, if not stop, many projects. And it varies from jurisdiction to jurisdiction.

It's expensive to do business in California, and that's partly why jobs are going to Austin and other places that are actively recruiting.

Mary Ann Azevedo can be reached at mazevedo@bizjournals.com or 408.299.1820.

REAL ESTATE: WHAT TO WATCH IN 2012

San Jose vacancy

City Council members, concerned with downtown San Jose's 25 percent vacancy rate, will decide on opening up ground-floor leases to offices. Of course, city officials have openly said they don't want a sea of 10-year office leases filling the city's core. Watch to see if the move encourages new lease activity, or if companies will continue to vie for space in Palo Alto and Mountain View over the "Capital of Silicon Valley."

San Francisco 49ers stadium

After landing an \$850 million loan from Goldman Sachs, U.S. Bank and Bank of America, and selling at least \$200 million in suites, the 49ers have cash in place to begin construction of the planned 68,500-seat stadium. The team is expected to break ground on the \$1.02 billion stadium in Santa Clara in January.

San Jose baseball stadium

Word on the street suggests Lew Wolff will hear whether he can move his Oakland A's down to San Jose by spring training, and maybe as early as late January. If Major League Baseball OKs the move, that means the

city of San Jose will need to get something to voters — maybe as early as the spring. And the City Council agreed in November to offer the Oakland A's the right to buy about 5 acres of downtown land. Any of these spring moves would seem fast compared to the past two years of bench warming.

Multifamily madness

After several years of stagnant growth, the multifamily sector ended 2011 with a bang. Milpitas has more than 1,000 units moving forward, with 800 more in the pipeline. North San Jose has thousands of units going up, and in Mountain View, Menlo Park and Foster City, significant projects are in the works. REITs, institutional investors, private equity firms/funds and private investors alike are clamoring to get a piece of the multifamily pie. The sector will continue to heat up as demand grows and rents climb.

2011 UPS AND DOWNS

Rob Shannon

The CBRE senior vice president helped cement Tesla Motors' move into the former NUMMI facility, and he worked on the deal that brought Texas-based Dell into Santa Clara.

Phil Mahoney

The Cornish & Carey executive vice president was busy filling up Moffett Towers with Microsoft, Hewlett-Packard, Motorola Mobility, Financial Engines, and had a hand in other big valley deals including moves by Atmel and Polycom.

Jay Paul Co.

After Moffett Towers sat near-empty for years, 2011 saw a slew of big leases and kick-started plans to expand the seven-building campus. The developer also launched a new company, Level 10 Construction, which already has projects in the pipeline.

Equity Office Properties

The huge commercial real estate firm continues to add to its 11 million square feet under management in Silicon Valley, and landed big deals this year with Google, Symantec, Microchip Technology, Atmel and TeleNav.

Mary Ann Azevedo covers real estate for the Business Journal. Her phone number is 408.299.1820.