

A Cautious Optimism

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Reformatted Commercial Brokerage Firm Hughes Marino Sees Tentative Market Turnaround

By Roger Showley

There's new zip and energy at the reconstituted downtown commercial brokerage firm Hughes Marino. With founding partner Craig Irving gone to form his own company, Jason Hughes and David Marino stayed on with their 15 employees to plan for growth to match a market on the comeback. They hope to add two more employees in coming weeks, bringing their staff close to the 18-person peak of the past.

"The fourth quarter last year was the first quarter in six years when the region had positive absorption," said Marino. "There are a lot of reasons to be optimistic."

He rattled off a series of leases that indicate rising interest among existing and newly arriving companies to take more space for growing work forces. Overall, availability of office, industrial and flex (office or industrial use) space dropped from 50.4 million square feet to 48.3 million square feet; sublease space stood at 4.4 million square feet.

Marino cited Altec Lansing, a wireless stereo speaker company from Milford, PA, that is planning to relocate its 50 employees and hire new ones from San Diego's vibrant wireless technology sector.

"San Diego is becoming a place people are moving to, not away from," said Marino, principal and executive vice president of the brokerage. "That's different from the last recession when everybody scattered out of town. We have great labor, great people, the quality of life here — companies are moving here for those reasons and staying here and growing here."

For evidence, Hughes, the president of the firm, points to tightening vacancies in the best buildings in certain suburban markets, such as Del Mar Heights and University Towne Centre.

But he also senses a bit of caution that restrains tenants taking on more square feet of space than needed.

"There is a lot of uncertainty," he said. "We just really don't know what will happen with our economy, with what's happening with world events. But people have to get on with their daily business. You can only wait and worry for so long before you put it behind you and start moving forward. I think there's a cautious optimism that is now out there, at least with the groups I work with."

However, the reduction in vacancies at the end of 2010 slowed in the first quarter of this year, preliminary figures show. Marino said the vacancy total shrank about 150,000 square feet. "That would describe a market in neutral," he said. "Progress is being made. We're chiseling away at this historically high glut of inventory."

Trends indicated that as much as 1 million square feet might be absorbed in the January-March period, Marino said. But with the latest figures, "any recovery is still years away."

"We'll have to see if this continues to eat into the inventory countywide as the rest of the year goes on," he said.

Hughes Marino

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Hughes, 43, and Marino, 47, both worked for other brokerages before joining Craig Irving in the early 1990s. They perfected the concept of the tenant-representation business, in contrast to most brokers who represent both landlords and tenants.

Their all-white, starkly modern offices on the 16th floor of the high-rise at 655 W. Broadway overlook the bay and many vacant parking lots where long-term plans call for additional towers.

But not just yet.

Both men cast doubt on downtown's short-term office market growth, noting it has been the only submarket to see increased vacancies even as other markets tightened.

The reasons are familiar.

Downtown parking costs far exceed those in the suburbs, and mass transit does not serve executives well. Young singles in high-tech startups may thrive on the downtown club scene, but they often leave for the 'burbs when they get married and have children.

"The best public schools in the region are in Carlsbad-Encinitas, Scripps Ranch through Poway to Rancho Bernardo — where all the young engineers, the 20- and 30-somethings that have young families are opting to buy houses," said Marino, who lives in La Jolla. (Hughes lives in Rancho Santa Fe.)

He continued, "The whole center of gravity has moved. Twenty or thirty years ago, lawyers lived in Point Loma. The don't anymore. They live in communities developed up north, where the school districts are, where the golf courses are."

Hughes said downtown's office problems could get worse before they get better. A new federal court and office building, now under construction, will draw government agencies out of commercial office buildings. If the city of San Diego moves forward with a new city hall, even more space would become vacant and delay further plans for new office buildings.

But those factors play against others. "As the pendulum swings and the suburbs become more pricey, people start reevaluating," he said.

Added Marino, "People start looking at downtown again and all of a sudden, downtown becomes competitive." But don't expect a flood of office towers, comparable to the boom in the 1980s. "It will be one guy with one building," Marino predicted.

Related to downtown's future is the outlook for the city's redevelopment program and the role played by the Centre City Development Corp., created by the City Council in 1975. Redevelopment agencies' futures are in question because the governor has proposed eliminating them.

Hughes locked horns with CCDC over its economic analysis for a new city hall, which he said was founded on faulty leasing rates and projections. Now, he thinks downtown can go it alone, with the regular city departments handling the details.

"I think [CCDC's] done a great job, having that focus, but now it's time to move on," he said. "Developers are a creative bunch of people, and they will find ways to continue to develop and find opportunities."

Jason Hughes, president, Hughes Marino. Age: 43. Born: San Rafael. Education: Pepperdine University; MBA from the University of San Diego. Personal: residence, Rancho Santa Fe; married to Shay; three children. Career: Cushman & Wakefield and other brokerages before joining Craig Irving in 1993. Hobbies and sports: traveling,

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wakeboarding, snowboarding. Current book: “Onward: How Starbucks Fought for its Life Without Losing its Soul” by Howard Schultz. Music: “Whatever was last week on ‘Glee’.”

David Marino, principal and executive vice president, Hughes Marino. Age: 47. Born: Redlands. Education: UC Riverside; MBA from the University of Southern California. Personal: residence, La Jolla; married to Patsy; two children. Career: Trammel Crow Co; various brokerages before joining Hughes and Irving in 1995. Hobbies and sports: wine, art, history, travel, skiing. Current book: “The Speed of Trust” by Stephen M.R. Covey. Music: “Anything produced in the last 35 years” Career: Trammel Crow Co; various brokerages before joining Hughes and Irving in 1995.

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