



INSIDE BUSINESS | A WEEKLY CONVERSATION WITH SAN DIEGO NEWSMAKERS

Broker does tenants' dealing

Rep talks up bargains in commercial leasing

By Roger Showley
STAFF WRITER

"Life is a lease. Negotiate well." It's not just an ad slogan at the Irving Hughes commercial brokerage. It's the mantra that president and principal Jason Hughes practices fervently in his 16th-floor suite overlooking San Diego Bay.

Unlike most commercial brokers, Hughes and the rest of his 20-member team represent only tenants as they do battle with landlords, from third-generation building owners to multinational investment funds. Their well-known aggressiveness must work, because last year they completed \$721 million in transactions, a company record, even in a recession.

Hughes, who will turn 43 next week, got his real estate license to sell homes while at Pepperdine University. He switched to commercial real estate and joined Craig Irving at the company in 1993 after moving to San Diego.

Like today, the early 1990s were a troubled time for real estate, as business shrank, banks folded and investors bought properties for pennies on the dollar. As the business recovered, the office market spread beyond its traditional base of downtown, Mission Valley and the University Towne Centre area. Institutional investors bought trophy properties in the 2000s at top dollar, only to see values fall as vacancies have risen to as high as 28 percent in some parts of the county.

Once again, it's a tenant's market and Hughes says bargains are there for the asking. He sees no prospects for a recovery in office building construction anytime soon. He recently discussed these trends.

QUESTION: What is the outlook for the office market?

ANSWER: For tenants, it's a fantastic opportunity, incredible deals. You could practically write your own ticket, and I think it will stay that way for the foreseeable future, definitely for the next 12 to 24 months — that's the perception. If the economy and business start firming up, that could change. But still, we have so much vacant space and we still have tenants that are shrinking — tenants are still giving back space. For everyone that needs space, we have two that are giving back space. There are tenants who signed leases with two years left for 10,000 square feet, but when their lease is up, they will only need 5,000 square feet.

QUESTION: Isn't there a danger that they will lease too little space and come up short?

ANSWER: The last thing you want to do is get landlocked and shoehorn yourself into too small a space and two years from now think, "Oh my good-



Jason Hughes is president and principal at Irving Hughes in downtown San Diego. The commercial brokerage, which specializes in tenant representation, completed \$721 million in transactions last year. David Brooks / Union-Tribune

JASON HUGHES

Principal and president, Irving Hughes

Personal: Age 42. Born in San Rafael. Married with three children. Lives in Rancho Santa Fe.

Professional background: Began working in 1989 at Grubb & Ellis commercial brokerage. Moved in 1991 to Goldman Ferguson Partners as a tenant representative. Joined Craig Irving's firm in 1993.

Education: Bachelor's degree in business administration, Pepperdine University. Master's in business, University of San Diego.

Hobbies: Reading (current title: "Circle of Greed" about the rise and fall of San Diego attorney Bill Lerach), travel, snowboarding, training for triathlon with one of his sons.

ness, what have I done?" There are a lot of ways to address that through options — expansion options, the right of first refusal. That's something we talk to our clients about.

QUESTION: When tenants are looking for space, what are their priorities?

ANSWER: The general theme in today's environment is dollars. Tenants are looking, as is everybody, to reduce overhead, get the best value, but there are exceptions to that. There are some that want image or quality, but what's happened because of the environment, you can have top quality with great economics, especially compared to what you've seen in the last five to seven years. Leasing rates have reverted back to where they were 10 years ago

or maybe more.

QUESTION: Could you give an example?

ANSWER: You can go into a Class A space in downtown in a high-rise with a wonderful view for \$2 or less per square foot per month that's full-service.

QUESTION: And at the peak?

ANSWER: \$3.50 to \$3.80. It's a gigantic discount.

QUESTION: But do all tenants choose to move? Aren't there costs to moving your location? How many actually move versus renegotiate?

ANSWER: Landlords know this and use it to their advantage. On average, 80 percent of tenants will renew. With my clients, I happen to move a large percentage.

QUESTION: What's a recent case?

ANSWER: American Specialty Health, in the Paladion (at First Avenue and G Street downtown). They're moving to Sorrento Mesa. They have 750 employees, and it was a very complex analysis and negotiation that took 2½ years. But they ended up getting 30 percent more space, 190,000 versus 150,000 square feet; free parking; great efficiencies. They took two buildings in a three-building complex with options to expand into the third. For them it was a wonderful, long-term solution to their growth.

QUESTION: What was the alternative?

ANSWER: Originally, they were going to take that (Paladion) building and

space in the Mervyns building in Horton Plaza (to the east). We were negotiating with Westfield (the center owner) for 40,000 square feet. It's not the ideal situation when you're bifurcated. During that time, the bottom just fell out of the market and we ended up doing the deal at Wateridge Plaza with GE as the owner. In the process, GE had to do a deed in lieu of foreclosure, and we did a deal for \$5 million less than the deal with GE. So it was a terrific outcome.

QUESTION: It's odd that people are leaving downtown when it's getting to be a great place to live and work. Do these companies that are relocating elsewhere have any regrets?

ANSWER: It's different for every tenant. Everyone has their own desires. Last year, we moved a law firm from Carmel Valley who used to be here six years ago. Their lease expired, and I moved them back down here. They had moved to Carmel Valley and felt it was a little too sleepy.

QUESTION: Besides the money, what amenities make a difference in where tenants locate?

ANSWER: It's not one thing. You can't say having a landlord-maintained gym is going to attract more tenants than having an on-site deli or reserved parking for executives, or a nice, aesthetically pleasing building or better freeway access. One thing that is certain about this business is every tenant is unique and every tenant has his own needs. You've got to navigate how to