



focus on...

M4 Office Market

“New technology advances.”

“Technology companies have begun recruitment programmes in response to increased customer spending.”

“Corporate acquisitions are on the increase.”

MARKET INFLUENCES

If the UK's M4 corridor business region continues to take some of its influences from Silicon Valley, it is interesting to consider the considerable events which took place there during a recent four-day visit by members of our team.

Day 1

- Biopharmaceutical company Acologix secured a second round of venture funding of nearly \$40 million.
- IBM introduced a new software strategy, which could loosen Microsoft's grip over desktop office software.
- Intel unveiled three new processors for notebook computers in a major push to market wireless computing to consumers.
- 7,500 job cuts were announced by MCI - about 15% of its workforce - as a result of weak revenues, which resulted in a quarterly loss of \$388 million.

Day 2

- Openwave Systems announced that it would buy British firm Magic4.
- Cisco outlined plans to increase its workforce by 1,000. Most of the new staff would be in the US.

Day 3

- SAP and Microsoft revealed plans to extend their alliance to make the German company's programme more compatible with the Windows operating system, as customers continue to demand better integration.
- It was announced that the Federal Communications Commission was expected to propose an intention to allow unlicensed wireless services to use vacant airways between TV stations.

Day 4

- Hewlett Packard agreed to buy Manage One and UK-based CEC Europe Service Management to expand its consulting and customer services business.
- It was announced that many technology companies have begun recruitment programmes in response to an increase in customers buying software, hardware and consultancy services.
- Dell reported strong quarterly earnings and said that US business spending on technology was finally coming back. It commented: "This has been the best quarter in our US corporate division in three years."

COLLIERS
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M4 Office Market

“Total supply of space in Silicon Valley declined for the second consecutive quarter.”

“Overall availability is 21.12% but some supply is too old to be re-occupied.”

“There is renewed economic optimism but vacancy rates remain largely flat.”

How is the property market faring?

Total supply of available space in Silicon Valley declined for the second consecutive quarter, albeit modestly. Current availability stands at 66.14 million square feet, down from 66.43 million square feet at the beginning of the year. Overall availability is 21.12% - slightly down from its peak of 22%. However, in reality, it could be argued that total supply is actually less, as some of this property is unlikely to ever be reoccupied, owing to its age.

There is still renewed economic optimism, but, while some companies are expanding, many others are reducing their space requirements and the net result is that vacancy rates remain largely flat.

Some businesses are taking advantage of the market conditions and upgrading their Silicon Valley presence, but the more established Silicon Valley companies are not anticipating a need for expansion this year. Likewise, employment gains are expected to be modest. The California Employment Development Department has reported that most new jobs are being derived from the semiconductor industry, which continues to report encouraging figures.



Aside from the semi-conductor industry, two other notable areas of technology are:

Wi-Fi Technology (Wireless)

Wi-fi is spreading and coffee shops and airports are erecting 'hotspots', which allow anyone within 100 metres to access an internet network. This is the new alternative to accessing the internet via mobile phone networks, which is slow and expensive.

This is all good news for companies like Intel, Texas Instruments and Agere Systems, which make wi-fi equipment and the chips which drive it. The chips are getting more sophisticated by the day and that means a lot more appliances to come.

The FT reports that wi-fi's problem is that it only works over 100 metres or so. However, Intel is creating a system called Wi-max, which will allow high-speed, wireless internet access over 30 miles. It expects the system to be operational next year.

This new technology will make it easier to create large 'hotspots' and will help media firms to solve the problem of getting cables into every house. It should also be a major factor in markets such as China, where the cost of putting in fibre optic networks from scratch would be huge.



GOOGLE, MOUNTAIN VIEW

Nano Technology

Imagine a medical device which travels through the human body to seek out and destroy small clusters of cancer cells before they can spread. Or a box no larger than a sugar cube, which contains the entire contents of a library. Or materials lighter than steel which possess ten times the strength. This is nano technology.

Already, clothing manufacturers Levi and Gap utilise nano fibres, which bind in the fabric to create an invisible barrier and protect it from the effects of spillages like red wine and coffee. Many car manufacturers use protective car door mouldings containing nano composites. L'Oreal blends liquid nano particles into moisturisers to help them penetrate deeply into the skin and Eastman Kodak has begun to market a digital cameral whose widescreen incorporates a nano component.

Each year, there are more than 1,200 nano technology start-ups in the US, according to the Nano Business Alliance. These range from companies like Nano-Techs, which makes the stain resistant fibres for trousers, to Cybex, a company which supplies tools, structures and materials to other nano technology companies.

“Wi-fi is the new alternative to accessing the internet.”

“Wi-fi will be a major factor in markets like China.”

“Nano technology combines the old and new economies.”



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Some of the old economy companies are also prevalent in the industry. General Electric has cited nano technology as a major trend for future investment, along with dynastic medicine and renewable energy, both of which are likely to be heavily shaped by nano technology.

How does this all relate to office demand and M4 office occupiers? Will this generate demand?

We will leave it to our readers to draw their own conclusions, but the Thames Valley is the UK home to many of the world's largest corporations, including a number of Silicon Valley occupiers. The following issues affect markets worldwide and must surely influence demand in the M4 corridor:

- IBM no longer only looks after data centres, but now runs, for example, BP's entire finance and accounting functions worldwide and Proctor & Gamble's HR Department. It is also handling after-sales product support for Cisco and Philips.
- Dell continues to produce more sophisticated products and has formed partnerships with organisations like EMC and Oracle. The company grew by 17% last year.
- Microsoft is telling customers that if they use its software platforms, the efficiencies they will gain will match anything IBM says it can do.
- Microsoft CEO, Steve Ballmer, sits on the board of Accenture, a vast IT strategy consulting vehicle - what if this evolves beyond their current small joint venture?
- ...and you may recall that Hewlett Packard failed to buy a major management consulting company during the last technology boom.

As a final thought, IBM CEO, Sam Palmisano, believes there is around \$500 billion of untapped growth in the global IT market, which implies that this sector could grow by up to 50%. If it does evolve, there will be another huge change in the way in which companies operate.

But recent weeks have seen a slew of profits warnings from the technology sector, with software and hardware companies cautioning that business "softened" in the second quarter of 2004. Veritas Software, Siebel Systems and PeopleSoft are among those mentioned and all have a presence on the M4 corridor.

And finally...

A selection of recent Silicon Valley transactions, carried out by Colliers International:

- 120,000 sq ft letting to BMC Software
- 128,520 sq ft acquisition by Photon Dynamics
- Sub-letting of 506,000 sq ft in four buildings for Google, from Silicon Graphics
- 165,874 sq ft letting to Synnex Information Technologies
- 93,210 sq ft letting to Renesas
- 81,000 sq ft sale to KN TV Television

"IBM CEO believes global IT sector could grow by 50%."

"But recent weeks have seen a slew of profits warnings from the technology sector."

Our sources :

Fortune
FT
Colliers International
USA Today
San Jose Mercury News
Money Week

SOUTH EAST CONTACTS:

For a recent review of South East Offices please refer to www.collierscre.com

Agency and Occupier Advisory

Mark Taylor
Scott Rutherford
Toby Marden
Sam Resouly
Luke Hacking

Development and Funding

Adrian Clery

Rent Review and Lease Renewal

Mark Masefield
Chris Ridgway
Adrian Camp
Tim Haddon

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