

## City Rejected Free Lease Negotiation Offer

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By Matt Clark

**T**he man who represented the city the last time it negotiated for downtown office space offered to renegotiate the deals for free — and the city said no.

Jason Hughes, president of the tenant representation firm Hughes Marino, made the offer in a letter to Mayor Jerry Sanders and the City Council in August. He estimates his offer to waive his commission was worth \$1.5 million to \$2.5 million.

Hughes thought city officials would quickly accept the offer, but they did not.

Instead, the city has told Hughes he can compete with other businesses during a competitive process, which may call for more work than he offered to do for free.

Sanders spokesman Darren Pudgil said the city does not have volunteers handle its large business transactions.

“The city gladly welcomes volunteers to help out at our libraries and recreation centers — but we don’t use them to conduct multi-million dollar transactions involving taxpayer money,” Pudgil said in an email. “We appreciate Mr. Hughes’ offer, but this work is being put to bid where all experts in this area will have the opportunity to compete for it.”

City Real Estate Assets Department Director James Barwick said the city is not interested in having a broker who will only negotiate its downtown leases. In order to house its employees for the littlest cost, Barwick said the city wants to examine options citywide and leverage all of its lease negotiations in attracting brokers’ lowest prices on the contract bid.

“I was a commercial real estate broker for 13 years, so I have a pretty good idea how it works,” Barwick said. “If you are offering large blocks of business, the commission rates are a lot lower and people will bid more aggressively. We don’t want to have more than one brokerage company working on it. That would make no sense.”

Barwick said he had only heard of Hughes’ offer second-hand until early April, when Hughes called him directly.

“If Mr. Hughes wants to bid, he is welcome,” Barwick said. “If his bid is zero, price is a component of our scoring matrix, and obviously on that part of the evaluation that is a pretty favorable score.”

The city expects to award the contract for lease negotiations in July.

One of the more pressing matters will be the city’s lease for 153,000 square feet of space at 600 B Street, near City Hall. That lease will be less than a year away from expiring, and some real estate experts say the city may be cutting it close for negotiating a good deal there.

Time is short to move out of that building before the current lease expires, so the city may have little leverage for the lease renegotiation.

When Hughes made his offer, the lease was a little less than two years away from expiring.

Jeff Baum, senior vice president of Mazirow Commercial in Los Angeles, said it is critical to start negotiating two years before a lease the size of the city's expires.

"The longer they wait, the less time they have to negotiate," Baum said. "The landlord is aware of that, and that they can't facilitate a move."

Barwick said the city did not start the renegotiation process earlier because now was the appropriate time to do it. He noted that the city's other two downtown leases don't expire for about two years. He said the city is confident it's in a strong position to renegotiate the expiring B Street lease.

"I'm not going to get into any leasing strategies," Barwick said. "I don't want to disclose how we plan to deal with it."

Hughes believes there may be politics at play in the city's decision not to take him up on his offer. He noted that in 2009 and 2010, he criticized the city's financial assumptions justifying construction of a new City Hall — a project that has since been placed on the back burner.

The city was proposing to house all its employees in a new \$293.5 million, 576,000 square-foot City Hall. Sanders told voters the project would save \$28 million over its first ten years by more efficiently housing employees, eliminating downtown leasing costs and avoiding renovations to the city's current, dilapidated digs.

Hughes said the city overestimated the cost of ongoing leases — which the city denies.

If Hughes gets the opportunity to renegotiate the leases, he stands to prove his leasing estimates were accurate. He says his pro-bono pledge stands and it is still possible for the city to save money, even with one of its leases a year away from expiring.

"I'm sure with our creativity and a lot of hard work, we can find some very good options for the city to create a leveraged environment, but this is not the position they should be in," Hughes said. "It upped the risk profile for this project significantly."

When asked if any laws would prevent the city from accepting a free offer, Barwick said the city would examine that if the need arises. He said whoever gets the bid will need to be dedicated to the city's needs.

"Very frankly, we anticipate that somebody who gets this contract is going to have to work very hard on it," Barwick said. "We are going to demand a lot."

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