

# WORK+SPACE®

REAL-TIME PRACTICAL SOLUTIONS FOR BUSINESS LEADERS NAVIGATING TODAY'S ENVIRONMENT

JUNE 2023 | ISSUE NO. 15



SHAY'S THREE-PART  
MICRO-DOCUMENTARY:  
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## Soulful

*From Humble Beginnings to President of a NYSE Public Company*

How a father's leadership at Chart House became the roadmap  
for Hughes Marino's success

PUBLISHER'S NOTE

# Leadership & Soul

**B**usiness leaders and their teams have had to chart a new path over the past three years, resulting in valuable lessons learned, forging a new sense of leadership, ingenuity and soul in the workplace.

As with every issue of our Work+Space® Magazine, we crafted these pages with intentionality and purpose, always aiming to provide enriching and timely articles for our readers, clients and friends. This issue is both a nostalgic reflection of the past (be sure to read our feature story about Shay's father's humble beginnings as a dishwasher at Chart House to the company's president on page 7!) and a projection for the future ahead. Across every story, you'll find a common theme: the importance of taking action through soulful leadership as we forge ahead into the future.

With all of the rumblings about the economy perhaps now more than ever, companies need to protect their team, their culture and their bottom line, which is where strong leadership comes into play. In the coming pages, you'll find guidance on how to utilize the office market downturn to your advantage, an outlook on the industrial market and the critical importance of lease audits. In a soulful sense, we hope to inspire with our articles on humble beginnings and simple ways to inject joy into your space.

On a personal note, Hughes Marino has made great strides, and we are excited to share two of our latest offices in Boston and Raleigh-Durham on page 13, with plans to open more locations later this year. We have no intention of slowing down, and are constantly striving to find new opportunities to serve our clients. This includes the recently launched divisions HM Science, our life science division and HM Secured, our capital markets division, as important additions to our roster of invaluable services we provide to businesses across the country.

We hope you enjoy this issue, and sincerely hope we cross paths with you in the near future.

**Jason Hughes**

Founder  
Hughes Marino

**Shay Hughes**

President & COO  
Hughes Marino

*On the cover: Shawn and Carol's wedding day, Shay after swimming in the Pattaconk River in Chester, CT, inside the historic Brushmill factory turned Chart House in Chester, CT, circa 1972.*

## WORK+SPACE®

A publication of Hughes Marino

BUSINESS + REAL ESTATE + DESIGN  
+ CULTURE + CONSTRUCTION

### Our Locations

- |                                      |                                       |
|--------------------------------------|---------------------------------------|
| <b>West LA</b><br>310.277.3211       | <b>San Francisco</b><br>415.431.3211  |
| <b>Downtown LA</b><br>213.689.3211   | <b>East Bay</b><br>925.239.1222       |
| <b>Orange County</b><br>949.333.3111 | <b>Silicon Valley</b><br>408.292.3211 |
| <b>San Diego</b><br>619.238.2111     | <b>Denver</b><br>303.529.2111         |
| <b>Long Beach</b><br>562.436.3211    | <b>Boulder</b><br>303.914.4111        |
| <b>Seattle</b><br>206.624.3111       | <b>Ontario</b><br>909.988.2111        |
| <b>Bellevue</b><br>425.641.3111      | <b>Temecula</b><br>951.699.4111       |
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| <b>Boston</b><br>617.356.0111        |                                       |

### About Hughes Marino

We are a global corporate real estate advisory firm representing companies on tens of thousands of projects, helping develop and execute on winning strategies. Our team specializes in all aspects from negotiations, construction and capital markets, to facilities and portfolio management. We are proud to be one of the most award-winning companies in the country.

#### Corporate Headquarters

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## HUGHESMARINO



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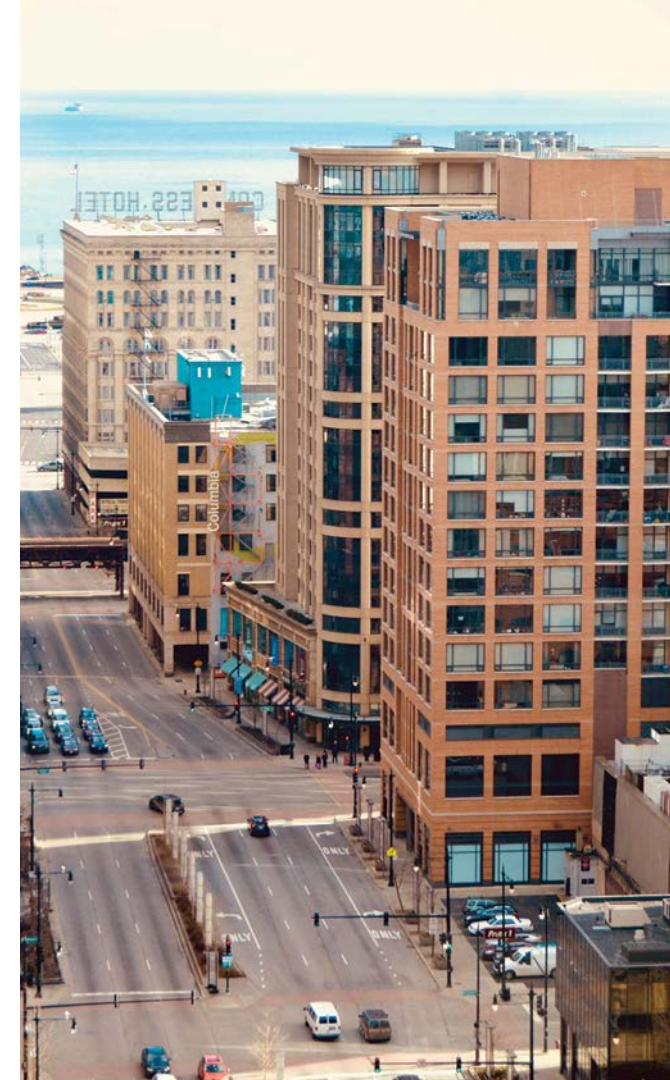
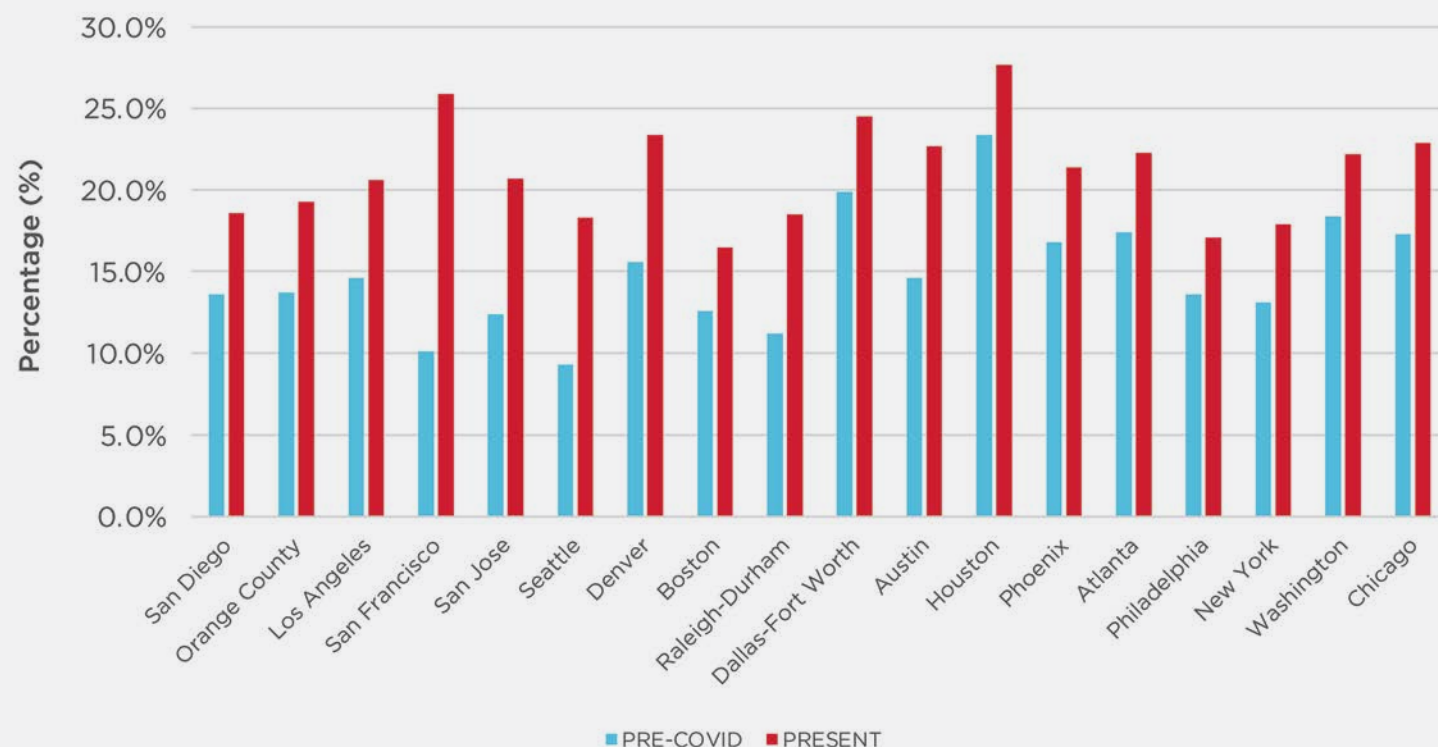
# HOW TO CAPITALIZE ON THE OFFICE MARKET *Meltdown*

After more than two years of confusion, delusion and information suppression, the real estate industry seems to finally agree that the office sector in all major metro areas is in freefall.

Three years of remote working and the widespread adoption of hybrid work models has resulted in most companies getting smaller as their leases expire, causing

availability rate spikes that we haven't seen in over 20 years. Add to that over 250,000,000 SF of office space on the market for sublease across the U.S.—2.5 times normal equilibrium—plus ongoing widespread layoffs across the tech sector, it's evident the office sector is near collapse. The extent of the damage done to the office sector over the last three years is shown by the following graph comparing pre-Covid conditions to present.

OFFICE AVAILABILITY RATE PRE-COVID TO PRESENT



With interest rates up, loans coming due and lenders looking to invoke covenants around loan-to-value ratios, foreclosures have already started to ripple through the office sector. Our economy hasn't seen anything like this since the early 90's, so it is no surprise that the market has had a difficult time digesting its new reality. What's possible to happen is that hundreds and hundreds of U.S. office buildings become foreclosed upon and the office asset class devalues by 30%, and more than 50% in some submarkets. While this is going to take three more years to play out, just like it did from 1991 to 1995, it's likely to have significant financial consequences to the banking and finance sector, as approximately 75% of office building debt is held by regional banks.

As a business owner or executive team member running a company, how can you as the occupant of these office buildings—the commercial real estate tenant—take advantage of this pending freefall?

## OPPORTUNITIES FOR TENANTS WITH LEASES EXPIRING IN 2023-2024

If your lease expires in the next 18 months, chances are you're going to get smaller and look to relocate. If retaining what you have is in consideration, your landlord will be desperate to keep you, but you need to create leverage. There are tremendous values already on the sublease market and from other landlords that are lowering rent expectations, while offering moving incentives and large free rent packages. Never negotiate a lease renewal without going to market and creating optionality.

## IF YOUR LEASE EXPIRES FROM LATE 2024-2025

While you might not yet be on the critical path to relocate, there is an opportunity to restructure your lease. Having done hundreds of restructurings through the prior three economic corrections of the early 90's, The Dot-Com Bust and the 2008 Global Financial Crisis, we can position a tenant to shed excess space, lower the rent, reset the operating expense base year and negotiate allowances to remodel the space in exchange for a longer-term early extension of the lease. The mechanics of getting this right are complex, but ultimately the threat of relocation at the end of the term is the risk that landlords cannot stomach in this declining market.

## IF YOU HAVE MORE THAN TWO YEARS ON YOUR LEASE

If you occupy at least 25% of your building and have strong financial statements, you might be in a great position to purchase the debt on the building at a discount upon a foreclosure or receivership. There are going to be tremendous opportunities for some tenants to buy their real estate at twenty to thirty cents on the dollar of pre-Covid pricing. Already, some office buildings are 40 percent to 50 percent vacant. Once you find yourself being one of the only tenants in the building, the valuation of that asset will be unlike anything we've ever seen in almost three decades. Get ready for it and be prepared to be opportunistic.

It might be that your company is not actively using all of the space. Your best strategy to reduce costs is to put the extra space on the market for sublease. While demand for office space is anemic, well-priced subleases are moving. The success factor is to offer the space at least 20 percent to 30 percent less than the building owner, even 50 percent in Downtown San Francisco, Downtown Seattle and other downtown submarkets. Price the space to get activity, as ultimately there is a market clearing price whereby even if you get fifty cents on the dollar, losing the dollar is what's happening as the result of inaction.

**The office market is setting up for the most opportunistic environment we've seen for tenants in decades.** As with the early 90s, we're probably only two years into a five-year bottom. Those business owners and executive teams that are strategic around their real estate, and who engage objective, seasoned and proactive representation to help them execute, are going to be the beneficiaries of this downturn. □





# Introducing HM Science

While the office space sector has been soft for over two years, providing life science companies that solely occupy office space unprecedented values and sublease opportunities, summer of 2022 saw the beginning of biotech lab space hitting the market for sublease. Now, that small wave is becoming a tsunami, as all major life science markets around the country are beginning to become flooded with sublease opportunities offering rental rates 20 percent to 25 percent below landlords' offerings, plug and play laboratory facilities with equipment in place and sublease terms ranging from two to five years.

San Diego, Boston and the San Francisco Peninsula already have 1M to 2M square feet of life science sublease space on the market, with Seattle closer to 500,000 square feet. With new sublease offerings being added across the country weekly, choices for tenants are unlike anything we've seen in the last three to four years. Additionally, some biotech companies are unfortunately going to run out of cash in 2023, and have no choice but to relinquish their lab space back to their landlord, which will create another increase of lab space supply the market did not anticipate.

Adding to this, supply coming on the market from tenants subleasing or defaulting, 2023 and

2024 are likely to be a perfect storm whereby speculative lab space under construction adds to the swamping of the life science market with advantageous options for tenants. In San Diego, there is approximately 4M square feet of lab space under construction for delivery in 2023 and 2024, 8M square feet in Boston, 1.2M square feet in Seattle, 2M square feet in the Raleigh metro area and 5.5M square feet in the San Francisco Bay area. All of this will remove the pricing power that landlords have enjoyed for the last three years, and in the short term, we are going to see increasing tenant improvement allowances, increasing free rent and landlords being willing to consider five to seven year leases versus demanding 10-12 year terms.

As the team specializing in the representation of the life science tenants, HM Science will be delivering extraordinary value during this transitional time as our tenant clients look to create operational efficiencies and cost reductions, seek to relocate, downsize or renew in place. □

*For more information, please visit [www.hmscience.com](http://www.hmscience.com) or email us at [contact@hmscience.com](mailto:contact@hmscience.com).*

“  
Hughes Marino's HM Science team listened closely and helped guide an efficient and highly effective, accelerated process of selecting and negotiating a new facility in just four months. Hughes Marino's unique in-house construction management team seamlessly took it from there, delivering an on-time, on-budget tenant buildout from the ground up in just five months.”

**TERANCE KINNINGER**  
FORMER CFO  
AGENA BIOSCIENCE, INC.

After over three decades of representing biotech, medical device and other health care clients with their specialized operational requirements, Hughes Marino announces the launch of its specialized life science division, HM Science. Life science companies that do research, manufacturing and distribution of biotech, medical device and health care related products operate in a complicated regulatory environment, so HM Science was established to provide bespoke services to this industry sector. While individual Hughes Marino professionals have been representing life science companies their entire careers and cumulatively have thousands of client experiences in the sector, HM Science brings this talent together on a North

American basis to offer tenants best-in-class representation no matter where they operate.

The launch of HM Science comes at a critical time in the life science real estate sector. After three years where tenants were faced with space supply shortages, hyper-inflating rents and historically longer lease lengths, this is being reversed in real time as the capital markets have created significant headwinds for the sector. While this turmoil will likely be a multi-year challenge for companies looking to raise capital, those tenants that are well capitalized with strong science and leadership teams are going to find the life science sector quickly whipsawing to be the most tenant favorable market we've seen in years.





FROM  
humble  
Beginnings TO

# PRESIDENT

of a NYSE Public Company

By Shay Hughes

HOW A FATHER'S LEADERSHIP AT CHART HOUSE RESTAURANTS BECAME THE ROADMAP FOR HUGHES MARINO'S SUCCESS

As president and COO of Hughes Marino, one of the country's fastest growing commercial real estate firms, I'm grateful for many things. We currently have offices in nine markets, with plans to expand into many more. Our smart, motivated team members love what they do, and as a result are revolutionizing the industry, building a bespoke tenant representation firm.

However, the thing I'm most grateful for—the thing that is largely fueling all this success—is a set of principles that I absorbed while growing up watching my dad nurture and grow a well-known and well-respected restaurant brand. Subliminally, these acquired principles have guided Hughes Marino's values from the very beginning, and bolster our continued success.







## Early Beginnings

Our story begins in San Diego, California, when in 1967 the high school's star football player (my dad) fell in love with the homecoming queen (my mom).

Graduating a year ahead of her, my dad, Shawn Holder, took some time off with friends to pursue his passion by surfing big waves on the North Shore of Hawaii. The son of SoCal legendary surfer, Dempsey Holder, my dad grew up living at the beach, where he was surfing with his dad as young as he can remember and started lifeguarding at 15.

After returning from the North Shore, Shawn and my mom, Carol, continued dating. Then, at the ages of only 19 and 20, they suddenly found themselves as young parents when I was born. To care for his family, my dad continued his job lifeguarding at Imperial Beach during the day and attended classes at San Diego State University. In 1969, he also took a night job as a dishwasher at Chart House, a restaurant in Coronado, a California resort town on an island in the San Diego Bay.

## Charting a New Course

Founded a few years earlier by famed Hawaiian surfer Joey Cabell and U.S. Navy man Buzzy Bent, Chart House by then had four locations. Perhaps due to the unique Coronado location near a naval base, the restaurant staffed an extraordinary set of team members—several Olympic athletes and a group of Navy standouts from the Underwater Demolitions Team (UDT), known today as the U.S. Navy SEALs. Shawn clearly remembers working with “these badass guys,” adopting their stellar work ethic and disciplined mindset. He says he couldn't wait to get to work because he loved being around this incredible group of young, visionary all-stars.

One day, Buzzy came into the Coronado Chart House and recognized my dad from surfing at Imperial Beach years before. Through chatting with some of the other staff, Buzzy found out that my dad was known as “the hardest worker in the room.” Buzzy asked Shawn if he wanted to move up from dishwashing to waiting tables. My dad took the opportunity, but because he wanted to be sure he'd be good at it, he took

Sunday nights and made sure he could go back to bussing tables if it turned out he wasn't a good waiter after all. Turns out, he was a natural. Soon, he was working every night of the week and finally making “pretty good money” for a young 20-year-old dad.

*"The hardest worker in the room."*

During this time, my mom—who has always had amazing style, and among many creative talents is a great seamstress—opened a store in Coronado on Palm Avenue, between a Hobie surf shop and a Baskin-Robbins. It was called The Sunshine Company, and she sold bikinis that she crocheted herself as well as bright Hawaiian-print longboard shorts. I remember being with her at the store all day and then going to the ice cream shop for a scoop of rainbow sherbet when we were done with work.

Life was good.

## A Momentous Road Trip

In 1971, the executives at Chart House started talking about opening a restaurant 3,000 miles away in the picturesque little town of Chester, Connecticut. They asked my dad if he wanted to go work there. He said he'd never lived anywhere except San Diego, but would love to, and then asked, “What am I going to do there?”

The answer came back. “We want you to be the manager.” My dad had covered for the manager of the Coronado location before, so he knew what the job entailed. But managing a new restaurant in a new part of the country? Shawn being “badass” of course said, “Yes!” They loaned us a “company car” for the cross-country drive—a Ford station wagon with a small trailer behind—and we packed up all our belongings and took off on this great adventure.

The location for the Chester restaurant was an old brushmill that sat next to an idyllic waterfall on the river. While it was being renovated, we lived in the attic and slept on the floor.

First order of business: my dad needed to hire some people. As luck would have it, my mom's younger brother, John, narrowly missed being drafted to Vietnam (by just four numbers) so he packed up my parents' green VW bug and drove it out to Connecticut to join us. My dad's two younger



brothers came as well. All three of their wives worked at Chart House, too. It was a true family affair—all these young Californians living in New England.

Eventually, we moved out of the attic into a house with a screened-in porch. That porch became temporary housing for our extended family and some of the new Chart House staff. My mom would make big pots of spaghetti and the music would play: Fleetwood Mac, Crosby Stills and Nash, America. Some of our houseguests played guitar and sang. I was the only child in this world of creative, free-spirited yet incredibly hard-working entrepreneurs. This time left a lasting impression on me: together they were embarking on building something special together that they could each be proud of for the rest of their lives.

One of my dad's first tasks was handcrafting the dining tables for the restaurant, pouring the resin over nautical charts inlaid on the top—something Chart House became famous for. My mom went to work decorating the inside and making the hostess dresses. I credit my mom with my love of design, as she took me to countless antique stores and fabric shops to decorate both the restaurant and our many homes throughout my childhood. Some of those antiques and quilts still have a place in our homes. My dad is always quick to attribute much of his professional success—and our family's success—to my mom. He is the first to say he couldn't have done *any of it* without her. They recently celebrated 55 years of marriage, and my dad still surfs to this day.

When the restaurant finally opened, it was an instant success. Dad had used a big ruler to draw up some spreadsheets to keep track of everything from inventory to employee scheduling to dinner counts. According to his tracking system, they were doing up to 600 dinners in one night! After just two months of operation, John Creed, my dad's mentor and CEO of Chart House called. He told dad the Chester restaurant had done 20 percent more business than any Chart House had ever done to date. He wanted to know EVERYTHING my dad was doing and he wanted him to train all the other restaurant managers so they could do it, too. Dad said that was when he knew he had a “career.” He would eventually become Chart House's president, growing the company to 60 restaurants and taking the company public on the NYSE.

## Moving On Up...and Around

With the success of the Chester opening, they tapped my dad to open more restaurants around New England. We moved to open one in Newport, Rhode Island, when I was in kindergarten, and soon after, we opened one in Boston. We moved to New Orleans—where I went to a second kindergarten—and then we moved back to San Diego, where I finished at a third kindergarten. A few years later we went back to New England to open more restaurants. In all, I went to 10 schools in 11 years, skipping third grade and graduating from high school in Encinitas, California, when I was just 16.

While I grew up with a lot of change, the one constant I cherished was the feeling of family, which was a hallmark of Chart House restaurants. Not only were my parents and

extended family always around, my dad continued to foster an atmosphere of hospitality with the Chart House team, encouraging the idea that taking care of each other and their customers was absolutely everything. It was just like in the early days of Chart House in Coronado when people with enthusiasm, intensity and tenacity maintained a high level of service to drive the growth of the company.

When I was seven, my dad brought home a piece of art for our house. It was the John Wooden Pyramid of Success—a chart Wooden created showing key attributes to be successful at anything, especially applicable for championship teams like Chart House. It hung in our house throughout my childhood and now hangs in our Hughes Marino offices as well. As president of Chart House, my dad shared similar inspiration with his management teams, giving them books like *Jonathan Livingston Seagull* and inviting Hall of Famers and Olympic athletes to speak at company meetings.

Family continued to be an important aspect of all the locations, with family members welcome to join in any company event. Management teams would organize fun challenges and do them together, whether it was running the Boston Marathon, surf trips to Bali, skiing in Vermont or Colorado, tennis tournaments or competing in Iron Man Competitions in Hawaii. Everyone seemed to strive for excellence, not only in their work but in their personal lives as well. Everyone wanted to be “the hardest worker in the room.”





## Historic Parallels

Although unusual, I feel so honored and blessed to have grown up in a warm sea of fascinating, remarkable adults who looked after me, shared stories with me and took me on adventures. Looking back, both my mom and dad had an enormous impact on so many lives through the risks they took, their inner strength, their belief in themselves, their leadership, their teams, and the examples they set personally and professionally.

Importantly, my parents included me in conversations about the trajectory of Chart House as it grew into one of the

most successful restaurant companies in the nation. I learned so much from them and they continue to inspire me, along with our entire family, to this day.

Similarly, when my husband Jason and I started Hughes Marino, we would talk about the business around our dinner table at night with our kids. Discussions have ranged from growing a successful company from scratch, to taking great care of our special team and the ways we could elevate our clients and their businesses.

# INTUITIVE COMPANY VALUES

There are many connections between Chart House and Hughes Marino. I don't think these similarities were as intentional as they were intuitive—just my memories of what my dad did as a leader and the way I wanted us to have a similar impact on our team members and clients. That intuition comes down to the key values I talked about at the beginning and throughout this story—the ones ever-present at Chart House and that we endeavor to instill at Hughes Marino.

### 1. Do the right thing.

This is the first thing my dad credits with his success, both as a person and as a manager. I remember when I left for college at 17, my dad's parting words to me, and advice whenever I called home, was "You know what to do. Just do the right thing." At Hughes Marino, we made "Always do the right thing" the first of our ten core values.

### 2. Treat people by the Golden Rule.

Just like Chart House treated everyone like "family," our clients and coworkers should be treated with a warm, friendly attitude and the utmost respect. They are part of our broader family. This concept is woven into many of Hughes Marino's values, including embrace the family spirit, build lasting relationships based on trust and generously give to others.

### 3. Do your best every day.

This originates from the military team and the Olympians at the early Coronado Chart House. Have a winning outlook and help those you work with win as well. Hughes Marino has some of the most successful brokers in the nation. We've found that high performers set a high bar for the entire team and there is a direct correlation between high-nurturance and high-performance. We've emulated this concept in core value #2: Deliver excellence in *everything* we do.

### 4. Lead by example.

Be known for your character and integrity. Even as the top executive, my dad would do whatever needed to be done to ensure the success of the restaurant, whether bussing tables or helping out in the kitchen. He adopted an empowering management style that made everything and everyone around him better. That attitude permeated the ranks and built an incredible and enduring team. We strive to do the same at Hughes Marino, where we have a favorite saying from one of our long-time coaches, Mike Robbins: We all have different roles, but we all have the same job: to help the team win.

### 5. Always be yourself.

No matter the recognition or success you achieve, continue being you. Stay grounded, humble, generous and grateful. Even when my dad was president of Chart House, he knew most of the employees by name. When he'd visit the restaurants, he would often show up wearing board shorts and flip flops. And most importantly, my mom reflects, my dad was always himself, one ingredient they both credit his success as a leader. Our final core value is to "be authentic, grateful and humble," and I am proud to say that this value stemmed from my dad's example he set for himself and everyone around him.

*The historic Pannikin Coffee and Tea building in Leucadia, CA, that's owned by my parents and brother, and housed in Encinitas' original train station, built in 1887.*



Looking back, I am grateful for all the enriching life lessons I absorbed over the years, watching my parents work hard to get to where they are, building a company and culture they were proud of with a team comprised of family, life-long friends and wonderful people. The life they built for themselves, for me and my younger brother, Dempsey, and the Chart House family is something that I have admired all these years, and it has been a privilege for Jason and me, along with our children and team, to strive to build that same familial culture with a set of core values at Hughes Marino. It's truly amazing, and I often say magical, to see it all come full circle. We have so much to be grateful for, starting with our family and our very special team.

People used to say that Chart House wasn't just a place they worked. It was a part of their life, and for many, it was the last place they were going to work because they loved the people so much. We should all be so lucky. □



*My dad, Shawn, and brother, Dempsey, inside Pannikin Coffee and Tea.*

*Continuing the family affair of work and play. Our family trip to Colorado. From left to right: Tucker, Bailey, Star and Steven with their daughter, me and Jason.*



*Carol, in her HM gear, practicing yoga with Tucker, fellow HM broker Sean Spear and a client, on a kitesurfing trip with Shawn to South Padres Island, TX.*

**SHAY'S MICRO-DOCUMENTARY:** Watch the inspiring three-part series with Shay about her unique upbringing and how her father's leadership influenced the growth of Hughes Marino. For more, visit [hughesmarino.com/shaysstory](https://hughesmarino.com/shaysstory).



# EXPANDING



*Hughes Marino Adds Boston & Raleigh-Durham to its Location Roster—With Plans to Open More Offices Later this Year*

Despite much of the commercial real estate industry retracting, Hughes Marino continues expanding, having opened three offices in the last two years: Denver, CO, in 2021, and most recently into two top markets, Boston, MA, and Raleigh-Durham, NC.

“While our team has been working in these key regions on the East Coast for many years, we are proud of our exceptional new leaders and local teams serving our national client base in these very important markets,” says Jason Hughes, founder of Hughes Marino.

*Our newest offices in Raleigh-Durham and Boston.*

“EXCELLENCE IS—AND ALWAYS HAS BEEN—OUR BRAND, AND WE LOOK FORWARD TO THE OPPORTUNITY TO BRING OUR EXPERTISE AND BESPOKE CLIENT SERVICES TO COMPANIES AND ORGANIZATIONS IN NEW MARKETS IN THE NEAR FUTURE.”

— JASON HUGHES

# AGAIN





Hughes Marino's Boston office, with sweeping views of the Back Bay.

Along with President & COO Shay Hughes, and Managing Director Tucker Hughes, the company is continuing its growth in prominent cities around the nation, with additional office announcements on the horizon. Specializing in representing tenants in office, industrial and life sciences, as well as capital markets, Hughes Marino has been a dominant force in the tenant representation industry nationally for decades and sees the current economic environment as a great opportunity for tenants.

"Trying to represent both landlords and tenants is an obsolete byproduct of an industry relic that is fundamentally flawed and patently unfair to tenants," Jason said. "We're excited about our growth to new markets like Boston and Raleigh-Durham, and we look forward to sharing the enormous benefits of working with a company like ours that specializes in representing tenants in their leasing and buying of commercial space."

## Hughes Marino Expands to Boston

Leading Hughes Marino's expansion in Boston are some of the most seasoned professionals in the region's industry, including Executive Vice President Brian Connolly and Senior Vice President Nick Amarante, joining from Cushman & Wakefield and CBRE, respectively. Both leaders are excited to be part of a global corporate real estate advisory firm that values complete transparency and an extremely high standard of client services.

"Hughes Marino is an incredible company, nationally awarded for an amazing culture and best-in-class corporate



**Brian Connolly**  
Executive Vice President



**Nick Amarante**  
Senior Vice President

real estate advisory services. The company represents corporate occupiers rather than professional landlords, giving their clients unbiased expertise, and the firm's dedicated company leadership and operational excellence are second to none. I am honored to be part of this incredible company, and my clients are extremely pleased with the cutting-edge resources we have here that do not exist elsewhere in the industry," says Brian.

Located in the 60-story John Hancock tower in the Back Bay, our Boston office is centrally located for easy accessibility for both the Boston team and our many life science, office and industrial clients in the region.

## Research Triangle Park in Raleigh-Durham

Leading Hughes Marino in Raleigh-Durham is Executive Vice President Edwin Yarbrough, a long-time North Carolinian with over 20+ years of industry expertise, specializing in both life science and industrial sectors, joining from Savills. "Our focus and commitment to providing white glove brokerage and advisory services exclusively to occupiers of office, life science, industrial and tech companies is unmatched. The elevated experience Hughes Marino offers directly benefits our clients, which at the end of the day is what matters most—client experience and satisfaction as we assist them in navigating unprecedented times," says Edwin.

"We are incredibly excited and proud to have kicked off our East Coast expansion with such high-quality team members in North Carolina that embody what we're all about at Hughes Marino," says Shay.

Hughes Marino's North Carolina office is located in downtown Durham. The area is a central location, within walking distance to the Durham Bulls Athletic Park and Durham's great restaurant scene, and a quick drive to our clients throughout the region, including Research Triangle Park, Raleigh and the surrounding area.

## HM Science: World Class Expertise Specializing in Life Science Companies Globally

With a client roster of who's who in the biotech world, and three decades of life science specialization, Hughes Marino is known for its prominent biotech presence throughout the nation. With its continued expansion into two of the largest life science hubs, Boston and Raleigh-Durham, the company has launched HM Science, a specialized division that provides life science companies with bespoke corporate



**Edwin Yarbrough**  
Executive Vice President



real estate services to accommodate the unique needs and critical specifications of the industry. The HM Science team serves life science companies at every stage and in every location. From first-time founders and companies to some of the largest life science businesses in the nation, we provide a breadth of services to occupiers of office, laboratory, specialty manufacturing, distribution and other life science real estate throughout the country and internationally.

## Future Expansion on the Horizon

Hughes Marino continues to explore opening offices in new markets throughout North America. "When we find best-in-class market experts who can bring the high caliber, exceptional service that our company has become known for, we will jump at the opportunity," says Shay. With multiple new office locations underway, there will be additional nationwide expansion announcements soon. □



Hughes Marino's Raleigh-Durham office is in vibrant downtown Durham.



*Injecting*

*Into the Office:*



### Injecting Joy Into The Office: The Art of Self-Care for Your Team

I love design and joyful spaces, and when I'm not busy with my real job of being president of Hughes Marino, I am grateful to have an outlet for my love of fun colors, whimsy, comfortable and inviting surroundings, and a sense of family that I try to infuse into our offices around the country, with great help from our wonderfully talented Planning and Design team.

“

**A home that makes you feel good isn't an indulgence. It's a form of self-care.”**

— INGRID FETELL LEE

I recently read a quote that sparked an aha moment for me. “A home that makes you feel good isn't an indulgence. It's a form of self-care,” by Ingrid Fetell Lee. That concept really resonated with me, as a leader of a national commercial real estate company who has dealt with the many iterations of a work environment we've seen over the last three plus years. From being full-time in the office to full-time at home, to gradually bringing our team back to the office, to now having our team working four days a week in office, we've been through it all! Creating a home for our team—a home away from home at our offices—should make us feel good. It isn't an indulgence. It's a necessary form of self-care for our team that I think often gets overlooked by business leaders dealing with the many changes and challenges of running a business. Business leaders are some of the best multitaskers out there, but when we're busy juggling all the demands a company can bring, I wonder how many lose sight of how valuable—and even transformative—it is to be highly intentional about the environment they ask their team to do their best work in.

*The Art of Self-Care  
for Your Team*

BY SHAY HUGHES





Back to Ingrid Fetell Lee—I am one of her biggest fans. Former Design Director at renowned global innovation firm IDEO’s New York office, she is the author of *“Joyful: The Surprising Power of Ordinary Things to Create Extraordinary Happiness,”* and her TED Talk *“Where Joy Hides and How to Find It”* has 17 million views. She’s an incredibly bright thinker, and aside from helping people find joy, she spent much of her career helping companies make their work better, especially from an emotional and aesthetic lens, a lens I rarely hear talked about.

I think we’ve done a good job of intuitively creating an emotional component to our work, but we’ve never focused on *“amplifying the emotional component of our work”* as Ingrid suggests. Designing more joyful spaces can *actually change how we feel and act.*

For business leaders looking for ways to get their team to want to return to the office, or looking to heighten their team’s performance, we all have to ask, are we creating the right environment for our team to thrive? Are we giving our team the tools to be as successful as possible, starting with the right environment?

Fortunately, it doesn’t require a big budget to do this. Creating joy in our environment doesn’t have to cost a lot, or in many cases, it doesn’t have to cost anything at all.

What it does require is intentionality, and recognition of the value derived from surrounding yourself and your team in a space that fosters joy, is stimulating and perhaps also soothing, and fosters the right dynamics for your team to thrive as individuals and collectively. Probably most important is that this pursuit is backed by encouragement from leadership that doing so is a worthwhile time investment for everyone on the team.

Every team member has the opportunity to create a space that feels good, that they look forward to being in, that creates a good feeling when they arrive and where they enjoy being productive in their work, whatever that entails.

Every company has its own unique dynamics, but there is no one that denies they’d prefer to be in an environment that sparks joy. But what does that look like for different people on your team? While some team members have a strong sense of space that comes naturally to them, others need a little help. Some people like a quiet, peaceful environment where they can focus without distraction. Others enjoy color and objects that bring them joy throughout the workday, or want to be surrounded by things that inspire and motivate them to strive for more and dig deeper to accomplish challenging goals. Whatever the case may be, whether creativity comes naturally, or someone feels they don’t have a creative bone in their body, aligning your environment to nurture your team is an important component of self-care for our company.

While it may be challenging, don’t let analysis-paralysis get in the way of your team finding joy in your environment. We help companies every day with finding the perfect new location or staying where they are, and regardless of the direction, there is always an opportunity to create a more nurturing environment for your team to succeed. As one of our team coaches, Mike Robbins, says, it’s important to have high expectations, but it always goes hand in hand with high nurturance. Just like where we live, providing your team the right environment at work is one of the best ways to nurture your team and in turn improve performance. Self-care for your team isn’t a luxury—it’s a necessity for high performing teams.

## How can we bring more joy into our surroundings and heighten our team’s happiness, which in turn will naturally heighten performance?

There are many positive side effects of having a vibrant space. Ways to do this, big and small. There are the Googles and Apples that have created the utopian work environment. We can all emulate that on a smaller scale to some degree, but if you don’t have the funds to spend on lavish office space, it’s still possible to bring joy into your team’s environment. Here are a few ways we inject fun, color and love into each of our offices that can be applied on any budget—as a way of self-care for any team.

# 01

## Family Slideshows

When we first moved into our headquarters, we thought it would be fun to welcome the team with photos of their family cycling through on the TV in our main living room. 11 years later, we still have that slideshow going, all day every day, and have carried on the tradition in all of our offices as we’ve expanded. We have over 2,000 photos of our team with their families on rotation. It has a life of its own, as we all share in each other’s travels and watch families grow. If you have a TV in your office, you can turn it into a great tradition for no cost. All that’s required is a little bit of time and coordination.



# 02

## Family Photo Walls

In addition to our digital slideshow, we also showcase a collage of frames where everyone in the office is featured with a favorite photo with those they love. It’s a simple but powerful reminder of why we are all doing what we do.



# 03

## Inspiring Phrases

Ask your marketing team to create fun quote cards (or download graphics for free online) that inspire or spark joy, and let your team choose what speaks to them to dress up their desk area. On our Intranet, we've created a folder of these fun décor ideas for our team to choose from to decorate their space. We even give new team members different digital wallpaper options for their computer screens, complete with inspiring messages or our core values, as well as a polka dot screensaver for our office phones (that mimics the playful polka dot mural at our headquarters!).



# 04

## Colorful Books

Another fun way to inspire creativity that can be used to interject creative juices and visual stimulation in all areas of an office can be bought at the sale table at any local bookstore. We even have books in our restrooms to bring cheer to an unexpected space!

# 05

## Highlight Team Memories

Frame photos of team building events and fun outings and hang them in the copy room, or around the office in unexpected places. Those lasting memories remind people of the fun they have with their teammates.

# 06

## Hands-On Maps

We have a map in our copy room where everyone can tack up photos to note where they've worn their Hughes Marino *Enjoy the Journey* t-shirts around the world. It makes a trip to the copy room a perfect reminder to enjoy the journey, and an easy interactive décor addition to the office that any company can implement!



# 07

## Quote Cards

Everyone loves inspirational quotes, so why not provide quotes that mean a lot to your own company to your teammates? At team meetings we give out "quote cards" we create with inspiring messages that we call our "HM-isms" that we discussed at that meeting that people can pin up at their desk for a fun reminder of inspiration.



# 08

## Outdoor Oasis

Create and embrace an outdoor area, if you are lucky enough to have it. We turned a corner of our parking lot into a sitting area, where teammates can take calls, eat lunch and enjoy soaking up the sunshine.

# 09

## Colorful Murals

Paint a mural on the wall that brings joy or inspires, or paint a wall (or a garage in our case) with polka dots like we did!



# 10

## Etsy Prints

Bright, beautiful art is always inspiring, but if you are on a budget, buying a mix of colorful, joyful or inspiring prints from Etsy or Minted is an easy way to bring joy to any space. We have both in our offices!



# 11

## Bright Flowers

Whether real or faux, flowers always bring a little bit of joy and light to any space. While we've done both, we're enjoying our faux pink peonies and white roses in our various offices.



# 12

## Designated "Spring" Cleaning

Just like you might plan a team building event to bring your team together, how about setting aside some dedicated time for everyone on your team to clean their desk and breathe new life into their workspace with things that spark joy for them personally? With the amount of daily joy and happiness created, that could be some of the most valuable time spent!

# 13

## Poll the Audience!

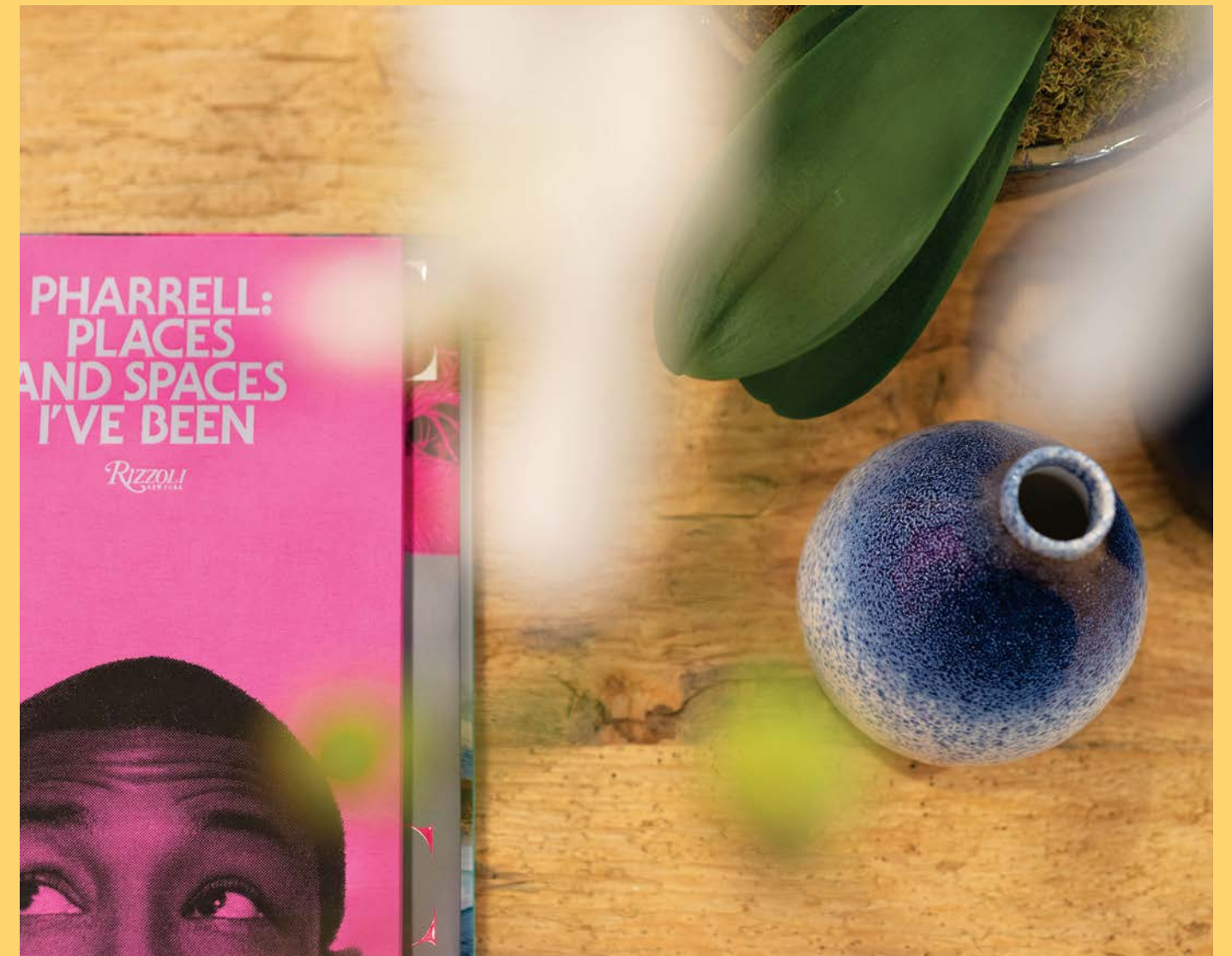
Not sure where to begin? Ask your team for ideas and get them involved in looking for unexpected ways to create extraordinary joy from ordinary things—and if you have ideas, share them with us on Instagram, where we often post joy from our offices!

As you can see from the ideas listed, you can spend as little or as much as needed to spark creativity, enthusiasm and, most importantly, joy, for your team. I truly hope these 13 tips will inspire you to embrace your team and your office space to take it to the next level—after all, it's an easy and rewarding way to provide self-care for your team! □



**Shay Hughes**  
President & COO  
Hughes Marino

*Shay Hughes is president and COO of Hughes Marino, a global real estate advisory firm that specializes in representing tenants and buyers. Shay writes about business leadership and company culture on her blog, Lead from Within. Contact Shay at [shay.hughes@hughesmarino.com](mailto:shay.hughes@hughesmarino.com) or 1-844-662-6635 to learn more.*







# FOUR DAYS PER WEEK

Returning to the office doesn't have to be a battle between employers, employees and their stakeholders

By Jason Hughes

Few stories get more backlash these days than those reporting on CEOs mandating their team return to the office. As portrayed by the media, these soulless leaders are power mongers with zero empathy for their teams' well-being.

While clickbait won't disappear anytime soon (although

on this topic, it is fading), we thought we would share our objective experience, as well as those of a large percentage of our clients, and even top industry business leaders from around the nation, in the event you'd be interested in the less sensationalized, but absolutely true, version of the Work-from-Home (WFH) and Return-to-Office (RTO) movement.

## WE ARE BACK IN THE OFFICE & WHY YOU SHOULD BE TOO

Since our founding in 2011, Hughes Marino has been delivering inspiring workspaces for our clients, where teams come together to do amazing things. Yes, we are in the business of helping companies find and negotiate office, industrial and lab space; facilities that inspire and attract great talent; places where the very best work gets done. So, it should come as no surprise to learn that Team Hughes Marino is back in person working in all of our amazing locations.

Like most companies, we quickly embraced a remote work strategy throughout the Covid-19 pandemic, and we will be eternally grateful to our amazing team members who didn't miss a beat and actually increased productivity during uncertain times while working from home. With this in mind, and with the pandemic finally in the rear-view mirror, I am thrilled to finally be able to say what I've wanted to say for the last three years—"Welcome Back!" In response to all the articles I see claiming that office buildings will be rendered obsolete, I say, "Not so fast." We certainly learned a lot over the course of the pandemic, and we intend to embrace and apply what we've learned. Which is why we have implemented a four-day in-office work model, giving our team the freedom to choose where they work, be it at the office or at home, one day each week. We experimented with a three-day in-office work week, but it wasn't delivering on the gathered team experience that we are all so hungry for.

*"Coming from a full work-from-home experience, it was an unbelievable change being able to get instant advice from teammates on their best practices and processes. I never truly understood what I was missing out on the past two years!"*

— A HUGHES MARINO BOSTON BROKER



Well-designed workplaces create an environment for teams to thrive and maximize performance.

### SUPPORT FOR THE FOUR-DAY IN-OFFICE WORK MODEL

In a three-day model, if half of the team chooses to work in-office Monday through Wednesday while the other half of the team opts for Wednesday through Friday, then the team is only *together* in the office one day each week! And that just isn't enough time together for the kind of interaction, team building and collaboration that has fueled our award-winning team culture from day one. With the four-day in-office work model, we are guaranteed at least three days during which everyone will be gathered together. And while we'd really love to see everyone four or five days each week, we believe that, at a minimum, those three days will create the synergies that will continue to drive our success and our growth.

It is too early to fully understand the disadvantages of remote and/or hybrid working, but we're starting to see study after study that "performance" and productivity are waning. Many business leaders believe their employees have become "soft," meaning less strategic, motivated and competitive, due to the work-from-home era over the last three years. That softness in turn leads to shortcuts, lack of culture and lower performance. Ultimately, the company that is most competitive thrives, and those that languish become extinct. Business cycles ebb and flow, just like the sun rises and sets. It's a universal law. Most economists and business leaders believe we are starting the "ebb" cycle, and if a company intends on being competitive, they need to be optimized and connected as a team. That happens best IN THE OFFICE.

One of our team members who joined us in our Boston office wrote to me recently: "Coming from a full work-from-home experience, it was an unbelievable change being able to get instant advice from teammates on their best practices and processes. I never truly understood what I was missing out on the past two years!" How's that for validation?



# MAJOR CEOS SHARE SIMILAR SENTIMENTS

The RTO won't just be an employer mandated phenomenon. The next generation of workers don't know what they've been missing. There will be millions of ambitious young professionals that will want every "edge" available to them for success—and being in the office to get "instant advice" on "best practices," or to get face time with their managers and executives, will be paramount.

Legendary business leaders from Apple, Disney, JP Morgan, Salesforce, Starbucks, Google and Goldman Sachs, to name a few, are all now mandating a minimum of three days in the office—and many are now at four days in the office. Why would some of the most successful, well-capitalized leaders push for mandates that they know many employees won't like? They know it is imperative for their continued, long-term success.

Over the last 18 months, the tech sector has seen over 250,000 high-paying jobs eliminated. As many leaders have been forced to do layoffs, most favor retaining a team member who is committed to coming into the office versus someone remote. As companies and remote employees alike have experienced, there is no stickiness—for either party—when there is no continued connection between the parties.

Amazon CEO Andy Jassy said that he doesn't believe Amazon can operate at its full potential without workers coming back to the office.

David Risher, CEO of ride-hailing giant Lyft, reversed course on their "fully flexible" work policy, saying that "things just move faster when you're face to face. There's a real feeling of satisfaction that comes from working together at a whiteboard on a problem."

Redfin CEO Glenn Kelman changed his mind about remote work in a recent return-to-office requirement. He noted that "It's been hard to form new relationships and people connect better face to face."

Open AI CEO Sam Altman says the work-from-home "experiment" was a mistake—and "it's over." Altman says remote work and the idea that startups didn't need to be together in person was "one of the tech industry's worst mistakes in a long time."

## SHARING THE WHY

We all experienced what we hope was a once-in-a-lifetime (or many lifetimes) global pandemic. That rattled everyone, but it's now over. We all worked our best together before

the pandemic, otherwise we wouldn't have done it that way for decades. Everything from "work balance" to "predictors of happiness" studies prove "time spent with others" has a clear link to happiness, and over time that will become more and more clear to the naysayers. But in reality, most of those companies who wait for additional proof will likely become extinct themselves.

Are office buildings going to become obsolete? Not a chance. We believe teams that come together in person to share and collaborate are the teams that will win in a competitive marketplace. In the immortal words of business savant Peter Drucker, "culture eats strategy for breakfast." The marketplace is the arena where businesses compete, and it will be the ultimate arbiter that rules in favor of in-person working. With all the talk of an imminent recession, now is the time to come together and get to work. Once integrity-driven employees understand the "why," they will often immediately jump on board with returning to the office. Or, as one of our company business coaches, Mike Robbins, has said to us, "we all have different roles, but our job is the same—to help the team win." The vast majority of teammates always want to help the team win, and those that don't shouldn't be on the team in the first place. Onward! □

**Jason Hughes** founded Hughes Marino in 2011, an award-winning global real estate advisory firm that specializes in representing



**Jason Hughes**  
Founder  
Hughes Marino

tenants and buyers. A pioneer in the field of tenant representation, Jason has specialized in representing tenants and buyers for more than 30 years. Contact Jason at 1-844-662-6635 or [jason@hughesmarino.com](mailto:jason@hughesmarino.com) to learn more about Hughes Marino.



Having teams back together in person allows for more productivity, but also more time for valuable team building and fun.



*"I think definitely one of the tech industry's worst mistakes in a long time was that everybody could go full remote forever, and startups didn't need to be together in person and, you know, there was going to be no loss of creativity....I would say that the experiment on that is over..."*

**SAM ALTMAN, CEO OF OPEN AI**



*"Things just move faster when you're face to face. There's a real feeling of satisfaction that comes from working together at a whiteboard on a problem."*

**DAVID RISHER, CEO OF LYFT**



Our San Diego team enjoying sunshine and woodfired pizza together in our HQ's outdoor space.



*"It's been hard to form new relationships and people connect better face to face."*

**GLENN KELMAN, CEO OF REDFIN**





# NATIONAL INDUSTRIAL MARKET OUTLOOK

## The Winds of Change for Industrial Real Estate

After almost three years of declining availability, along with significant inflation of warehouse and industrial rents across most the United States, the winds of change are in the air. With Covid behind us and consumers shifting back to many of their pre-Covid purchasing patterns, the growth of e-commerce activity has flattened out, and so have those same e-commerce companies' voracious demands for warehouse and fulfillment space. In fact, many companies like Amazon have concluded that they overextended themselves, creating too much overlap of facilities, and now not only has their growth ceased, but many of those companies are listing excess space on the market for sublease around the country.

### Industrial Availability

Figure A on the next page compares industrial availability in Q1 2022 in blue with current market conditions in red. While a handful of markets around the country are essentially unchanged, over half of the major industrial markets around the country have a noticeable uptick in industrial availability. None of the industrial markets show a material decline in availability, and winds are only blowing one way...north.

Some markets like Raleigh-Durham, North Carolina, as well as the Southern California distribution hubs including San Diego, Los Angeles and the Inland Empire with products coming in from Mexico and Asia, have seen a doubling in availability rates over the last year. While these markets are still landlord favorable with availability rates of less than 10%, the uptick is dramatic and noticeable, pulling the wind out of the sails of those brokers representing industrial landlords who were pushing record-breaking rent increases. Most notable are the Texas and Phoenix metro area markets where availability has pushed above 10%, moving beyond equilibrium where landlords are now competing heavily for tenant interest.

The industrial real estate sector moves in long macroeconomic trends that can take years to move from the tightest market to the softest. Availability rates increase if tenants are downsizing when their leases expire. Consider that only about 20% of industrial leases expire every year, so only a small fraction of companies get to reset their size each year when their leases expire.

While U.S. corporations are not generally giving space back upon lease expiration (yet), much of the explanation for these upticks in availability is the rise of sublease space by companies that leased too much space during the Covid run up as well as a large inventory of new development being marketed in most major industrial markets.

### Industrial Sublease Space

Figure B on the next page shows the historical total amount of industrial space on the market for sublease throughout the United States. Noticeably, there was a run up in sublease inventory after the 2008 through 2009 financial crisis. What's happening now is corporate America shedding more industrial space this year than we've seen in almost a decade, other than the initial bump that occurred in 2020 in reaction to the initial Covid shock. As for concentration, 14% of all U.S. industrial sublease inventory is in Southern California, which as a region saw industrial rents double from 2019-2022 in most of the region—change is in the winds.

Historically, sublease inventory is the leading edge of things to come as it signals corporate America's shedding of excess space due to changing economic conditions. If the U.S. economy truly enters recessionary territory, we can expect more sublease space to come to market, creating more below-market options for those tenants looking to expand or relocate. Those subleases often come "plug and play," with racking and other equipment in place at no additional cost, and are often for a shorter length of term than landlords would generally require.

### What This Means for Tenants

If tenants that have leases expiring in 2023 and 2024 find themselves with excess space, the resultant downsizing will push availability rates up even further, moving some industrial markets into tenant favorable territory. To take advantage of the shifting landscape, those tenants that "skate to where the puck will be next"—to use a Wayne Gretzky quote—will be the ones to score. It means approaching the market more aggressively, not being rushed by a broker or landlord to consider a renewal sooner than you should, and most importantly, going to market with a representative that has an understanding of where the winds are blowing, not just where they came from. □

Comparing industrial availability in Q1 2022 in blue with Q1 2023 market conditions in red.

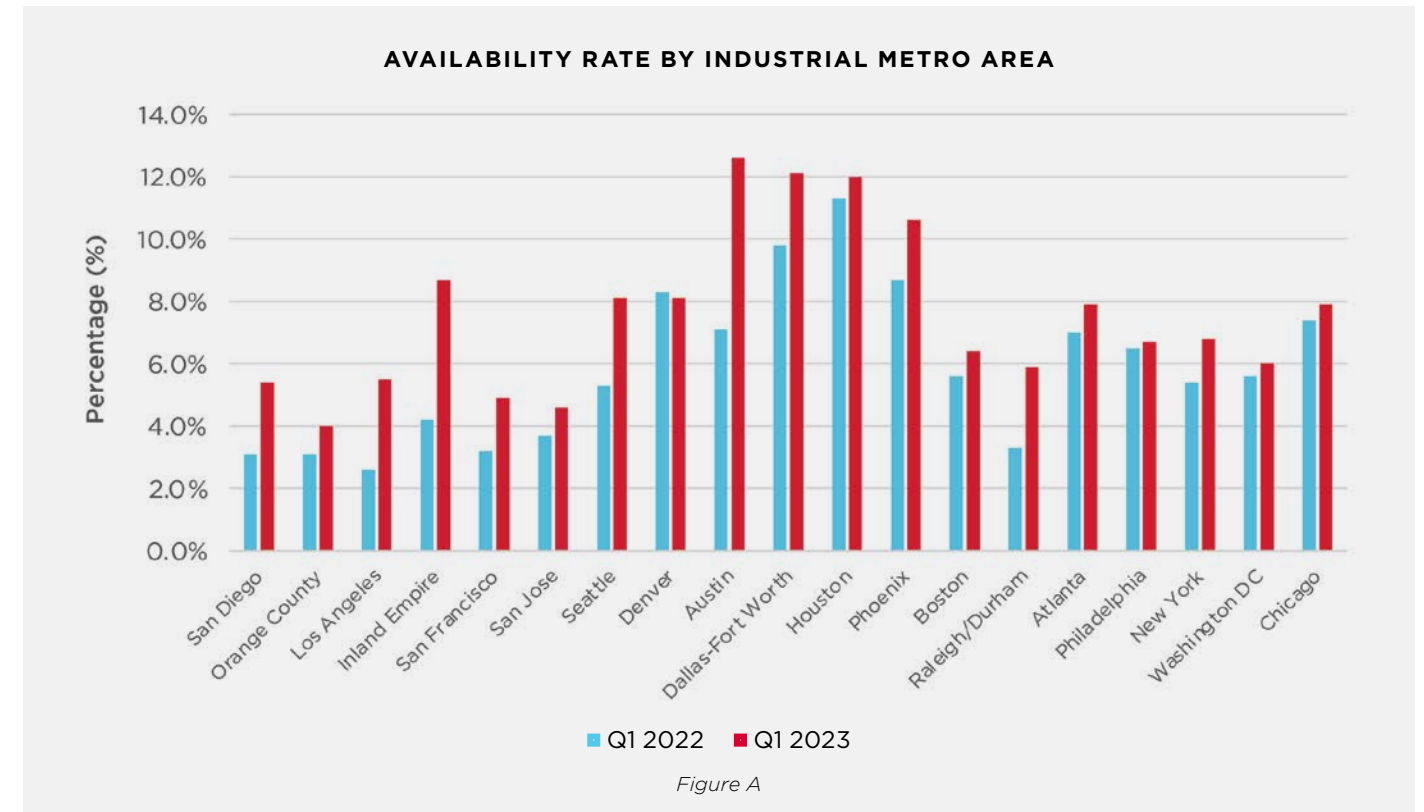


Figure A

The historical total amount of industrial space on the market for sublease throughout the United States.

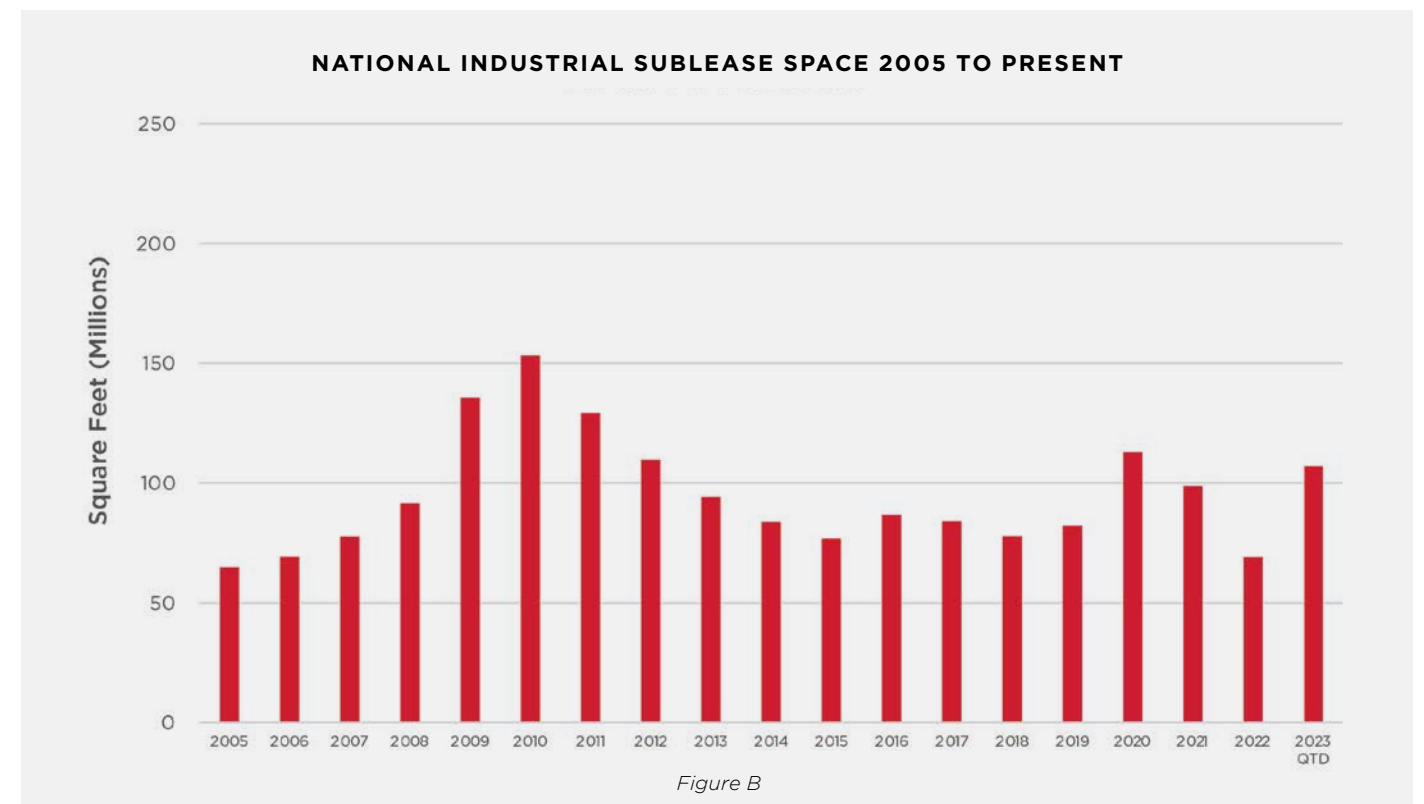
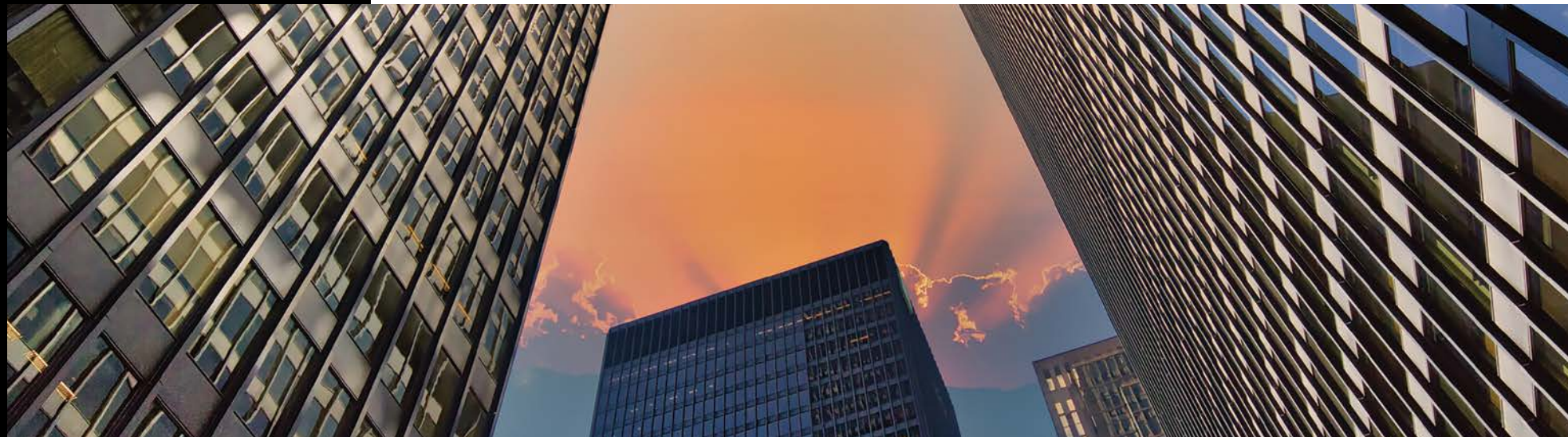


Figure B



# Why 2023 is the Ideal Time for a Sale-Leaseback

By Riley Hillis & Kevin Brennan



Given the current banking troubles and the Federal Reserve having raised interest rates to the highest levels in decades, corporate lenders have become more conservative, structuring loans at lower loan-to-value ratios, increased interest rates and more stringent loan covenants. Notwithstanding, accessing competitive capital is still an important end goal for many owners of commercial property.

Enter the sale-leaseback, an arrangement in which the company that sells an asset can lease back the same asset from the purchaser. With property values still at or above pre-Covid levels, a sale-leaseback could be a great source of liquidity to withstand tougher times and take advantage of opportunities.

## THE SALE-LEASEBACK AGREEMENT, THE DETAILS OF WHICH ARE MADE IMMEDIATELY AFTER THE SALES OF THE ASSET, ALLOWS FOR SEVERAL ADVANTAGEOUS COMPONENTS

### Unlock 100% of the Asset's Value

- While a typical mortgage might bring 75% of appraised value of the land and building, a sale-leaseback can be structured to finance up to 100%.
- That cash can be used for opportunistic acquisitions or a planned expansion.
- Yes, there is rent to pay, but in the current environment, setting the asset up as a financing tool could be a smarter use of the real estate investment as a company can get both the cash and the asset it needs to operate its business.

### Lock in Strategic Implied Financing Rates

- With a sale-leaseback, there is an implied financing rate (cap rate), an interest rate equal to the difference between the spot rate and the forward rate, built into future rent payments.
- Unlike a loan or bond, a sale-leaseback generates liquidity without a requirement to pay back the principal.
- Due to the lack of principal repayment, sale-leasebacks generally provide companies with capital at an implied financing rate 200-400 basis points (bps) lower, meaning 2-4% lower than traditional bank debt.

### Gain Tax Advantages

- As a commercial property owner, you can only deduct interest expense and depreciation. But as a tenant, rent payments are completely deductible as an operating expense.
- If the seller, now the new tenant, negotiates a longer lease, the amount that the tenant will pay in rent is often lower than what a commercial property owner will pay in financing.
- Paying capital gains tax could be mitigated by moving these gains to other, high-value real estate projects or passively owned, income producing real estate, often known as a 1031-Exchange.

### Enjoy Long-Term Control of Real Estate

- Negotiating a long-term lease with the new property owner provides the tenant the same sort of control over the property as when the tenant was the owner.
- Since most sale-leaseback transactions are triple-net agreements, the tenant is responsible for the taxes, insurance and common area maintenance.
- To further long-term interests, the tenant can work with the purchaser to include special options such as possible expansion and sublease of the property.

### Disadvantages with Accessing the Debt Capital Markets

- The cost of capital has increased dramatically over the past 2-3 quarters—and it appears that it will stay expensive for the foreseeable future.
- In addition, banks are now more conservative in the type/amount of loans they will provide, particularly with traditional business loans and real estate loans, making it more difficult for companies to access larger pool of cost-effective capital.

### A Way to Bridge the Financing/Liquidity Gap

- A sale-leaseback transaction is a low-cost form of financing wherein a business can access the equivalent of a 100% loan-to-value at an interest-only rate with no principal payback.

### Advantages Explicit to Doing a Sale-Leaseback

- Sale-leaseback property values have remained high, making it a good time to potentially sell.
- 100% loan-to-value financing.
- Interest-only financing with no principal payback, resulting in financing costs that are 200-400 bps below traditional business and real estate loans.
- The leaseback or rent portion of the sale-leaseback transaction is tax deductible.
- A long-term leaseback allows the seller now tenant to maintain control of the property.

### The Bottom Line

A sale-leaseback is a very cost-effective form of capital; it's essentially an interest-only loan, whereby the original principal borrowed amount does not have to be repaid. □

*Riley Hillis is senior vice president - capital markets, of Hughes Marino, a global real estate advisory firm that specializes in representing tenants and buyers. Contact Riley at 1-844-662-6635 or riley@hughesmarino.com to learn more.*

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# HOW A LEASE AUDIT CAN BOOST YOUR BOTTOM LINE

How We Help Reap Money-Saving Benefits

By Carmela Roco

Each year, commercial tenants spend millions of dollars above and beyond their base rent paying for a building's operating expenses. Unlike the rental rate that is negotiated and spelled out in the lease document, these operating expenses are subject to each property owner's individual operating and accounting procedures. Intentional or not, errors occur in both calculating and billing these pass-through expenses. Our first line of defense is regularly conducting these lease audits for our clients.

Our Portfolio Lease Administration & Advisory team at Hughes Marino was exclusively built to identify these kinds of errors and to save our clients time and money.

## *The primary purpose of a lease audit:*

- Ensure that a tenant is not being overbilled
- Confirm that the Common Area Maintenance (CAM) and Operating Expense (OPEX) billing is fair and reasonable and consistent with the negotiated terms of the lease

## *The benefits of a lease audit can include:*

- Catching errors in billing calculations
- Revealing inaccurate billing procedures
- Allowing better negotiation positioning
- Ensuring contractual compliance
- Determining if expenses are improperly allocated
- Assessing whether any disallowed expenses are included

Over the years, our seasoned team has proudly helped thousands of clients navigate their complex lease agreements through lease audits, with many audits resulting in significant refunds due to the trained eyes of our team.



## WAYS A TRUSTED LEASE AUDIT TEAM PROVIDES VALUE TO BUSINESSES

*Here are a few of our many lease audit success stories:*

1.

### **Cap on Controllable Cost Adjustments of \$1,140,000**

A review of the annual CAM Reconciliations going back to the base year revealed the landlord's incorrect calculation of the negotiated cap on controllable costs. When brought to the landlord's attention, they acknowledged the error and recalculated controllable costs correctly. As a result, the controllable costs were reduced by \$1,140,000 for a period of four years, saving our client \$64,000.

2.

### **Base Year Adjustment of \$500,000**

An audit of the base year included only two months of amortization in the tenant's base year, and there was no lease language to protect the tenant. We argued successfully that a base year must be, by definition, a 12-month period, and that the base year should therefore be adjusted. This resulted in an adjustment to the base year totaling \$500,000, saving our client \$13,000 annually through 2026, and likely \$75,000 or more over the term of the lease.

3.

### **Double Billing of Management Fees & Administrative Fee**

As part of a thorough review of our client's CAM reconciliations and their lease, we uncovered a double billing where only a single administrative fee should be billed, yet the landlord was also billing a management fee. As a result of our review, we identified a CAM overbilling of more than \$2,400,000 for a 5-1/2 year period. In addition, the client was billed tenant trash, when in fact the client was paying for their own trash. This resulted in more than \$553,000 in total CAM overbilling. Based on these amounts, the tenant received a total credit of more than \$44,000 representing their pro-rata share of this overbilling.

4.

### **Capital Projects Exclusion**

A review of the annual CAM reconciliation revealed that the landlord was including capital projects when the lease specifically only allowed non-capital items. Total amortized expenses amounted to \$102,508 that the landlord excluded after our review. This resulted in a credit to the client of \$46,542. Left unidentified, the amortization expense overbilling would have been \$277,818.

5.

### **Gross Up Performed in a Net Lease**

Net leases should not have expenses grossed-up. The lease did not have any gross up provision, but the landlord grossed-up the expenses anyway. In our review, we sought to exclude the grossed-up expenses for two years. The overbilled amounts were over \$60,000, resulting in a \$12,900 credit to our client. Had this not been discovered, the gross up calculations could have continued throughout the lease term and would have amounted to \$155,700, and an overbilling to the tenant of approximately \$41,000.

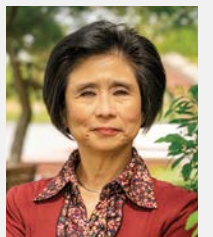
6.

### **Capital Improvements Exempted**

Given the landlord completed a 46,000 square foot building including new landscaping, building lobby, restrooms, elevator and other capital improvements, our team negotiated the lease such that any of those capital improvements would be exempted from the passing through of the related capital in operating expenses. At the first year of the eight-year lease term, our team audited the OPEX whereby it was determined the landlord was trying to pass the improvements as amortized capital in a triple net lease. These expenses amounted to \$45,000 annually, which spread over eight years saved \$360,000 in amortized capital that would have otherwise been a tenant expense. Excellent negotiations backed up by the ability to audit the OPEX created massive savings in the amount of -\$8 per square foot.

The advantages to hiring a trusted lease audit team to review the leases for a business can be invaluable. With a commitment to our clients that goes well beyond the lease signing, Hughes Marino's specialized lease audit service helps our clients to navigate these charges and achieve savings, all while maintaining good landlord relations. Our team is focused solely on the interests of our clients, and we look forward to assisting you in reviewing your lease operating expenses on a regular basis. □

*Carmela Roco is vice president of lease audit at Hughes Marino, a global real estate advisory firm that specializes in representing tenants and buyers. Carmela is a part of Hughes Marino's Portfolio Lease Administration & Advisory team and helps tenants address issues that arise during occupancy. Contact Carmela at [carmela.roco@hughesmarino.com](mailto:carmela.roco@hughesmarino.com) or 1-844-662-6635 to learn more.*



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