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## SILICON VALLEY / SAN JOSE Business JOURNAL

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# Gregory M. Davies: More tenants look at larger office, R&D space

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Gregory M. Davies is a vice president in the Santa Clara office of **CPS** (which will be known as **Cassidy Turley CPS** on March 1). He specializes in representing owners and users of office and research-and-development space. Since 2002, when he re-joined CPS, he has leased more than 1.8 million square feet and sold nearly 836,000 square feet of property representing a combined value of more than \$227.1 million. His institutional clients include **Rreef/Deutsche Bank, Equity Office** and **Legacy Partners Commercial**.



Vicki Thompson

Gregory M. Davies,  
vice president of CPS

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Q: What's in store for 2010?

A: We expect to see more leases of new space rather than renewals as companies begin to capitalize on perceived value in the marketplace. Renewals usually constitute about 20 percent of leasing activity in a given year. In 2009 renewals constituted 46 percent of all leases. It's early in the year, but it feels like things have turned the corner. We're seeing activity in high-quality space in more prominent locations. In Sunnyvale we recently saw **Rambus Inc.** taking 130,000 square feet in Moffett Towers and **Cortina Systems Inc.** leasing 62,000 square feet at Bordeaux Centre. Those were location plays.

Mountain View will benefit in 2010 and 2011 as **Symantec Corp.** relocates its headquarters from Cupertino to the former Veritas campus on Ellis Street and other nearby buildings. The company subleased a 75,000-square-foot building last June and are expected to take more space in the coming year or two.

Q: Do you see that continuing?

A: Yes. Brokers are seeing a lot more activity in some of the larger spaces. More than half a dozen companies in Silicon Valley are currently looking for spaces larger than 100,000 square feet. That would suggest something of a turnaround in 2010. Consider that in 2009, there were a total of 10 office and R&D deals, excluding renewals, on spaces larger than 100,000 square feet.

Q: What's leading clients to look at these bigger leases?

A: High-quality space is available at competitive prices in locations such as Moffett Towers, Riverpark Towers and Java Metro Center. Most of the new space that was built "on spec" — before a tenant had been secured — is priced between \$2.25 to \$2.75 per square foot, with \$25 to \$40 per square foot tenant improvements. Legacy's America Center is the only project currently priced less than \$2 per square foot.

Q: Are companies pursuing longer-term leases because rates are lower?

A: Yes, we're starting to see more requirements in the market for seven- to 10-year deals. There does seem to be a perception that prices have come down and there are opportunities, even if it involves moving people into a smaller facility. Eighteen months ago it seemed like most users were just ducking for cover and postponing most major real estate decisions.

Q: How are the landlords approaching this?

A: There's an obvious concern on the implications of locking in long-term leases at today's lower rates, although this is more of an issue in some markets than others. In areas with 20 percent or greater vacancy such as Milpitas and Fremont, the question is, "How do I get it leased?" rather than "How long of a term do I want to agree to?" By comparison, in markets such as Palo Alto or Mountain View where rents historically recover first, there is greater consideration of the value implications of longer lease terms.

Q: What are some other leasing trends you're seeing?

A: Tenants are paying attention to spaces with proximity to light rail and Caltrain, especially those stops served by the "Baby Bullet" express train. Downtown and South Mountain View have seen this, as has Palo Alto and downtown Sunnyvale. Many younger professionals, especially those who live in high-rise condos in San Francisco or in peninsula suburbs, for example, prefer to commute by train and will look for employers who are near rail lines.

At the end of 2009, vacancy in downtown Mountain View was less than 10 percent, when it was nearly double that for the valley as a whole.

In downtown Mountain View, **Playdom Inc.** leased nearly 20,000 square feet at 100-200 Evelyn Ave. near the Caltrain station and light rail. **Mozilla** also relocated and expanded its headquarters from Shoreline Business Park to 650 Castro St. in the same area.

In downtown Sunnyvale, **J.P. Morgan** closed four lease deals at 100-150 Mathilda Place at the end of the year, including **Headstrong**

**Corp., Return Path Inc.**, Kayak.com and an expansion for **Broadcom Corp.**

Tenants are also paying attention to the proximity of amenities within walking distance. Employees like to be around places to eat and shop. So if you want to meet that need as an employer, you either have to have a corporate campus with a cafeteria and gym or be close to these types of businesses.

Q: What do you see in the future for development of office and R&D?

A: Nothing has been built on spec for quite a while, and that won't change in the foreseeable future. First we have to reach "equilibrium," which is usually considered to be a vacancy rate of around 10 percent. Currently the office vacancy rate is 26.5 percent. The first step is for more space to be leased this year than is put back onto the market, and 2010 seems to be heading in that direction. It's going to be a challenge. We're a long way from getting through this. Business will have to improve so companies will start hiring again and need more space. But I believe there's a lot to be optimistic about.

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