

WORK+SPACE®

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

ISSUE NO. 20

THE POWER OF AN

ANTI- FRAGILE



MINDSET FOR BUSINESS LEADERS

Strategies for Companies Navigating Real Estate, Teams & Market Shifts

Beyond Resilience

Strength in business often comes from the ability to adapt, grow and thrive under pressure. Now more than ever before, resilient leaders and teams are proving that challenges can be a catalyst for progress rather than a roadblock. That is the focus of this issue of *Work+Space*®: *The Power of an Antifragile Mindset for Business Leaders*. Inside, we share strategies and ideas to help you and your team build long-term strength, agility and success.

Beginning with antifragility, a mindset developed by Nassim Nicholas Taleb, leaders and organizations can learn to not only withstand stress but to grow stronger because of it. In *Antifragility: Taylor Swift, Kobe Bryant—and You*, we explore what it takes to embrace this approach and how it fuels lasting success. Alongside this article, our piece, *Culture Is a Difference Maker*, highlights how intentional practices can elevate teams while driving bottom-line results. This helps prove that award-winning cultures do not require massive budgets, but rather thoughtful and meaningful leadership.

We also explore practical tools for executives navigating real estate decisions. In *What Business Leaders Ask Us Most: A Commercial Real Estate Q&A*, we share insights from our experience in representing office, industrial and lab tenants for more than 30 years. Paired with *Why Renewal Tenants Get Bad Deals & How To Avoid It* and *The Top 7 Most Valuable Commercial Real Estate Terms for Business Leaders*, this collection of articles is designed as a hands-on guide to help leaders navigate with clarity and confidence, while avoiding common pitfalls.

Additionally, we examine the broader market in *Why Haven't More Office Buildings Gone Into Foreclosure?* Despite rising vacancy rates, building foreclosures have been fewer than many expected. This article uncovers the reasons why and offers perspective on what it means for companies that lease space.

At Hughes Marino, our mission has always been to equip business leaders with the tools, strategies and insights they need to lead with confidence and strength. We hope this issue of *Work+Space*® sparks new ideas and provides inspiration to help you and your team adapt and thrive for years to come.

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WORK+SPACE®

A publication of Hughes Marino

BUSINESS + REAL ESTATE + DESIGN
+ CULTURE + CONSTRUCTION

About Hughes Marino

Hughes Marino is a global corporate real estate firm that specializes in representing tenants and buyers—not landlords. We provide a full suite of services for occupiers of commercial real estate on an integrated and turnkey basis. Whether you need help with real estate strategy, site selection, and negotiations around renewal, expansion, relocation or subleasing, construction project management, planning and design, corporate culture, and operating expense review and/or lease administration, Hughes Marino can address any problem or opportunity for companies of any size, any industry and at any stage of their real estate life cycle—anywhere on the planet.

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Jason and Shay Hughes leading an all-team meeting at Hughes Marino's headquarters in San Diego.

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ANTIFRAGILITY: TAYLOR SWIFT, KOBE BRYANT—AND YOU!

By Jason Hughes

TURNING SETBACKS INTO STRENGTH AND THE MINDSET BEHIND LASTING SUCCESS.

Every quarter, I lead an “All-Team Meeting” for our company, bringing together our nationwide group of professionals. I spend days thinking about what I want to share with everyone, hoping to have a positive impact on as many team members as possible. At our last event, I spoke about being antifragile, and since then, I’ve thought about it even more, as I believe it is a core component to exponential success, both for companies and individuals.

From groundbreaking innovations to unexpected news, the world hums with constant activity. The change we once saw over years now seems to happen in the span of a week. While looking for my own stability and reassurance one day, I read a blurb somewhere equating Taylor Swift to “antifragility.” (Note: if you ever want me to read something, throw Taylor’s name into it!) The message was that she managed to turn the chaos of fame into global superstardom, becoming stronger with turmoil and challenges, rather than weaker. It wasn’t just about surviving for her, but thriving.

Left: Jason Hughes, sharing insights at an all-team meeting at Hughes Marino’s San Diego headquarters.

IT'S NOT JUST A STRATEGY; IT'S A MINDSET.

In 2007, Nassim Nicholas Taleb, a thinker who saw the 2008 great financial crisis and crash coming, published a book titled *Antifragile: Things That Gain From Disorder*. In the book, he lays it out: there's fragile, robust and antifragile. Fragile shatters under pressure, like glass. Robust holds steady, like a piece of metal, but doesn't grow or shrink. Antifragile grows and gets stronger, like a muscle.

I view leadership similar to coaching. I often share with our team stories from sport notables like Nick Saban, Vince Lombardi and Bill Belichick—and famous athletes like Michael Jordan, Kobe Bryant, Tiger Woods and Tom Brady—as well as superstars like Ms. Swift. Whether it's Lombardi's "Gentlemen, this is a football" speech or Kobe's "Mamba Mentality," all the stories focus on grit and determination, becoming better and stronger every day. Much like James Clear's concept of 1% better.

High achieving people and companies thrive because they embrace antifragility. Beyond mere resilience or relentless practice, they cultivate a mindset that transforms setbacks into growth. This adaptable, dynamic approach, open to learning from failure and uncertainty, can be developed by anyone committed to excellence.

For businesses, at least certainly for ours, antifragility isn't just a buzzword; it's the difference maker that separates professionals who struggle and ultimately crumble from those who come out stronger and find massive success. In times like these, it's not just a "nice-to-have," it's non-negotiable for high-level achievement.



Jason Hughes
Chairman & CEO
Hughes Marino

This doesn't apply to just C-suite leaders, top salespeople or product developers. Anyone, whether assisting clients, managing teams or streamlining operations, faces uncertainty daily, and sometimes even hourly. Client challenges, supply chain disruptions, staffing shortages, shifts in customer demand or product launch hiccups aren't the exception; it's the reality of the job in both service and product companies.

Antifragility resonates because it transforms chaos into opportunity. You can let a setback stall you, or you can harness it to sharpen your resolve, adapting faster, solving problems smarter and innovating quicker. It's not about dodging stress; it's about using it as a catalyst to unlock your best performance.

Mr. Taleb doesn't just theorize; he gives us a playbook. Here's how to apply it, whether you're running a small business or a corporate enterprise:

- **Don't bet everything on one move.** Over-relying on a single client, supplier or strategy is like putting all your eggs in one basket. Keep your options diverse and your risks spread.
- **Build reserves.** A wide network of suppliers, a cash buffer or extra inventory. These are your shock absorbers when the world throws a curveball.
- **Test in small doses.** Experiment with new products, processes or strategies. Small risks deliver big lessons without catastrophic fallout.
- **Balance stability and boldness.** Mix reliable foundations (like core operations) with high-potential experiments, like new markets or technologies. Taleb calls this the barbell strategy.
- **Don't bank on yesterday's wins.** Taleb's "Turkey Problem" hits hard: a turkey's fed daily, thinks life's great...until Thanksgiving. Past success doesn't guarantee future victories. Stay ready for surprises.

Antifragility isn't just a strategy; it's a mindset. As leaders, we can't treat chaos like a problem to sweep away. It's a chance to build resilience, like a team sharpening their skills under pressure. A missed target or supply chain disruption isn't a crisis, rather it's an opportunity to grow stronger. It's about choosing to see disruption as a catalyst, not a roadblock. Every challenge is a chance to refine your leadership, rally your team and come out sharper. It starts with how you think: frame the

chaos right, and it becomes your fuel. Trust the process and the wins will follow, as Saban is famous for preaching.

Resilience is a start, but it's not enough. In any industry, we need to be adaptive, quick and let's call it what it is: antifragile. It's how we deliver for customers when the world's a circus. It's how we navigate challenges without losing our edge. And it's how we support each other to keep moving forward. I'm working on a deeper dive into how antifragility plays out in our daily work, and how leaders in any field can embed it into their mindset and strategy. Stay tuned for that. For now, let's embrace the chaos. It's not here to break us; it's here to forge us into something extraordinary. □

Jason Hughes founded Hughes Marino in 2011, an award-winning global real estate advisory firm that specializes in representing 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 jason@hughesmarino.com or 1-844-662-6635 to learn more.



WHAT BUSINESS LEADERS ASK US MOST

A COMMERCIAL REAL ESTATE Q&A

For over 30 years, we've represented corporate tenants across every industry and navigated all kinds of commercial real estate scenarios—from first-time leases to global portfolio strategies. One thing remains clear: commercial real estate comes with a lot of questions. Earlier this year, we shared the top questions we're asked the most, along with the answers landlords hope you won't read. We received such positive feedback from business leaders who found it helpful that we wanted to reshare it in the hopes that it will help you cut through the noise, avoid common pitfalls and feel more confident in your next real estate decision.

Wherever you are in your real estate journey, you always have options.



I'm a tenant in a building, and I'm aware that the landlord is having financial problems. Should I be concerned?

It's understandable to feel concerned, but it doesn't necessarily mean your lease is at risk. In the short-term, you might notice warning signs like deferred maintenance or cost-cutting around the building. Even if a landlord defaults or is foreclosed on—a scenario that's becoming more common—leases are binding contracts, and the lender will usually honor existing leases to protect the building's value. In most cases, you can expect to stay in place with your current terms. That said, there are rare exceptions, like if a property is being redeveloped or converted to another use, where leases could be terminated, typically with 6 to 12 months' notice. It's smart to assess your specific situation and speak with an expert to understand your risks and options. The good news is that most of the time, your lease will remain intact, and your business can continue operating without disruption.

My lease is expiring soon, and with so much uncertainty around the future of my business, I'm not sure what my next move should be. What should I be thinking about as I weigh my options?

If you're unsure of the next steps to take with your real estate situation, you're not alone, and you likely have more options and leverage than you realize. Both office and industrial markets have shifted in the tenants' favor, with high sublease inventory and increased availability in most U.S. metro areas. Many landlords are open to shorter, one- to two-year renewals, especially if you signal that you're exploring alternatives.

Still, some landlords may pressure you into longer-term commitments or higher rents based on outdated norms

or their own financial pressures. But your lease term should reflect *your* needs, business outlook and level of risk—not theirs. With the right tenant advisor in your corner, you can go to market, create leverage and negotiate terms that truly work for you.

If your landlord won't agree to a shorter renewal, there are plenty of others who will. Bottom line: don't let your landlord dictate the terms just because they say it's standard. In this market, you have the power to define what's right for your business.

I'd like our team to be back in the office, but our current space doesn't meet our team's needs. What would you recommend?

A great starting point is to assess whether the *location* is still right. Most often, the real barrier to getting people back in the office isn't the space itself—it's the commute—the opportunity cost and the real-dollars cost of driving to and from the office.

The first step we suggest is to complete a demographic analysis, which will help pinpoint where your team is coming from and whether a different location might make office life more accessible and appealing. Once a submarket is confirmed, the next step would be to focus on buildings that offer strong amenities like convenient parking, walkable food and fitness options, and

modern features that support hybrid work. Natural light, flexible meeting space and overall comfort all play a big role in encouraging your team to show up. The right space in the right location can go a long way in making the return-to-office smoother and more successful.

We are beginning to consider moving to a facility that better suits our needs. What are the most important things to consider before selecting a new site?

The best place to start is with a strategic evaluation of key site selection factors. First, consider proximity to your suppliers and customers. Locating closer to either can significantly reduce transportation costs and improve delivery times. Access to major transportation networks, including highways, rail, ports and airports, is also critical for maintaining efficient logistics. Next, evaluate the local labor market to ensure there's a reliable workforce available, and take regional wage rates into account to keep long-term operating costs manageable. It's also essential to assess real estate costs and availability across different markets, keeping an eye out for tax incentives or business-friendly zoning policies that could offer financial advantages. Finally, look for buildings that not only meet your current





operational needs but also offer room for expansion as your business grows. By analyzing these five factors—logistics, labor, cost, infrastructure and future scalability—you can make a well-informed decision that positions your industrial operation for long-term success.

My lease is expiring in the next two years and my landlord or their agent has reached out to help me renew my lease. What should I do?

If your lease is expiring in the next couple of years and your landlord or their broker has reached out about renewing, it's a signal to pause—not jump in. While they may sound helpful, remember that their goal is to protect the landlord's interests, not yours. Their job is to secure the highest rent, the longest lease term and offer the fewest concessions possible. That's why it's essential to have your own advocate in the process, someone who represents *only* you as a tenant.

No matter how friendly or familiar they may seem, or how many gifts they

send, a landlord's broker has a built-in conflict of interest and is ultimately working to benefit the building owner. By engaging an advisor that only represents tenants, you gain a professional who will provide you with unbiased advice, confidentiality and leverage in negotiations. That includes creating competition by exploring alternative spaces and creating an auction-like environment, even if you're leaning toward staying put. This process often reveals opportunities for better space, more favorable terms or even cost savings. It's easy to stay in your current space simply out of habit, even if it's too large, no longer fits your needs or feels like too much of a hassle to change. But that comfort can come at a real cost. Many tenants fall into the trap of inertia: the space is familiar, it's working "well enough," and the idea of moving feels expensive and disruptive. But the reality is, by going to market and exploring your options, you might find space that better supports your operations, improves efficiency and may even cost less. In many cases, tenants are overpaying for space that no longer aligns with how their business actually operates today. The smartest move is to understand all your options before making a decision.

If vacancy and availability rates are still high and there is more sublease space than ever, why are landlord and their brokers still asking the same high rents?

It's a fair question. If vacancy rates are up and sublease space is everywhere, why are landlords still asking the same high rents? The hard truth is, landlords and their promoting landlord brokers often set asking rents based on perception, not reality, and they rarely advertise the significant concessions they're offering behind the scenes. They also anchor off each other's pricing, informally aligning to keep rates high—even if the market doesn't

support it. There's no public record of lease terms, so tenants rarely know what others are actually paying. Meanwhile, landlords have full transparency into each other's deals because most brokers work primarily for landlords or act as dual agents in the same transactions. These brokers trade detailed data within their firms and with other landlords in real time, giving building owners a clear view of the actual market, while tenants are left in the dark. Without independent representation that knows the true market dynamics and can access real transaction data, it's easy to overpay or miss out on major concessions.

My landlord or their broker contacted me and said I better lock in long-term now because prices are going to start going up in a couple of years. Is this the right move?

With limited geographic exceptions, both the office and industrial markets are still extremely soft, and are expected to stay that way for the foreseeable future. In the office sector, this is due to the sheer volume of space already on the market, with more to come as long-term, pre-Covid leases expire. In industrial, years of overbuilding and a record-high amount of sublease space are adding pressure, and many tenants with excess capacity are expected to downsize as leases signed from 2020-2022 roll off. If your landlord or their broker is telling you to lock in long-term because prices are about to rise, take that with a big grain of salt. That kind of messaging is often a tactic to pressure tenants into signing longer leases than they're comfortable with—not because it benefits your business, but because it serves the landlord's interests and helps drive a bigger commission for their broker. Locking in long-term may sound smart, but in most cases, the market isn't shifting in a landlord's favor anytime soon.

With building values going down, is now the right time to look at buying a building as a business owner?

It's true that some building values are dropping, and on the surface, buying might seem like a smart move, but it's not that simple. While purchase prices may be coming down, lease rates are too, and many tenants overlook the full cost of ownership. Buying a building means covering not just the mortgage, but also property taxes, insurance, maintenance, utilities, janitorial and often costly tenant improvements—plus carrying the space while it sits vacant during the buildout. Those are expenses landlords typically absorb in a lease. Unless you have a long-term (10+ year) business plan and significant cash reserves, leasing is often a far more flexible and cost-effective option. Many companies also struggle to find the right-sized building in the right location, especially in denser urban or infill industrial markets. Also important to note, if you're a venture-backed company or in a partnership, ownership can also introduce complexity and risk that may not align with your business goals.

Regardless of the topic, one thing remains constant: **the best way to protect your interests and secure the right outcome in any real estate opportunity is to have representation that's truly independent from your landlord.** If there's one takeaway from this Q&A, let it be that. Many business owners don't realize that working with a tenant advisor comes at no additional cost, yet provides critical leverage, market insight and protection throughout the process. Regardless of where you are in the real estate cycle, you always have options. With the right guidance, navigating commercial real estate doesn't have to feel overwhelming—and when you're ready, we're here to help you move forward with clarity and confidence. □



THE BEST WAY TO PROTECT YOUR INTERESTS AND SECURE THE RIGHT OUTCOME IN ANY REAL ESTATE OPPORTUNITY IS TO HAVE REPRESENTATION THAT'S TRULY INDEPENDENT FROM YOUR LANDLORD.

WHY HAVEN'T MORE

Office Buildings

GONE INTO FORECLOSURE?

By Owen Rice & Riley Hillis



We get asked this all the time: With more than one-third of all office space sitting vacant in most cities across the country, how are office buildings managing to stay afloat without going into default?

It's been more than five years since the onset of the Covid-19 pandemic, and large portions of office space remain empty. Many of these buildings are outdated, poorly located or simply no longer meet the needs of modern tenants in a hybrid-work world. They have little to no chance of being re-leased anytime soon.

According to recent data from Trepp, a leading firm that tracks the performance of commercial real estate loans, delinquency rates for commercial mortgage-backed securities (CMBS) reached 7.13% in June 2025. The office sector is under the most stress, with an 11.08% delinquency rate, the highest since December 2024.

For context, CMBS loans are often used to finance large office buildings. Trepp's data gives insight into which properties and loans are at risk of default, and is closely followed by lenders, investors and real estate professionals. So why haven't we seen a bigger wave of foreclosures?

Much of the distressed activity is happening quietly, behind closed doors. Many lenders are working out solutions with borrowers to avoid the messy and very public nature

of foreclosure proceedings. In many cases, borrowers are handing back the keys in what's effectively a "friendly foreclosure" or deed-in-lieu transaction, keeping the default out of the headlines.

Some loans are technically in default, but lenders are reluctant to take back the asset, especially when the outstanding loan balance exceeds the property's market value. The last thing a bank wants is to inherit a half-empty tower they can't lease or sell.

We're already seeing office towers in major cities lose significant value, with some trading hands below the cost of construction. But that's just the beginning. Many lenders have been granting short-term loan extensions, just as they did during the 2008 financial crisis. The difference this time? Back then, demand for office space eventually returned. Today, the world has changed, and with the widespread adoption of hybrid work, only the most desirable buildings are capturing tenant demand. The "extend and pretend" approach simply doesn't work in a market this dislocated.

This is a massive market reset, and it's going to unfold over the next few years. Real estate is cyclical, and demand will return someday, but not until the massive oversupply of office space is brought back into balance with tenant needs.

The hard truth is that in nearly every office market, there are buildings where the highest and best use may involve a wrecking ball. While that may sound crass; that's just the reality.

With a severe housing shortage in most major U.S. cities, repurposing some of these obsolete buildings for residential use could help alleviate pressure on both renters and homeowners.

Meanwhile, there's a growing pool of opportunistic buyers, investment funds, family offices and private equity firms, sitting on large amounts of dry powder. Many of these groups learned from 2008. They know the best deals are often the ones that never hit the open market. They're having direct conversations with lenders and special servicers, looking to acquire distressed assets quietly, often just before a foreclosure occurs.

As a result, we may not see foreclosure numbers spike the way many expect. That doesn't mean distress isn't happening, it is. It's just being handled differently this time around: more quietly, more strategically and often one-on-one between lenders and buyers. □



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Culture Is a Difference Maker

TIPS ON HOW TO BUILD AN AWARD-WINNING CULTURE



Above: Los Angeles teammates collaborating and sharing ideas during a recent event.

Right: Our advisors starting their day strong with a morning group workout.



Above: One of our offices hosted a team-building activity to plant flowers together.



Our San Diego teammates volunteered with Feeding America to help serve one of our local communities.

In the last 14 years, we've proven that a strong, intentional culture isn't fluff—it's fuel. It's what enables teams to go further, execute faster and deliver under pressure. And in a business environment that's constantly shifting, culture might be your most underleveraged asset.

Executives spend time optimizing strategy, capital and operations, but often overlook the one force that holds it all together: people. Not just talented individuals, but cohesive, committed teams that trust each other enough to take risks, challenge each other and win together. Often culture is confused with office perks. It's actually about mindset and performance. It's about creating teams that trust each other enough to take on hard things to win.

Here's how we've built that kind of culture (including winning #1 Best Workplace Culture in the nation by *Fortune* magazine and countless other national, regional and local awards), and how companies or teams of any size can do the same.

USE FUN AS A STRATEGIC TOOL

Having fun together is not a "nice-to-have." It's a purposeful strategy. We intentionally create moments that build connection across office locations, departments and roles, because well-connected teams with great chemistry always outperform siloed ones. From themed potlucks and trivia games to costume contests and team field days, we find opportunities for people to engage on a human level. These shared experiences break down barriers, build trust and create the kind of team chemistry you can't fake. Want your team to communicate better and collaborate faster? Start by helping them appreciate and enjoy each other's company.

MAKE GROWTH A TEAM SPORT

The world is changing fast. If your team isn't learning, they're falling behind. Group learning builds agility and we prioritize it relentlessly. We run team-led lunch-and-learns. We share reading lists. We adopt quotes from the brightest business leaders in the world and make them our own "HM-isms." And because our teammates lead our growth, the process builds confidence, collaboration and mutual respect along the way. The result? Teams that adapt quickly, solve creatively and show up with curiosity.

BUILD TEAMS AROUND A BIGGER MISSION

Strong teams don't just work together—they believe in something bigger together. That's why we carve out time to give back, serve our communities and remind ourselves that our work is just one part of a much larger story. From

group volunteering to baking cookies to deliver to local fire stations, we've seen firsthand how acts of service align a team around shared values like humility, gratitude and impact. These aren't just feel-good activities, they are moments that deepen and reinforce purpose. People want to be part of something meaningful, so build that into your company's DNA.

ENGINEER MEANINGFUL CONVERSATIONS

You can't build trust without dialogue. And yet, most companies rely on surface-level interactions that never scratch past the professional veneer. We've flipped that script. Team fireside chats (fireplace optional), peer-led "Ask Me Anything" roundtables and buddy programs connect teammates across functions and generations. Casual rituals like sharing three emojis that represent what you're doing over the weekend on Teams or Slack as everyone winds down the week, or interest-based email groups (like fit@, cooking@ or pets@ are easy to get engagement) create low-pressure touchpoints that build connectivity over time. Why does this matter? Because performance thrives in environments where people feel connected and aren't afraid to speak up.



Our Orange County operations team taking some creative time to design fun summer bucket lists.

DON'T UNDERESTIMATE THE POWER OF SMALL THINGS

It's not just the big events that shape culture, but the micro-moments as well. The meals together before all-team meetings. The team afternoon walks. The rhythm of connection that builds trust and consistency over time. Instead of sitting in a conference room for your weekly check-ins, try a "walk and talk" meeting. You'd be surprised how changing your location and moving together can foster even more meaningful and collaborative discussions. Lately our team has been enjoying "fika," a Scandinavian-inspired break filled with coffee and conversation, but no phones or laptops. But it could be anything. What matters is making space for teammates to connect without agenda. Culture is constantly being built. If you ignore the small moments, you will miss your greatest opportunity.

THE ROI OF CULTURE IS REAL

When people are connected, trusted and aligned, they naturally move faster. They solve problems more effectively and they innovate under pressure and persevere through challenges. That resilience is priceless. At Hughes Marino, culture is the engine that powers everything we do. If you're leading a business, you already invest in strategy, systems and sales. Sometimes culture is the overlooked opportunity. If you're not investing in it, you're leaving performance on the table. The good news? You don't need to overhaul everything to start. Your team can start with one ritual. Launch one team tradition. Host one meaningful conversation. Most of these ideas cost next to nothing. Then do it again. And again.

Because when culture is strong, everything else gets stronger too. □

WHY RENEWAL TENANTS GET BAD DEALS & HOW TO AVOID IT

Renew your commercial real estate lease without falling for the industry's best kept secret

By John Jarvis

The commercial real estate industry is an inefficient marketplace. It is also a bit of a relic, unchanged in the last hundred years and largely dominated by landlords and their brokers, which has resulted in an industry where long-term, loyal, repeat customers are repeatedly expected to pay a premium. I call it a *loyalty premium*. The mechanism for this is the renewal option, which unsuspecting corporate tenants use all the time to simply extend the term of their office and industrial leases. It certainly looks like an Easy Button, with language about adjustment to a "market rate." Except it doesn't work that way at all. It is a siren song, and you must resist the temptation. Because the spread between "renewal" rental rates and the actual "price-clearing" market rental rates has never been wider than it is today, sometimes by a factor of 2x or greater.



In comparison, the stock market is an efficient marketplace. There are literally millions of active “traders” trading shares of stock every second of every day based on available, public information, continually setting and resetting the market price for those shares. Insider trading in the stock market is illegal, and this enables a certain transparency and levels the playing field for all participants.

Commercial real estate? Not so transparent. Opaque, in fact, is a better descriptor. Consider, there is no publicly available transaction information on negotiated leases, nowhere to find out about the net effective lease economics on current or recent transactions. The landlords know exactly how far they are willing and able to go, but they obviously don’t want that information shared with their tenants. What’s more, the “traders” in commercial leasing—the active participants responsible for setting and resetting the market rental price—are the tenants dealing with expiring leases. Except they aren’t “traders” at all. They are, in fact, quite busy running and growing their businesses, so it’s not surprising that the Easy Button, that

renewal option, looks so darn tempting. Resist the temptation.

Today’s market-clearing rental rates can only be discovered when tenants enter the marketplace for vacant space as a free agent and

engage in *price-discovery negotiations*. Even then, not every building owner can afford to meet the market today. In San Francisco, for example, numerous Class A office projects have now completed the reset cycle of *foreclosure* and *resale* to professional investors. And it’s these new investors who are driving the market and competing for (and winning) the relatively few active requirements, because they have fresh capital and a property basis reduced by 60% or more. These are the folks who can afford to sharpen their pencils, and these are the folks making the market today. So as a tenant, you need to get in the game and trade paper with these market-makers. This is how you will gain visibility to today’s market-clearing rental rates.

Your current landlord, of course, doesn’t want you to do this, and they certainly don’t want you to know all of this. Your landlord desperately wants you to exercise your renewal option. They may even proactively reach out and offer a modest discount or concession. For some owners, this is the only way they make it through the current market cycle, if enough of their existing tenants simply exercise their renewal options and end up paying inflated rates.

To put it into perspective, as a landlord, losing you as a tenant means...

- It could take up to two years to find a replacement tenant.
- The replacement tenant will likely require a substantial tenant improvement allowance upon signing the new lease.

- The landlord will have to cover all of the property expenses during the vacancy.
- The replacement tenant could be irresponsible and fail to pay rent.

Given all these risks, it’s clear that having a reliable, long-term tenant matters more than ever to a landlord. You’ve consistently paid rent on time and have been a stable presence in the building. That kind of dependability should count for something.

In fact, when you break it down, the numbers strongly favor keeping a trustworthy tenant like you, especially with a fair, well-negotiated renewal. The charts on the right page lay it out clearly: a comparison of what it costs a landlord to lose a tenant versus the value of retaining one.

As in most areas of life, there are simply no shortcuts without consequences. And that Easy Button? It’s a shortcut to the loyalty premium, every time. □

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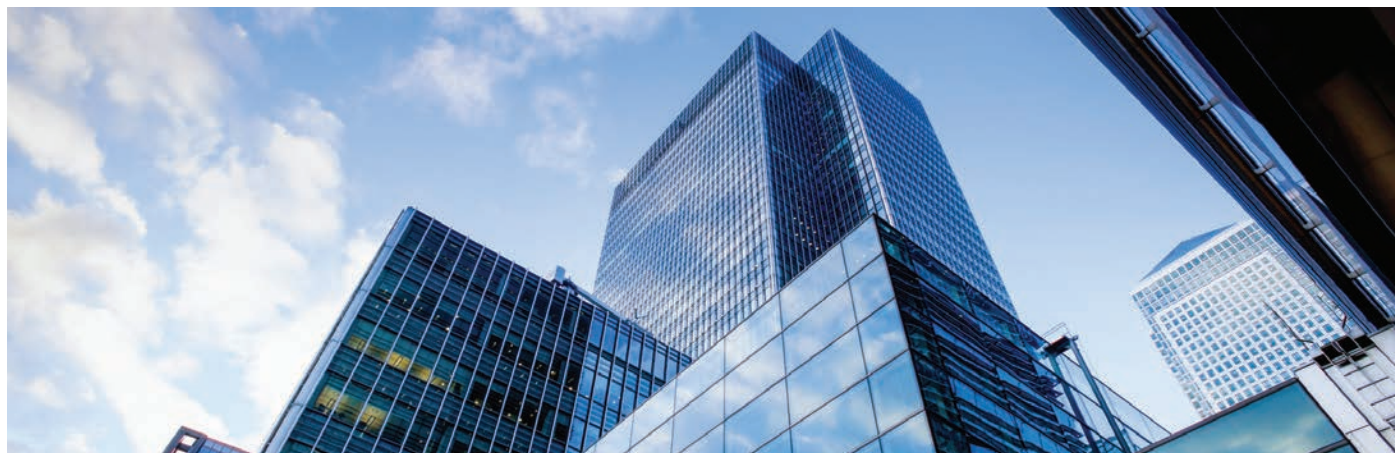


EXHIBIT A: LANDLORD'S COST OF LOSING YOU

SIX YEAR TOTAL LANDLORD NET INCOME: +\$430,000

EXHIBIT A: For years 1 & 2, your landlord continues to receive rent checks to cover the mortgage, property taxes, maintenance, utilities, etc.—profit for themselves.

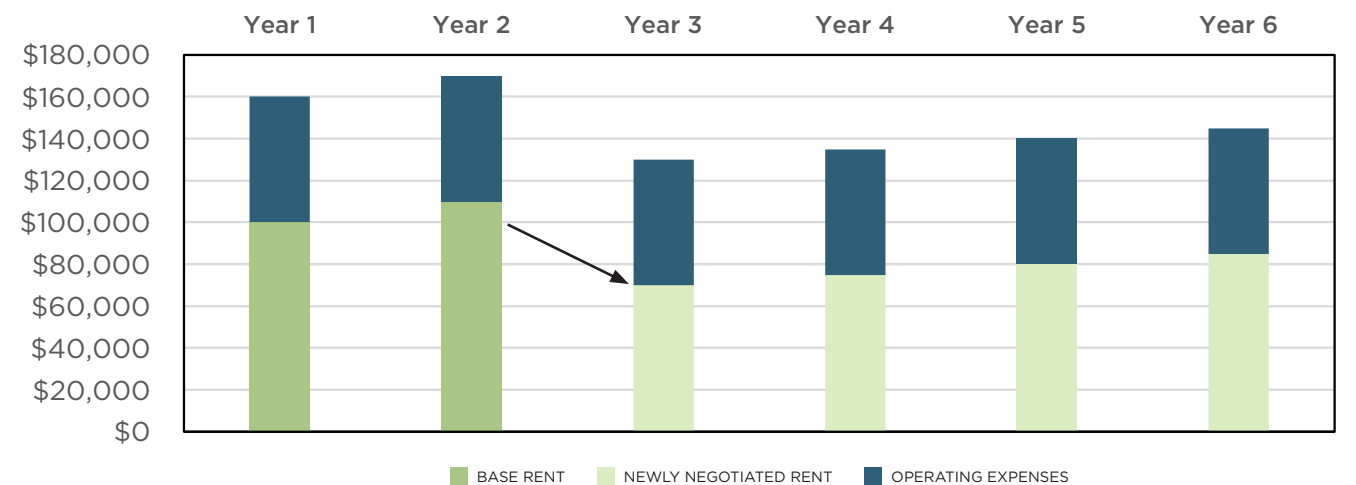
Years 3 & 4: The property now sits vacant, and your landlord is hemorrhaging massive expenses, often putting them in noncompliance with its loan covenants, putting the building at risk for foreclosure.

Years 5 & 6: After months, possibly years of vacancy, assuming the landlord is successful at finding a replacement tenant, they will need to fund a substantial tenant improvement allowance to provide a space that works for the new replacement tenant. The new tenant may/may not have reasonable financial strength, which could devalue the building in the event of a future sale, adding to the financial pain of losing you. In this scenario, the landlord nets \$430,000 after the vacancy, but could have made \$880,000 (shown in **EXHIBIT B**) over the same period if they had lowered the rent by 30% and kept you, their long-term tenant in the building.



EXHIBIT B: A WELL NEGOTIATED LEASE RENEWAL

SIX YEAR TOTAL LANDLORD NET INCOME: +\$880,000



This is why keeping you in the space at a lower rent is still much better for the landlord.

THE TOP 7

MOST VALUABLE COMMERCIAL REAL ESTATE TERMS FOR BUSINESS LEADERS

By David Marino

Commercial real estate leases are packed with terms and concepts that can catch even the savviest executives off guard. From hidden costs buried in rent structures to overlooked clauses that create real financial risk, understanding the language of leasing is essential. This can serve as a guide, breaking down key terms every business leader should know so you can engage with confidence and clarity.

1. RENTABLE SQUARE FOOTAGE VS. USABLE SQUARE FOOTAGE

The usable square footage is the space within your own specified premises. It includes the surface area of the space, whether there is a wall on top or a column, to the exterior surface of the windows, to the exterior surface of any demising wall between your space and a common area, and to the midpoint of any shared demising wall with another tenant—landlords get you for every inch. The rentable square footage adds your share of the building common areas to the usable square footage. Common areas may include building lobbies, amenity areas such as gyms and conference rooms, and electrical rooms and the main point of entry. The rentable square footage also includes your share of the floor common areas, including restrooms, fire corridors, elevator lobbies, IT rooms and janitorial closets. For a typical full floor tenant, your “gross up” from usable square footage to rentable ranges from 6% to 10% of additional common area space. For a multi-tenant floor, the conversion from usable square footage to rental square footage can be anywhere from 15% to 25% depending on the nature of the building. The same is true for biotech wet lab buildings, except the core factor can be much larger as landlords are liberally entitled to allow other utility areas into their common space, so the conversion from usable square footage to rentable may be even a higher percentage.

2. DIFFERENT TYPES OF RENT STRUCTURES: TRIPLE NET (NNN), NET OF ELECTRICITY AND FULL SERVICE GROSS

This is an area that will trip up many executives as these terms get thrown around as if everybody should understand what they are. The biggest challenge that an executive has is adjusting the rent to compare apples-to-apples. A triple net (NNN) rent is conventionally seen in industrial buildings, biotech lab buildings and very occasionally in office buildings. The “NNN” means that the rent is exclusive of three things, which are categorically called the “operating expenses” (sometimes casually referred to as “the triple nets”) which are the cumulative cost of the 1) real estate taxes, 2) real estate damage and destruction insurance, and 3) other common area maintenance (CAM) costs such as

water, property management fees, landscaping, elevator service agreements, and building repairs and maintenance. With these NNN form of leases, the tenant is responsible for their own janitorial within the premises, their own electricity and certain repairs and maintenance responsibilities in the space, which could include maintenance of the HVAC systems in an industrial building. In some sale-leaseback leases, the tenant is further responsible for all capital and structural repairs and replacements, which can create increased risk and cost for the tenant.

The second most common form of lease is “net of electricity” in office leases, or “industrial gross” leases in industrial settings. These leases in office buildings include all of the operating expenses and janitorial services, but the tenant is separately responsible for electricity service to the premises. In industrial buildings, this form of industrial gross lease typically includes the operating expenses within the rent, but not janitorial, electricity and maintenance responsibilities.

Full service gross is a term used in mid-rise to high-rise office buildings where the landlord simply pays all of the expenses, including janitorial and electricity, and the tenant pays a rent that includes all of these expenses. This rent is subject to a pass-through called a “base year,” which refers to the incremental increase in expenses each year of the lease, above the “base”—typically the year in which the lease begins. While the landlord pays all of the expenses for the building out of the rent, the tenants in the building are responsible for the escalation of those same expenses during their respective terms. Executives are often fearful of these operating expenses as there’s very little control and predictability, but for smaller leases for a short term, they are not material. Once a tenant becomes over 10,000 SF and their lease term is over three years, it’s important to understand the incremental impact of these expenses over the term.

Business leaders can make a mistake in their financial analysis by not understanding the difference between these lease structures, and every building will have different operating expenses. When comparing those apples-to-apples, the right advisor can extract these future expense budgets from the landlord so that a proper financial analysis can be built, but understanding the gaps between the different structures is particularly important for an executive.

3. “USE BY” DATES ON TENANT IMPROVEMENT ALLOWANCES

Tenant improvement allowances are common concessions, both in new leases and renewals, but landlords create a trap door in the lease document where if you do not provide notice to get reimbursement of the allowance by a certain terminal date, the rights to the allowance lapse. Many a leader has been stung by getting a great deal negotiated, and then neither they nor their broker tracks this date—and the value evaporates.

4. TURNKEY TENANT IMPROVEMENT ALLOWANCES

Be careful of a landlord and their broker trying to make it look like they will pay for everything you want by offering to do a “turnkey” tenant improvement project. When you read the lease fine print, you will find that the tenant turnkey allowance is subject to some kind of cap, or subject to some kind of plan attached to the lease. However, more often than not, the corporate tenant is not savvy at developing architectural plans, detailed drawings and specifications, whereby often floor covering, lighting fixtures, electrical requirements, specialized HVAC, upgraded finishes and other details are not fully documented in the plan, and thus the landlord has no intention of paying for them. You wanted a refrigerator and dishwasher with that space? If it was not on the plan, it is your money that you will be spending.

5. COMMENCEMENT DATE RISK

For an executive that does not understand how long it will take to prepare the premises or complete the tenant improvements, the risk of the lease commencing before the premises are

prepared for occupancy is high. Landlords will often bargain for a fixed commencement date, or some kind of outside commencement date as part of their negotiations, which gets incorporated into the lease. Often several months lapse from the beginning of the negotiations to when the lease is signed, and with the passing of time, the commencement date negotiated months before does not give the tenant adequate time to prepare the premises for their occupancy. In addition, delays in completing plans, or with city approval and vendor selection, can further delay the process whereby commencement can often occur before the work is complete for you to move in.

6. “AS-IS” CONDITION

Unlike buying a home in most states where the homeowner has a legal obligation to disclose all known conditions, commercial real estate is much more like the wild west. Many landlords and their brokers do not reveal known facts, and more often do not even know the facts as it relates to the space due to the lack of documentation and the lack of being hands-on with the property. Simple questions as to whether the air conditioning systems are in good operating condition are often not known by the landlord or their broker. Landlords rarely do any kind of ADA survey or property inspection, where they know what they are handing over the tenant, so the lease often gets negotiated with the premises being delivered “as-is” where you spend your tenant improvement allowance fixing up everything. Often, issues of obsolescence, code compliance and other problems only reveal themselves during the construction process itself, and usually cannot be discovered with a simple visual inspection before lease execution. It’s imperative to protect your company by ensuring that there is thorough language in the negotiations, and ultimately in the lease, where all building systems shall be in good working order and all fixtures in good cosmetic condition, so that the expenses to remedy such do not come out of the limited tenant improvement allowance.



**FROM HIDDEN COSTS BURIED IN RENT
STRUCTURES TO OVERLOOKED CLAUSES
THAT CREATE REAL FINANCIAL RISK,
UNDERSTANDING THE LANGUAGE
OF LEASING IS ESSENTIAL.**



7. LEASE ASSIGNMENT

An executive that is considering mergers and acquisitions, as well as the raising of capital or going public, needs to ensure that the term sheet is negotiated so that the company can freely sell stock and equity in the company to raise money without such an event being deemed an assignment, regardless of the percentage of the company’s equity that is sold. In the event you are selling the company to an acquirer, the sooner that you can provide notice to the landlord with the financial and business information that they will require, the better. Often attorneys deal with this during the final closing of the sale of the company, and it becomes one of those issues that creates last-minute delays. As an executive, you cannot allow that to happen and need to ensure there is language in the lease to allow for such transfers without consent, or get well ahead of the process with the landlord to bring them into the conversation early during the M&A process. □



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