

## Tech Companies Calling UTC “Home”

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**S**an Diego has a highly diversified economy, a primary driver of which is the technology sector and its ongoing creation of new companies and jobs. Over the last 20 years, Sorrento Mesa has developed as the “center of gravity” for San Diego tech companies. With an abundance of cheap office space, free parking, and R&D lab space, Sorrento Mesa had attracted technology companies looking for value and functionality. Over that same time, UTC had become a financial center, also attracting business service companies in real estate, insurance, accounting and law. Those same business service industries have been hard hit by the last two years’ recession, and those sectors won’t be growing for many years to come.

The nature of how tech companies use space has changed over the last decade, whereby most tech companies use open office space for their software, Internet, wireless, or other business purposes—they generally don’t need manufacturing/R&D space that makes up much of Sorrento Mesa. Tech companies now can use high rise office space as easily than they can use Sorrento Mesa R&D space. In terms of pricing, the softening of the UTC office market has brought rents down to \$1.90-\$2.40 full service gross (including all operating expenses, janitorial and utilities charges). These rents are marginally more rent than tech tenants have been paying for comparable office space in Sorrento Mesa. Thus, a perfect storm formed in UTC over the last year. A tenant could lease panoramic view office space in a UTC Class A building, with the best amenities in the region and excellent freeway ingress/egress, and pay a bit more than Sorrento Mesa office/flex buildings, which generally look at parking lots, lack in amenities and have impacted traffic. But how was UTC going to seize the day to take advantage of this value advantage and move the glut of office space that peaked in early 2010 at 32% availability? Further, how could UTC capture the recovery’s leading edge when the technology companies leading that recovery often didn’t consider UTC in their search for space?

A year ago, I went to The Irvine Company, and suggested that they needed to strongly consider donating a floor of UTC office space to Commnexus for Commnexus to move their Evonexus incubator from Sorrento Mesa to UTC. Commnexus was losing its free space that Cricket Communications had so generously donated, and Anonymizer before them, both in Sorrento Mesa. Giving away free space isn’t how landlords fuel their financial model, as one can imagine. But I thought to myself “Who has the most to gain in the region by seeing Evonexus become successful and sustainable...and where?” The Irvine Company is the largest landlord in UTC, owning approximately 67% of the Class A market. With UTC having the most office space square footage available in the County, The Irvine Company in UTC was a natural conclusion. I explained to The Irvine Company team that Evonexus was incubating the next generation of San Diego’s hot tech and healthcare companies, and if The Irvine Company could draw Evonexus to UTC from Sorrento Mesa, it would begin to change the center of gravity for tech companies in the region. I further suggested to The Irvine Company that once start-up tech companies got a taste of doing business in UTC, they wouldn’t want to go back to Sorrento Mesa, or would do so only if the pricing discount to go back to Sorrento Mesa became material again. The Irvine Company took a gamble, made an investment of free space (other than parking and utilities costs), and gave an entire floor of office space for two years to Evonexus for Evonexus to play out its mission of incubating and mentoring companies.

So guess what happened next? We moved IO Semiconductor out of Evonexus, and they leased 5,000 square feet in UTC. Another client, Clustercorp, a new cloud computing software company, chose UTC over the Solana Beach area for 5,000 square feet. We moved Global Analytics from Sorrento Mesa to UTC for 4,000 square feet last month, and we just expanded Taaz.com in UTC for 5,000 square feet. We moved Science and Technology International from Hawaii, which is a medical device company, and they chose UTC as their new headquarters home. We are representing Verance in making a 13,000 square foot commitment to stay in UTC, and also Nirvanix looking to stay in UTC for 6,000 square feet. We helped Kratos stay in UTC for 34,000 last year, versus

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their extensive choices throughout Sorrento Mesa and the I-15 corridor. When we moved Provide Commerce into 154,000 square feet from Sorrento Mesa to UTC in September of 2009, they were pioneering!

Tech companies moving to UTC is a trend that is going to stick, as long as UTC rents continue to be marginally above Sorrento Mesa. Our firm doesn't represent The Irvine Company (or any other landlord in the leasing of space), nor do we have any financial interest in their success. But credit is due to The Irvine Company in UTC for their calculated gamble in support of our region's technology base. Among our region's landlords, they are getting it right. The Irvine Company is leading the region with reinvestment in their properties both on the outside with new landscaping, restaurants and amenities, and on the inside with new gyms, updated common areas and rebuilt restrooms. In UTC, they are retrofitting over forty of their outdated and obsolete office suites, putting in new state-of-the-art lighting systems and cutting edge carpeting and building materials. It's a "build it and they will come" strategy, with many millions of dollars being invested to bring older obsolete suites that were built 25 years ago for legal, financial and accounting firms, into contemporary, bright and open office space for a diverse set of industries. If you haven't seen UTC lately, give me a call, as it's not what it used to be...just don't expect the same deal I got for Evonexus!

*David Marino is Executive Vice President of [Hughes Marino](#), a San Diego commercial real estate company specializing in San Diego tenant representation and building purchases. Contact David at (619) 238-2111 or [david@hughesmarino.com](mailto:david@hughesmarino.com) to learn more.*