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Silicon Valley construction and architect firms feel campus uptick6

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

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The flurry of tech companies leasing 100,000-plus-square-foot space has led to a sharp uptick in demand for tenant improvements in Silicon Valley.

Brad Gates, vice president of business development at **BCCI Construction Co.**, said the rise in tenant improvement work has been "very noticeable."

The increase is most pronounced in the South Bay Peninsula market, he said, with San Francisco not seeing as much demand.

"It's all connected to the tech sector, which is not surprising when you hear who's in the news with new big campus expansions and acquisitions," Gates said.

Indeed, for example, **Hewlett-Packard Co.** in April confirmed it was taking 1140 and 1160 Enterprise Way, nearly 400,000 square feet, at Sunnyvale's Moffett Towers to house recent acquisitions **Fortify Software Inc.** and **ArcSight Inc.** In March, Motorola Mobility Inc. leased 236,444 square feet there as well.

BCCI, which has offices in San Francisco and Palo Alto, has seen its revenue climb from 18 to 24 percent as compared to one year ago, Gates said. Revenue climbed to \$110 million in 2010 from \$91 million in 2009. Now the firm is projecting sales to climb to \$145 million in 2011, thanks in part to contracts like the one it was awarded to build out space for Skype Ltd.'s headquarters on 3210 Porter Drive at Stanford Research Park in Palo Alto.

BCCI completed Phase One, or 55,000 square feet, of the buildout in late December, and is gearing up to start Phase Two in the third quarter, according to Debbie Fleaser, vice president at BCCI, who oversaw the project. Phase Two will include another 20,000 square feet of tenant improvements, similar to those made in Phase One.

"We went in and pretty much demolished what was in there before," she said. "We brought it back to warm shell space and left duct work exposed."

The company has indicated it wants to densify the space in the second phase, Fleiser added.

In general, Gates said BCCI is doing larger buildouts compared to the recent past, where occupancy is denser compared to previous work. "We're seeing a lot upwards of 50,000 square feet," he said. "Companies are putting more folks into the same space where they used to put less."

San Jose-based design firm ReelGrobman has seen business increase by about 30 percent this year when compared to last, and 50 percent when compared to 2009, said President Win Roney. The 38-person company had \$15.2 million in revenue in 2009.

Mountain View, Cupertino and Palo Alto seem to be the hot markets, noted Roney.

"In general, most of these buildings are second, third and fourth generations," he said. "There was a push to have things plug and play, but there's not much of that left. Companies are having to make really extensive renovations in much of these buildings. So there's a lot of work."

Room to grow

Employers are also asking for more flexible designs as many companies are taking larger pieces of real estate in anticipation of expansions.

"They're being more creative in how they use space as they grow into it," Gates said.

In the past, BCCI has done work for **Verisign Inc.** and is just finishing up a project for **Synarc Inc.** in the Pacific Research Center in Newark. It also continues to do work for **Salesforce.com** in the San Francisco market and peninsula.

Arne Ericson, a partner with Menlo Park-based **Novo Construction Inc.**, is also busy. His firm is seeing an increase in business, thanks in part to tenant improvements.

"We'll pass our peak volume from 2007-2008 already this year," he said. "I think we'll see backlog building into next year as well."

As evidence of increased demand, Novo brought on 20 new workers in the last six months, bringing the firm's headcount to 130. Novo posted \$122.6 million in revenue in 2009.

The firm counts some of the biggest names in tech as its anchor accounts, including **Cisco Systems Inc.**, **Apple Inc.**, **Oracle Corp.**, **Ericsson Inc.**, **VMware Inc.** and **Genentech Inc.** Many of the Novo's major projects have been in Palo Alto.

Recently, Novo was tapped by Dell to build out their 240,000-square-foot Silicon Valley campus in Santa Clara. The firm is also building Riverbed's new 110,000-square-foot

campus at 525 Almanor Ave. in Sunnyvale and just finished AOL's West Coast 225,000-square-foot headquarters at 395 Page Mill Road in Palo Alto.

Nearby Sunnyvale, home to Moffett Towers, is a terrific example of a jump in activity. The 950,000-square-foot property sat empty for about three years. It was a tenant's market, Ericson said. But now the tide is turning, with tenants having "far less choices," and having to compete for large spaces.

As for buildouts, firms are seeing increased requests for more modern and open, collaborative spaces.

"Five years ago, putting people in standard 8-by-8 (foot) cubicles was the model for most companies," said ReelGrobman's Roney. "But that's not the rule of thumb anymore."

BCCI actually went through a series of exercises with Skype to see if their space should be more open or acoustical.

"They opted for the open feeling," Fleser said.

Ericson agrees that the open concept is a trend.

"The idea of the privacy of private offices where people can retreat seems to have really gone away," Ericson said. "They just want a cool place to come to work."

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