

# SAN DIEGO Metropolitan

October 2003

UPTOWN EXAMINER & DAILY BUSINESS REPORT

By Far San Diego's Largest-Circulation Business Publication, Online at [sandiegometro.com](http://sandiegometro.com) and On The Air on XLN 91.7 FM Radio

## Tenacious For Tenants

Jason Hughes And Craig Irving  
Firm Up Their Influence  
Over Office Landlords

Finally, Lankford's At Bat  
And Cisterra's On Deck  
With Combined 656,000 ESF,  
A BFD If 6.5 Million's Needed

Urban Heroes: Those Who  
Inspired And Kept The Faith

What USS Midway  
Means For San Diego

Ballpark Subcontractors  
Are Rounding Third Base

More Hotels Checking In

The Urban Living Guide;  
Downtown Housing  
Picking Up Steam

Spa Tiki And Retailers  
Capture Consumer Magic

Ingrid Croce Still Rocks

Torrey Pines Bank  
Vs. San Diego Trust

# Still Lords Of Leasing

In the Downtown office market, Irving Hughes' share has only increased; even Bill Halford pays a visit first

BY GARY SHAW

More has changed at their homes than at the office in the six years since Craig Irving, now 41, and Jason Hughes, all of 36, were last profiled here. Irving moved less than a mile to a new home overlooking Sunset Cliffs, and he and wife Rebecca have added daughters, ages 5 and 3 years old, and another daughter, 22 months, because their oldest daughter, now 9, and son, 7, obviously weren't enough. Hughes and wife Shay moved into Rancho Santa Fe's covenant with their 13-year-old daughter and two sons, 11 and almost 9.

No wonder Irving's hair is thinning. Hughes looks the same.

Less has changed at work. In Downtown San Diego, they moved the offices of Irving Hughes, the commercial real estate company, two blocks north to the penthouse of the 550 Corporate Center on C Street. Irving strayed for a while, chairing the Downtown Partnership for two years, then running the start-up Confirmnet, an online insurance documentation company, but he's been back in the Irving Hughes saddle for many months now, filling the pipeline with new business. Holding down the fort, "Jason remains a tenacious advocate for his clients and has six more years of experience under his belt," says Irving. "He has an incredible, in-depth knowledge of the anatomy of a real estate transaction, something very few brokers ever really understand. He is extremely loyal to his clients and stays awake at night worrying about them."

Kind words, but not too surprising from a partner. It's more credible



*On Broadway, Jason Hughes, left, and Craig Irving confer. (photo/Alan Decker)*

coming from Bradford Perry, vice president of Burnham Real Estate Services, once the biggest name in Downtown real estate. More often than not, Perry and Burnham represent landlords, not the tenants that Irving and Hughes represent exclusively in lease transactions. "Jason can be extremely formidable, compelling, crafty and ultimately extraordinarily effective for his clients," says Perry, who's negotiated across the table from Hughes to fill hundreds of thousands of square feet of office space in scores of transactions.

"Jason's certainly a star," Perry continues. "But the Irving Hughes company story, as I've discovered in the last five years, is unprecedented in the

modern history of real estate in the United States. Regardless of which numbers you choose to believe, the amount of business that they have controlled in Downtown San Diego over the past several years has averaged probably 50 percent to 60 percent of the total transactions.

"I've challenged several real estate people around the country, asking if they know of any tenant representation firm that has as large a percentage of the business in one central business district as Irving Hughes has in Downtown San Diego, and nobody can think of any firm that even comes close. What does that ultimately translate into? The influence and leverage they can extend to their clients with every landlord in town is unprecedented. And just about any investor coming into Downtown San Diego today winds up in their office, asking for assistance in one way or another."

So it was for Bill Halford, president of the Irvine Co., Office Properties, with a 26 million-square-foot portfolio, who sought a meeting to pick Hughes' brains long before acquiring Downtown's signature Symphony Towers for \$134.2 million in March. He says he's never come across a market dominated by a tenant rep firm like Irving Hughes lords over Downtown San Diego, "almost to the exclusion of other firms. CB (Richard Ellis) has a presence, but they clearly don't seem to do nearly as much tenant work as the Irving Hughes guys. Grubb & Ellis is not there, and Cushman & Wakefield is non-existent. You do have regionals like BRE (Symphony Towers' agent) and Colliers

attempting to make a presence. But it's almost as if they've scared off other people from entering that market."

And so it was that Rob Lankford, a suburban office developer whose first foray into Downtown San Diego was as the contract developer for the county's Hall of Justice on Broadway, walked into the Irving Hughes office three years ago and asked where the best place to develop an office tower would be.

"I pointed out my window to what is now the Broadway 655 site," says Hughes, referring to the southeast corner of Broadway and Kettner Boulevard, known to planners for decades as Parcel C.

"He then asked if I would help him assemble the site. It was controlled by three different entities, including San Diego Gas & Electric, Centre City Development Corp. and the Wosk Family Trust. It was even more complicated because CCDC had lost the right to condemn the Wosk parcel. The Wosks had been condemned in the past and CCDC agreed that it would not have the right to force a condemnation on them in the future. Additionally, SDG&E had a sub-station on the site, which would have to be approved for relocation by the regulators and budgeted and scheduled in for accelerated attention.

"Making matters worse was the fact that land prices have nearly doubled over the last three years as a result of residential developers' ability to pay much higher prices for land than commercial developers.

"This was just the beginning of the challenges."

During the land assembly, Lankford needed to find an anchor tenant to pre-lease the building. He'd brought in the National Electric Benefit Fund, a labor pension fund, as an equity partner. In the summer of 2001, Irving Hughes' client Milberg Weiss Bershad Hynes & Lerach, the big securities fraud and consumer protection law firm, signed a letter of intent to lease 115,000 square feet of space, and Irving Hughes' client People First, the online lender, signed a letter of intent for 160,000 square feet. The building, then designed at 26 stories with 430,000 square feet of office, would have been called People First Plaza and was nearly 75 percent pre-leased.

But then Capital One Bank purchased

People First and sought to review the deal. Then terrorists struck on Sept. 11, "sending everyone into panic mode," Hughes recalls. "Capital One Bank determined that they would not proceed with leasing the building and everyone else associated with high-rise office building development went into hibernation — lenders, insurance companies and equity partners.

"While Lankford fought to keep the project alive, Milberg began to look at other opportunities. Eventually things cooled off about the terrorists and it looked as though everything was beginning to get back to normal.

"Now Cousins Properties (a real estate investment trust) came into town from Atlanta and blew in Lankford's ear about how they could self-fund the entire construction of the project — not being constrained by the current debt markets and pre-leasing requirements inherently tied to them. Lankford spent considerable time with Cousins and Milberg — only to have Cousins start modifying the terms of the partnership with Lankford and the deal points of the letter of intent with Milberg. Ultimately Cousins didn't work out and NEBF turned out to be the right partner for Lankford. This was especially attractive to Milberg — they are strong union supporters. Meanwhile, the building construction date kept slipping while Lankford looked for another tenant."

Site work already has begun for what's now called Broadway 655 and funds to begin demolition, excavation and construction in earnest may be flowing by the time this tale is told. Lankford had become so gun shy over publicly announced and canceled groundbreaking ceremonies that he declined this time to announce anything in advance of receiving funds. The building has been trimmed to 23 stories above ground, two below, with 356,000 square feet of office, 16,677 of retail, 756 parking spaces in two levels underground and five levels above, and 14,735 square feet of residential in 17 apartments. Total square footage comes to 691,000, the first privately financed office building to break ground since 1989 when Gordon Luce, on behalf of Great American Bank, started work on what would become One America Plaza across Broadway.

(Ironically, the Milberg Weiss law firm, which sued Great American on

behalf of shareholders before and after the thrift was seized by regulators, and Luce's brother Edgar's law firm, Luce Forward Hamilton & Scripps, which defended Great American, both became anchor tenants in the tower that Luce and Great American conceived. Now Milberg Weiss' departure from One America Plaza will make possible the next privately financed office tower. Milberg Weiss has signed the lease for 137,000 square feet, says Hughes, including floors 17 through 23, the penthouse, of Broadway 655.)

Downtown San Diego has come a long way since One America Plaza was under construction. That's when 22-year-old Jason Hughes moved to San Diego and landed a job as a runner for Grubb & Ellis. Great American Bank and Grubb & Ellis are distant history, and Downtown San Diego has added thousands of upscale condominiums and apartments where few existed before. The suburbs, from Oceanside to Otay Mesa, added 59 million square feet of office and industrial space (that often masquerades as office space) in the last decade alone, but not one square foot of privately financed office space has been built Downtown since One America opened in 1991. The Central Business District's share of the county's commercial office market has shrunk from 20.4 percent in 1992 to less than 14.9 percent today.

And that, in a nutshell, is most of the reason San Diego's freeways "suddenly" became congested in the past decade; there's no mass transit to and from the equivalent of nearly six downtowns that have been built in the suburbs in the last 10 years.

Rob Lankford will probably get a medal for developing San Diego's first office tower of the 21st century. Jason Hughes ought to get one for filling it with tenants. Cisterra Partners, hoping to break ground next year on an office building next to the new Petco Park, will deserve another.

Irving Hughes' tenants took down nearly 1.9 million square feet last year, and the firm is on track to close 3.1 million square feet this year. While it has the largest share of the Downtown market, only 40 percent to 50 percent of its work is Downtown; most of the balance is in North City and North County. Irving and Hughes handle virtually all the Downtown work. David Marino,

Shaun Burnett and Andy LaDow lead a team that usually numbers seven brokers handling points north.

Comparisons with other real estate firms are difficult because of apples and oranges, but with only 17 employees, Irving Hughes generated about \$320 million in gross sales, the value of all transactions, primarily funds flowing from tenants to landlords, in 2002, down from \$489 million in 2001.

The notion that Irving Hughes has been able to depress leasing rates, or at least restrain the rise in a constricted CBD surrounded by suburban submarkets bloated with excess space, is given a little credibility by Southwest Value Partner's managing executive Mark Schlossberg. SVP owns more than 1.1 million square feet of Downtown office space in Emerald Plaza, Golden Eagle Plaza and 600 B Street, a portfolio eclipsed only by GE Pension Fund properties managed by Steve Williams' Sentre Partners.

"Because they're doing so many deals, Irving Hughes is able to, in some respects, set the market, or at least influence it," says Schlossberg. "There's no other brokerage that really comes close to the number of tenants that they represent. What property owners are willing to do in terms of rent is going to have the major impact. But they've definitely been able to keep rents down in this market, definitely lower than it should be for as great as Downtown is."

Then again, if that's the case, and if higher rent is the most important element that financiers require to justify the expense of building new office towers, one could argue that Downtown's historically cheap lease rates, well below \$3 a square foot in most cases, have retarded office development. Therefore, Irving Hughes' contribution to retarding the rise of lease rates can be blamed in part for stunting the market, constraining the supply and forcing rates up. Ain't economics fun?



Site preparation has already begun for the 23-story Broadway 655

Maybe one should avoid comparisons between Irving Hughes and Mother Nature.

Still, tenants large and small swear by the firm. It's uncanny.

"Jason is absolutely amazing," says Janice Brown, managing partner of the Brown Law Group, one of Irving Hughes' smallest clients, relocating from 4370 La Jolla Village Drive, the Northern Trust Building, to 600 B St., the Comerica Bank Building. She and seven attorneys will relocate to 3,400 square feet on the 16th Floor with an expansive view of Downtown and Balboa Park. A business trial attorney, she spent nine years with Seltzer Caplan McMahon Vitek in Downtown before her most recent four years in University City. Her clients, some in North City and some in Downtown including Golden Eagle Insurance, are pleased with the move.

"He is extremely supportive, amazingly available," she says of Hughes. "He provided his cell phone number

and answered a lot of questions for me, which was wonderful. He gave me a lot of confidence, and that's because he has a lot of confidence in what he's doing. I'm so happy to be coming back Downtown and didn't initially think of it as a possibility. I thought it was more expensive; it wasn't. And I was surprised to learn that everyone I work with wanted to be Downtown."

Likewise, Kathi Strozza, director of administration for San Diego's most famous law firm, Milberg Weiss, with 250 employees, says Irving Hughes "is very good, very, very good. Jason did a fabulous job working with us. It's all signed, about 135,000 square feet, but check with Jason.

"We've actually been working with him now almost four years. We've had him help us with our L.A. leases and San Francisco leases and he puts us in contact with people in those cities. That's how much we like him and respect him. I really was surprised how young he is." ♦

## IRVING HUGHES

PHONE: 619-238-4393

FAX: 619-238-1025

www.irvinghughes.com