

WORK+SPACE

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The New Rise of Downtown



By Star Hughes-Gorup

The twenty-first century has experienced a marked shift in the way that companies do business – and the lengths at which strong companies will go to attract top-tier talent. With the rise of tech giants such as Facebook, Google, and Apple, who have built incredible, Disneyland-esque campuses to delight and inspire their teams, there has been a global shift in attitudes toward office space and the impact it has on a company's culture.

There have always been high-end offices. Think Wall Street investment banks and mahogany-filled law firms. While styles in recent years have shifted from marble and wood paneling to glass, open ceilings, and polished concrete, a larger trend has also emerged. The change from building an office for your clients – to represent the firm's external appearance, reputation, and

brand – to building an office for your company. For the people who spend 40+ hours a week in a space that is their home away from home. For team members to enjoy, appreciate, and share with their local community. To help new talent realize their place in a company that cares enough about its team members to build an office where they are the sole focus. To retain employees, and to attract new ones. And to foster an environment of creativity, passion, and fun.

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Star Hughes-Gorup
Director
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It's All About Culture



We hear a lot of talk about culture these days. Page through any business publication and you're likely to read the word 'culture' at least a dozen times (this newsletter being no exception). There's a good reason for this.

Companies are finally recognizing that to be competitive in the marketplace they must invest in their teams in a way that business leaders of yesteryear probably never imagined. Today's high performing companies go to great lengths to create cultures that

foster teamwork, collaboration, creativity and ultimately success.

At Hughes Marino we believe in the importance of culture wholeheartedly, and our friends and followers know that our company's vibrant, family-like culture is no accident. It is the result of many years of intentional efforts to connect with our team in new and meaningful ways, build strong bonds, and amplify one another's strengths. It is also due in part to the beautiful, amenity-rich workspaces we've created where our team members come together every day. As proof that we are doing something right, **Entrepreneur** recently named Hughes Marino to its inaugural **Top Company Cultures** list, ranking us at #2 in the nation among small companies. As you can probably guess, we were stoked.

To celebrate, this issue of WORK+SPACE features stories about companies like ours that are investing in their teams by creating workspaces that promote great cultures. In some cases that means moving downtown to be closer to the neighborhoods where millennial employees want to live. In others it means building custom facilities complete with perks like an automotive shop where team members can pursue their passions.

While previous generations might not have understood it, business leaders today are giving culture the attention it deserves. It's a global shift in thinking whose time has finally come, and we are proud to be in the vanguard of companies that are embracing culture as the key to success.

Jason Hughes

President & CEO
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About Hughes Marino

Hughes Marino is an award-winning California commercial real estate firm that was founded on the belief that it is impossible to represent both tenants and landlords without a conflict of interest. Our team has been exclusively representing tenants and buyers for more than 25 years, delivering best-in-class service and unmatched expertise to companies across the nation.

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Hughes Marino

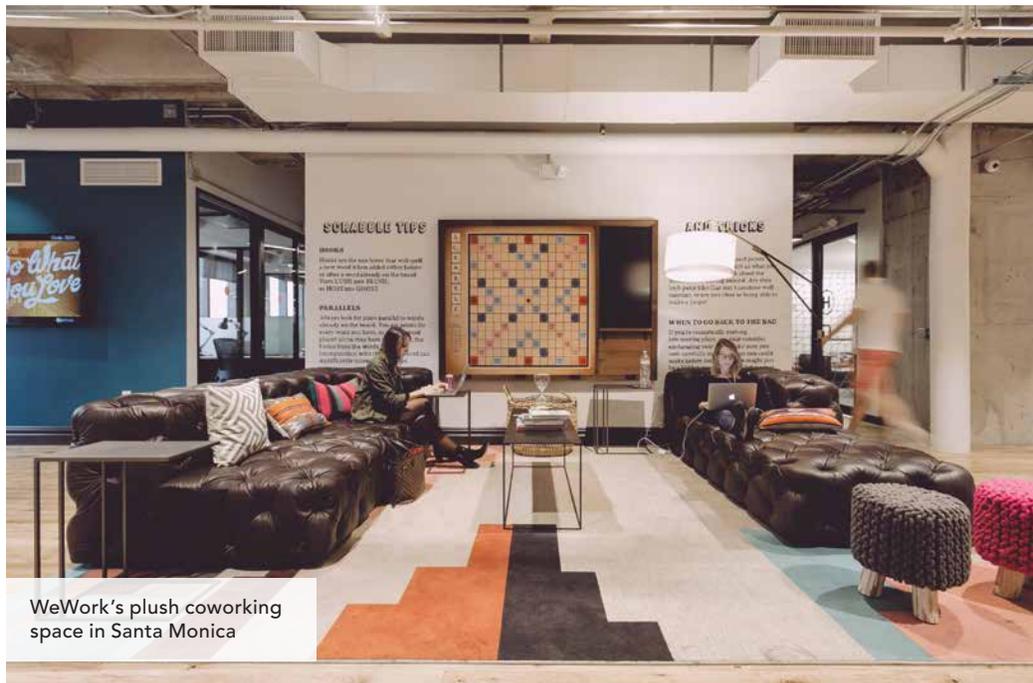
Because Where You Do Business Matters™

The New Rise of Downtown

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As the millennial generation slowly trades work-life balance for work-life integration, younger members of the workforce are increasingly attracted to offices that are not just places of business, but also part of their lifestyle. Take WeWork, for example. WeWork offers high-end coworking office spaces in lively, metropolitan parts of the biggest cities around the country. In these spaces, WeWork has cultivated a vibrant community of entrepreneurs, creatives, and freelancers who aren't willing to sacrifice their quality of life by working in a place that doesn't get them excited.

Something WeWork understands better than anyone is the importance of an office's location in making it attractive to young professionals. The majority of millennials opt to live in urban areas, and it's no surprise they prefer to work there too. Do you think the all-star talent employers seek would rather commute to the suburbs each day, where there are few restaurant options, and even fewer affordable housing options? Or would they rather live, work, and play in a fun, dynamic environment with more restaurants than they can choose from, live music venues, parks, activities, and



WeWork's plush coworking space in Santa Monica

lots of like-minded people? Companies are asking themselves these questions and realizing, more often than not, that their teams want to be downtown.

Not only that, but it is often in downtown areas where creatively minded companies find the most promising buildings to work with. It is in a city – not a suburb – that you'll find historic high-rises and brick warehouses intermixed with high-tech, modern architecture. This is where creative workspace design can flourish – and this is what inspires companies today to make more than just an office out of their space.

With this shift, most downtown markets across the country are experiencing rising rates and shrinking vacancies in their most desirable, high-end buildings. And as vacancies fall, downtowns grow out, creating whole new pockets in already dense areas.

In San Diego, where Hughes Marino is headquartered, the rise of downtown has led to a resurgence of the East Village, a thriving neighborhood where our ballpark, new central library, bars and clubs, and even professional schools are located. It's also where a sizable chunk of the millennial generation is choosing to live, as it's affordable and right in the heart of the action.

The companies who are seeking to cater to this young, urban population are rethinking the traditional office

space, transitioning to more team-focused layouts. They are spending money on things like art, statement furniture pieces, décor, and even fresh flowers delivered weekly to the office. They're building gyms, gourmet kitchens, and game rooms. They're upgrading furniture to best fit the needs of their team members, and investing in quality equipment such as ergonomic chairs, adjustable height workstations, and even treadmill desks! All of this has set a new standard for what "traditional" office spaces in the future will look like – and it's only going to get better from here.

It's an exciting time for downtowns everywhere, the companies that are flocking to them, and the young professionals who are working there. As millennials start to emerge as leaders in the workforce, the rise of downtown, and the reimagining of corporate office space that's gone with it, looks like a trend that's here to stay. □

Star Hughes-Gorup is a key member of Hughes Marino's industry-leading brokerage team, where she specializes in tenant representation and building purchases. Star also makes frequent media appearances to speak on business issues from a millennial perspective, and blogs at starhughesgorup.com. Contact Star at 1-844-NO-CONFLICT, or star@hughesmarino.com.



San Diego has one of the highest concentrations of millennials in the country.

Six Tips for Selecting New Office Space

By Tucker Hughes

For some business owners, the thought of moving into a new space is extraordinarily exciting, and for others, it may seem like an undertaking on par with climbing Mt. Everest. For the majority of business owners, an office move will evoke a combination of both these feelings. Make no mistake, there are plenty of things your broker will need to be thinking about during this process, but fortunately, the list of things that you must consider before you get started is relatively short. Here is a look at the six very important considerations to make when you're selecting new office space.

1. How Will My New Space Improve My Company Culture?

You may be surprised that this first consideration has nothing to do with cost. That's because studies have conclusively proven that the happier your employees are, the more productive your business will become. This is a big consideration when selecting new office space.

What if spending a few extra bucks per square foot could increase your productivity by 2 percent? Or, what if springing for a nicer office would enable you to attract the top talent in your industry? Isn't the cost per square foot less important than cultivating a sustainable culture of high productivity?

To illustrate, consider that you are trying to woo a stellar job candidate who is also being recruited by a competing company. Your company has offered a salary of \$105K. You have an office in the suburbs, where employees each have a cubicle.

In contrast, your competition is



Tucker Hughes
Director
Hughes Marino, Inc.

located in an urban setting near restaurants, shopping, and transportation. Their office is far livelier, and exponentially more convenient for young professionals who prefer to live downtown.

They offer that same recruit \$100K. The overwhelming majority of the time, that recruit will accept your competitor's offer.

To avoid this scenario, prioritize the impact that your space will have on your team, rather than splitting hairs over a few dollars. Consider how selecting new office space will impact your workplace culture.

2. Is My Broker Acting as a Dual Representative?

Unfortunately, in far too many transactions, brokers act as dual representatives. That means they may be working on your behalf as a future tenant, while simultaneously working for your future landlord. It is absolutely impossible for a broker to represent your best interests while, at the same time, trying to get the best deal possible for the property owner. Imagine for example, that you're being sued. You certainly wouldn't want your defense attorney to also be the prosecuting attorney.

Thanks to a California law known as SB 1171, which was pioneered by Hughes Marino President & CEO Jason Hughes, brokers are now required to

disclose their agency relationships in writing. If your broker reveals that he or she is working as a dual representative, run the other way. Better yet, to avoid any potential conflicts of interest when you are selecting new office space, seek out a brokerage firm that exclusively represents tenants and not landlords.

3. Where Do I Want My Company to be in 5 Years? 10 years?

Before you move your company, you'll want to consider the future growth of your business. This is crucial in determining an appropriate location for your business as you embark on selecting new office space.

For example, if you have plans to increase your work force substantially, you'll want to make sure that you don't move your business to a location where you risk exhausting the qualified work force. Likewise, you'll want to consider commute times for employees. Just because you have a home in the suburbs, doesn't mean that moving your office there makes sense (particularly if your employees all live in the city). It's worth repeating that a happy team of employees is a productive team, and making their lives easier with shorter commutes will go a long way.

4. Have I Seen Other Offices With the Design/Décor/Culture I Want?

Chances are, you've walked into an office at some point and thought "Wow! I wish my office was like this." Try to remember those spaces when you start envisioning your new office, as it will help you weed out the spaces that won't work. Moreover, if there are "must-haves" that your new office will require, you'll want to ask potential landlords how much they are willing to pay for improvements. Having a clear vision in mind as you begin the journey of selecting new office space will be helpful in eliminating potential spaces that will prohibit you (structurally or financially) from creating the office you crave.



5. What Kind of Reputation Does the Landlord Have?

When it comes time to start the search for selecting new office space, knowing the reputation of a particular property owner (for smaller buildings) or the property management company (for larger buildings) may save you a great deal of grief in the future. In general, larger, institutional buildings have sophisticated property management teams in place. They generally work with the best engineers and architects, and pride themselves on tenant satisfaction.

Likewise, many owners of single properties have excellent reputations. Others, however, do not. It is wise to ask around, and ask other business owners about the level of service they receive in their building. Are repairs made quickly, or is the air conditioning on the fritz for weeks at a time? Are they able to make improvements on their own if they can't reach their landlord? Knowing these answers in advance could save you from lost days of productivity in the future.

6. Who Will My Neighbors Be?

When beginning your search for selecting new office space, pay attention to the other tenants in the building. You wouldn't want your office to be right next door to your

competition, would you? Or, perhaps you want to look for space in a building where a complementary business is already housed. For example, a real estate agency may want to be in the same building as a mortgage lender or title company. Finally, there may be other businesses that you just don't feel comfortable being neighbors with, and it's certainly better to find that out ahead of time before you sign a lease.

This list on selecting new office space is by no means comprehensive — there are dozens of things to think about when choosing a new office space. However, these six considerations are important enough that you simply cannot afford to overlook them.

Remember that your decision to move to a new office should support a comprehensive real estate strategy designed to enhance your company culture, increase productivity, and ensure your business will be sustainable for years to come. If you're considering a space that doesn't do that, keep looking. □

Tucker Hughes is director of Hughes Marino's Orange County and Los Angeles offices, where he specializes in tenant representation and building purchases throughout Southern California. Tucker makes frequent media appearances to speak on the future of commercial real estate, and is also a regular contributor to *Entrepreneur.com*. Contact Tucker at 1-844-NO-CONFLICT or tucker@hughesmarino.com.

“TEN was looking for a cutting edge workspace that would bring out the best in its team, and help recruit and retain the best and brightest talent to its growing operation.”





TEN Transforms its Culture With Sleek New Santa Ana Space

By David Marino & Steven Gorup

Hughes Marino was recently selected by The Enthusiast Network (TEN) to locate, negotiate, and completely renovate a new office space and tech center that would reflect the core values and vision of the company. Our brokerage and construction management teams were stoked to take on the assignment, and we found the perfect 61,000 square foot space to house TEN, located at 1821 East Dyer Road in Santa Ana, California.

When TEN CEO Scott Dickey first walked through the space, the building had dated, 20-year-old improvements, with traditional high workstation panels, dim lighting, choppy segmentation of departments and inadequate parking. It needed a lot of work before the forward-looking media company could set up shop, but Dickey gave us a clear vision of what he had in mind. He wanted the space to promote collaboration, creativity, and accurately represent the cultural transformation that TEN has gone through over the past year. TEN was looking for a cutting edge workspace that would bring out the best in its team, and help recruit and retain the best and brightest talent to its growing operation.

Working with Interior Architects, TEN limited the number of private offices in the space, opting for a more open, collaborative work environment where even the existing offices don't have doors to close them off. The necessary private offices are located in the interior core of the space, providing greater numbers of TEN employees with access to the window-line. This is in direct contrast to traditional floor plans where highly coveted 'corner offices' with the best views are reserved for upper management and high-level executives only.

The emphasis on creating a space that is comfortable and engaging for employees is exemplified by the large break area adjacent to a roll-up glass garage door, which brings the outdoors inside. In addition, half a dozen "quiet rooms" are available for employees needing to get away and think, to conduct brainstorming sessions with their colleagues, or just to relax for a bit during the day.

TEN's new space clearly speaks to the heart of its audience – males age 18-34 with a penchant for fast cars and action sports – boasting a 6,000 square foot automotive shop (which required cutting a 2,000 square foot hole in the second floor, mandating significant structural upgrades). TEN's own

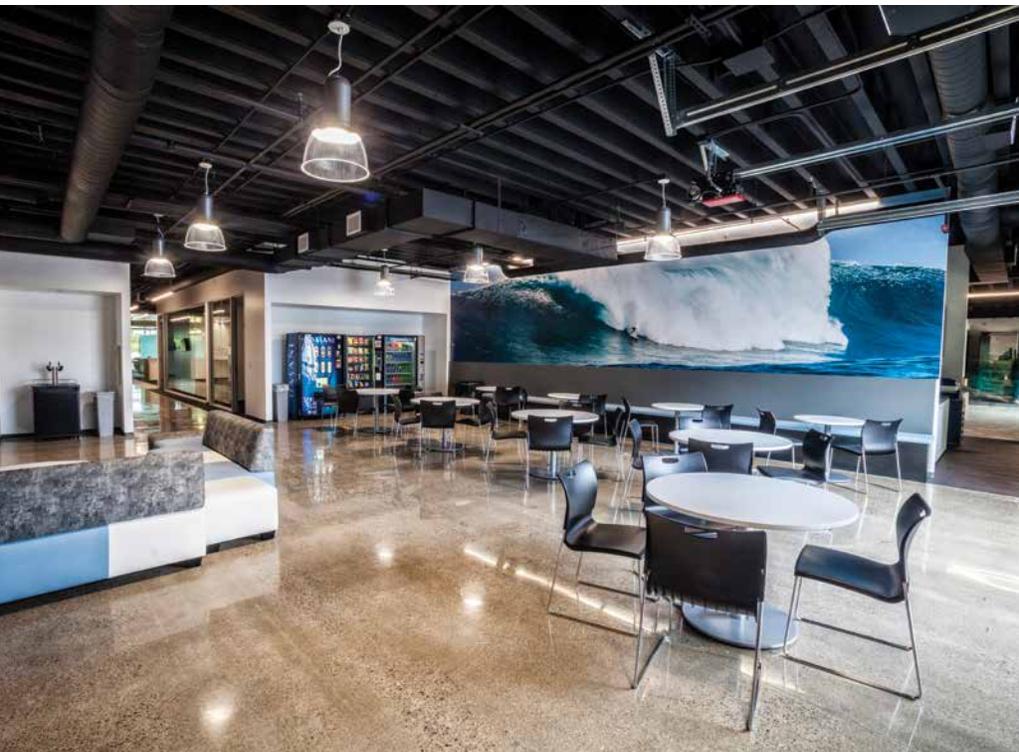


incredible photos of muscle cars and surfers were enlarged to become giant wall graphics, offsetting the otherwise neutral color scheme of black, blues and grays – a nod to the corporate brand.

From start to finish, construction on the project took roughly three months, and the end result speaks volumes about the future of The Enthusiast Network. According to Dickey, "Our transformation as a company has been

exciting, and this new space represents a physical embodiment of the transformation, and the many changes we've made in the past year."

Our entire team at Hughes Marino couldn't agree more. The effect TEN's new space has had on its culture is already clear to see, and we look forward to continuing our work with the company as we renovate and expand its facilities in El Segundo and Carlsbad. □



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How Your Landlord's Capital Spending Is Hurting Your Bottom Line

By Ed Muna

When tenants enter into a lease, in addition to the base rent, they typically are required to pay for their share of building operating expenses. This is true whether your lease is structured as "full service," "modified gross," or "triple net." The intent is that these expense charges will increase at an inflationary rate over the lease period. Unfortunately, the truth in many buildings is that landlords



Ed Muna
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do a poor job of controlling expenses, and tenants can be caught with surprising and very significant increases in their operating expense charges. Since these expense charges are not fixed like the base rent, variances can

be painful, and negatively impact a business' budget and bottom line.

Each year I see hundreds of operating expense statements, and more often than not expenses are increasing at a rate of 5% or greater. On occasion, I have even seen expenses increase more than 20% year over year.

One of the biggest contributors to such an abnormality is the inclusion of a capital expenditure in the operating expenses. Capital can include everything from a lobby remodel, to the replacement of major equipment, to a new fitness center or roof. In one recent review of a client's operating expenses from one very large and well-respected landlord, our team saw a 25% increase in overall expenses. Looking deeper, we discovered that a

significant, six-figure inclusion of capital was responsible for the increase.

Steps Businesses Can Take to Reduce Exposure of Capital

By its very nature, a capital spend is a big number, but it is also one that typically is controllable and planned in advance by the landlord. As a tenant and business owner there are steps that can be taken to minimize the impact of capital expenses, and prevent excessive increases in your share of the operating expenses your landlord will ask you to pay.

Going into the lease, your tenant representative should work to eliminate or reduce the capital expenses that the landlord may include under operating expenses. The argument is that if a major building system cannot survive your lease term, then the landlord should be willing to make the investment to justify the rent you are being asked to pay. Each landlord takes a different position when it comes to their willingness to give on this issue, but at a minimum most will agree to limit the capital expenses permitted to the amortized amount of those required by new laws after the lease commences, or improvements that will result in energy savings, which will "wash out" the inclusion of such amortized capital.

If the landlord is unwilling to compromise on capital expenses, then you, as the tenant, need to evaluate your exposure before entering into the lease. One smart move is to ask to see the building's five-year capital plan. Taking this step may help uncover a major upcoming investment (that you will be paying for) and help explain why

the landlord took their position. At that point you can weigh the anticipated impact of an increase in expenses in your decision to enter into the lease.

During the lease term, it is critical that you carefully review the annual operating expense budgets and reconciliations received each year. Because landlords have creative ways of hiding capital, it is always best to utilize a professional to evaluate these charges if your expenses are increasing by more than 3%.

Final Thoughts

While most building operating expenses are recurring and can be expected to increase with inflation, the introduction of an unanticipated charge for capital expenditures can seriously impact a tenant's budget and bottom line. Commercial leases are written to protect the landlord and give them as many liberties as possible. Unfortunately, this often results in landlords taking advantage of tenants by charging excessive expenses that offer little benefit to the tenant, but enhance the landlord's long-term investment.

To avoid these costly situations, it is important to have the right tenant representation from the beginning to ensure you are protected in your lease. Most of all, be sure to scrutinize the operating expense budgets and reconciliations you receive from your landlord each year, and ask a professional to review any suspicious charges. □

Ed Muna is senior vice president of Hughes Marino Lease Audit Services, where he helps tenants address issues that arise during their occupancy. Contact Ed at 1-844-NO-CONFLICT or ed@hughesmarino.com.



NBA Great Bill Walton on Leadership, Authenticity and Culture

By Shay Hughes

Last month Hughes Marino had the extraordinary opportunity to spend an afternoon with one of the NBA's all-time greatest athletes, Bill Walton, who spoke on three topics that are incredibly near to our hearts: leadership, authenticity and culture.

The lunchtime event, which we were honored to co-host along with Opus Bank and the Irvine Company, was held in a breathtaking penthouse office space on the 18th floor of 520 Newport Center. With floor-to-ceiling windows offering 360-degree views of the Pacific, the Back Bay, Fashion Island and the mountains, the gorgeous venue was generously provided by the Irvine Company.

Bill, who was interviewed onstage by our own David Marino, was generous with his time, and vulnerable in sharing his life stories, which ran the gamut from his greatest successes to his darkest challenges. His intense passion for life, and his gratitude for all that he's been fortunate to experience (and now share with others) actually gave me goosebumps!

At 62 years young, Bill says he's never been happier or healthier, and it showed. He took to the stage instantly telling jokes and regaling us with stories about growing up in San Diego, teasing that, in those days, there wasn't much reason for him to venture into Orange County. Now, he said, thanks to the Irvine Company, Hughes Marino, and companies like Opus Bank, the

region is thriving, gorgeous and a true destination.

Here are a few of my favorite takeaways from the afternoon.

Bill Walton on Leadership

There is no denying the influential role coaching legend John Wooden played in Bill's life. In fact, Bill seemed far more comfortable giving credit to his coach for being a leader, than he was talking about himself in a leadership role. He frequently mentioned Wooden's Pyramid of Success, which took me back to my youth, as that very pyramid was in my childhood home. Today we have the

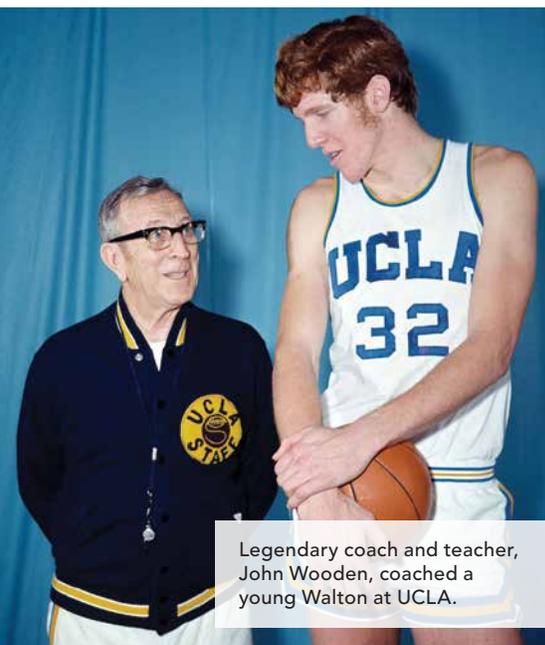
“

There is nothing more important than being on a team. Leaders get to where they are because so many people have supported them.”

Pyramid of Success hanging proudly in each of our Hughes Marino offices.

As Bill told it, Wooden was emphatic about the importance of teamwork. “In order to be a champion at everything you need a team supporting you. There is nothing more important than being on a team. Leaders get to where they are because so many people have supported them,” Bill said. Likewise, he remembered Wooden insisting that leading teams always work on their weaknesses. Strengths will always be there to fall back on, but in order to be a team that truly leads you must work on your weaknesses above all else.

Bill also relayed some fascinating details regarding how little Wooden cared about what their opponents were



Legendary coach and teacher, John Wooden, coached a young Walton at UCLA.



Breathtaking views from the event venue on the top floor of 520 Newport Center.

doing. “We never watched film, we never tried to study other teams. We focused on relentless offensive attack,” he says.

In Bill’s experience, having been shaped by some of the greatest coaches of all time, he also noted that leaders aren’t just leaders in their industry, they are leaders in all that they do. He recalled with great affection that Wooden wanted his players to be leaders on the court and off of the court. To this day, Bill’s tireless charitable work is a clear indication that this principle has stuck with him throughout his life.

Bill tied all of his thoughts on leadership together by stating that, in his mind, Wooden was a leader like no other, completely absent of ego, who just wanted to help his players better themselves. He would tell them “always do your best and your best will be good enough.” According to Bill, “leadership is what I can do to make you better.”

Bill Walton on Culture

When David asked Bill for his thoughts on culture, Bill turned the tables on him. “You want to see a great culture? Look at your office in San Diego!” he said with a smile. Obviously, that meant a lot to me, as our culture isn’t just something we talk about at Hughes

Marino. In reality, it is everything to us. Just like the basketball teams Bill had the honor of playing for, achieving victory time and again, our greatest victory is rooted in our amazing team of people.

Bill Walton on Authenticity

It is rare to hear a speaker as authentic as Bill, and I found his openness, honesty and sense of humor to be incredibly refreshing. Authenticity is at the core of everything we do at Hughes Marino, (see HM core value #10: “Be authentic, grateful and humble,”) and I know I appreciated his candor, as did everyone else in the audience.

Toward the end of his talk, Bill spoke passionately about his work for various nonprofit organizations, revealing a side of himself completely separate from basketball. He is passionate about helping disabled veterans and people born with disabilities who need prosthetic limbs to get in the game of life. He even participates in a bike ride from San Francisco to San Diego each year to raise money for the cause.

Bill’s authenticity shines through most of all when discussing the things he is passionate about, including his love of the Grateful Dead. The world’s biggest Deadhead, or at least its tallest, Bill has been attending their

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Bill Walton on Leadership, Authenticity, and Culture

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concerts (more than 850 and counting) for decades.

He credits fellow players for inspiring him to work harder, citing Larry Bird and Kareem Abdul-Jabbar as particular mentors and friends. He laughs at himself for being what he called “Wooden’s easiest recruit, but worst nightmare.”

An endearing quality, Bill is unapologetic about who he is and what matters to him. After nearly 40 orthopedic surgeries and procedures, many of which had the potential to make him permanently disabled, he spoke about how grateful he is to be where he is today.



Shay Hughes
COO
Hughes Marino, Inc.

We couldn’t be more grateful to Bill for taking the time to share his stories with us and remind us of the importance of teamwork, leadership, and doing what you love. It was truly an honor for us to host this event, and we thank Bill for his inspiring words. □

Shay Hughes is chief operating officer of Hughes Marino, where she plays a key role in all aspects of the Hughes Marino organization, including internal operations, marketing, business strategy, and end-to-end management. Contact Shay at 1-844-NO-CONFLICT or shay@hughesmarino.com.



Above: Walton was interviewed on stage by Hughes Marino Executive Vice President David Marino. Below: The Pyramid of Success hangs in every Hughes Marino office.

