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THE Registry®

BAY AREA REAL ESTATE JOURNAL

JANUARY 2011

IMAGES COURTESY OF
CHAD ZIEMENDORF

Habitat for Humanity has taken advantage of the housing crisis by converting foreclosed homes into affordable housing for low-income families. This photo was taken at 88 Beach Dr. in Bay Point.

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IMAGE COURTESY OF **CHAD ZIEMENDORF**

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Mission Statement
The Registry is a real estate journal that aspires to fulfill the need of Bay Area professionals for accurate, unbiased and timely news, analysis and information.

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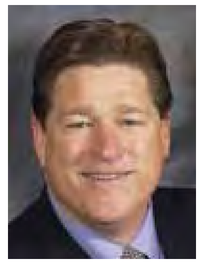
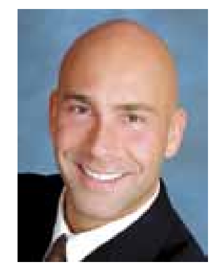


Peter Ingersoll

Vive la Différence
pg. 14

Peter Ingersoll is chief executive of East Bay investment advisory Safe Harbour Equity Inc. and a serial entrepreneur. He has an economics degree from the University of Pennsylvania Wharton School and several advanced degrees from the School of Hard Knocks earned while working in the construction, development, site acquisition, private banking & trust, investment banking, securities and, most recently, the Northern California commercial real estate industries. This article is based on research for his book, "The Real Estate Tsunami Survivor's Guide." The book features interviews and remarks from industry leaders such as Dr. Sam Chandan, the global economist for Real Capital Analytics; Ethan Penner, president of CBRE Capital Partners; and Michael J. Panzner, author of "Financial Armageddon: Protecting Your Future from Four Impending Catastrophes" and "When Giants Fall: An Economic Roadmap for the End of the American Era."



Rob La Eace

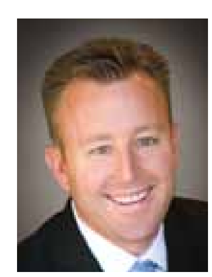
Cloudy With a Chance of Curve Balls
pg. 30

Responding to emergencies as a firefighter in a variety of uncertain situations and diverse neighborhoods taught Rob La Eace a lot about how people should be treated, not only during a crisis, but also everyday. Today, these same skills are an asset to those who work with this San Francisco native in his career as a broker associate with McGuire Real Estate. The tools he puts to work as a firefighter are what makes the difference to the clients La Eace works with as an agent. While it may help that La Eace is the type of guy with a warm smile and a friendly attitude, his professionalism, organization and drive to succeed are what make him stand out in his career. Working in his sixth year in the industry, La Eace is in touch with his clients' needs and with the city—putting a local's perspective to work.

John McNellis

Through a Glass Darkly
pg. 26

John McNellis is a Palo Alto-based retail developer and property owner. He practiced law in San Francisco with Landels, Ripley and Diamond and co-founded McNellis Partners in 1982. A graduate of UC Berkeley and the University of California's Hastings College of The Law, McNellis is a member of the Urban Land Institute and a founding member of both its Environmental Task Force and Environmental Coordinating Committee. He is also a member of the International Council of Shopping Centers. He has served as the chair of the ULI's Small Scale Development Council and is a member of the ULI's Board of Governors. He is also a lecturer for both the ULI and ICSC.



Dominic Nicoli

Second Verse, Same as the First
pg. 15

Dominic Nicoli has been affiliated with Intero Real Estate Services since its inception in 2002. He has specialized in upscale residential real estate sales for the past 15 years. Nicoli is a graduate of San Jose State University with a business degree in marketing. He has received numerous industry awards including being the No. 1 producing agent in 2003 for the entire Intero Real Estate company. He has achieved top 10 production status for the past seven consecutive years. In 2009, Nicoli sold more than 80 homes and was recognized as the top-listing, top-selling and top-producing Realtor for the Los Altos office of Intero. He has been a frequent guest teacher at De Anza College. ■

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Letter from the Publisher

Dear Reader,

As some of you may remember, our January issue, the outlook issue, is when we sit down with a number of industry experts to try to get a collective perspective on the coming year. This year our editorial panel is an impressive collection of real estate leadership. It is as broad as our audience, and it covers the full life-cycle of the real estate process. This has been an important element of our reporting and industry coverage since the inception of The Registry—to provide a varied and broad view of real estate, and we think that this year we've successfully delivered that to you, again.

Without stealing the proverbial thunder from our esteemed contributors, collectively it seems that optimism is returning. In the past year, we have begun to see movement in the industry that is likely going to continue into 2011. In many ways a lot of the uncertainty has been removed, and companies and their leadership are adjusting to the ways and means of the market. High unemployment, the impending inflationary pressures and a less-than-friendly federal government are large issues that will shape how the industry behaves in the year to come. We are left with at least the comfort of knowing that life goes on and that the creativity of an American industrialist is unbounded.

As the Holidays are upon us, and retailers are reporting better-than-expected black Friday and cyber Monday sales, they are also buoyed by their ability to score some prime locations at a deep discount. In the article titled "Driving a Hard Bargain" on page 27, Doug Caldwell outlines just what that has meant for the industry across the Bay Area. The good news is not just for the retailers who have many options and are practically controlling the terms, but also for the landlords because deals are getting done. Companies are jumping back in from the sidelines, and deal flow is rebounding.

Just ask the real estate investment trusts. In the article titled "REITs Stand Ready" on page 10, we look at how REITs, with a renewed sense of self-confidence and fund-raising abilities, are zapping the market. With a lower cost of capital, they are able to strike deals in some ways untouchable by other institutional investors. At one point this summer, we were told by industry insiders that 19 REITs were in some stage of preparing an initial public offering. I found this particularly interesting because it signaled opportunity and improved conditions in the market.

So, what prediction can we make, I am often asked, even though I promptly reply that I don't run a real estate company, I run a media company. But on the whole, I can predict, based on our coverage of the industry and insight from our industry friends, that deals will not die, and that dealmaking activity will continue unabated. What once was a norm will be no more—the enterprising should watch for new industry markers and nuance in consumer behavior. New industries will emerge, and office space utilization will be transformed. We are already seeing that in reduced square footage per employee and in the design of new industrial space that tech companies demand today. On our end, we are seeing increased spending in advertising, and that is an indication that companies are realizing that sitting on the sidelines is not going to help them win business. So, overall, I personally feel that 2011 will look like a slightly better 2010 model: A few improvements here and there, but nowhere near a transformational shift of any kind. I'll keep watching unemployment in the Bay Area as a key short-term indicator. I'll also watch how the green tech, health care and energy sectors are doing for more longer-term consideration. I think innovation in these three industries could really make an impact on where our country may be heading. I also personally hope that oil hits and stays above $100 per barrel. Perhaps it will finally move us to figure out how to retain some of that $700 billion we spend each year for imported oil and help a broker in the Bay Area find some office space for the company that cracks that nut.

I, too, am looking forward to the New Year. This year has brought us a number of really great things, but it is the opportunities that I see ahead of us that energize me for January and beyond.

I wish you all Happy Holidays and a Happy New Year.

Best regards,
Vladimir Bosanac

NEWS Desk

SENT to us

CBRE Research: Bay Area LEED Registrations Slow with Economy

The number of Bay Area property owners and tenants seeking certification under the Leadership in Energy and Environmental Design program fell 34 percent, to 38 registrations, in the third quarter compared to the second.

The decline indicates that the number of Bay Area LEED applications will fall in 2010 compared to 2009. It would be the first time since record-keeping began in 2004 that the number of Bay Area LEED registrations had declined year over year, according to research from brokerage CB Richard Ellis.

In 2009, 247 Bay Area projects publicly applied for LEED certification. As of November, 117 had applied so far in 2010, CBRE said. This is likely not a complete accounting, however. About half of all LEED registrations are made confidentially, CBRE said.

South Bay Nanotech Company Grows

San Jose nanotechnology company Shocking Technologies, which has developed a new material that protects electronic products from harmful electrostatic discharge, is expanding its headquarters.

Shocking Technologies moved to South San Jose in 2008 and is working to open its first manufacturing plant. The company has 43 employees and plans to hire approximately 30 more over the next several years.

Shocking Technologies has raised approximately $32 million in venture funding. It also has received an investment of $500,000 from the San Jose Redevelopment Agency for capital equipment purchases. Agency and city staff also helped to facilitate permitting for the project.

Since 2007, the San Jose Redevelopment Agency has invested $10 million to retain and attract the operations of 11 companies: Nanosolar Inc., Solar Junction Inc., SoloPower Inc., Stion Corp., Borgata Recycling, SVTC Technologies, CTS Manufacturing, Brocade Communications Systems Inc., Ultratech, SolFocus and Shocking Technologies.

Bay Area Apartments Continue to Sell

Stellar Management has sold the 138-unit Skyline Terrace apartment village in Burlingame for $52.3 million to Equity Residential, according to Marcus & Millichap Real Estate Investment Services.

The property, which has three buildings, is located at 3133 Fontera Way near the San Francisco airport and the Millbrae BART and Caltrain stations. It was originally constructed in 1967 with two buildings.

Stanford Jones, an executive vice president for Marcus, and Philip Saglimbeni, an associate vice president, represented the seller.

"From an investor's standpoint, this mid-Peninsula location is especially appealing given the inherent supply constraints, high housing costs and proximity to San Francisco and major employment centers," Saglimbeni said in a prepared statement.

Meanwhile, Luther Bank Savings has sold an 11-unit Vallejo apartment property to a private investor for $325,000, all cash. The buyer was Ying Min Lin. The previously bank-owned property is located at 509 W. Lincoln Road. There were four vacancies at the time of sale. Patrick Conkin with Cassidy Turley BT Commercial's Multi-Family Group represented the seller.

At the same time, a 14-unit apartment complex in east San Jose has sold for $1.7 million, or $121,429 a unit. The two-building complex is at 28-30 N. Jackson Ave., near Highway 680 and Alum Rock Avenue. Conkin also represented the seller, Piedmont & Sierra Road Plaza LLC. Justin Bautista and Chris Shaheen, also of Cassidy Turley BT, represented the buyer, Stanley and Sheila Redd.

The complex underwent about $400,000 in renovations before the sale.

Verity Properties Celebrates First Anniversary

Verity Properties, a full-service commercial property management firm in Silicon Valley, is celebrating its first year in business. It is led by Chief Executive Yolanda K. Faile and Bill Pataky, a veteran of the valley's technology scene.

Verity counts Berryessa Industrial Center as one of its clients. Verity recommended and implemented changes to Berryessa's reserve investment portfolio that have increased returns by more than 450 percent.

Verity believes its focus on small and medium-sized property owners and asset managers has strategically differentiated the firm from other third-party property managers.

State Hands Out Money To San Francisco, Emeryville To Study Land Use

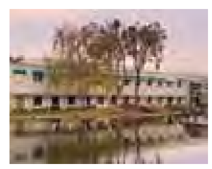
The California Department of Housing and Community Development has awarded $2.7 million in state bond funding to San Francisco and Emeryville to promote and test sustainable development patterns including affordable housing and infrastructure.

The awards are part of a state pilot program designed to test innovative land-use planning and green building strategies and to create incentives to develop sustainable communities as envisioned by the state's Global Warming Solutions Act of 2006. A part of the act is implementing land-use practices that reduce car travel.

San Francisco's Mission Bay and Emeryville's Marketplace developments each received grants valued at $1.35 million. Mission Bay is the UCSF-anchored biotech campus taking form near AT&T ballpark in the city. Marketplace is a mixed-use development expected to have up to a million square feet of offices, housing and retail space. Its first component will be a green, high-density 190-unit five-story apartment building at 64th Street and Christie Avenue.

The Marketplace project is owned and being developed by San Francisco's TMG Partners and Rockwood Capital.

In the Bay Area, the Association of Bay Area Governments helped select the grant recipients and will also work with the housing department to create the reporting matrix and metrics that Mission Bay and the Marketplace developers will use to measure their contributions toward creating sustainable communities, she said.



GE's Arden Realty Invests in Portfolio

Los Angeles-based Arden Realty Inc., a national commercial real estate landlord and GE Capital Real Estate's property-services platform, has launched a $3.6 million investment program to upgrade some of its Northern California office properties, including the Palo Alto Technology Center, formerly known as The Harbor in Palo Alto.

The program is part of a larger Arden strategy for its national portfolio that encompasses property enhancement, rebranding and marketing initiatives. Arden owns 28 properties and approximately 1.9 million square feet in Northern California located throughout the region.

At the Palo Alto Technology Center, 10 existing concrete tilt-up buildings originally developed in the 1970s were given a contemporary identity with the addition of a new entry and exterior stairway features, new metal sunshades and application of earth-tone color schemes.

The portfolio-wide program includes more than 400 property improvement projects, ranging from major exterior façade renovations, new courtyard installations, parking-structure improvements, lobby and common area upgrades and landscaping enhancements.

CalPERS Switches Gears

The California Public Employees' Retirement System has moved its CalEast Global Logistics industrial real estate portfolio to Menlo Park-based private-equity firm GI Partners and RREEF, the real estate asset manager for Deutsche Bank with offices in San Francisco.

The pension fund moved CalEast's assets, valued at $1.9 billion, to GI Partners, while its European industrial assets, valued at approximately $60 million, were moved to RREEF.

CalPERS took the action as part of a larger real estate restructuring effort to shift assets to managers who outperformed peers managing CalPERS investments during the real estate market downturn. CalEast was previously managed by LaSalle Investment Management.

CalPERS has placed more than $700 million in three GI Partners funds. RREEF has managed CalWest Industrial Properties for CalPERS since 1998.

CalPERS, with approximately $216 billion in assets, is the nation's largest public pension fund. It administers retirement benefits for more than 1.6 million active and retired state, public school and local public agency employees and their families.

Ellis Partners Buys More of Hacienda Business Park

Ellis Partners LLC has acquired the Britannia Business Center in the Hacienda Business Park in Pleasanton. The property includes two single-story office buildings and a two-story office technology facility on approximately 20 acres.

The buildings are currently about 20 percent leased and were purchased on an all-cash basis. The 272,000 square foot development is centrally located in the Hacienda Business Park district in Pleasanton, a premier master-planned business park that serves the Tri Valley and is close to BART, two major freeways and abundant affordable housing.

The purchase brings Ellis Partners' holdings in Hacienda Park to approximately 660,000 square feet.

The seller was represented by Michael Leggett and his team at Holliday Fenoglio Fowler, with assistance from Paul Sheehan, Dave Bruzzone and Dan Watson at Cornish & Carey Commercial Newmark Knight Frank.

continued on page 31

PEOPLE on the move

Land Brokerage Breaks Into Bay Area

Steve Reilly is spearheading the opening of a new Bay Area office for the California division of the Land Advisors Organization, a brokerage that deals exclusively with land sales. He will track land transaction activity in Marin, San Francisco, San Mateo, Santa Cruz, Santa Clara, Alameda and Contra Costa counties.

Reilly has more than seven years experience brokering land transactions in the region.

Company clients include public and private home builders, lenders, financial institutions, developers and independent investors. Before opening the Bay Area location, Land Advisors had eight offices in California, covering more than 40 counties.

Engineering Company Adds to Silicon Valley Team

Glumac has hired three new members to its growing Silicon Valley office. **John Reyna** joins as a senior project manager, **Lance Garter** as senior electrical designer and **Prabhjot "PJ" Kaur** (pictured) as an electrical design engineer.

Reyna adds senior engineering and leadership in the mechanical department with a focus on laboratory and clean room design. Garter has more than 20 years experience in higher education, health care and commercial projects. Kaur joins the mission critical/critical facilities group with a background in data center design.

Glumac is a plumbing, mechanical and electrical consulting engineer with offices up and down the West Coast including Silicon Valley and San Francisco.

Miller Starr Regalia Recognizes Shareholders

Kristina Lawson, shareholder at the law firm of Miller Starr Regalia, was selected by Commercial Real Estate Women as a recipient of CREW's national "20 under 40" award. The award is presented to the top 20 emerging women in the field of commercial real estate.

Lawson is a land use and environmental attorney at Miller Starr. She was appointed to the City of Walnut Creek's Planning Commission in 2009, and was elected to the Walnut Creek City Council in 2010.

Matt Henderson, a litigator in the firm's Walnut Creek office, becomes a shareholder in law firm Miller Starr Regalia on Jan. 1.

Henderson joined Miller Starr as a summer associate in 2002. He now represents clients in litigation related to lending, mortgage and a range of title issues. He also has extensive experience with matters involving escrow liability, construction disputes and mechanics' liens, municipal building and redevelopment projects, state and federal regulatory matters and litigation based on boundary and easement disputes.

Stantec Hires Senior Associate

William Marvez has joined Stantec Inc. as a senior associate in the company's architecture practice. Marvez brings an extensive background in commercial and transit design projects throughout the United States and China. He will work from Stantec's San Francisco office. Prior to joining Stantec, Marvez was a senior technical designer for Woods Bagot where he served as the senior project designer and technical lead for the 1,106-foot Tianjin Financial Center Tower, currently the tallest building in northern China.

Blach Bolsters Healthcare Team

Blach Construction Co. has hired **Scott E. Bergstrom** as a project executive leading its health care team. Bergstrom has served in project leadership roles with some of the region's most notable construction firms including Turner Construction Co., Hathaway-Dinwiddie Construction Co. and Rudolph & Sletten Inc. Chief among his construction achievements are the $300 million Valley Medical Center replacement hospital, an $80 million renovation of Lucile Packard Children's Hospital, the $76 million Britannia Oyster Point office park as well as numerous projects for clients such as El Camino Hospital, Johnson & Johnson, Alza Pharmaceuticals, Stanford University, Intel Corp. and Genencor, a biotechnology company.

CCIM Elects New Northern California Board Member

Eric Erickson, a senior vice president at Colliers International in Walnut Creek, has been elected to the board of directors for the Northern California Chapter of the CCIM Institute, a commercial real estate affiliate of the National Association of Realtors.

A certified commercial investment member, or CCIM, is a recognized expert in commercial real estate investment.

Erickson specializes in the leasing and sales of office buildings in Contra Costa and Alameda counties. He is a 12-year veteran of the commercial real estate business and has completed more than 600 real estate transactions totaling $500 million dollars in volume.

continued on page 31

House of Cards

Berkeley economist says it may take a decade for suburban East Bay housing prices to recover.

By **Janis Mara**

Under a perfect blue sky, a ghost block looms. Its once-manicured lawns are choked with weeds. Its ranch-style homes are marred with boarded windows. Trash blows through the yards. No children yell, no dogs bark, and not a single car is parked on the street. The silent scene speaks loudly of the foreclosure epidemic that has turned neighborhoods in outlying Bay Areas such as Stockton, Antioch and Vallejo into today's version of Western ghost towns.

Even as core Bay Area communities such as San Francisco and Palo Alto are climbing toward recovery, the East Bay suburbs continue to struggle. The unemployment rate in San Joaquin County, home of Stockton and Lodi, exceeds 16 percent. The median home price has plunged from $400,000 in the second quarter of 2006 to $150,000 today, according to City-Data.com.

In Contra Costa County, home of Pittsburg, Antioch and Bay Point, nearly 30,000 fewer workers had jobs in October 2010 compared to 2006.

> "Homes are selling for as little as $30,000 in Tracy."
>
> ***Realtor Tom Simpson, Altera Real Estate***

PHOTO COURTESY OF CHAD ZIEMENDORF

Median home prices have dropped from $550,000 to $288,000 in Contra Costa County and from $450,000 to $200,000 in Solano County, where hard-hit Vallejo is.

Recovery could be a long time coming. "After the 1991 recession, it took Los Angeles 10 years to get back to peak home prices," said Cynthia Kroll, senior regional economist at UC Berkeley's Fisher Center for Real Estate and Urban Economics. That could happen here, too, she says.

"Homes are selling for as little as $30,000 in Tracy," said Realtor Tom Simpson of Altera Real Estate. Simpson sells properties in Tracy, Stockton and other San Joaquin County towns. One out of every 499 households in San Joaquin County is in foreclosure, according to ForeclosureRadar.com. One out of every 547 households in Solano County is in foreclosure, and one out of every 753 homes is in foreclosure in Contra Costa County.

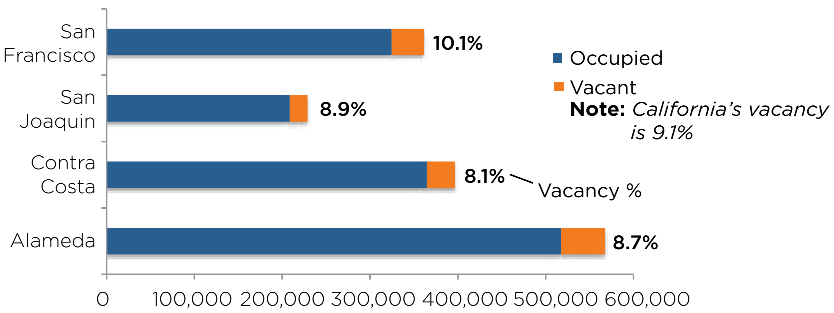
The knock-on effects of vacant homes on an area are devastating, said Makoto Shuttleworth, an attorney with the Price Law Group, a firm that handles foreclosures across the state. If a home has been foreclosed, 90 percent of the time it is owned by a bank, Shuttleworth said. "Inevitably, a foreclosure drives property values down because the sale price for the bank will be so low," Shuttleworth said.

The broader economic implications are equally dire, said Susan Wachter, a professor of real estate and finance at Wharton, the University of Pennsylvania business school. "In many of these areas, construction jobs were a big part of the economy. Those jobs were lost, and so were related jobs—positions at lumber companies and paint stores," she said. "Strip malls usually serve nearby subdivisions. So there go the customers."

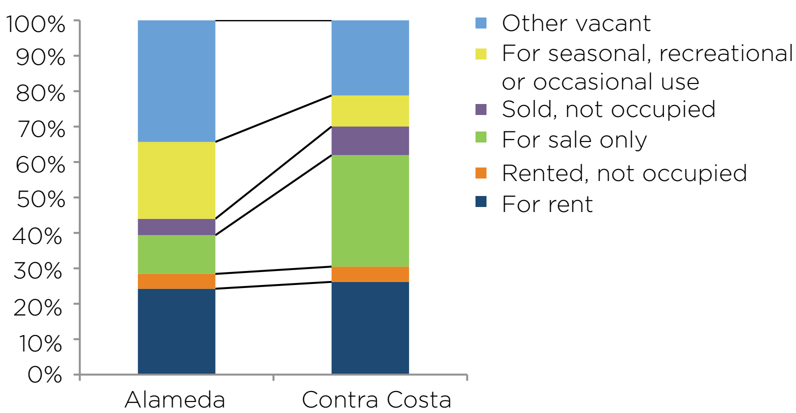
Despite the gloom, the areas are stabilizing. The median home price has hovered close to its current level in San Joaquin County since the last quarter of 2009 and in Solano County since 2009's third quarter. It has actually inched up in Contra Costa over the last six months. In some towns, including Stockton, the vacancy rate is down. "Once prices corrected to a level that attracted homebuyers and investors, inventory started getting snapped up," said Sean O'Toole, chief executive of ForeclosureRadar.com. Still, O'Toole said, the market is weak. When the federal home-buying tax credit expired, sales slowed.

Paradoxically, Kroll and other experts agree that the outlying cities are probably in a better position today than many of their more affluent and closer in suburban counterparts, such as Walnut Creek. "In Vallejo and Stockton, the worst is in. People who bought in Stockton were living paycheck to paycheck. They lost their jobs and couldn't pay the mortgages and were foreclosed," said Shuttleworth. Those in Walnut Creek and other upscale cities have been able to hang on. They had money in retirement accounts or relatives to borrow from. "Now they've run through those resources, which could lead to a wave of high-end foreclosures" still to come, Shuttleworth said.

Residential Vacancy by County



Vacancy Breakdown



Source: U.S. Census Bureau, 2009 American Community Survey

Cities like Detroit are testing novel ways to bootstrap themselves out of the foreclosure rut. In the Motor City, blocks and blocks of decaying, foreclosed houses have been bulldozed, and nonprofit organizations, community groups and other entities have worked together to create hundreds of family, community and school gardens. Formerly empty lots whose vacant homes were removed have bloomed into productive pockets of green, such as the Georgia Street Community Garden created in 2008 by activist Mark Covington and his neighbors. The group has since expanded the garden to five city blocks.

Habitat for Humanity, a national nonprofit that builds houses for the poor, is marshaling its volunteers to restore 45 foreclosed Bay Area properties. "We're working on houses in Pittsburg, Antioch, Bay Point and other Bay Area towns to try to take a nightmare and turn it around," said Janice Jensen, executive director of Habitat for Humanity East Bay.

Jensen's group buys properties with federal money then raises the money to rehab them, accomplishing the task with the help of volunteers including the low-income families who then purchase the homes. Jensen's group is currently at work on nine of the properties it has purchased, one of which is in Bay Point, the town at the end of BART's Pittsburg-Bay Point line. "You are seeing working-class neighborhoods that have been abandoned," Jensen said. "Especially Bay Point—it is a ghost town."

Despite such initiatives, there is only one way for these communities to truly recover: job growth, Berkeley's Kroll said. She predicts some new jobs will come from the green sector, but says the industry is not large enough to pull the train on its own. "Technology will have to be part of it, recovery of the finance and real estate sectors will have to be part of it," she said.

"Basically, Los Angeles didn't recover until jobs recovered," Kroll said. ■

REITs Stand Ready

Real estate investment trusts have emerged as large-scale commercial property buyers.

By **Michael Fitzhugh**

PHOTO COURTESY OF CHAD ZIEMENDORF

Real estate investment trusts, flush with cash from big equity offerings, started 2010 eager to pounce on the raft of distressed property opportunities they anticipated the year would bring. But the fire sale never began. Banks, fragile from the massive losses they sustained when borrowers defaulted, were loath to let go of properties that had plummeted in value. Finally, with banks getting stronger, the expectation for some is that the picture will change.

"We think many REITs are in position to take advantage of distressed real estate if it became available. There is a tremendous amount of loans backing commercial mortgage-backed securities that mature over the next couple years. It's likely that some defaults of these underlying loans will create new acquisition opportunities," said Steven Marks, managing director of Fitch Ratings, in New York.

REITs, poised for just such a buying opportunity, are more ready than ever. As a sector, REITs raised a total $34.5 billion in initial, debt and equity capital offerings during 2009, according to the National Association of Real Estate Investment Trusts. By Sept. 30, 2010, they were well on track to match or exceed that, raising a total of $32.6 billion.

Both public and private REITs have been active in San Francisco and are beginning to show interest in the Peninsula as well, said Sean Fulp, a managing director in the Capital Group of brokerage Newmark Knight Frank

> "Their cost of capital is so much lower than their competition. That's why so many have been so successful."
>
> ***Sean Fulp, managing director, Capital Group, Newmark Knight Frank Cornish & Carey Commercial***

Cornish & Carey Commercial. REITS have been most active in San Francisco's central business district and have been most competitive chasing core and core-plus assets—relatively new buildings in primary markets featuring high-quality construction, good occupancy and credit tenants—where default risks are low. The competition has been driving up prices for everyone.

"If you look at any core asset that has traded over the last 12 months, and you look at the buyers of those assets, a lot of them have been REITs," Fulp said. "Their cost of capital is so much lower than their competition, which is why so many have been so successful."

In May and November, Los Angeles-based REIT Kilroy Realty Corp. acquired 303 Second St. and 100 First Plaza in San Francisco, paying more than $428 million for the two, according to the company. Together, the two properties exceed a million square feet and are the company's first two San Francisco assets. The Kilroy acquisition set "the benchmark as the first large-scale institutional transaction of the year," Colliers International San Francisco said in a mid-year market report.

Kilroy has been aggressive in 2010, spending $667 million on nine office properties up and down the West Coast with approximately two million square feet in aggregate, the company said.

Meanwhile, Hudson Pacific Properties Inc., another Southern California office REIT that went public this summer, acquired 222 Kearny St. in early October, paying $34.9 million, or nearly $242 a square foot. It is the second San Francisco property for the company, which already owned 875 Howard St., a 286,000 square-foot property South of Market near the Moscone Convention Center.

Victor Coleman, Hudson Pacific's chairman and chief executive officer, told a San Francisco gathering late in 2010, "We will be aggressive acquirers in our core markets." Their focus will be on assets that need to be repositioned or recapitalized, he said. "Not a lot of dollars have been put into these assets since 2005 and 2006. They may look good on the outside, but inside, they need a lot of work."

Coleman denied that pricing for core assets had gotten out of control, a fear expressed by some in light of stiff competition and pricing that in some cases is not far from the levels set during the boom. "It is not as frothy as people perceive because the number of deals is so low," he said. "Here in the city, we are seeing tremendous leasing velocity, mostly technology driven, and not expected until late in 2011."

But even with many companies, such as Excel Trust Inc. and Piedmont Office Realty Trust Inc., raising equity in the public markets over the last year in anticipation of a commercial property rebound, the rush of IPOs has slowed significantly. Beginning in March, a number of equity REITs postponed their initial offerings, including Americold Realty Trust, Welsh Property Trust Inc., Callahan Capital Properties and AVIV REIT Inc.

Nonetheless, REITs almost certainly remain the single biggest buyer pool in a transaction market that is still severely depressed from the levels during the boom, said Joel Beam, a portfolio manager at Forward Investments, a San Francisco-based investment advisory firm. They have the means to buy and the property-management infrastructure to add new properties to their portfolio with relative ease, Beam said.

But just because they can buy doesn't mean they will. REITs do not have unlimited resources, so "they tend to want to buy or develop properties of truly enduring value," Beam said. Also, most REITs are wary of overpaying, backing out of deals in which pricing becomes too elevated.

Finding the right deals can be difficult. When Coleman's Hudson Pacific Properties announced acquisition of 222 Kearny, it noted that the opportunity was born of a years-long relationship with the seller, Canyon Capital Realty Advisors—an advantage that piles of money can't buy. ■

Transit Village Moves Slow

East Bay economic development project is coming into its own, 30 years after conception.

By **Sasha Vasilyuk**

Back in the 1970s, it must have been hard to imagine that the area around the Pleasant Hill BART station—where a handful of houses sat on empty fields—would one day boast high-rise office buildings, hotels and a high-end apartment complex. Yet that is exactly what Contra Costa County officials envisioned, decades before "transit-oriented development" was widely conceived as an antidote to urban sprawl and all of the social ills associated with it. Now, after multiple iterations and years of construction, the Contra Costa Transit Village Centre is finally starting to live up to its name, years after it was expected and not entirely as conceived.

To Interstate 680 corridor drivers, the transit village is the grouping of high-rises that sits between Walnut Creek and Pleasant Hill featuring the prominent Vodafone building. Surrounded by Walnut Creek's suburban neighborhoods, the 125-acre master-planned village houses 1.75 million square feet of commercial space, two hotels, a sports club and 2,800 residential units. About 5,000 people live in the area, which is in unincorporated Contra Costa County; 6,000 people work there.

In the last two years, the village has made significant advances. In 2009, AAA Northern California moved its headquarters from San Francisco to a LEED-certified building there because of the site's high visibility and proximity to BART. Last year, attracted by the public transportation, AvalonBay finished a mixed-use complex with 422 residential units and 35,590 square feet of retail. Then in September, the BART station that started it all was renamed from Pleasant Hill to Pleasant Hill/Contra Costa Centre.

Yet all this development comes years later than its creators originally thought. When first conceived, the transit village was supposed to be a model community where driving is almost unnecessary because home, work, retail and public transit were all within reach. The $90 million investment in roads, drainage, utilities and the BART parking facility spurred the apartment complexes and office buildings to slowly rise up. But retail has lagged far behind.

A retail component was part of the original plan, according to the Contra Costa County Redevelopment Agency deputy director, James Kennedy, but numerous proposals—including a multiplex theater—were shot down over the years. Concerned neighbors didn't want more traffic on their suburban streets, and neighboring city governments didn't want a competitor that would drive away their shoppers, Kennedy said.

"When the original plans were formulated, there was an incredibly bullish outlook on the ability of this program to be implemented very quickly and to be somewhat immune from the vagaries of the economic cycles," said Kennedy. "It only took the first recession to dispel that. We've now gone through a couple of cycles since then and typically performed better but weren't immunized."

Indeed, the office vacancy rate reflects the larger economic troubles. In the third quarter of 2010, office vacancy in the area was 25 percent, lower than in both 2008 and 2009, but significantly higher than in previous years, according to Cornish & Carey Commercial. Bank of the West's recent consolidation and move out of the transit village is to blame for the current high vacancy rate, Kennedy said. The surrounding Tri-Valley area has

an office vacancy rate of 17 percent, according to CB Richard Ellis.

But besides vacancy rates, the original developers seem to have miscalculated the very nature of how the village would be used. While there are plenty of residents and workers here, the percentage of people who both live and work here is very small. After all, in a suburban environment and a constantly changing job market what employee would move to live directly next to his or her company's office?

In fact, when AAA moved its headquarters here from San Francisco, the executive director of the Contra Costa Centre Association, Lynette Tanner-Busby, anticipated some concern about the suburban environment on behalf of employees, so she prepared an informational packet about the village. "People do get nervous when they come here, but you get a lot of benefits," said Tanner-Busby, whose primary job for the last 20 years has been to create helpful amenities and get people out of their cars.

Her biggest achievement has been the transit management program that subsidizes BART tickets, provides carpool service, operates a shuttle and lets workers reserve bikes, Segways and smart cars to ride around the area. "Zipcar didn't want to come out here, so we started our own program," said Tanner-Busby. "We couldn't handle all the cars because there isn't enough parking. And it was important that the 30 percent of workers who take public transit didn't feel like they were stranded once they got here."

The second perk offered by the transit village is that parents who work here and earn less than $72,000 a year receive a stipend toward child care.

Then there is the Renaissance Club Sport, a hotel and fitness club with a spa and two pools that buzzes with activity. Patrick O'Brien, chief financial officer of Pleasanton-based parent company Leisure Sports Inc., said the company chose the transit village because of its "solid base of office square footage and significant residential population."

Lastly, the locals can enjoy the Iron Horse trail, a popular regional trail that cuts through the community and across the newly built overpass bridge. "It's not like working in the city. I like the outdoorsy nature of this place and the weather," said Jeffrey Fuchs, who works in the transit village and rents bikes to ride the trail.

Despite the amenities, the streets of the community remain glaringly pedestrian-free. "There are a few other places to eat, but you have to cross the highway to get there," said Crystal Vermeulen, who works in the Vodafone building and tries to bring her own lunch to work. "I'd love it if there were a Peet's here." While she is currently on an apartment hunt, Vermeulen is not considering the transit village, partly because of the absence of retail.

The mixed-use development by AvalonBay is intended to fix that by adding a significant retail component that would become the heart of the village. But while 72 percent of the new complex's 422 apartments have been rented, commercial tenants in the street-level stores are yet to come onboard.

"2009 was really a lost year in terms of retail leasing, but we have pretty good momentum now," said Jeff White, senior development director of AvalonBay, who recently changed brokers to speed up the leasing process. "It's an under-served market. I think we'll fill a void. The community is very supportive of that." They are close to a lease with a coffee purveyor and several other restaurants, which are the main uses they're initially seeking, he said.

But critics like Brian Mirkovich, a vice president at brokerage CB Richard Ellis who specializes in retail and is based in nearby Walnut Creek, say 36,000 square feet of retail will be hard to fill and sustain. The parking isn't placed to suit many retailers' preferences, he said. "I wouldn't have advised building so much retail. It really works in a downtown urban setting because there are going to be other draws to that area, and you'll get a lot of walk-ins, but not in the market this is located in."

Others hope that if the retail succeeds, it will be seminal in making the village what it always wanted to be, a self-sustained development that boasts not only proximity to BART, but also a life of its own. "I think the transit village has a much greater potential, but it does need the larger economy to improve to realize it," said Kennedy. ■

"When the original plans were formulated, there was an incredibly bullish outlook on the ability of this program to be implemented very quickly and to be somewhat immune from the vagaries of the economic cycles."

James Kennedy,
Contra Costa County
Redevelopment Agency deputy director

Vive la Différence

During the boom, commercial investors ignored property distinctions. No more.

By **Peter Ingersoll**

One nuance that investors forgot in the price bubble of 2004 to 2008 (really a debt bubble) was that commercial real estate is not homogenous across place or product; neither is debt-financing. During that heady time, Joe Six-Pack could get a property loan at nearly the same rate and terms as a public real estate investment trust, which in part explains the similar cap rate compression across all product types and geographies.

Investors widely believed (or behaved as though they believed) that commercial property risk is much more uniform than it really is. We can see the market distinctions in two industry indexes: the Moody's Investors Service Real Commercial Property Price Index and the Commercial Property Price Index prepared by Green Street Advisors. Green Street, a Newport Beach commercial property research firm, tracks a basket of real estate investment trusts that generally have targeted larger trophy properties in dense metro areas. Moody's tracks the market as a whole. Green Street shows strong recovery; Moody's does not.

Just as the residential markets are being artificially propped up by Fannie, Freddie and the FHA, so too is the commercial market, and current levels are not indicative of true pricing.

It should not be a surprise that the institutional and international equity reflected in the REIT numbers will pay more for an irreplaceable asset in a core metro when the market turns down: It can be bought at a very good rate on a price-per-square-foot basis, and they also are buying quality and staying power. Often they pay all cash, too, so they are getting a 5 percent to 6 percent actual return, considered a superior yield to those available in the debt markets. Plus when buying for cash, they have no interest-rate risk. Not a bad long-term play if one has that kind of patient capital.

Sam Chandan of property research company Real Capital Analytics, which provides much of the data for the Moody's index, maintains that the commercial market is bifurcating in several respects. Core central business districts in major metro areas will command premiums. Patient institutional capital that does not need financing will be in a position to offer the best prices. But these deals are not the realm of your ordinary investor. The core of the market—transactions valued from $3 million to perhaps $18 million—is the sweet spot of the small and medium-sized private player. These investors do not have access to debt on the same terms or conditions as their larger cousins, and their ability to raise additional equity if needed (a foregone conclusion in this market) is limited. There will be a lot more pain, particularly in the middle of the core market, until the banks clear the deadwood off their books—those legacy, life-support loans.

It is a cleansing they are loathe to undertake. So, just as the residential markets are being artificially propped up by Fannie, Freddie and the FHA, so too is the commercial market, and current levels are not indicative of true pricing. Rather, because there is such a limited supply of deals relative to equity capital, premiums are being paid. Banks have no regulatory or accounting urgency to mark their loans to market and, like Japan, are carrying this trash on their books near par.

This equation can change quickly if banks are forced to recognize the true losses embedded in their books, which will lead to severe pressure to reduce their assets and raise Tier 1 capital. When banks get serious about selling their loans and foreclosing and selling hard assets, the supply of wounded commercial real estate coming to the market will likely outpace demand. I believe that the U.S. will be lucky to maintain the current market pricing through 2018 as reflected in the Moody's index. That's when the last 10-year loans made in 2008 through the commercial mortgage-backed securities will mature.

Over time—between now and 2013—the weakness of the banking sector will become apparent. Whether it unravels so fast that it brings price levels down further, or whether the Fed and the FDIC can manage an "orderly disposition" remains to be seen. For people investing today, it seems unwise to announce: "We are at the bottom!" as some seem to be doing. We may be bouncing along the bottom, it is true, but that doesn't mean that fundamentals will pick up across the board; nor does it shed light on how fast fundamentals might come back.

Our economic recovery is stalled for many reasons. One of them is that the over-leveraged, commercial property deals made at the top of the market don't permit landlords to reduce rents to attract tenants without heading immediately into default. Owners struggle on, looking for the next tenant at elevated rents, but as they do, the market cannot re-price.

But reality is going to bite. Eroding fundamentals will further undermine those positions and push defaults higher. There are markets where economic activity is increasing, but this generalization is risky, as anyone investing in the Bay Area knows. Conditions in Oakland are not those in San Francisco or Palo Alto. At this point, most property owners are in a race to see if they can increase their net operating incomes faster than interest rates rise. If they are lucky enough to have interest rates stay low through 2013, then many distressed deals may trade at prices higher than pessimists believe. If growth in NOI can keep up with the devaluation due to rising interest rates, then the danger of default diminishes.

For a buyer, a reasonable decision about rents in a particular property can only be made with a deep understanding of the surrounding market in the context of the enormous stress on capital, the unparalleled actions by the Fed and the global trade and currency imbalances.

My own feeling is that the Fed has pushed so much money into the system that low cost money will continue to offset eroding NOI, so pricing will stay relatively stable in the range of 55 percent to 65 percent of 2007 highs. This stable pricing will allow banks to sell selective assets and avoid massive losses while enjoying the interest-rate arbitrage that is helping to rebuild their capital. That said, still more loans will need to be written down and cleared.

If we do experience an "orderly disposition" then perhaps growth in NOI will offset the reduction in value from rising interest rates. If not, get ready for a rumble. ■

Peter Ingersoll can be reached at peter@safeharbourequity.com.

Second Verse, Same as the First

Except for markets like Palo Alto and Los Altos, sales volumes are way down and values unstable.

By **Dominic Nicoli**

It seems a day doesn't go by when I am not asked about the housing market and my predictions for what will happen on the Peninsula and in the Bay Area.

Like it or not, I believe our 2010 real estate market—warts and all—will likely be representative of what we can expect for the next few years as our economy continues to recover. The combination of extreme economic growth with very lax lending guidelines in the late 1990s through mid-2000s helped to nourish unprecedented price appreciation. Today, the real estate market is still trying to touch true bottom.

The statistics offer a mixed but generally sobering view. After a year of median sales-price gains, median home values across the nine-county Bay Area fell at the end of the year. Sales volumes took a major tumble with less than half as many homes sold in October in the nine-county Bay Area as sold in October 2003, when sales volume peaked at 13,392.

As the year ended, the Bay Area's overall median sale price of $383,000 stood at an eye-ball watering 42.4 percent below the $665,000 peak reached in mid-2007. The post-housing-boom value low was $290,000, struck in March 2009.

The median's peak-to-trough plunge was caused by both a decline in home values and a huge shift in sales toward lower-cost homes, especially inland foreclosures. For October, seven Bay Area counties logged year-over-year declines in their overall median sale prices, up from two counties to log such declines in September.

Still, some areas are experiencing growth in the midst of the decline. In Los Altos and Palo Alto, for example, where I do quite a bit of business, we had an almost 30 percent gain in the number of sales in 2010 as compared to 2009. I attribute this to the fact that although the national economic climate is bleak, many residents in these markets remain optimistic about their jobs, the economy and the overall real estate market. As for the larger Bay Area housing market, much of the recent decline is to be expected with the end of the homebuyer tax credit and looming worries about unemployment.

I expect 2011 is going to bear a striking resemblance to 2010 for Bay Area housing. Interest rates should stay at or around historic lows, and prices will remain flat until either (1) the lending restraints are eased, or (2) there is another major wave of capital infusion from a burst of initial public offerings or strong job growth. Unfortunately, nothing I see points to either of those scenarios materializing in the near term.

Probably the most concerning trend right now is the increasing number of defaults and short sales in markets with home values above $2 million. Many upper-end property owners are opting to "strategically default," risking what in the past was seen as the ultimate taboo. The deeper, more-troubling trend underlying this attitude is upper-end homeowners' expectations that pricing will remain flat or decline over the next several years.

Based on other current trends, we should continue to see an increasing number of short sales and defaults in the upper-end markets. This pattern of behavior usually depresses values more because sellers become more aggressive on their pricing once they realize that they are not going to receive any equity from the property sale.

Another interesting trend is the number of people who want to downsize out of the upper-end markets. I jokingly say that downsizing is the new upsizing. I suspect that part of the reason for increasing sales in a number of markets has to do with homeowners downsizing out of the more expensive regions of the Bay Area.

For the median-priced markets, look for price stabilization and possibly even some moderate price increases as those markets continue to recover. Expect to see the number of foreclosure sales increase in 2011 as more of the "shadow inventory" (homes in foreclosure or homes that have been foreclosed but not yet sold) is posted for sale.

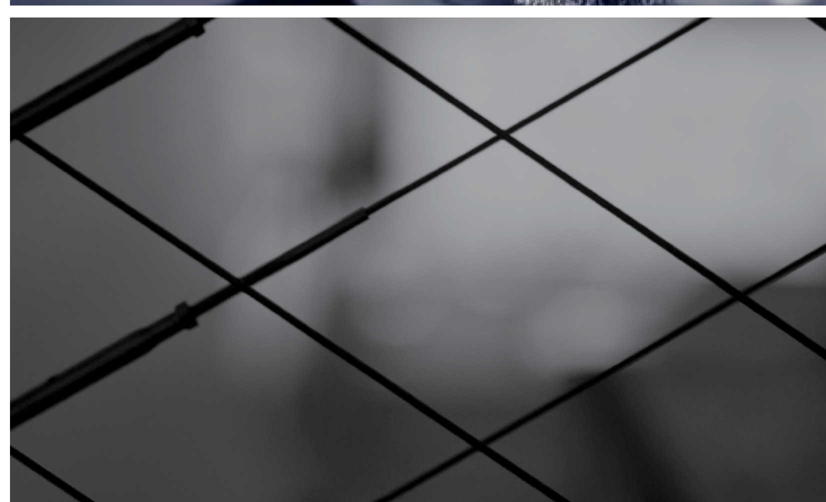
Historically real estate markets have remained flat for a collection of years after recessionary periods. That likely will be the case here as well. It's also important to keep in mind that as bad as things appear to be, compared to most parts of the country, the Bay Area real estate market continues to be one of the most resilient. Expect that to continue, as we truly are blessed to live in one of the greatest places on earth. ■

Dominic Nicoli can be reached at 650.947.4787 or Dominic@DominicNicoli.com.

I expect 2011 is going to bear a striking resemblance to 2010 for Bay Area housing.

I am not pessimistic about anything.

–Danna Kozerski

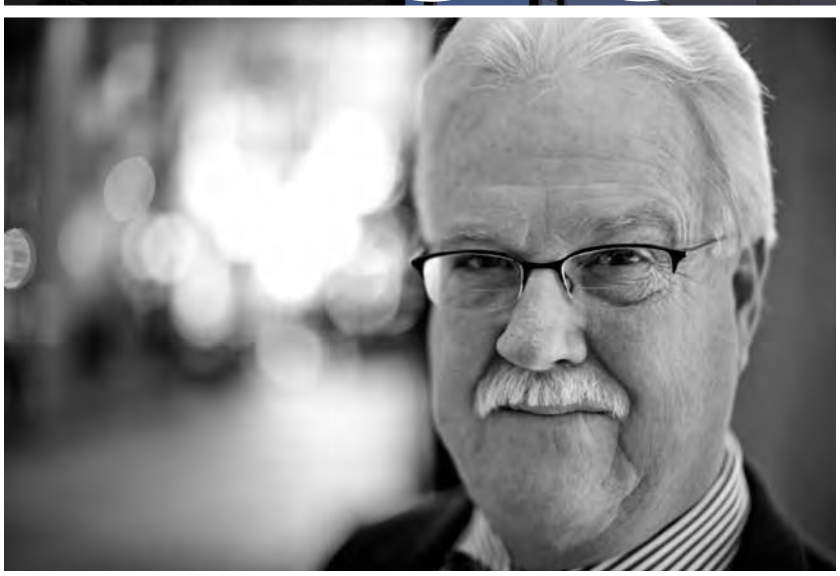


PROJECTIONS PROJECTIONS PROJECTIONS

The January issue of The Registry, as has become our tradition, is an executive overview of market predictions. For this issue, a number of top Bay Area real estate leaders gave us their outlook for the year and provide a window to what we in the industry should expect in the coming year. The feedback they provide is an invaluable perspective on the industry, one that is informative and helps us and others in the market be better in our daily work.

PHOTOS COURTESY OF **CHAD ZIEMENDORF**

2011 OUTLOOK



2011 wil be a year of transition.

–Carl Shannon

Carl Shannon

managing director
Tishman Speyer

Carl Shannon oversees Tishman Speyer's portfolio in San Francisco, Silicon Valley, the East Bay and on the Peninsula. In the last real estate cycle, he oversaw development of The Infinity, a 650-unit condominium complex on the San Francisco waterfront, and 555 Mission, a 550,000 square-foot office building in the emerging South of Market district in San Francisco not far from the new Transbay Transit Center.

What makes you optimistic about 2011? Pessimistic?
We are cautiously optimistic on both the residential and office fronts. We see signs in the office market of tenants willing to commit long-term. As recently as a year ago they were deferring decisions. You also have a tech sector that is growing rapidly. The clearest indication is the Salesforce deal in Mission Bay, but also other tech tenants like Zynga and Twitter are growing rapidly in San Francisco and better Silicon Valley locations. We see job growth accelerating. We have seen the pendulum reverse direction on the office side. Concessions are smaller; there is less free rent and fewer tenant improvements. It is still a tenants' market, but it is a better market for landlords. On the multifamily side there is virtually no new product, so when you do have job growth, we believe San Francisco will benefit quite dramatically. There are still problems in the economy and significant problems with state and local government. 2011 will be a year of transition.

How are you preparing for 2011?
We control the site at 201 Folsom St. immediately west of where we built The Infinity. It is fully entitled for up to 725 units in two towers. It would take us several months to break ground, but we are actively discussing getting that project ready. On the office side, development is further away, but we believe there will be modest rental increases in 2011, and we are more bullish about 2012 and 2013. It won't necessarily mean building, but it is positive in terms of buying in San Francisco and better Bay Area locations. We are finishing entitlements at 222 Second St. in San Francisco for a 430,000 square-foot office building, and we are actively looking for office buildings to acquire in San Francisco, the better Silicon Valley and Peninsula locations, and even the East Bay.

You oversee Tishman's portfolio across the Bay Area. How do you view each market?
The greatest points of strength are downtown San Francisco, Menlo Park, Palo Alto, Mountain View and Sunnyvale. Jones Lang LaSalle is going to sell 100 Hamilton [Ave.] in Palo Alto for close to $900 a foot. That is not recession-era pricing. We see that beginning to spread. We see good activity on the Peninsula. We bought back debt on several buildings in Dublin at favorable prices and are seeing good leasing there.

Real Capital Analytics produced a report discussing the convergence of yields on prime offices in New York, Washington, D.C., Paris and London. What are the implications for the Bay Area?
We believe a handful of cities will really benefit in the world going forward and being a landlord in as many of those cities as possible will be strategic. We have been committed for a long time to the major U.S. metropolitan markets and key international cities. We believe being a global landlord will be increasingly important. San Francisco is one of a handful of U.S. cities that will be global. When you talk to 22-year-olds about where they want to live, they want to live in San Francisco. Attracting that talent pool is important to the entire Bay Area. You see giant buses every morning in San Francisco that take kids to Oracle, Apple, Google and Genetech campuses in Silicon Valley. The Bay Area is one interlinked technology economy.

What economic indicators will you follow in 2011?
Obviously we watch real estate statistics very carefully and broad indicators like the stock and bond markets. We track job growth closely. I think employment statistics are lagging what we feel on the ground.

How significant are the outcomes from the Nov. 2 election to your business?
I think net-net it shows some optimism in terms of where we are going. In San Francisco, it leaves an obvious question of who will be mayor and that will influence what goes on at the municipal level, which could be quite significant and in some ways more significant locally than national outcomes . ■

Tim Cornwell

director
The Concord Group

The Concord Group advises all sectors of the land-use industry on real estate and economic development. Core services are market analysis, land-use programming and asset and portfolio valuation. Their work includes urban multi-use projects, high-rises, condos, offices, affordable housing, hospitality, master-planned communities, commercial development, military-base reuse, senior communities and resort development. The firm is headquartered in Newport Beach with offices in San Francisco and Boston. Tim Cornwell is a San Francisco director.

What makes you optimistic about 2011? Pessimistic?
We believe the fence-sitting that characterized 2010 will contrast with real action in 2011. All of our client types—private equity, opportunity funds, local developers, apartment REITS and public agencies—have drastically increased activity, realizing deals are possible, planning is necessary and the economy is on the rebound. For the first time in several years, we see local groups aggressively seeking acquisitions and building pipeline for a new period of expansion. We are busier today than any day over the last two years.

For the Concord Group itself, 2009 was tough; 2010 was characterized by periods of intense activity with lulls between. As we look towards 2011, we see a market with tight due-diligence timeframes and clients with lean and efficient staffs and a strong need for external consulting support. New owners—opportunity funds who purchased bulk portfolios, banks who foreclosed on development deals, etc.—also are looking for help. Challenges remain. Jobs are still scarce, and California unemployment remains high.

How are you preparing for 2011? What is the company doing differently personnel-wise, strategically and tactically?
The name of the game is flexibility. Over the last 18 months, our staffing needs have varied

PHOTOS COURTESY OF CHAD ZIEMENDORF

widely, from our core consulting group of 20 or so, to periods when we double or even triple our capacity. The key has been our ability to contract with consultants when large jobs come in, tapping company alumni, partner firms, prior clients and an organic bench we've built and trained for this reason. Based on our work with opportunity funds and private-equity players, we often have to scramble a group of up to 40 people to tackle detailed analyses of 100 or more assets in two to three weeks. We feel we've finally reached the equilibrium between full-time and flexible staff.

Brown-field and redevelopment opportunities will dominate the market as master-planned communities.

– Tim Cornwell

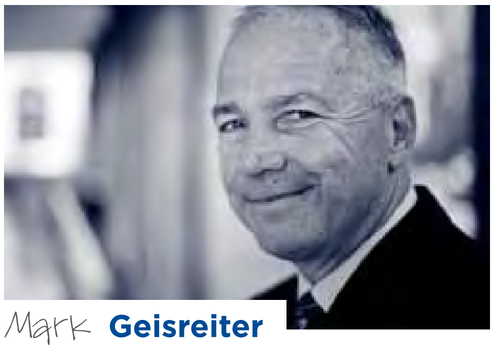
What trends do you see that you believe have significant implications for all types of real estate in the Bay Area?
Brown-field and redevelopment opportunities will dominate the market as master-planned communities. San Francisco redevelopments from Treasure Island to Hunter's Point Shipyard and Candlestick Point, San Mateo's Bay Meadows, Alameda's Alameda Point and others like them will shape Bay Area housing markets for generations. These communities are poised to deliver tens of thousands of housing units over the next decade.

In-town locations and first-ring suburbs will deliver increased value premiums. Generation Y, the next wave of home buyers, wants suburban-style product (single-family homes and town homes) in interesting, active locations with access to upscale retail, culture, transit and high-end employment. Values have cratered across the exurban Bay Area markets such as Tracy, Lathrop, Fairfield, Vallejo, Antioch and Oakley and are unlikely to recover for some time. That will temper future expansion in second-tier markets by developers and builders. Longer-term, households that would have stretched to buy homes in 2005-2007 can no longer afford home ownership and have witnessed the post-2008 cautionary tale.

At the same time, apartment REITs are extremely aggressive in the best Bay Area submarkets. Very few new apartments were delivered after 2000, and rents never dropped more than 10 percent. Desirable product types now pencil better than for-sale opportunities in many locations.

For office and industrial property, as demonstrated by Salesforce.com's bet on Mission Bay, key tenants have many options and are focused on campus-style space with future flexibility.

What economic indicators will you follow in 2011?
Consumer confidence, unemployment and first-time jobless claims; industry-level employment to identify opportunities and the next 'Bay Area boom business;' major tenant movements; housing inventories including foreclosure volumes in the East Bay and South Bay; and Silicon Valley office and research and development space. ■



Mark **Geisreiter**

executive vice president
regional managing director
Grubb & Ellis Company

Grubb & Ellis has six owned brokerage offices in San Francisco, San Mateo, Walnut Creek, San Jose, Sacramento and Roseville. The firm has approximately 200 brokers specializing in office, retail, industrial, land and multi-family sectors. Its business lines include property management, facilities management, project management, debt advisory, corporate services and capital markets. Mark Geisreiter, Grubb's Bay Area regional managing director, has worked in the commercial real estate industry for nearly 27 years. Before coming to Grubb in 2008, he spent 12 years with Equity Office Properties Trust as a senior vice president and two years as a project principal of Panattoni Development Co.

What makes you optimistic about 2011? Pessimistic?
I feel optimistic that the market has hit bottom; vacancy rates are decreasing, and rents are stabilizing. Bay Area companies are becoming more confident in their businesses and are making long-term decisions. The capital markets are starting to stabilize and financing is becoming easier. Technology companies, which are essential to the growth of our economy, continue to hire and expand, which will likely lead to expansion in other industries.

In the investment sector, transaction volume will rise approximately 30 percent in the Bay Area in 2011.

– Mark Geisreiter

What threatens my optimism is regional unemployment near 10 percent. That must decline before the real estate market sustains any broad recovery. Our state and most cities are in financial distress, which will put pressure on taxes and services, and in the end, have a negative impact on our business climate. Going forward, getting a development project approved in the Bay Area continues to be extraordinarily difficult.

How are you preparing for 2011? What are you doing differently personnel-wise, strategically and tactically?
Grubb made a strategic decision to grow during the recession. We wanted the right people in the right seats when the economy recovers. In the Bay Area, we've added nearly 40 services professionals and expanded the size of our Walnut Creek and San Mateo offices. Seven new professionals joined our Retail Group. We have also grown our property management portfolio and established teams in project management and debt advisory. We expect to continue this growth strategy in 2011.

What client demands are you hearing most now and do you expect to hear most in the new year?

Today, clients realize that we've made it through the worst of the recession, and the conversations are more often about profitability, efficiency, growth and opportunity. Owners have moved from survival to strategy. They are no longer willing to provide virtually every concession a tenant requests. Landlords are considering raising rental rates. Tenants have moved from pursuit of the shortest, least-expensive lease term possible and are now willing to commit to longer lease terms and are focused on work-place optimization and cost savings.

The last two years have been tough ones for commercial real estate in general including the brokerage and service industries. How has the business changed?

Clients want a high level of service and to know their commercial real estate firm holds in-depth knowledge about their particular requirement. Larger clients want the efficiencies and resources of a large, one-stop shop. This is driving the industry towards large full-service firms and small local boutiques. Mid-sized firms are feeling pressure, which is likely why the Bay Area witnessed two mergers by local commercial real estate firms in 2010. I believe these changes are permanent and will continue.

What are your expectations for real estate markets in 2011?

I expect that the economic recovery will be slow and steady, and it will occur in all product types and markets in 2011. Office rents have moved up in many markets and industrial will follow shortly. The retail market will take longer to recover. The pace of the recovery will feel very different depending on the submarket and product type. Office rents in sought-after properties within hot submarkets like SoMa and downtown Palo Alto have grown 25 percent, while other submarkets, such as Belmont, San Carlos and Downtown San Jose, have vacancy rates above 25 percent.

In the investment sector, transaction volume will rise approximately 30 percent in the Bay Area in 2011. Investors will focus on urban infill, well-leased core assets. They will be wary of obsolete and fringe assets, such as older properties or those in struggling suburban markets. The gap between the price expectations of buyers and sellers will continue to close as buyers realize that they should not expect giant discounts on everything that comes to market. Lenders will slowly off-load assets as the "extend-and-pretend" game runs its course.

What economic indicators will you follow in 2011?

We track on a daily basis real estate supply, tenant demand, absorption, rental rates and new construction. We watch everything connected to job growth. We track business and consumer confidence, venture capital investment. We also follow foreclosure rates, financing rates, consumer spending, tourism and import-export data. ■

Kevin **Antonelli**

vp & general manager
Turner Construction

Kevin Antonelli is responsible for the sales, operations and profit and loss of the San Jose office of Turner Construction Co. He has worked for Turner for two decades. Turner has two Bay Area offices and a Sacramento office with 335 full-time staff. Turner was selected for several high-profile Bay Area requirements in 2010, including the construction management assignment for the $4.2 billion TransBay Transit Center in San Francisco and as general contractor by Cisco Systems Inc. and Intel Corp. Turner will do work both on a continual and an as-needed basis.

What makes you optimistic about 2011? Pessimistic?

I believe we have bottomed out of our current slump, and companies are starting to loosen up their wallets. It is a good time to spend money on improvements to existing facilities and to consolidate operations. If we have another hiccup in the commercial market caused by defaulting loans, it will stop whatever momentum we might be seeing.

How are you preparing for 2011? What are you doing differently personnel-wise, strategically and tactically?

We are continuing to look for "A" players in the industry who may be feeling that their current situation is dubious. We want the best and the brightest and are looking for people who want to be client advocates. Strategically, we are looking to grow the base of customers for whom we work on a continuing contract basis. Tactically, we are focused on performance, making sure we exceed our clients' expectations. We cannot afford to make a mistake because the competition is so fierce.

How will you solidify and expand your business in the South Bay over the next year?

We have positioned ourselves to provide construction services to some of the largest companies in the Bay Area: Cisco, Intel, Hewlett-Packard Co., Lockheed Martin Corp. This allows us to have continual and sustaining work on their campuses.

> Tactically, we are focused on performance, making sure we exceed our clients' expectations. We cannot afford to make a mistake because the competition is so fierce.
>
> -Kevin Antonelli

What client requirements and demands are you hearing most now and do you expect to hear most in the new year?

Clients are demanding to see prices come down, which is to be expected in a slow economy, but it is not sustainable. If prices drop too much, many of the subcontractors will go out of business, and this will inevitably drive prices back up. Also, the price for labor has not been reduced, so the only places to cut costs are in the overhead and profit.

How much of your South Bay work has been for the public sector and the private sector in the last two years? Do you expect that ratio to change in the coming year?

We run about 60 percent private work and 40 percent public work. This is a very consistent ratio for us year in and year out in the South Bay. Forty-percent of the private-sector work

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is typically handled by our Special Projects Division, which oversees jobs valued at $10 million or less. The division completes more than 100 projects a year. These bread-and-butter jobs, rather than very high-profile trophy projects, make up the bulk of work in Silicon Valley most years. At the same time, much of this work is for notable Fortune 500 companies.

The most-recent Turner Building Cost Index showed that commercial building costs nationally remain more than 13 percent below the levels of two years ago. Are those same patterns true in the Silicon Valley and Bay Area marketplace?

Absolutely. We are probably down even more than that, maybe 20 percent.

Do you expect those costs to remain low?

Costs are being driven down by lower profits. Some subcontractors are taking projects at cost only to keep their people working; if they lay off too many of their best people now, they will lose on the other side when conditions improve with the loss of productivity. Looking ahead, I believe that there are some very large projects still in the queue that have not started, and these will have an impact on local construction costs. We know of seven large hospital projects that are about to emerge from review by the Office of Statewide Health Planning and Development. These are mega-projects that will absorb a lot of workers.

What economic indicators will you follow in 2011?

The new governor and the technology and biotechnology sectors.

How significant are the outcomes from the Nov. 2 election to your business?

Time will tell. ■

Richard **Pollack**

ceo & managing principal, POLLACK Architecture

Richard Pollack founded POLLACK architecture, an interior design and architecture firm, in San Francisco in August 1985. Today POLLACK has five principals and 40 employees in San Francisco, Los Angeles and Delhi. Clients include San Jose's Adobe Inc., San Francisco's Salesforce Inc., Charles Schwab & Co. also of San Francisco, Apple Inc. of Cupertino and global apparel company VF Corp., whose brands including The North Face, REEF, Jansport and others.

There needs to be a stronger understanding among the real estate client community of the leverage that can be achieved for the organizations' bottom-line profits by using architecture and design to fully support the business objectives.

-Richard Pollack

What makes you optimistic about 2011? Pessimistic?

We at POLLACK are optimistic owing to our solid backlog. We've hired eight people this year with the expectation of more. A number of our long-term clients are growing with major projects. In general, I still have pessimism about the industry locally and nationwide. There remains obvious caution in the client community. If they have a discretionary position, they are not doing anything. In San Francisco, there is still a bunch of available second-generation space, which gives tenants the opportunity to keep out-of-pocket costs low by trying to reuse as much of the existing improvements as possible. On the employment side there are still a lot of people out of work, which is amply demonstrated by the hundreds of responses we get to our ads on Craig's List. I don't see the employment levels declining, and there will be some upward movement, but not as fast as people hope.

One of POLLACK's clients is Salesforce, which recently announced that it would be building a two million square-foot campus in Mission Bay. Will you be involved in that project?

We have a very strong relationship with Salesforce, and we don't share any information about them.

What short-term and long-term trends are you seeing that you believe have significant implications for the businesses of architecture and interior design?

After the dot-com dot-gone, architects and interior designers, particularly younger practitioners, were unable to get jobs for an extended period of time, so they left the profession. Some went to other design disciplines with some educational overlap, e.g. film animation; others to completely different jobs and/or cities. The latter was owing to the dot-gone not hitting all parts of the country. We lost a generation of practitioners. We'll have a similar effect from this recession, with the added negative that professionals couldn't relocate to other cities as the economic impact was somewhat comparable throughout the country. Full employment for architects and interior designers won't occur before 2014, which means another lost generation. When the economy truly ramps up again, there will be a lack of talented staff. That will drive up compensation and fees owing to competition for staff.

Architects have long been perceived by corporate America as a necessary evil owing to the reputation of lack of adherence to budgets and schedules. We all know that real estate is the second-largest corporate expense after payroll. In response, there has been a significant move in the professional interiors world toward recognizing that our job is to help clients make their workplace work better to increase revenue and profit. If an architect and interior designer are designing an office workplace, it's straightforward to take the easy path of listening to the client's count of 10 private offices and 13 work stations and create a space plan and associated design. That's not the true role for us. It takes experience and brain power to determine what workplace solutions the business needs to be successful in addressing goals and objectives.

What economic indicators will you follow in 2011?

GDP and unemployment percentages.

How significant are the outcomes from the Nov. 2 election to your business?

The impact is on quality of life in California and the nation. I wish the general public better understood the issues and voted for the longer good rather than short-term items. ■

Keith Brown

principal
CMA

Conversion Management Associates Inc. provides real estate advisory and design, development and construction management services. The company specializes in owner's representation, strategic planning, feasibility analysis and entitlements. CMA has been in business for 20 years and does business primarily in the Bay Area. Its work has fallen principally into the institutional and business sectors. Its clients include the UC Hastings College of the Law, University of San Francisco, the Oakland Diocese, the American Buddhist Cultural Society, Pacific Gas & Electric Inc., Lucasfilm Ltd., IKEA, Barclays Global Investors and Rockefeller Group Development Corp. A typical project will be led by one principal, but will likely include the involvement of other principals to bring their expertise. Staff varies depending on project assignments but ranges from 10 people to 25.

What makes you optimistic about 2011? Pessimistic?

For the first time in the past two or three years, we are beginning to see both investment capital and lending become available for real estate ventures. We are also witnessing significant improvement in leasing, particularly in the high-tech and biotech areas, but also, importantly, in the professions that support these driving forces. We are less optimistic about some of the continued local political movements that have not been supportive of business and job growth. To really get out of the bottom of this cycle, we have to encourage business growth and hiring at all levels.

How are you preparing for 2011? What is the company doing differently strategically and tactically?

We have been fortunate to be 100 percent referral-based for 18 years, but over the past year we have put more effort into business development. It's been a highly beneficial experience in sharpening our differentiation and focusing on our core strengths. We will emerge from this recession a better firm.

> Donations to non-profits are down, but not dead; the great American spirit of philanthropy is alive, even if it is hard to define it as thriving at this moment.
>
> —Keith Brown

In the past, CMA has specialized in doing work on behalf of non-profits, including the Catholic Church and higher education. How has work for these sectors fared during the recession?

Everyone has taken a hit from the economy. Donations to non-profits are down, but not dead; the great American spirit of philanthropy is alive, even if it is hard to define it as thriving at this moment. Non-profits need to be focused on their capital programs to ensure they are carefully defining goals and prudently buying design and construction services. Public higher education is taking a major hit in state funding. Private higher education is looking cautiously at endowments and spending judiciously.

You describe your company's organization as fluid and job-based; principals sometimes work on clients' premises for years at a time. Experts are hired to satisfy certain job needs and then go on to other jobs. This structure seems very modern. What makes it work?

We believe that by providing our clients primarily with our principals' time and expertise supplemented by a reasonable amount of talented support, the client is receiving a far greater value than if we have big overhead that we have to pass through to the project account. We also continue to look for new talent. One of our principals today was a senior project manager for the general contractor on one of our non-profit projects. His work was so exemplary that we offered him a job.

We often open a field office at a given project site to enhance the effectiveness of our work. We have done this for PG&E, at Lucasfilm's Big Rock Ranch and at Cathedral of Christ the Light in Oakland. In some cases these field offices are staffed for several years. The one risk we have kept a careful eye on is communication between our home office in downtown San Francisco and these field offices. Technology has helped us to manage this pretty well.

What economic indicators will you follow in 2011?

Job creation is first and foremost. Property investment is another indicator, not merely how much buyers are spending, but who is coming into the marketplace.

How significant are the outcomes from the Nov. 2 election to your business?

It is too soon to tell in some cases. It is a very important matter to watch and understand, but whatever the discovery, we have to adapt to the reality of what we have. ■

Bob Lalanne

president
The Lalanne Group

The Lalanne Group has been an urban-infill, mixed-use, multifamily housing developer in the San Francisco Bay Area since 1987. The company's residential developments have included affordable condominiums and rental housing, student housing, for-sale and rental live-work lofts, market-rate apartments, luxury condominiums and single-family row houses. The Lalanne Group has developed numerous commercial and retail sites, including Potrero Center, a 225,000 square-foot retail center in San Francisco, and the mixed-use, European-style market hall Falletti Plaza, also in San Francisco. Founder Bob Lalanne is a third-

PHOTOS COURTESY OF CHAD ZIEMENDORF

generation San Franciscan. He has worked in the construction business for more than 30 years, starting at architectural firm Stone, Marraccini & Patterson in San Francisco. He served as project manager for the $130 million Crocker Center Tower and Galleria in San Francisco. In 1985, Lincoln Property Co. retained him to assist on the 145,000 square foot, $32 million dollar office-retail development at 222 Kearny St. in San Francisco. The firm's equity capital has mainly been its own but occasionally includes private equity partners. Development partners have been Emerald Fund and Signature Properties.

It seems just in the past 60 days that land prices per unit have jumped dramatically with multiple offers.

-Bob Lalanne

What makes you optimistic about 2011? Pessimistic?

It's a great time for the smaller, local developer to buy property because it's a perfect, ugly storm of historically low rents, low values, higher cap rates and a very low price per pound, with not a lot of debt available. There is a lot of stress with borrowers and lenders barely hanging on by the grace of low floating interest rates. But as every month goes by, rents are getting marked down to market and net operating income is decreasing. Some borrowers and lenders are giving up. We look at real estate as an annuity with current cash flow. With historically low interest rates, we are closing with 30 percent to 40 percent leverage, and achieving a 400 to 500 basis point, positive-leverage spread, which yields low to mid-teen pre-tax returns on cash invested, even higher after tax when you include annual depreciation. Whereas we have been mainly builders for two decades, today we are mainly purchasing existing product at a very low price. We have not seen prices this low for more than 20 years.

How are you preparing for 2011? What are you doing differently personnel-wise, strategically and tactically?

Same as 2010—looking at unique, infill opportunities that are below the radar of larger players. We try not to compete on multiple-offer deals. We are patient and believe there will be plenty of opportunity over the next 12 months to 18 months. We also are continuing to look at infill entitlement and development opportunities.

Common lore is that there will be almost no new development in the region for the next several years, apart from the multifamily sector. Do you endorse this perspective?

Yes. I am not sure we need to build any more high-rise condos, office buildings or retail boxes for a long time.

Are you pursuing any new multifamily developments?

Yes, but it seems just in the past 60 days that land prices per unit have jumped dramatically with multiple offers, so purchasing well-located, existing infill product that needs retrofit may generate a higher cash-on-cash yield, especially given entitlement costs and fees, which continue to go up. We are looking in San Francisco and the immediate Bay Area cities.

What economic indicators will you follow in 2011?

Job growth and the bond market. If the former stays flat and the latter starts to move (it already has), it could get ugly again.

How significant are the outcomes from the Nov. 2 election to your business?

Significant. I think we just rearranged the deck chairs in state and local governments, so what hope is there that these same folks will now get it right? I would not be surprised to see more Vallejos in 2011. Public revenues are flat; there will be more state lay-offs, less money flowing in from Washington, D.C. ■

Danna **Kozerski**

co-managing partner
Coblentz, Patch, Duffy & Bass LLP

Danna Kozerski is one of three managing partners for San Francisco law firm Coblentz, Patch, Duffy & Bass. During 2010, Kozerski, a real estate attorney, negotiated the 157,000 square-foot lease with Finnish mobile phone maker Nokia Inc. on behalf of the landlord at the Sunnyvale Town Center. She also represented San Francisco landlord TMG Partners in connection with its lease to Zynga Game Network Inc. of 270,000 square feet in the Townsend Center, the largest San Francisco lease in five years. Coblentz has a full-service real estate practice including development and land use, construction and permanent financing, retail and commercial leasing, joint ventures, construction and design and conservation. A sampling of the firm's signature projects include the California Academy of Sciences in San Francisco, eBay Inc.'s campus expansion in San Jose and the Giants ballpark in San Francisco. Current development projects include San Francisco's Mission Bay and the Tejon Ranch development in Kern County. The firm has 68 attorneys and 74 staff members.

What makes you optimistic about 2011? Pessimistic?

The highly creative and innovative talent in the Bay Area is cause for optimism. I am also always encouraged by the efforts of such organizations as the Bay Area Council and the San Francisco Planning + Urban Research Association, or SPUR. Through each development cycle, they provide a forum for productive debate, keep our focus on the big picture and develop initiatives to build competitive economies and vibrant communities. I am not pessimistic about anything.

How are you preparing for 2011? What is the firm doing differently personnel-wise, strategically and tactically?

Our strategic planning is a continuous process. We are always looking to expand services for existing clients, to maximize efficient delivery of our services to control legal costs and to provide professional development opportunities for our attorneys. We were well-positioned to weather the downturn and plan to hire a few attorneys this year. Our hiring reflects our long-term planning, not short-term opportunities. We will continue to invest in and support our existing attorneys.

How will the firm solidify and expand its real estate business in the Bay Area over the next year?

Our priority is always to grow only in areas where we see long-term value. We will keep listening to and learning from our existing clients—what they need and what they value. We also will continue to encourage our attorneys to follow their passions, and we have seen growth in several areas—green building and renewable energy, design and construction contracts, and representation of non-profit and cultural institutions—as a result. As the recovery continues, there will be some property development, but a lot of the focus will be on repositioning existing assets. There are also major developments at the state and regional levels on climate-change regulations.

How is the business of real estate law and the business of law generally changing?

Traditionally, the focus of law firm practice has been entirely on performing excellent legal work. That is an essential starting point. But lawyers need to become more adept at understanding clients' businesses and how they can better support them as a partner. Legal consultants are pushing law firms to adopt the corporate practice of project management. Law firms should be more disciplined and systematic in how they provide services.

The firm's senior partner, Bill Coblentz, died in September. He is identified as the firm's "guiding spirit" and a "brilliant strategist" on your Web page. What does his absence mean for the firm?

Bill's passing is a tremendous loss to those of us who had the privilege of knowing him and practicing with him. He was a special person, deeply engaged both personally and professionally. He was fair, open-minded, committed to civil rights, dedicated to pro-bono service and the community and tenacious on behalf of his clients. His values are institutionalized as firm values.

What economic indicators will you follow in 2011?

Stock markets, leading economic indicators, commercial real estate vacancy and rental rates.

How significant are the outcomes from the Nov. 2 election to your business?

We don't expect a lot of direct impact on our business. ■

Paul Hulme

president & ceo
Alain Pinel Realtors

Alain Pinel Realtors Inc. is the largest privately owned, independent residential real estate company in California and the sixth-largest residential real estate firm in the United States based on 2009 closed sales volume. Founded in 1990 by President and Chief Executive Paul L. Hulme, the company has nearly 1,400 agents in 31 Bay Area offices. Hulme, who grew up in a two-bedroom house without water or electricity, lives in Saratoga. He is a life-long entrepreneur whose multiple enterprises employ approximately 1,700 people in more than 30 states. His family is the sole owner of Alain Pinel. The brokerage projects home-sales volume of $6.5 billion in 2010, an increase over 2009 but below the peak of $7.7 billion before the recession.

> Debt limits one's flexibility and can force a person or company to make short-term decisions that may not be good for the long term.
>
> –Paul Hulme

What makes you optimistic about 2011? Pessimistic?

We have likely been through the bottom of the cycle, so there should be upside from here. We anticipate the Bay Area real estate market will accelerate in the second half of the year. We expect prices will further stabilize. As we move into a rising interest-rate environment, more buyers will come from the sidelines to benefit from lower prices and to lock in close-to-historic-low rates in 30-year fixed mortgages.

How are you preparing for 2011? What is the company doing strategically and tactically?

We have made significant investments in technology, marketing and training for our agents in 2010 and plan to continue in 2011. In 2010, we upgraded our entire network and placed a new computer on every agent's desk complete with the latest software. For 2011 we plan to continue to differentiate ourselves by offering cutting-edge online solutions for both our agents and clients. In 2010 we emphasized online marketing by launching a comprehensive social-media campaign as well as a new Web site, open.apr.com.

You are pushing into the commercial brokerage business too, particularly in the apartment sector. Will you broaden that initiative?

The choice to move into apartment building sales in San Francisco and Bay Area has proven a wise strategy. We have won some great listings in the apartment sector in San Francisco, and as a result, that business has grown significantly in 2010. Every indication is that sales will accelerate in 2011 and 2012.

What is your outlook for the Bay Area housing market?

We see a slow recovery through the first half of 2011 with better traction in the second half. Our average selling price, which dropped below $800,000 in early 2009, has now climbed back over the $1 million mark. We expect to see continued increases in this average during 2011, although at a more modest rate. In Silicon Valley we expect a 2 percent to 3 percent increase in residential sales volumes and a continuing stagnation of the commercial market. Short sales and REOs will be less prominent but still a large 20 percent to 30 percent part of total sales. The luxury market, which has been in many ways removed from the distressed property movement, will start to feel the effects and we may see more short sales in this key demographic. The East Bay will follow suit, though I anticipate distressed sales will play a more significant role in the inventory at 30 percent to 35 percent of our total sales. Silicon Valley and the Peninsula have seen a lot of foreign investment, especially from Asia. I think that this will continue into 2011 and beyond. San Francisco will continue to strengthen based on investment from the Pacific Rim. In the Wine Country, we have seen record sales in vineyard and estate properties and hope that this trend continues.

You have eschewed debt in your brokerage business. Why?

Debt limits one's flexibility and can force a person or company to make short-term decisions that may not be good for the long term. Although wise and legitimate business debt is prudent, limitation of borrowed resources is crucial. The current recession, foreclosures and business failures resulting from being "under water" were caused by spending to the last margin of one's means.

PHOTOS COURTESY OF CHAD ZIEMENDORF

What economic indicators will you follow in 2011?

In general I follow unemployment numbers, consumer confidence and mortgage interest rates. For real estate economic indicators, the national and California associations of Realtors have always been reliable sources. While real estate remains local, an increase in the intermingling of global economies means the price of the yen compared to the U.S. dollar is more significant than it used to be. We also keep our eye on consumer sentiment, the manufacturing index and the stock market.

How significant are the outcomes from the Nov. 2 election to your business?

It is probably too soon to tell the real effects of the recent elections. While the strongest message from voters to politicians was to get the Washington fiscal house in order, our biggest fights will probably be protecting property rights and mortgage-interest dedications.

Do you think there will be more consolidation in the real estate brokerage industry?

A small company with limited resources, a small number of agents and a reduced management team will most certainly not survive, given the small net margin that the real estate business drives to the bottom line. ■

Christopher **Peatross**

president
Swift Realty Partners

Christopher Peatross is founder of Swift Realty Partners, a start-up real estate investment company formed in 2010 to acquire commercial property, primarily office and industrial, on the West Coast. Peatross is the former president and chief executive officer of Equity Office Properties, a dominant Bay Area landlord with 18.5 million square feet in the region. Peatross has a long history in Northern California real estate. He worked for Spieker Properties Inc., Divco West Real Estate Investments and CarrAmerica Realty Corp. before leading EOP, which is now owned by The Blackstone Group. Blackstone is a capital partner in his new venture. Former EOP Northern California asset manager, Craig Firpo, joined Peatross at Swift. In 2010, Peatross acquired One Concord Center, a 360,000 square-foot office tower in Concord, and 11 commercial condominiums at the Fremont Tech Center.

What makes you optimistic about 2011? Pessimistic?

Tenant demand seems to be improving, but job creation is anemic. It is hard to imagine that the two can co-exist. This has happened in the past. Twelve months ago, the demand we saw was a bubble that subsided quickly. This time may also be a blip, or we may be creating jobs and missing them in the way we are counting. I think we will know by the end of 2011 what is really happening.

How are you preparing for 2011? What is the company doing differently personnel-wise, strategically and tactically?

I am preparing for 2011 by buying in 2010. That perspective will continue into next year. We differentiate ourselves in three areas. We have strong professional contacts, local market experience and knowledge of Northern California. I don't think that we are doing anything that is altogether different from other real estate investment firms; we have no secret sauce. But we are an ideal local partner for a national investor. A lot of our deals, given our local relationships, will be off-market deals. We are a very small and organic group right now, so we can structure deals creatively and can have local partners and co-investment.

I am preparing for 2011 by buying in 2010. That perspective will continue into next year.
—Christopher Peatross

What are your expectations for Swift this year?

We are extremely pleased with the two acquisitions that we made in 2010. I am guessing that we will have four to six more deals in 2011, and that while we like Seattle, Denver and Orange County, we feel we have more than enough business in the Bay Area for now.

You left a secure, well-paying job in commercial real estate in 2010 to found a new real estate investment company. What did you see then that made you think that was a good idea?

I have always wanted to start my own real estate company. Once you start your own company, there is a lot of pressure to create an income stream and place money. It is imperative that you invest in deals. As soon as possible, you need fees and you need to put money to work. I think the most important idea is that we believe we are buying at a low point in the market. There is certainly pricing today that suggests that we are on par with the bottom of the last few cycles that we have seen. The only thing that has changed since we started is that people seem to have a more positive view than they did six months ago.

You acquired One Concord Center in Concord in the third quarter. What about the profile of this building illustrates your investment philosophy now? This asset came with development rights for a second tower. How much did that figure into your thinking?

The purchase of One Concord Center epitomizes my view of the market. This asset is a best-in-class building for its submarket, and it has 20 percent higher vacancy than its own submarket. I think that with the right capital and sponsorship it can be successful over time. We placed very little value on the development rights for a second tower. However, given that the site is located on the Concord BART station, it provides a reasonable chance that a larger user could desire the second location. I felt the same way in 2007 about vacant land at the Pleasant Hill BART station owned by EOP, and we were fortunate to find AAA, which wanted a new building adjacent to mass transit.

What economic indicators will you follow in 2011?

First and foremost, my net cash flow for Swift Realty Partners. In the Bay Area you need to look at venture capital, tech, job-creation and 10-year Treasuries. These are the big ones.

How significant are the outcomes from the Nov. 2 election to your business?

I'm just not sure if we are really large enough to be affected by the elections. ■

Through a Glass Darkly

Views of the skeptical optimist.

By **John McNellis**

If rates stay down and we're Japan, today's yields will look great.

Attended a couple more posh conferences where it seemed nearly every panelist was the smartest guy in the room. This column can't do justice to the hours of views, advice and opinions on all things real estate one heard at these gatherings. But—on the other hand—maybe it can.

While consensus among the smart guys was in short supply, it is fair to say a preponderance felt the "bottom had been called." But what that means from a practical standpoint was open to much conjecture. One economist decreed, "There is no risk of a double dip," and spoke of a gradual recovery. In counterpoint, a business leader decried the economic uncertainties facing us: "Gold is $1,400 an ounce for a reason; this is not your grandmother's recovery." A third invoked that bitter oxymoron, "the jobless recovery," and declared—quite plausibly—that job growth would be limited to the "feds, meds and eds."

Having called the bottom, the pundits had different advice for dealing with it: One tribal elder advised us to lock up long-term rates for as long as possible. Even though this same advice has been given every year since Clinton was scandal-free (and always been wrong), it could be true this time; broken clocks are right twice a day. Another is out buying like mad: "If rates stay down and we're Japan, today's yields will look great." A skeptical third person asked, "Everybody's overpaying right now, so who's getting the good deals?"

Among those who use lots of other people's money—the big-time pension-fund advisors, the guys who buy high rises and billion-dollar portfolios in bulk—there is consensus. As a pack, they're buying today into leveraged 8 percent returns on core assets while borrowing as much as they can. If they can borrow 50 percent of the purchase price at 4 percent interest, they're happy buying assets at a 6 percent capitalization rate. This strategy works swell long-term if you can either borrow at 4 percent forever, or if you sell to the next optimist well before you run out of loan term.

The smart guys are also furiously trying to capitalize on their own mistakes: "The best opportunity today is buying back your own debt at a deep discount." This opportunity is, of course, only available to those who have both a portfolio of poorly purchased, wildly over-leveraged deals and, somehow (there has never been enough accountability in real estate to suit your correspondent) access to new capital to take advantage of the lenders they inadvertently screwed the first time around. But, the cautious and the toast have no chance of implementing this gambit.

The pundits pointed out again and again what has been clear to everyone in the trenches for some time: The last thing the banks want to do is foreclose on anyone and, thanks to short-term rates, they're not; they are burying their bad loans in shallow graves. "Half of real estate is on LIBOR life support." Great news for existing borrowers, bad for vultures; whether this approach helps us rush headlong into becoming another Japan remains to be seen. One useful observation about where to buy from a smart guy: "Find spots where there's no debt available—that's where the opportunity is." True that, just tricky to implement.

On to specifics: first the bad news, for-sale housing. The macros agreed that nationwide we have two million forlorn homes standing empty and unoccupied, that we've had four million foreclosures so far with five million left to go, and that it is going to be "choppy for the next three to five years." One homebuilder said simply, "California stinks." The worst market in the country was thought to be Atlanta, while the best is clearly Washington, D.C.,—back to those "feds, meds and eds."

The good news is that apartments are on fire, with prices today virtually indistinguishable from their heights from 2004 to 2006. The macros attribute this to the four million Gen-"Y"ers coming of apartment age over the next several years and the ocean of cheap federal loan dollars available for rental housing. "A" apartment buildings are selling below a 5 cap, while even the "B"s are in the mid 5s. Apartment developers are happily buying dirt once again.

One final note: Don't believe anything you may hear about the commercial mortgage-backed securities market being back and open for business. Simply put, CMBS 2.0 is a nightmare and trying to close a loan and satisfy the myriad of consultants the banks have hired to protect them will be the camel-breaking straw for many borrowers. Appraisers are coming in 15 percent to 20 percent lower than market values, and emboldened environmental consultants are worrying about the effect global warming will have on the toxic carbons locked within your parking lot's asphalt. CMBS now stands for "Certainly More Bull S***." ■

Driving A Hard Bargain

Retailers exploit flattened landlords amidst a glut of vacancy.

By **Doug Caldwell**

Gasp! A Target store in downtown San Francisco? Yes, and it is the sign of a dramatically changing urban retail landscape in the Bay Area.

The announcement shortly before Thanksgiving that discounter Target Corp. has leased 85,000 square feet on two floors of the once-tony Westfield-owned Metreon building, and that it will plaster two outside walls with its trademark red bulls-eye, may have shocked those accustomed to decorous Nordstrom's and Bloomies.

But it did not surprise Helen Bulwik, president of New Market Solutions, an Oakland-based full-service marketing management firm. Today, retailers are calling the shots, not landlords, she said, and tenants are extracting some of their sweetest deals in years. Grossly discounted rents, or even free rent, is not uncommon, with national tenants exerting the greatest pressures.

"Retail was incredibly over-developed over a period of 15 years running through the mid-2000s," Bulwik said. "We're talking mall upon mall, competing malls, and the real estate community making deals with major retailers that basically said, 'You can have a space in this mall as long as you take spaces in these five malls,'" she said.

Then cameth the Great Recession and with it, much diminished merchants. Their failures have left holes in once-filled shopping malls, both suburban and urban, and the retailer-landlord tables have turned. Average asking rents at shop space across the Bay Area have fallen from 2009 to 2010, according to Terranomics Urban Retail Group in a November report. In Union Square, asking rates touched $176 a square foot from a peak of nearly $200 a square foot at the end of 2007. Suburban retail centers saw a 6 percent decline in asking rates year over year in the first half of 2010.

"The owners of shopping centers today are faced with a couple of realities. Most of them are carrying fairly heavy loans secured in 2005 and 2006. During the recession the rents began to drop, the vacancies went up, and they lost much of their equity," said Jim McMasters, senior vice president and director of the retail division of Colliers International. "Now, in order to fill those vacancies, they're being asked by tenants to sign riskier leases because the tenants recognize the landlords are in trouble," he said. Tenants are "asking for very, very difficult deals."

Santana Xavier, vice president of Lockehouse Retail Group of Burlingame and Walnut Creek, says the best Bay Area deals he's heard about are tenants getting space at 50 percent less than the 2006 highs. In outlying areas like the Central Valley, he says, there have been deals negotiated at a penny a square foot a month with the tenant paying all utility charges and other costs.

"Retailers are still very skittish" about entering into leases, said Xavier. "The opportunity has to go to the real estate committee before anybody wants to commit anything. And more frequently than not, it's having to go up to the CFO, the COO and in some cases the CEO. Nobody wants to sign on the dotted line and commit to a deal that may fail."

Landlord motivation stems not just from heavy debt, he said. Some are living with financing requirements that a center maintain a certain percentage of space leased or the bank can call the note. But while deep discounting of rents might help the landlord now, it can come back to haunt the owner if the property needs to be refinanced. "If a landlord wants to collateralize against it down the road, they don't want to lock themselves into a long-term, below-market lease."

Julie Taylor, a senior vice president and San Francisco and North Bay retail specialist with Cornish & Carey Commercial Newmark Knight Frank, says she sees upper-end retail regaining some of its old vigor. "The market's picking up—a lot more tours, a lot more offers being submitted, less hesitancy. The retailers are getting much more confident, and it is showing in the way they are approaching real estate."

That said, retailers for the first time in her experience are demanding early-termination clauses in San Francisco Union Square leases allowing the retailers to break the leases if sales don't reach certain levels, Taylor told a real estate appraiser conference in San Francisco late last year. Historically, she saw such caveats only in suburban centers.

The changing retail landscape is all part of the sea change in the American psyche that is affecting the larger economy, with Americans more concerned about their personal bottom lines than at any time in recent history, Bulwik said. The days of the "aspirational" consumer, who maxed-out credit cards to shop at upscale retailers, are over. "That customer is totally gone," she said.

Bulwik and Taylor agree that massive tracts of retail should be repurposed, though cities and counties that depend on retail sales taxes could be put in a tight squeeze. In just the third quarter of 2009, for instance, the most recent figures available from the state Board of Equalization, Santa Clara County alone collected a portion of the sales taxes on $1.95 billion in non-food, non-automotive retail sales.

Retail is always the last to recover from a recession, Colliers' McMasters said, but the recovered patient may not look at all like the pre-recession model. "There's a cultural change," he says. "People are eating at home more, they're not traveling as much, they're eating chicken instead of steak. All these factors impact on retail and its ability to recover." ■

> During the recession the rents began to drop, the vacancies went up, and landlords lost much of their equity."
>
> ***Jim McMasters, senior vice president and retail division director, Colliers International***

PHOTO COURTESY OF STEFAN ARMIJO

Hotels on Cloud Nine

Investors are crowding into hotels, lured by hopes of big profits on the upside.

By **Robert Celaschi**

Hotels are starting to look good again to investors. In the San Francisco metro area, Real Capital Analytics tallied 17 hotel sales through the first three quarters of 2010, for a total of $495 million. That was a 142 percent increase in deal count and a near tripling of dollars spent in the same period in 2009.

That doesn't mean the hotel market is healthy again but rather that it has ended its deep recession-induced slide. "Basically, sales stopped in 2008. The market totally evaporated," said Thomas Callahan, co-president and chief executive of PKF Consulting in San Francisco. When capital markets froze in the recession, there just wasn't any money to fund acquisitions. Now money is becoming available again, especially from real estate investment trusts. "The five or six hotel REITS have done primary and secondary offerings, and they are actively out looking for hotels," Callahan said. "The world is a prettier place than it was in 2009."

As recently as this past April, about one Bay Area hotel in six was in mortgage default, PKF reported at the time. Few hotels were going into foreclosure, but notes were selling at discounts.

The equation for hospitality's recovery begins with revenue per available room, or RevPAR in industry parlance. It can go up with higher room rates, higher occupancy or both. A hotel's other attractions such as meeting space or food and beverage service are important only to the degree that they help rent rooms, Callahan said.

Industrywide, RevPAR through September was up 4.5 percent; for the San Francisco market it was up 7.6 percent, said Michael Barnello, chief executive of LaSalle Hotel Properties, a REIT based in Bethesda, Md. LaSalle focuses on upscale, full-service hotels in urban, resort and convention markets. It bought the 201-room Hotel Monaco in San Francisco this past summer for $68.5 million from Kimpton Hotels.

"Our investment thesis is that we are looking for the top markets that have had the best growth trajectories. If you look at what happened in 2009, RevPAR for urban San Francisco went down nearly 19 percent, which was worse than the industry as a whole," Barnello said.

But demand came back strong this year, said Callahan. While PKF is predicting a more modest 4.3 percent rise in San Francisco RevPAR for 2010, the company predicts a 7.5 percent rise in 2011, then 6 percent to 7 percent a year for several years after.

"We are definitely seeing operating performance improving across our portfolio," said Gary Beasley, chief executive of Joie de Vivre Hospitality, a boutique hotel chain with all its properties in California. While San Francisco proper gets the most attention, Joie de Vivre reports similar performance improvements in Silicon Valley. Beasley also is a partner at Geolo Capital, which acquired a controlling interest in Joie de Vivre in June. "There is a lot of interest in hotels today," Beasley said. "We are trying to buy them along with lots of other folks."

Hotel investments are even riskier than other types of real estate. "Hotels mark to market overnight," said Suzanne Mellen, senior managing director in the San Francisco office of consultant HVS International. When demand crashes, income collapses immediately and rates fall. An office or retail space, on the other hand, won't show the same effects until long-term leases turn over.

"Hotels mark to market overnight."

Suzanne Mellen, senior managing director, San Francisco office, HVS International

"A lot of the capital doesn't get attracted to hotels until they are really doing well again," Mellen said. Success, then, is really about the right timing on the upswing. "If you get a good hotel that is well-located and has cash flowing and you have barriers to entry or a period of time until new competition is built, you can make a ton of money," she said.

San Francisco proper does offer protection from new competition. The market is just shy of 52,000 rooms now by PKF's count. Only 160 more upper-priced rooms are planned and fewer than 1,000 lower-priced rooms.

The consensus currently is that hotels can be acquired for less than replacement cost, and with a little creativity a company can generate more profit from the same basic box, Beasley said. "It's really half operating company, half real estate," he said.

Hotels can be a big boost to a city's bottom line as well, thanks to transient occupancy taxes charged to guests. It added up to $219.8 million for the nine-county Bay Area in the most recent peak of 2007-08, as tallied by the state controller.

The portion called the San Francisco metro area—San Francisco plus San Mateo County—took in $62.6 million for the year, but that wasn't the biggest share. Santa Clara County hit $70 million. Alameda County's share was $36.2 million. Each city sets its own tax rate, so the same amount of TOT dollars in two places doesn't necessarily mean the same amount of hotel business.

Transit occupancy tax also can vary widely as a percentage of a city's general revenue. At the 2007 peak it ranged from 0.5 percent in San Leandro to 68.9 percent in Yountville, which was also the highest in the state that year. The average statewide was 7.6 percent.

Other Bay Area cities that are getting the biggest boost from hotel taxes were Calistoga at 56.6 percent, Sonoma at 27.2 percent, Emeryville at 19.6 percent, and San Francisco at 11.1 percent.

One of the big questions, of course, is how soon will hotels hit another peak. Historically the cycle has been 78 months to 90 months, Beasley said. That would point toward 2014 or so. LaSalle's Barnello called that "a rational view."

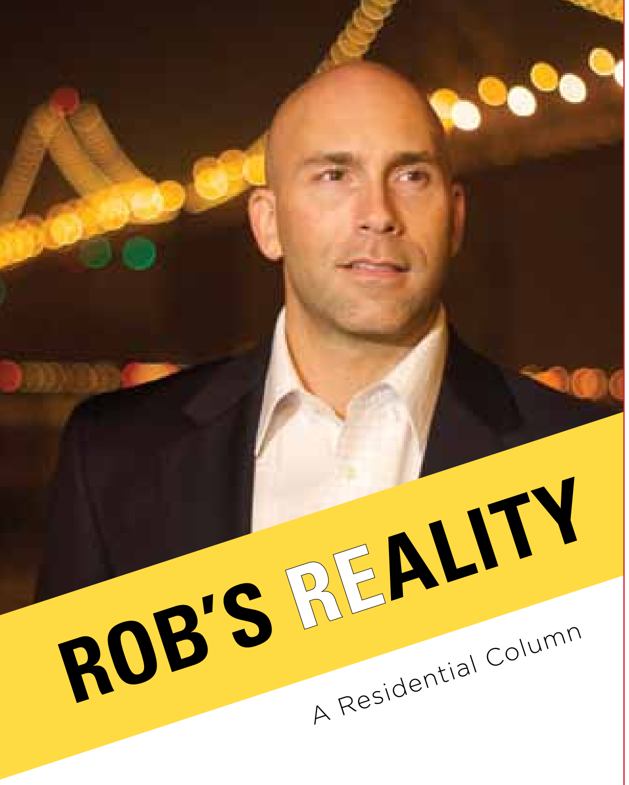
But even if hotels return to 2007 revenue levels by 2014, that doesn't adjust for inflation, Mellen said. Income also may still lag. "Demand really came back in 2010, so occupancy has come back a lot. But average rates have dropped so far that it is going to be a long climb out," she said.

Then there's the question of how recession survival tactics might have hurt any given property's odds of recovery. Did managers truly re-engineer their operations to save money, or did they just defer maintenance? A lot of hotels also dumped rooms on third-party booking discounters such as Priceline.com. "If they want to get the rate back, they will have to wean themselves of those sites. Some of them cut back their marketing staff, so they may have to re-staff," Mellen said.

Full-service, downtown hotels remain the top choice for opportunity investors, according to the 2011 Emerging Trends in Real Estate report produced by PricewaterhouseCoopers and the Urban Land Institute. Many owners over-leveraged late in the market cycle and are vulnerable, the report said. The downside for new owners is that they may get stuck with making improvements. Mellen noted that there also are a lot of hotels that are older or in tertiary markets. "Their prospects? Nobody really knows," she said.

In any decade there's a two-year window to buy and a two-year window to sell, the Emerging Trends report said. Buyers who aren't in it for the long haul have to prepare an exit strategy for when the economy fully recovers. "There is a big musical chairs of ownership when we get into these robust investment cycles," Mellen said. "It happened from '95 to '98, and again from late '04 through '07."

The music is playing again. ■



Cloudy With a Chance of Curve Balls

Next year is unlikely to bring relief to the hard-pressed San Francisco market.

By **Rob La Eace**

Among his many uttered quotes, Yogi Berra once said, "I wish I had an answer to that because I'm tired of answering that question." What this question was, I do not know. But I'm certain it was not related to Berra's feeling on the direction of the real estate market for the coming year. This question is reserved for you, me and every other "A-frame" toting agent in town to answer—seemingly daily.

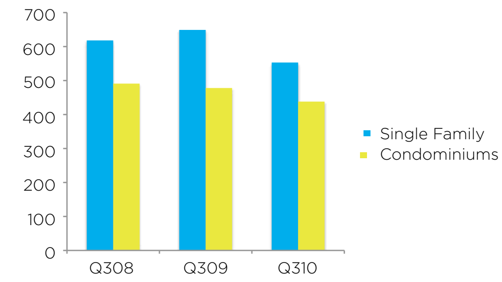
Everyone wants to know where the market is going because we've all got sellers who would love to sell but can't right now: They are waiting for the market to turn, so they can price their home where it won't have to be a short-sale. We've got buyers hopeful that they can buy at what they believe will be the bottom. And we've got agents just flat out curious about when they can expect to move out of their parent's basement. Seriously, though, it is once again that time of year. Time to scuttle up to our proverbial un-permitted roof decks to survey the horizon for what 2011 may hold.

Starting with an assessment of where we stand as a nation, I turn my attention to the Bureau of Economic Analysis. Data shows that personal income levels were up 2.7 percent and 2.2 percent from Q209 to Q210 in California and nationwide, respectively. On the other hand, Bureau of Labor Statistics data show that unemployment nationwide stands at 9.8 percent, and unemployment in California is one of the highest in the nation at 12.4 percent. However, in the San Francisco/Oakland/Fremont Metro Area, unemployment is closer to 10 percent, up marginally from a year ago, but still better than the nation at large.

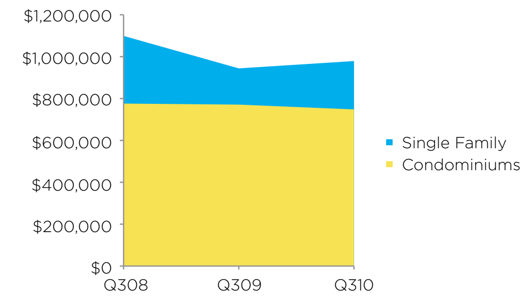
Looking at our gross domestic product numbers, in the third quarter GDP increased at an annual rate of 2.5 percent, up from an increase of 1.7 percent on an annual basis in the second quarter. Any growth is a good thing, but our current growth rate is not strong enough to combat unemployment.

Drilling down on a more local level, we see that San Francisco appears to be slowly getting back on its feet. Traffic at SFO is up slightly this year and hotels report occupancy rates increased from 73 percent to 77 percent. At the same time, San Francisco had grappled with a $483 million budget deficit in 2011, while the state faced a nearly $26 billion shortfall. These ominous facts will, no doubt, further contribute to sustained unemployment as our cash-strapped city and state struggle with ways to provide critical services and keep employees on the books. For each employee laid off or furloughed, there is a trickle down felt throughout the local economy.

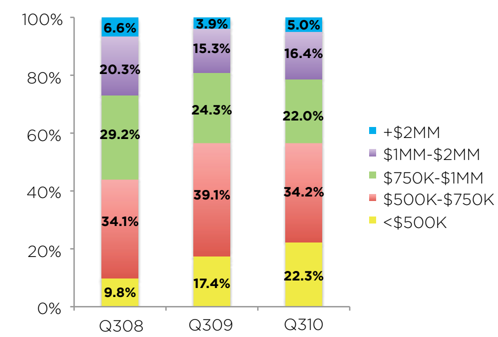
San Francisco Homes Sold



San Francisco Average Sales Price



Price Range Percentage



When money is tight, each person, takes cabs/public transportation and visits his dry cleaner, local coffee shop and lunch counter less often each week. The net is a continued downward spiral due to decreased revenues for businesses and decreased tax revenue for the city. The impact on our industry is obvious, and until these basics improve, we will likely have a few more storms to weather.

The effects of those storms are felt on the ground in the Bay Area. DataQuick reports that Bay Area home sales volume fell 22.8 percent in October 2010 compared to October 2009. It was the second poorest performance in the past twenty years and an obvious cause for concern. As the charts indicate, we are trending down in sales volume for both condos and single-family homes. For single-family homes, the average sales price is slightly up; however, condominiums saw a drop of approximately 3 percent

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 (continued from page 6)

City of Hope Hosts Real Estate Forum

Industry leaders gathered to discuss the current state of the real estate market at City of Hope's Real Estate Forum on Monday, Nov. 8. Hosted by the Real Estate & Construction Council, the event featured a panel of recipients of City of Hope's Spirit of Life Award, including Michael Covarrubias, chairman and chief executive officer of TMG Partners, Oz Erickson, chairman of Emerald Fund, Rick Holliday, president of Holliday Development and Constance B. Moore, president and chief executive officer of BRE Properties Inc. The panel was moderated by Seven Hills Properties' partner, Luis Belmonte.

City of Hope also announced that panelist Constance B. Moore will be its 2011 Spirit of Life honoree. Moore will receive the award Thursday, May 5, 2011, at the Palace Hotel.

Founded in 1986, the Real Estate & Construction Council has raised more than $4 million for research, treatment and education programs at City of Hope, a leading research, treatment and education center for cancer, diabetes and other life-threatening diseases.

GVA Kidder Mathews Closes on Affordable Senior Housing Site

Bayview Hunters Point Multipurpose Senior Service Inc., in a joint venture with developer McCormack Barron Salazar, along with the San Francisco Redevelopment Agency, purchased a 1.47-acre development site, slated for 121 units of affordable senior housing, in San Francisco's Bayview-Hunters Point neighborhood.

The innovative aging campus development is the first of its kind in the United States, aimed to prevent displacement of seniors in the area and will include a senior center, senior services and housing.

Richard Stoll, a senior vice president in GVA Kidder Mathews' San Francisco office, closed on the sale after it was in escrow for almost three years. He had worked closely with the Bayview Hunters Point Senior Community for almost ten years to find a location for the campus.

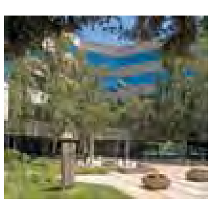
East Bay Developer Snags Tenants to Fill Portfolio

Wareham Development has secured leases in 2010 totaling 425,000 square feet at three of its major properties along the East Shore of the San Francisco Bay. The properties include the EmeryStation Campus in Emeryville, Aquatic Park Center in Berkeley and Point Richmond Tech Center in Richmond.

The transactions consist of a variety of renewals and expansions of existing tenants as well as major new leases. More than 70 percent of the leases were signed with biotech, green-tech and technology companies.

Amyris Biotechnologies expanded by 28,000 square feet at the EmeryStation Campus. The company, which recently completed its initial public offering, now has 136,000 square feet at the East Bay location.

Lawrence Berkeley National Laboratory also expanded its presence by 61,000 square feet at the Aquatic Park, bringing its occupancy to 120,000 square feet. It also took an additional 15,500 square feet at EmeryStation.



Telecom Giant Expands at East Bay Office Campus

Ericsson Inc., the global telecommunications company, has renewed for five years its lease for 28,000 square feet and expanded by an additional 13,000 square feet at Pleasanton's Stoneridge Corporate Plaza.

Stoneridge is a suburban office campus with five mid-rise office buildings situated around a two-acre park. It is located close to Pleasanton's 1.3 million square-foot Stoneridge Mall. It is owned by Metropolitan Life Insurance Co.

Jones Lang LaSalle represented Ericsson in the transaction.

New Patient Care Tower Opens at John Muir Health

John Muir Health has opened the doors of The Hofmann Family Patient Care Tower at John Muir Medical Center. The facility includes an expanded, modern 12-bed intensive-care emergency department and critical-care facilities with a 49-bed telemetry capability. KMD Architects of San Francisco provided design and planning for the campus' new addition.

Clean-Tech Company Locates in Pleasanton

Meridian Energy USA, a wholly owned subsidiary of Meridian Energy New Zealand, will locate its U.S. headquarters at Hacienda Terrace at 4309 Hacienda Drive in Pleasanton.

The company, which leased 3,400 square feet, is a developer of utility-scale, environmentally clean solar farms and other renewable energy projects. Its principal business is providing renewable electricity for sale to utilities, municipalities and other customers.

Mark Triska of Colliers International represented the tenant. The building owners were represented by Chris McConnico of Legacy Hacienda Terrace LLC.

BART Renews Headquarters Lease at Kaiser Center

The Swig Co., owner of Oakland's Kaiser Center office complex, has completed leasing transactions totaling 374,000 square feet, including the early renewal and extension of the Bay Area Rapid Transit agency's 317,000 square foot headquarters lease.

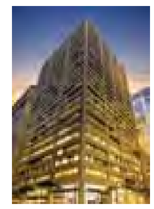
The BART renewal extends the agency's occupancy at the building into 2021 and was negotiated three years ahead of schedule.

Built in 1960 as the world headquarters of Henry J. Kaiser's industrial empire, Kaiser Center is a 28-story office tower with a variety of retail spaces and a 1,339-space parking structure. The property features a 3.5-acre rooftop garden and expansive views of Lake Merritt, San Francisco and the Oakland and East Bay hills.

Auto Dealership Breaks East Bay Ground

Automotive group Price-Simms Inc. has started construction on a 40,000 square-foot Mercedes Benz dealership at Fairfield's 31-acre auto mall. The dealership will seek Leadership in Energy and Environmental Design certification.

General contractor J.R. Roberts Deacon of Citrus Heights is expected to complete construction in August.



San Francisco Office Tower Earns LEED Gold

A 25-story Class A office building in downtown San Francisco, 180 Montgomery, has been awarded LEED Gold certification for an existing building by the U.S. Green Building Council, according to The Swig Company and Mitsui Fudosan America Inc.

Swig and Mitsui own the property in a joint venture formed in 2007. Swig manages the building.

Completed in 1979 and renovated over the last two years, 180 Montgomery has 300,000 square feet and is located in San Francisco's Financial District. It is the corporate headquarters of Bank of the West and is less than a block from BART and MUNI stations.

Hunt Realty Sends $100 Million to San Francisco Start-Up

San Francisco's W3 Partners LLC has formed a $100 million joint venture with Dallas-based Akard Street Partners L.P., an investment partnership operated by Hunt Realty Investments Inc.

The relationship provides an operating and investment platform to acquire value-add office and office/R&D assets in the San Francisco Bay Area, Portland and Seattle metro areas, according to a news release from W3 Partners. W3 continues to raise investment dollars from pension funds, endowments, offshore investors and high-net worth individuals.

Akard Street Partners was created by Hunt Realty and the Teacher Retirement System of Texas to invest in commercial real estate operating companies across the United States. Hunt Realty Investments is part of the Hunt family of companies directed by Ray L. Hunt. The Teacher Retirement system manages a $95.2 billion trust fund expected to finance retirement and related benefits for nearly 1.3 million public education and higher education employees and retirees.

W3 expects to purchase debt as well as fee simple positions. It will also be able to provide equity to recapitalize assets, real estate partnerships and operating companies.

Freight Forwarder Inks Hayward Lease

Hawaiian Express Services Inc. signed a nearly 110,000 square foot, 88-month lease in Hayward Industrial Park at Eichler and Munster Streets.

Hawaiian is the largest freight forwarder serving the Hawaiian islands and is a provider among the Hawaiian Islands, the mainland United States, Guam and Alaska.

Casey Ricksen, senior vice president with Colliers International, represented the tenant. Joe Fabian, a partner with Cornish & Carey Commercial in Hayward, and Jay Hagglund, a partner with Cassidy Turley BT Commercial in Oakland, represented landlord Hayward Industrial Park Associates.

San Leandro Industrial Site Sells to User

U.S. Superior Stone & Tile Inc. has purchased a 262,000 square-foot multi-tenant industrial facility in San Leandro for $9.3 million, or $35.60 a square foot. The facility is located at 2048-2050 Williams St.

The firm will occupy 137,000 square feet of the property for wholesale distribution of tile, stone, kitchen and bathroom fixtures and cabinet products. The remainder is leased long term to Sitcom Furniture.

Jay Hagglund and Paul Beckwith of Cassidy Turley BT Commercial in Oakland represented the seller. John Loh and Jillian Loh of LOH Realty & Investments represented the buyer.

PEOPLE on the move *(continued from page 7)*

Bill Hillis Earns SIOR Designation

Commercial Realtor **Bill Hillis** with Colliers International in Walnut Creek has been accepted into the Northern California Chapter of the Society of Industrial and Office Realtors.

To achieve the SIOR designation, an individual must be an experienced practitioner who has met defined criteria on industry knowledge and transaction volume. Hillis qualified as both an office and industrial specialist.

Industry Veteran Jumps to GVA

Martin Church has joined GVA Kidder Mathews as a senior vice president in its Redwood Shores office. He will specialize in office leasing and sales. Church previously worked with brokerages Grubb & Ellis and Cushman & Wakefield. GVA is a West Coast brokerage with nine offices including downtown San Francisco, Redwood Shores and Santa Clara.

BY THE Numbers

Assessing the Situation

Tax assessments are mostly tracked for what they reveal about real estate values, both residential and commercial. In 2009, for instance, the value of property assessments fell statewide in California for the first time since the Great Depression-era's 1933, reflecting the huge loss in real estate values, particularly housing, across a wide swath of the state. Counties across the Bay Area, including Alameda, Contra Costa and Santa Clara, all saw their assessment values drop.

San Francisco's assessment roll, in contrast, grew approximately 5 percent in the 2010 tax year to nearly $160 billion. Assessor-Recorder Phil Ting in his message to taxpayers attributed some of the increase to economic growth in the form of new construction, but he also cited the increased efficiency of his office at capturing value missed in the past.

A little-noted element of property assessments grants a window into another world that is related to real estate but separate from it: The value of businesses' capital investments in their operations, known in California property tax circles as "business personal property." The value of that property, which applies primarily to business equipment, is calculated every year, net of depreciation. That gives it a timeliness and a market nexus not enjoyed by real property assessments, which are manipulated by California's Proposition 13 and can bear little relationship to market values.

"One thing to note is that unlike real property, which increases 2 percent each year [normally], personal property depreciates," said Theresa Rabe, deputy assessor-county clerk-recorder in San Mateo County. "If businesses are not buying new equipment and no new businesses open up , then there is no growth."

Most simply, the measurement reflects the aggregate value of business equipment at its current market worth at a moment in time. The figure could be construed as a proxy for business commitment to a given locale, though it also reflects a private entity's desire to escape taxes balanced against the business necessity of having a certain level of investment in a certain place.

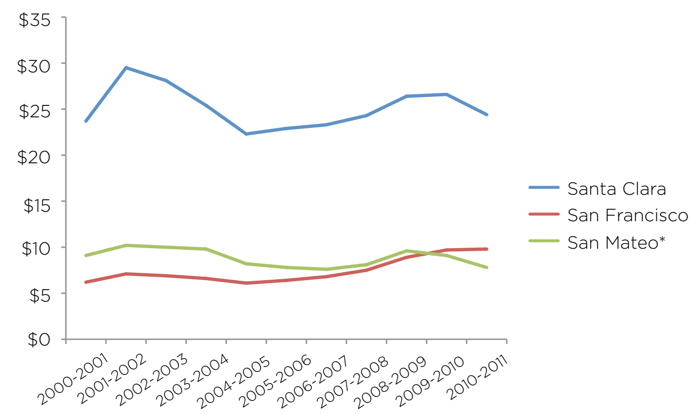
The data point is encumbered by a somewhat complicated accounting, reflecting whether the business equipment is "fixed" or "secured," as in a huge crane anchored to the ground at the port of Oakland, or "unfixed" or "unsecured," such as a laptop computer, which can be easily moved. The sums also include mobile homes and boats, which are likely not business related, though together the two typically account for only a sliver of the total personal property value.

This year Alameda County is faced with the re-assessment of the NUMMI factory site in Fremont, a portion of which sold earlier this year to Tesla Motors. (Two additional, large parcels of land previously associated with the NUMMI site are sold separately.) NUMMI was the largest "assessee" in Alameda County last year, said Russ Hall, chief deputy assessor. "Their total assessment for land, buildings and equipment was just under $1 billion, with half of it in business personal property and half in land and buildings," Hall said. The re-assessment, including business property, is underway. "It just sold officially in October, and there is everything in the world at that site," Hall said.

Larry Stone, Santa Clara County assessor, says business personal property makes up a smaller and smaller percentage of his county's tax assessment roll, topping out at about 16 percent in the late 1990s when it was as high as $30 billion. It runs at about 10 percent of the total roll now. Santa Clara County has the second-largest business personal property value in the state, he said: "We are ground zero."

The value of business personal property is the source of the most complicated disputes between assessors and taxpayers, Stone said. "We have one appeal going on six years with Applied Materials," he said. "The [assessed] value at risk is over $1 billion." ■

Business Personal Property
Assessments Through the Years ($Bs)



Source: The Counties
* Includes only unsecured business property

Cloudy With a Chance of Curve Balls

continued from page 30

in sales price. The days-on-market for both has remained constant. As for total volume of condos and single family homes sold, we were down 12 percent compared to last year in San Francisco.

While days on market has leveled off, which may indicate that sellers are more realistic about pricing their homes at levels the market can bear., the reduction in volume of sales is a horrible sign. Buyers want value, and even respectable listing prices are often not yielding offers at asking price. In October '09, for example, homes sold for an average 2 percent below their asking price. In October of this year, they sold for 4 percent lower, and all signs seem to indicate that this trend will continue well into the new year.

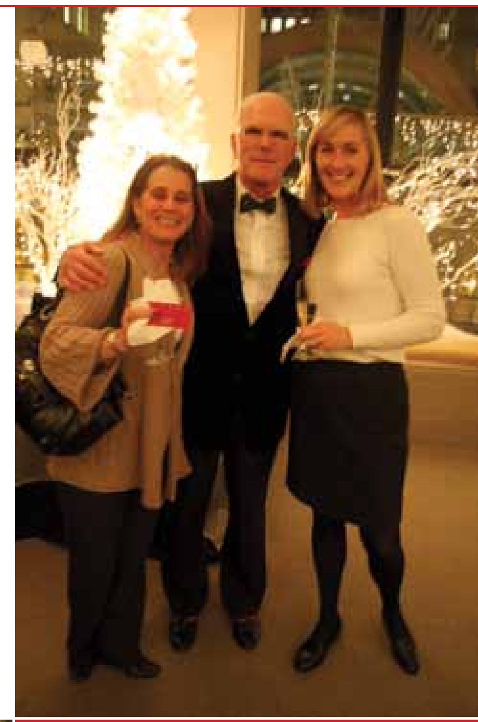
Meanwhile, short sales are on the increase, albeit slowly. In Q309, short sales made up roughly 6 percent of the market. In Q310, they accounted for 7.5 percent with 57 percent of these sales under $500,000. The sweet spot for non-short sale property is the $500,000 to $750,000 range—accounting for 34 percent of all sales.

Also of concern is the active inventory. In Q309, there were 1,484 properties on the market. In Q310 we had 1,934—up 23 percent. More homes seem to be entering the market towards the end of the year, as well. Large inventories during traditionally low-sales volume months will lead to even lower sales prices. The sellers will compete fiercely to appease the small pool of winter home shoppers.

DataQuick statistics also show that absentee buyers (real estate investors) accounted for 19.8 percent of all Bay Area purchases in October—this up from 15.9 percent one year ago. Additionally, all cash deals have increased roughly 3 percent since last year, and they traditionally suppress sales prices, as well.

As public perception of the market often creates the reality, this could form a quagmire for the second part of the year. Barring any significant developments, domestic or foreign, I envision stagnation, or slight decline in prices in 2011. There will be some neighborhoods or properties that buck the trend, but this is my overall expectation. It's a long road ahead. And let us not forget another great Yogi Berra quote: "It ain't over 'til it's over." By the way…how 'bout them Giants!!! ■

RealPeople
SCENE OF THE SEEN



Left:
Wendy Watkins, Blackrock;
Bill Watson, CRI;
Suzanne Murphy, Blackrock

CRI HOLIDAY PARTY

CRI, the oldest Herman Miller dealership in San Francisco, got the season rolling with their annual Holiday Party. This year's theme was the North Pole and as always the crowd was a great cross section of members from the design, business and real estate communities. The emphasis for the evening was on just having a good time. If guests insisted on talking about business it was because the general buzz in the room is that 2011 is looking decidedly better (knock wood) than the last couple of years.

Right:
Tom DiRenzo, CRI;
Amy Tamburro, HooksASD;
Brian Trainor, The CRE Group

Below:
Jennifer Merrit, CRI;
Joe Garcia, VISA;
Jaimee Arent, CRI

Left middle:
Mark Vignoles, Service West;
Joseph Grace, CRI;
Charles Uehrke, Huntsman Architecture

Left:
Kristen Steer, Pollack Architecture;
Loree Lee Harper, Everyone's favorite Snow Queen; Tuan Luov, Pollack Architecture

Right:
Malee Ackerman, Pollack Architecture;
Scott Clement, Pollack Architecture;
Joseph White, Pollack Architecture;
Greg DuMont, Huntsman Architecture

Below:
Kristen McCarthy, CRI; P. J. Cosgrove, Barnegat Group;
Eric Ibsen, FME Architecture

Right:
Mina Mourelatos, Wilson Sonsini Goodrich & Rosati; Kate Berezich, Studios Architecture;
Edna Wang, Studios Architecture;
Tamara Roth, Studios Architecture

PHOTOS COURTESY OF **COURTNEY KUHLMAN**

COMMERCIAL LEASES

Address	City	Lease Sq. Ft.	Tenant/Rep/Brokerage	Landlord/Rep/Brokerage	Notes
Alameda County					
1345 Doolittle Dr, Suite F	San Leandro	178,090	Sloat Brothers, dba The Annex/Paul Mueller (Cornish & Carey Commercial Newmark Knight Frank)	AMB Property Corp./Greig Lagomarsino & Casey Ricksen (Colliers International Oakland)	Tenant Expansion; Leased two separate spaces (34,238 SF & 143,852 SF); Leases are coterminous
3624 & 3623 Munster Ave	Hayward	108,640	Hawaiian Express Service	UBS Realty Investors LLC/Joe Fabian (Cornish & Carey Commercial Newmark Knight Frank)	Warehouse
38503 Cherry St	Newark	75,658	RB High Tech Transport/Greig Lagomarsino & Joe Yamin (Colliers International Oakland)	DCT Cherry Street CA LP/Greig Lagomarsino & Joe Yamin (Colliers International Oakland)	Tenant Renewal; Expansion
1266 14th St	Oakland	40,520	Lincoln Child Center	ABM Industries/Andrew Schmieder, Jim Clark & Jeff Lahr (Cornish & Carey Commercial Newmark Knight Frank)	Warehouse
30300 Whipple Rd	Union City	40,000	L. Kee & Co. / Lee & Associates Oakland	RREEF/Mark Maguire (Colliers International Oakland) & Cassidy Turley BT Commercial Oakland	New Lease, 6M
4155 Hopyard Rd	Pleasanton	34,224	iTradeNetwork/Brian Lagomarsino (Colliers International Pleasanton)	ADP/Cushman & Wakefield Walnut Creek	Office/Flex - Sublease
1610 5th St	Berkeley	33,551	Annies, Inc./Steve Crocker (Colliers International Fairfield)	Cedar 4th Partners/Aileen Dolby & Benjamin Harrison (Colliers International Oakland)	New Lease, 60M
703-721 Sandoval Wy	Hayward	31,680	Hantel Technologies/Dan Bergen (Colliers International Pleasanton)	Fatehyar Hayward LLC/ Cushman & Wakefield Oakland	Renewal
1610 5th St	Berkeley	26,522	Advanced Food Concepts, Inc./Cornish & Carey Commercial Newmark Knight Frank	Cedar 4th Partners/Aileen Dolby & Benjamin Harrison (Colliers International Oakland)	New Lease, 87M
39677 Eureka Dr	Newark	26,324	Sierra Wireless/Michael Spiro & Steve Kapp (Cornish & Carey Commercial Newmark Knight Frank)	Broadreach Capital Partners	R&D
7177 Amador Plaza Rd	Dublin	25,377	Jo-Ann Stores/Jim Shepherd (Cornish & Carey Commercial Newmark Knight Frank)	Red Mountain Asset Fund I, LLC	Retail
44911 Industrial Dr	Fremont	24,100	AVP Technology, LLC/Joe Kelly & Rob Shannon (CB Richard Ellis)	Investment Building Group/ Joe Kelly & Rob Shannon (CB Richard Ellis)	Warehouse/ Distribution, New Lease
4671 Las Positas Rd	Livermore	22,368	Cruiser Customizing/Michael Lloyd, SIOR, (Colliers International Pleasanton)	Arroyo/Livermore Business Park LP/Michael Lloyd, SIOR (Colliers International Pleasanton)	Renewal
1968 Williams St	San Leandro	21,890	Customer First Warehouse Services/Doug Pearson (Lee & Associates)	Lowenberg Corporation/Greig Lagomarsino, Mark Maguire & Kevin Hatcher (Colliers International Oakland)	New Lease
1968 Williams St	San Leandro	21,890	Customer First Warehouse Services, Inc./ Lee & Associates Oakland	Lowenberg Corporation/Greig Lagomarsino, SIOR, Mark Maguire & Kevin Hatcher (Colliers International Oakland)	New Lease, 26M
4160 Dublin Blvd	Dublin	21,413	Health Services Benefit Administrators Inc/Michael Lloyd, SIOR (Colliers International Pleasanton)	Tishman Speyer/Brian Lagomarsino & Ted Helgans (Colliers International Pleasanton)	N/A
14492 Doolittle Dr	San Leandro	20,000	Consolidated Electric/Mike Barry (CB Richard Ellis)	Rousight Properties/Craig Hagglund (Lee & Associates)	Warehouse/ Distribution, Renewal
4569 Las Positas Rd	Livermore	19,988	Ferrotec (USA) Corporation/Hitoshi Takahashi (Colliers International San Jose)	Arroyo/Livermore Business Park LP/Michael Lloyd, SIOR (Colliers International Pleasanton)	Expansion
1333 Broadway	Oakland	18,137	USDA (United States of America)/Carpenter/ Robbins Commercial Real Estate, Inc.	CIM Group/Ken Meyersieck, Trent Holsman & Scott Greenwood (Colliers International Oakland)	New Lease, 120M
6920 Koll Center Pkwy	Pleasanton	16,854	Simbol Mining Corporation/ The Staubach Company Walnut Creek	PJMB Commercial/Mike Carrigg (Colliers International Pleasanton)	Renewal & Expansion
7979 Gateway Blvd	Newark	14,713	iMany/Luke Wilson, Phil Arnautou (Colliers International Redwood City) & Jim Abarta (Colliers International Pleasanton)	Biomed Realty Trust/Gregg Domanico & John Olenchalk (GVA Kidder Mathews San Francisco)	R&D/Office
6210 Stoneridge Mall Rd	Pleasanton	12,170	Chicago Title Company/Brian Lagomarsino (Colliers International Pleasanton)	UBS Realty Investors LLC/Brian Lagomarsino, Ted Helgans & Gabe Arechaederra (Colliers International Pleasanton)	N/A
1497 Zephyr Ave	Hayward	11,696	Royal Cabinets/Brennan Carpenter (Colliers International Oakland)	RREEF/Greig Lagomarsino & Rick Keely (Colliers International Oakland)	3 Years
2602-2638 Barrington Ct	Hayward	11,000	Sign & Post, Inc./Shawn Klein (Cornish & Carey Commercial Newmark Knight Frank)	Barrington Industrial I, LLC/Colliers International: Greig Lagomarsino, Joe Yamin & Sean Sabarese	New Lease
6723 Sierra Ct	Dublin	10,000	Advantec MFS Inc/Cassidy Turley BT Commercial Pleasanton	Pacific Gulf Properties Inc/Mike Carrigg (Colliers International Pleasanton)	Renewal
1999 Harrison St	Oakland	5,563	Brightsource Energy/Ken Meyersieck & Trent Holsman (Colliers International Oakland)	Beacon Capital Partners/Ken Meyersieck & Trent Holsman (Colliers International Oakland)	Expansion, 42/m
2540 Barrington Ct	Hayward	4,800	Amon Foods/Paul Mueller (Cornish & Carey Commercial Newmark Knight Frank)	Barrington Industrial I, LLC/Greig Lagomarsino, Joe Yamin & Sean Sabarese (Colliers International Oakland)	New Lease

COMMERCIAL LEASES CONTINUED

Address	City	Lease Sq. Ft.	Tenant/Rep/Brokerage	Landlord/Rep/Brokerage	Notes
Contra Costa County					
2140 Wilbur Ln	Antioch	26,000	Iron Horse Logistics, LLC/Tyler Epting & Graden Travis (Cornish & Carey Commercial Newmark Knight Frank)	D.R. Stephens & Company/Tyler Epting & Graden Travis (Cornish & Carey Commercial Newmark Knight Frank)	Industrial
San Francisco County					
45 Fremont St	San Francisco	19,027	Sun Run Generation/Donnette Clarens, Karl Baldauf, Shannon Dolan, Tom Sweeney & Lori Sweeney (Cornish & Carey Commercial Newmark Knight Frank)	Black Rock, Inc./Donnette Clarens, Karl Baldauf, Shannon Dolan, Tom Sweeney & Lori Sweeney (Cornish & Carey Commercial Newmark Knight Frank)	Office
101 New Montgomery St	San Francisco	9,593	Transpera/Brad Van Linge & Liz Hard (Cornish & Carey Commercial Newmark Knight Frank)	Teach For America	Office
1 Kearny St	San Francisco	9,533	Herman Miller Incorporated/Scott Nykodym (CB Richard Ellis)	Joseph & Maria Fang/Jim Sobel (Colliers International)	Class A Office, New Lease
San Mateo County					
1111 Bayhill Dr	San Bruno	13,722	Paychex North America/Michael Maroon (Acclaim Group)	Equity Office/Brian Beswick (CB Richard Ellis)	Class A Office, New Lease
1500 Fashion Island Blvd	San Mateo	13,118	Success Factors/Jon Moeller (CB Richard Ellis)	Corac, LLC/John Kraft (Cornish & Carey Commercial Newmark Knight Frank)	Class B Office, Expansion
590 Taylor Wy	Belmont	11,000	Community Resource Project/Bob McSweeney & Ryan Walsh (CB Richard Ellis)	Ernest and Shirley Cox Trust/Bob McSweeney, Ryan Walsh (CB Richard Ellis)	Manufacturing, New Lease
1260 Oddstad Dr	Redwood City	9,600	Dennis Uniform MFG Co./Direct	SBN, Inc./Bob McSweeney (CB Richard Ellis)	Warehouse/ Distribution, Renewal
Santa Clara County					
950 Maude Ave	Sunnyvale	287,644	Hewlett-Packard Company/Rod Scherba, Jack Troedson, Phil Mahoney & Jay Belquist (Cornish & Carey Commercial Newmark Knight Frank)	RREEF/Rod Scherba, Jack Troedson, Phil Mahoney & Jay Belquist (Cornish & Carey Commercial Newmark Knight Frank)	Office
100 Mathilda Pl	Sunnyvale	257,184	Broadcom/Andy Poppink (Jones Lang LaSalle)	SPF Mathilda/Jeff Houston (CB Richard Ellis)	Class A Office, Expansion
90 Rio Robles St	San Jose	53,889	F5 Networks/Thomas Taylor & Vince Machado (CB Richard Ellis)	Equity Office/Scott Prosser (CB Richard Ellis)	Class B R&D/Flex, New Lease
3099 Orchard Dr	San Jose	51,105	TriQuent Semiconductor/Thomas Taylor & Dave Fukuda (CB Richard Ellis)	Orchard Drive Investors, LLC/Chris Shafer (Cornish & Carey Commercial Newmark Knight Frank)	Class B R&D/Flex, New Lease
2075 Zanker Rd	San Jose	27,000	Fine Tec Computer/Todd Husak (CB Richard Ellis)	Fox Creek Fund/Mark Christierson (CB Richard Ellis)	Class B R&D/Flex, New Lease
555 Ellis St	Mountain View	28,137	Diamond Systems Corp./George Quinn (Colliers Parrish)	Solar Ellis JV/ Dave Conklin & Geordie McKee (Renault & Handley)	R&D, 60M

COMMERCIAL SALES

Address	City	Property Size	Buyer	Seller	Sale price	Price/ Sq. Ft.	Project Type	Brokers
Alameda County								
901 Page Ave	Fremont	506,490	Stockbridge Capital Group, LLC	OMP Page LLC	42,500,000	$83.91	Investment Sale	Greig Lagomarsino (Colliers International Oakland); Rob Shannon & Darla Longo (CB Richard Ellis)
2701 8th St	Berkeley	20,038	Jonah Henderickson	BEBHS	N/A	N/A	Land	Aileen Dolby (Colliers International Oakland)
Contra Costa Country								
2300 Camino Ramon	San Ramon	67,871	Kaiser Foundation Health Plan Inc	VIF ZKS Norris Tech Center LLC	N/A		Office	Buyer Rep: Jones Lang LaSalle Walnut Creek Seller Reps: Marshall Snover & Ted Helgans (Colliers International Pleasanton)
Santa Clara County								
50 Las Colinas Ln	San Jose	18,272	Maria & Brandon Coker	Colinas Partners	$3,053,276	$167.10	R&D/Flex	Buyer Rep - Bill Steele (Grubb & Ellis) Seller Rep - Christian Marent (CB Richard Ellis)

FINAL OFFER

› TONY **NATSIS**

In this Together

By **Sharon Simonson**

Tony Natsis, chairman, real estate department, Allen Matkins Leck Gamble Mallory & Natsis

When the Great Recession washed over American shores in late 2008, predictions arose (with obvious logic) of an increase in commercial ties between U.S. public and private sectors. With government resources more constrained than ever and the better-capitalized private sector desperate for work, the formula seems utopian: It matches interests with seeming perfection and results in infrastructure like roads and buildings that should support long-term collective prosperity, a perfect reason to increase public debt. The method has been used widely in Europe and the U.K. for decades.

Some 24 months hence, the state of California is a giant testing ground for the approach on this side of the Atlantic. Three massive public-private ventures are unfolding in the Bay Area, each embracing a different structure: the construction of the $200 million UCSF Neurosciences lab at Mission Bay; the $1 billion replacement of San Francisco's Doyle Drive with the Presidio Parkway; and the $2.3 billion sale of 11 state buildings, including two in San Francisco and one each in Oakland and Santa Rosa.

Attorney Tony Natsis is representing parties in all three transactions. Natsis is the quintessential real estate deal attorney. His client list includes the most well-heeled of U.S. institutional players, including Boston Properties and Kilroy Realty. Natsis also assisted the Blackstone Group in its $43 billion purchase of Equity Office Properties Trust in 2006, perhaps the ultimate symbol of commercial real estate's recent boom.

Public-private partnerships, of course, are not utopian in practice. The state buildings' sale, to a partnership led by Hines, has sparked the inevitable legal challenge, now unfolding in San Francisco in state Superior Court. The complaint raises the threat of private gain at the loss of public patrimony, and more broadly points to the political risk these deals embody.

There are other caveats for these public-private arrangements, too. The structures are designed to keep debt from public books by putting it onto private ledgers. But they still represent greater public obligation. That may or may not be prudent for the state or developers, who assume the risks of underwriting a public entity, which is not the sure bet it once was. Given current realities, however, the deals will likely proliferate.

You represented San Francisco's McCarthy Cook & Co. and Edgemoor Real Estate Services, a subsidiary of general contractor Clark Construction, in the partnership to build the UCSF Neurosciences Laboratory and Clinical Research building. How does that arrangement work?

TN › In this case, UCSF owns the land and ground leases it to a single-purpose, non-profit entity. That entity issued bonds. The developer is the sub-ground lessee from that entity. The developer leases the land and the building back to UCSF, and UCSF pays the rent using money from endowments and other similar sources. The developer makes money with a development fee and an ongoing operating fee for 30 years. The state can lay off the risk of cost overruns and construction problems on the developer. The state and UCSF also lay off the expense of repair and maintenance and additional capital improvements on the developer. The agreement gives UCSF some caps and restrictions on what the developer can pass through. So with the development piece, you control cost overruns and with the management piece you control operating expense overruns, and you understand the entire economic package even though it is over 30 years.

What is happening at the Presidio?

TN › At the Presidio they are using a public-private partnership to do the [1.5-mile] remake of Doyle Drive into the Presidio Parkway. Caltrans (the California Department of Transportation) didn't want to issue bonds. It wanted someone else to come up with the money to finance the $1.045 billion project. So Caltrans is leasing the easement rights from the Presidio Trust to a developer, who will borrow the money and whom Caltran will re-pay over time. The developer puts some money into its pocket from development and management fees.

The Presidio Trust, which is whom I represent, is granting the easement. The existing easement doesn't work. It was originally struck in 1933, and the outline of the property is no longer the same because the road is aligned differently. We also need to accurately reflect what is getting built.

The day the roadway is all done, the developer will need a new permanent easement to accommodate the new structure. The banks lending the $1 billion to the developer are going to be relying on that easement, just as they are relying on Caltrans to pay the lease.

The Doyle Drive-Presidio Parkway deal is cutting-edge. These kind of arrangements are going to continue because they do not involve floating any [public] bonds. At the end of the lease, the state will own the road.

Explain the state's building sale.

TN › Another public-private partnership is the Golden State Portfolio sale of 11 state of California office buildings for $2.33 billion. I represented the buyer in that transaction, California First LLC, a partnership between Hines and Antarctica Capital Real Estate LLC, (an international private equity firm with operations in the United States and India). Hines, which already has a bunch of state assets it operates, will run these buildings as well.

This structure is basically one that corporate America has been using for a number of years to create cash flow. They take their wholly owned assets, sell them, then do a lease-back. The state will occupy the buildings as the tenant, and in this case the buyers are running the buildings. The rent under the lease is used to repay the debt assumed by the buyer plus some return to the buyer.

Some of the proceeds of the deal are supposed to be used to balance the state's operating budget. There were $1.09 billion in existing lease-revenue bonds encumbering the buildings that had to be defeased. But the sale is to generate close to $1.3 billion in net cash proceeds. ■