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Hard Things
Moving Forward

In this issue of Work+Space® Magazine, we embrace the theme of moving forward with positive momentum, putting more and more distance between us and the tumultuous year of 2020. Each and every business leader has experienced a lot in the past few years, and like us, they're likely eager to begin a new chapter in 2022.

With each passing day, businesses are moving forward and returning to the office. As such, we tried to include as much information as possible to help business leaders navigate the current business climate, including our outlook on the national office market, tips for industrial companies, spotlights on life science markets, ever-evolving interior design trends, and important dates for companies to be aware of to avoid common penalties from within their lease agreements. The theme of the article on page 10 may be familiar to many business leaders, who also found themselves “rallying their troops” during the uncertainty of the pandemic. It’s all very encouraging information, and we hope it brings some guidance to you during this time.

On a personal note for our company, this year has brought us great progress. One of the many highlights of 2021 was pairing an amazing team with the opening of our historic and beautiful Denver office (see page 4). We’ve also had the privilege to help hundreds of companies navigate their real estate dilemmas during this past year.

If we can be of service to you and your company with regards to your corporate space needs, it would be our honor and pleasure to do so. We look forward to hearing from you.

Sincerely,

@hughesmarino

A publication of Hughes Marino

About Hughes Marino
Hughes Marino is an award-winning commercial real estate firm that was founded on the belief that it is impossible to represent both tenants and landlords without a conflict of interest. Our team has been exclusively representing tenants and buyers for more than 30 years, delivering best-in-class service and unmatched expertise to companies across the nation.

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Hughes Marino
Chairman & CEO

Shay Hughes
President & COO
Hughes Marino
AN INSIDE LOOK AT OUR
newest team & office

By Shay Hughes
Since the beginning of Hughes Marino, CEO Jason Hughes and I have always embraced an entrepreneurial spirit, coupled with a passion to help champion the rights of commercial tenants across the country. Building and expanding our company and brand is a never-ending challenge that we are always eager to take on, but company expansion doesn’t happen effortlessly overnight. We protect our brand and company culture, only bringing on teammates and opening new offices when we find the perfect additions that align with our core values, work ethic and passion for tenant representation—ensuring any new addition will make our team, and clients, proud. While we are constantly receiving inquiries about opening new office locations, the conditions and culture have to be just right, which is extremely rare, and very celebrated when it does happen.

In late 2020, the entrepreneurial adventure of Hughes Marino expansion hit yet again with commercial real estate veterans Billy Byrne and Lindsay Brown joining us to open a Denver office.

Hughes Marino Executive Vice President Billy Byrne is a seasoned broker with 26 years of experience, offering his clients a depth of expertise and local knowledge that is unmatched in the region. From Fortune 500 companies to small businesses, Billy has assisted office and industrial clients of all sizes and is best known for his creative transaction structures and expertise in build-to-suit projects. Billy has negotiated more than $1 billion in transactions, and is said to be the oldest surviving wall painting in Denver!

Entering our office, guests are submersed in our warm brick space, lit by natural light from an abundance of windows with views of the neighborhood. Complete with multiple conference rooms, a collection of private offices and open workstations, our signature Hughes Marino family gallery wall and a kitchen make our Denver office as welcoming as possible with all of the comforts of home. Our vibrant art collection—composed of pieces by artists including Anja Van Herle, Michael Anthony, Nisperos, Monica Hoover, Douglas Kirkland, Ryan Joras and Mark Sandboval—perfectly complements the natural elements of our space. Playful elements can be found at every turn, including whimsical chairs and lighting that provide even more personality to our historic LoDo home. Our office is also dog friendly! In fact, it’s rare not to be greeted by one of our friendly four-legged family members, photos of whom are featured in a second gallery wall in our space.

All in all, we are honored and so excited to welcome this incredible team to our Hughes Marino family, and couldn’t be happier. We will continue to look for opportunities to grow in response to client demand, especially when we find amazing leaders like Billy and Lindsay!

Onward!

Shay Hughes is president, COO and owner of Hughes Marino, an award-winning commercial real estate company specializing in tenant representation and building purchases with offices across the nation. Shay writes about business leadership and company culture on her blog, Lead with Style. Contact Shay at shay.hughes@hughesmarino.com or 1-844-662-6635 to learn more.
Despite the COVID-19 pandemic taking a catastrophic toll on many U.S.-based businesses, Hughes Marino bolstered its reach by adding a Denver office to its fleet of locations, including Los Angeles, San Diego, Orange County, Seattle, San Francisco, East Bay, and New York.

“We added the Denver office in the fourth quarter of last year, with the grand opening of Denver in January of 2021,” said Hughes Marino CEO Jason Hughes. “We were growing when everyone else was pulling in the reins. And we’re really proud of how our company handled this. We’ve gotten stronger in a lot of ways.”

Hughes admits that corporate real estate was the last thing on anyone’s mind when the pandemic hit. “In fact, most people just wanted to shed it, and they were forced to work from home,” Jason Hughes said from the company’s headquarters in San Diego. “And we’re really proud of how our company handled this. We’ve gotten stronger in a lot of ways.”

Hughes likens the impact of the pandemic to an ice age hitting the commercial real estate world. “Everything was essentially frozen, and there was zero velocity. It was really scary,” Hughes said. “For a couple of months when the pandemic started, we were really concerned and analyzing, ‘What does this mean to our company? What is going to happen to our industry? And nobody knew how bad it was going to get.’

Hughes Marino went into immediate triage mode with all of its brokers. “Our brokers are the front line,” Jason Hughes said. “They’re the ones who are client-facing, meeting with business owners and making decisions every day. They’re the tip of the spear, and then it trickles down to all of our other divisions, including lease auditing, lease administration, program, project and construction management, planning and design, and culture consulting. From there, we have all of our operational team that supports the brokers, so if our brokers aren’t successful, we’re not going to have a company.”

Hughes then initiated weekly broker town hall meetings lasting one to two hours to boost morale and keep the Hughes Marino team focused on how to help clients with the rapid changes the market was making both locally and nationally.

“How does this mean to our company? What is going to happen to our broker town halls,” Hughes said. “We began examining what some of the smartest companies out there were doing for their team.” Hughes said. “What are they doing to help control their expenses while we’re in this COVID storm? How do we renegotiate with landlords? And it really ranged from local, to state, to national protection with tenants for evictions, for non-payment of rent, for protection against lawsuits because for a lot of these companies, their business just stopped.”

As Jason Hughes watched most landlords shift into lawsuit mode, he remained focused on the plight of struggling tenants.

“When you’re a tenant, you’re just paying rent because you’re getting revenue to help pay these costs, and if the revenue just stops, how are you supposed to pay?” Hughes said. “Helping them navigate all that was happening from a local and state standpoint on protection and giving them peace of mind, we became financial counselors in a way on how to prevent these companies from going out of business.”

With thousands of clients advised by the brokerage, Hughes Marino recognized that while trillion-dollar companies can withstand years of no revenue, many of their smaller clients couldn’t afford the same luxuries.

“It really comes full circle to what we talk about on our broker town halls,” Hughes said. “Our clients need us more than ever. Let’s give them ideas. Let’s help them through these challenges. Let’s protect them against these landlords who are saying, ‘Hey, you need to pay up.’”

HOW JASON HUGHES HELPED HUGHES MARINO GAIN MOMENTUM EVEN AMIDST THE PANDEMIC
Hughes Marino has stayed true to its original vision of thoughtfully expanding and maintaining an incredible company in it for the long haul. “Shay and I get a lot of satisfaction out of this company and what it’s done for so many people’s lives,” Hughes said.

“WE DO THE BEST WE CAN AT MAKING THIS COMPANY SUCCESSFUL AND HAVING IT BE A GREAT PLACE FOR EVERYBODY TO WORK. WE’VE EARNED NUMEROUS AWARDS FOR EVERYTHING YOU CAN IMAGINE, AND THAT’S NOT SOMETHING YOU CAN BUY. OUR TEAM LOVES BEING HERE. THEY LOVE WHAT THE TEAM REPRESENTS. THEY LOVE WHAT WE’RE ALL ABOUT, AND THE FEELING’S MUTUAL.”

Hughes is also extremely grateful for the loyalty and longevity of his team. “We’ve been very excited about the success our team has had, as individuals and a collective team. A lot of our teammates have been with Shay and I for 20 to 25 years, and we’ve seen their whole lives change,” Hughes said. “They get married, and they grow families, and they buy their first house. I mean, it’s really rewarding and fulfilling for us.”

If there’s one thing that’s for sure, Hughes’ passion to help both clients and his team has only accelerated after enduring such a tumultuous period during the pandemic together, which is fueling Hughes Marino’s gaining momentum by the day. “When the storm hit, we rallied and hit back with our experience, passion, and perseverance for the needs of our clients, the tenants—companies large and small providing services for us all—from biomed, industrial, energy to corporate. They are in the business to serve, so we had to pivot and serve them any way we could.”

This article was originally published at bbntimes.com by Daniel Hall.

Jason Hughes is chairman, CEO, and owner of Hughes Marino, an award-winning commercial real estate company with offices across the nation. A pioneer in the field of tenant representation, Jason has exclusively represented tenants and buyers for more than 25 years. He writes about topics in commercial real estate from a tenant’s perspective on his blog, Downtown Dirt. Contact Jason at 1-844-662-6635 or jason@hughesmarino.com to learn more.

C OVID-19 had the most dramatic effect on increasing office availability rates in 2020 than any time since the 2000 Tech Wreck. While the Tech Wreck availability uptick was related to a collapse of the financial markets and the tech sector generally, whereby hundreds of millions of square feet of office space across the country came back to market through tenant defaults, the 2020 increase was caused by corporate America either relinquishing its office space as leases expired or putting unprecedented amounts of office space on the market for sublease. The chart on page 14 identifies the major US office markets pre-pandemic availability rates as compared to today.

While most metro markets are still modestly increasing in availability, year to date (YTD) most office markets have not increased by more than half a percentage point. Those highlighted in red are the most negatively affected by companies still shedding office space including New York City, Houston, San Francisco, Orange County and San Jose, all of which have increased by more than half a percentage point YTD. Austin and San Diego, highlighted in blue, are the only major metro areas where availability has actually gone down more than half a percentage point YTD, showing that the worst might be behind only in these markets.

Some of the tightest pre-pandemic markets in the country have been hit hardest, with San Francisco availability more than doubling since the pandemic began, New York City going up almost 50%, San Jose rising 54%, Denver growing 42% and Seattle increasing by 62%. Generally suburban office space has a higher occupancy rate than the central business district where commuters take mass transit to get to work, potentially exposing people to COVID-19 during their commute. High-rise buildings where tenants are required to take often-crowded elevators, creating the perception of additional COVID-19 exposure risks, generally have a lower occupancy rate.

What is unprecedented in the commercial office market is the flood of sublease inventory that has come back to market during COVID-19. In this COVID-19 driven downturn, corporate America has remained financially healthy and has generally been performing on their lease obligations, putting excess space on the market for sublease in lieu of the defaults we saw during the Tech Wreck and 2008 mortgage crisis. Most metro areas are hitting records with the millions of square feet on the market for sublease, and the square footage increase from pre-COVID to YTD are reflected on the next page. Highlighted in red (see: Sublease Inventory Changes chart on page 14) are those markets continuing to get worse in 2021 where YTD sublease inventory increased by more than 10%, including Philadelphia and Phoenix. Highlighted in blue are those markets that are trending positively whereby sublease inventory is going down by more than 10% year to date.
One would think that sublease inventory would have been declining by now and that the worst is behind us. However, what we are seeing is that more companies are reaching the conclusion that they are not coming back to the current footprint they have, and new subleases come to market every week as a result. Depending on the COVID-19 Delta variant’s impact on health conditions for the balance of the year, this total glut of office sublease inventory will persist well into 2022 and 2023, continuing to be a thorn in the side of all landlords that have to compete with their own tenants looking to dump space.

The forecast is for availability rates to continue to go up for the next three years in most major metro areas. Since the pandemic began, only approximately 15% of all office leases in the country have expired. As we go into the next three years, another approximately 50% of office leases will expire around the country, allowing tens of thousands of commercial real estate tenants to reassess their footprint requirements. Consensus is that remote working and hybrid models are here to stay for most companies in most industries, and that means that most tenants of all sizes are going to need less space when their lease expires. Many companies can get by with 20% to 30% less space than they lease today. As companies relocate or downsize in place to less space, the net result is that landlords are going to be handed back tens of millions of square feet of office space across the country every year. It’s not something anyone’s going to notice in any particular quarter, but there is going to be a long three-year drift to the bottom in most metro markets.
B

usiness leaders across the country are cautiously observing one of the tightest industrial real estate markets on record with vacancies as low as 1.7% in some submarkets per our most recent Industrial Market Report. Relocation options are scarce and it seems like every week there is a record breaking rental price published above-asking much to the investment community’s jubilee. On top of that, companies are published above-asking much to the investment like every week there is a record breaking rental price. Relocation options are scarce and it seems that every week there is a record breaking rental price. Relocation options are scarce and it seems.

FACTORS INDUSTRIAL COMPANIES NEED TO CONSIDER

WHEN RENEWING A WAREHOUSE LEASE

BY ALEX MUSETTI

Five

Usually this starts with a seemingly innocent act of reaching out to the landlord to signal their willingness to renew their lease, and better understand what those terms might look like. While this may seem harmless, the sheer act of communicating directly with the landlord on this subject puts the tenant at an early disadvantage. In doing this, the tenant is effectively telling the landlord that they do not know what a fair deal is, that they want to stay in the building, and have yet to educate themselves on market conditions. Without any representation, market intel, thorough review of the existing lease provisions or even a rudimentary understanding of their options in the market, tenants are walking into the landlord’s den completely unprepared, and largely at their mercy. Rather, the communication should go through an engaged broker representative who is free of any conflicts of interest, and who is prepared to execute on the real estate strategy as defined with and by the tenant. When such an approach is taken, the landlord will know that they are working with a tenant that is informed, nimble and focused. From there, the parties can begin working towards a solution that addresses the needs and wants of the tenant, while navigating the real market requirements of a tight market.

So, what does a real estate strategy look like in such a tight market? What real leverage is there when the options to relocate are so few? Here are a handful of giveaway questions executives and their broker should discuss as they begin to think about their real estate needs, and how those needs might fold into an improved lease renewal moving forward.

1. Is the facility suitable for your needs?

Maybe you need some more space but relocating is costly. Perhaps opening a satellite office is a solution. Can you negotiate an upgrade to the sprinkler system so you can get that high-pile permit and make use of the ceiling height in the warehouse? On the other hand, if the space you have is too large, you might find that being in a tight market works to your advantage—you can always sublease the extra space, often at a profit.

2. If you absolutely had to move, what would that look like?

The cost, and the task, may seem daunting but having this rough idea in mind is helpful as a backstop.

3. Are we thinking long-term or short-term?

If we are confident in where the business will be in seven years—then we should be talking about a seven-to-ten-year plan. If that’s the case, we can discuss long-term strategies like build-to-suit options, or long-term leases to lock in a low rate and take advantage of increased improvement allowances.

4. Is there any deferred maintenance to note?

The most common culprit is a set of HVAC units that will need to be replaced in the next five years. Poorly drafted leases have those costs falling to the tenant and it is not advisable that a tenant agree to bear the full cost of replacing HVAC units in the building. A lease renewal is the exact time to revise that lease language to put that responsibility squarely on the landlord.

5. What is the landlord’s exposure if they lose me as a tenant?

They’ll likely have downtime on the space. They’ll have increased closing costs when they do re-lease it. They’ll have to perform some tenant improvements to the premises for a new tenant. And on and on. A qualified industrial tenant representation broker will automatically quantify these costs so that we can back into the landlord’s exposure if we were to leave.

Executing on a successful negotiation starts with having a thorough real estate strategy. The first step in defining that strategy is a discussion around the business, its needs, the market, and the facility. Sitting down with a trusted broker who is free of any conflicts of interest is the best way to begin. Many companies do not realize that our expert tenant representation services will not cost them a dime. In no way does our involvement increase the cost of the transaction, and we do not invoice our clients for our fees. There always has been, and always will be, one type of customer for Hughes Marino—the tenants and buyers of commercial real estate. Our only fiduciary duty is to the business owners, companies, and organizations that we are proud to call our clients, and we take protecting their rights and bottom line very seriously. It’s a win-win for any company who decides to work with us.

By Alex Musetti

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OCTOBER 2021

DOWNTOWN SAN DIEGO:
A NEW FRONTIER for SoCal LIFE SCIENCE?

BY STAR HUGHES-GORUP

Once brimming with the energy of tech startups, marketing agencies and professional service firms—as well as a thriving retail, dining, arts, theater and music scene—Downtown San Diego has a long way to go to achieve its pre-pandemic vitality. Over the past year and half, many downtown companies moved out of tens of thousands of square feet of office space, leaving more than a 40% availability. That’s nearly five million square feet that’s waiting for tenants to show interest again.

THE QUESTION IS, WHO IS GOING TO MOVE IN?

Real estate developers and investors are betting on life science firms to revitalize Downtown San Diego. San Diego is the third-largest life science market in the U.S., and the increasing demand from tech and biotech firms is apparent in the lack of availability in Torrey Pines, UTC and Sorrento Mesa. Simply put, it’s never been this hard for life science firms to secure a spot in their favored region of San Diego. The few spaces that are left are being snapped up at the highest rental rates we’ve seen—a 50,000 square foot facility is leased in a matter of weeks. There are a handful of major downtown projects underway that promise expansive research and lab space that has never before been available in the downtown market.

WAITING ON THE FIRST LEAP

If one life science user makes the leap to commit to any of these stunning new spaces, it’s very likely others will follow suit. It may be that some life science firms view downtown as a three- to five-year bridge until there’s more space available in the traditional locations (there are more than 40 building conversions taking place right now for delivery of life science infrastructure in the Torrey Pines, UTC, Sorrento and North County submarkets). If life science companies decide to pick up their labs and move to downtown for the long run, it will spark a profound change on the landscape and overall optimism for the future of downtown.

Will San Diego’s downtown become the new frontier for SoCal life science? Only time will tell!

The future tenants of these new spaces can look forward to a variety of attractive amenities in the downtown market: access to the waterfront, culture and art, Petco Park, Coronado Island, proximity to the airport and hotels, numerous trendy living spaces and nearby eclectic neighborhoods such as South Park and Little Italy. Another plus is starting fall of 2021, the University of California at San Diego—one of the leading life science universities in the nation—will have direct access to downtown via the trolley’s new UC San Diego Blue Line.

Three projects of note include 1155 Island, The Campus at Horton and the Research and Development District (RaDD). The project closest to completion is at 1155 Island, an eight-story 203,000 square foot office space that’s being converted to a Premier Class-A life science building. By late 2021, the property will be ready for new tenants who will occupy a sustainable LEED-Gold building that features green design elements, digital connectivity and smart building systems. The Campus at Horton has a late 2022 completion date and is a major rehaul of San Diego’s five-level downtown mall that spans over six blocks. The campus is designed to meet a zero-carbon goal and will feature cooling by a central on-campus plant, 5 MW photovoltaic and battery storage systems to cut energy costs, and an onsite commercial blackwater treatment system, saving more than half of the campus potable water use. Inside the campus, a 10-story 300,000 square-foot life science tower will provide lab space and can accommodate life science or office tenants. The third and perhaps most impressive project is IQHQ’s Research and Development District (RaDD), a waterfront property planned for 2023 with the vision to attract biotech or pharmaceutical companies to a prime location spanning three city blocks along the San Diego Bay. The 1.7 million square foot campus will consist of mid-rise structures and a 17-story tower, including rooftop decks and green space. RaDD will offer beautiful views of the bay and access to dining, shopping and music events in nearby Seaport Village, easy access to the USS Midway and stretches of walking and biking paths along the Embarcadero. Its unique design and location will certainly present benefits from a recruiting standpoint.

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With a “new normal” emerging where office tenants are offering their employees varying degrees of a hybrid work environment, the Seattle area life science market, one which is dependent on space to perform research and manufacturing, is thriving. The success of these companies is placing a huge demand on buildings that offer laboratory and manufacturing space. Many of our region’s life science companies have raised unprecedented amounts of capital pursuing cures for multiple diseases as well as for future treatments of COVID. The supply of lab space in both Seattle and Bothell has seen incredible competition and upward pressure on rents, where wet lab rents have gone up as much as 20% in the last year. In some cases, depending on the size requirement, one can barely find existing lab space to satisfy one’s real estate requirement.

With over 5.3M SF of laboratory and R&D space in Seattle, vacancy rates are hovering at 1%, which is fueling developers to convert well over 1 million square feet of office space to laboratory and R&D throughout our region. Recently, Trammell Crow Company (a wholly owned subsidiary of CBRE), has embarked on converting components of the building to support the burgeoning growth of demand which has recently exceeded 1 million square feet throughout the Puget Sound. Current asking lease rates for Class A laboratory space vary significantly by product, the least expensive spaces are promoting asking lease rates of $69 per square foot per year, net of operating expenses while the most premier spaces are asking $85 per square foot per year, net of operating expenses.

More new construction is on the way in Seattle, driven by developers looking to capture future life science demand. By OWEN RICE

BY OWEN RICE

I n the Bay Area, the market continues to be tight with record low vacancy rates and high demand for laboratory space. Based on these market conditions, life science companies that need lab space should be thinking months ahead to ensure they can secure the needed real estate for their operations. Due to limited supply, new transactions for wet laboratory space will require a minimum 7-10-year lease and very few smaller spaces under 10,000 square feet exist with pre-built lab or lab opportunities. For early to mid-stage companies, that need more flexible options and do not want to overcommit, second-generation space is the preferred option when it becomes available, but it is critical to move fast if space presents itself for occupancy. For early-stage biotech companies, we’re seeing a trend towards shared lab spaces, which offer shorter lease terms, as well as control, and zero capital expenditure. Smart Labs has added some key vacancy to the market and although it is expensive on a price per square foot basis, the ability to lease shorter term and flex up/down as needed, coupled with the capital expenditure avoidance, creates a ripe deal-making market for shared lab operators.

With the COVID-19 pandemic reducing the need for office space in most urban cores (e.g. San Francisco, Oakland and San Jose respectively) and investors increasing their volume in the life science sector—industry data supports over $9 billion of investment in the first half of 2021 alone—there are many new life science conversion projects underway in the Bay Area that may help to address the issue of supply. While we’re seeing projects along the peninsula, such as Alexandria Real Estate Investors “The District” in San Carlos and Redwood Life in Redwood Shores thriving and nearing 100% lease-up there are also many East Bay redevelopments occurring in Emeryville, Alameda, Newark and the wider East Bay.

In the East Bay, Emeryville has traditionally been a large life science hub and has major projects underway including Emeryville Public Market, Foundry31. Emeryville Bioscience Center and Hells Business Center. Alloy Properties, known for life science CRE investments and conversions, recently purchased the Campus @ Ardenwood in Fremont. This property has been home traditionally to many tech companies, like Logitech, so Alloy Properties is planning on ventilation and electrical upgrades to support a variety of lab users. We’re also seeing a move towards Hayward, with the Mt. Eden Business Park, currently home to Reflection Medical and Illumina, planning to increase its footprint of life science space. The property which currently contains 28% life science space, is projected to be 57% life science by 2025 and 100% life science by 2030.

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BY CALE MILLER

THE BAY AREA

OCTOBER 2021

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CURRENT DESIGN TRENDS IN THE WORKPLACE:

A Q&A with Hughes Marino Interior Design Director Kristin Christensen
Hughes Marino, we believe office design and company culture truly work hand in hand to inspire teams and build the ability to positively impact businesses in many ways. Our Planning + Design team works to shape the perfect functioning workspace for clients’ teams in order to enhance space and productivity, and plays a major part in helping companies adapt to the ever-changing world we are living in.

Recently, I sat down with Kristin Christensen, Interior Design Director for our Planning + Design team, and discussed some commonly asked questions from company owners and business leaders this year.

**Q:** What office innovations have occurred or grown in popularity due to COVID?

**A:** All of the changes we are seeing—and helping with—place the health and comfort of teammates at the forefront.

This includes creating “cozy collab” spaces, providing ample space for physical distancing, re-arranging furniture groupings, shifting to smaller tech-enabled meeting rooms, moving away from benching workstations, and using existing spaces in a different way. Two of the big factors I would say are seated privacy and more glass partitions on workstations.

Another innovation we are seeing is the exercise and policy of split schedules for employees with open plan offices. Split schedules have a partial team working three days per week in the office, with the remaining team members working the opposite two days. We also assist our clients by providing physical distancing roadmaps that designate single point of entry and exit, socially distanced path of travel throughout the space, split schedule seating assignments (i.e. shift A, shift B), and maximum room occupants for enclosed spaces. All designed to promote flexibility and safety in the workplace.

**Q:** Can you tell us about a few of your favorite projects from the last two years?

**A:** I don’t really have a favorite per se because all of the projects we work on are really amazing, but there are a couple that come to mind. One recent project was for a financial tech company in Los Angeles, where we handled the interior design and furniture scope. The project started in late 2019 and wrapped up mid-pandemic. The furniture installed in August 2020, featuring open plan benching workstations, had to be modified with custom screens for employee separation.

Another project was for a technology company—where we executed the furniture design of their 45,000 square foot space. Complete with modern furnishings, Zoom Rooms and lush greenery, this headquarters is a dream hub for any professional.

**Q:** How do you promote future proofing your client’s spaces?

**A:** We like to plan ahead by first deploying a Needs Assessment to help our clients quantify how much space they truly need. We also recommend surveying the employees on what they would like to see and what would help them to ease back into working in the office. If time and budget permits, we recommend setting up different furniture vignettes to test-fit the space with various options and gather feedback from employees as well.

Planning ahead is crucial as we are seeing some furniture delays of up to 10 to 12 weeks; prior to the pandemic, furniture deliveries typically took no more than 6 to 8 weeks. Another point we stress to our clients: don’t do anything drastic. In this ever-changing world, we encourage companies to take small steps as guidelines and trends are constantly shifting. By making small adjustments, you are able to future-proof your space.

In the end, all of the elements that comprise a space are critically important, but the true measure of the effectiveness and energy of a workspace is the setting and mood it conveys, and the narrative of the aesthetic. Our team is honored to create spaces and see the transformative impact functional spaces can have on our clients, their employees, and their talent acquisition to promote future growth and their company’s culture.
Substantial’s One-of-a-Kind Seattle Workspace

BY DEREK PEDERSEN

Substantial’s centrally located Capitol Hill office is truly one-of-a-kind, and arguably one of the most unique and creative spaces we’ve ever seen!

Situated at the gateway to the Pike & Pine neighborhood and resting on the busy corner of Cal Anderson Park to the east, Seattle Central College to the west, and the urban arbor along Pine St., Substantial’s office sits above the fray with a calming view full of light. We can’t forget to mention the rooftop deck overlooking Cal Anderson Park, which is an absolutely beautiful way to take in on a hot summer day, and as you’ll see in many photos, their space is also dog friendly.

Located at 900 E Pine St, and built in 1925, the building is just under one hundred years old and is part of Capitol Hill’s auto row heritage, built originally as a Chrysler dealership (the ramp to get vehicles upstairs is still present in the crawl space).

Founded in 2006, Substantial is a full-service digital product studio, a collection of 40+ creative developers, designers and strategists headquartered in Seattle’s Capitol Hill neighborhood. They also offer space in their historic office for other teams to sublease. The team at Substantial helps their clients design, build and optimize whatever they envision, whether that’s consumer apps, engaging games, intelligently connected devices, or something else entirely!
Walking into the entrance off Pine St, the neighboring tenant directly downstairs, Sugarpill, is a surprising part of the experience as you look into the retail space on your way up the stairs, or smell the herbal remedies being prepared by the apothecary that specializes in handmade teas, fine foods and more. As you approach, visitors are greeted with a 20-foot-long custom reception desk, which reuses Substantial’s iconic former steel entry door.

In 2017, with the help of architect and design firm, goCstudio, Substantial took the opportunity to expand within the building when additional space opened up. One of the most significant aspects of Substantial’s narrative is the hosting of public and private events. Creating a large social space that could function for a variety of purposes was an important factor in the design of the expansion, according to goCstudio.

The 14,000 square foot office takes full advantage of the natural character of the building, including exposed brick walls and old growth Douglas Fir beams. A massive skylight adjacent to the entry staircase, allows an abundance of natural light to flow into the space throughout the entire day, allowing people to assemble in the heart of the building. Breathtaking warehouse style windows also let natural light pour into the space.

With four conference rooms throughout the space, each room has large steel-and-glass doors in the style of the industrial warehouses of the same era as the original building. These openings to the forum allow enclosed spaces to flow into a common space, where team members can meet and collaborate.

Created using large CLT (cross laminated timber) planks, the 25-foot-long kitchen island and 16-foot-long bar island allow for an easy transformation into a busy full-service event space, as well as a great co-working atmosphere for those employees who enjoy a more flexible work setting. According to goCstudio, “Music and creative expressions have always been a thread that ties together the owners of Substantial and an important aspect within the office. The floating DJ booth that lived in the original office space was retained as a focal point on the east side of the space to be used during events.”

The finished product is an absolute masterpiece that will continue to be a long-term jewel in the heart of one of Seattle’s most iconic neighborhoods. Congratulations to Substantial on the amazing success of their business and a phenomenal office space!

Derek Pedersen is a vice president of Hughes Marino, an award-winning commercial real estate company with offices across the nation. Contact Derek at derek@hughesmarino.com or 1-844-662-6635 to learn more.
From life science facilities to corporate headquarters, our Program, Project and Construction Management team has been working with a variety of clients. Here’s an inside look at some of the projects we are honored to be a part of.

**QUIDEL CORPORATION**

As the United States and the world continue to navigate the challenges set forth by COVID-19 and the Delta variant, Hughes Marino is proud to be able to partner yet again with Quidel Corporation to deliver another project that will contribute to the fight against infectious diseases.

Through their continued partnership, Hughes Marino and Quidel are wrapping up the first phase of an ambitious tenant improvement project, which will be home to Quidel’s newest state-of-the-art manufacturing facility in Carlsbad, California. This new facility will be used to produce rapid diagnostic kits that allow for the rapid testing of infectious diseases by countries all around the globe.

When the project is complete, the facility will be equipped with large, humidity and temperature-controlled manufacturing environments, its own in-house high-pile storage system for efficient product distribution, large open-area and private office spaces, an energy-efficient central plant, an integral RO/DI system, and nitrogen & compressed air distribution systems. An equipment platform was also built above the ground floor to house the equipment for the temperature-controlled manufacturing environments.

The project team is targeting the completion of the second and final phase by the end of the year. Hughes Marino partnered with the Quidel project team, which includes Prevost Construction as the general contractor, McFarlane Architects as the architect, J&R Engineering as the mechanical/plumbing engineer, RB Consulting Engineers as the electrical engineer, Pacific Rim as the mechanical contractor, and Neal Electric as the electrical contractor.

**CERTIS ONCOLOGY SOLUTIONS**

Certs is an early-stage biotech company with a focus on advancing translational oncology. The project consisted of the renovation of an existing spec office and lab space to meet the needs of the client. The CLIA certified laboratory more than doubles their footprint allowing for Quadruple the in vivo drug efficacy testing capacity. It also includes some of the most sophisticated scientific instruments in cancer research. Hughes Marino partnered with Delavale as the Interior Designer, C&K Consulting as the mechanical engineer, RB Consulting Engineers as the electrical engineer and Prevost as the General Contractor.

**JENNY CRAIG**

Hughes Marino is thrilled to work with San Diego-headquartered weight loss, weight management and nutrition company, Jenny Craig. The recent project helped consolidate their corporate real estate and relocate their existing data center. The project required significant value engineering to meet budget while still accomplishing all project goals. Hughes Marino partnered with SmithGroup as the Interior Designer and Tri Vista as the General Contractor.

**EVOFEM BIOSCIENCES**

Hughes Marino is proud to represent Evofem Biosciences with the expansion of their corporate headquarters. The company is a commercial-stage biopharmaceutical company committed to developing and commercializing innovative products to address unmet needs in women’s sexual and reproductive health, which earlier this year announced the closing of a $50 Million Public Offering. The occupied expansion was completed in three phases, keeping business operations running throughout the construction process with minimal interruptions. Highlights of the project included a refurbishment of conference center, new breakroom with freeform ceiling and new finishes at elevator lobby and reception area.

Hughes Marino partnered with Ware Malcomb as the Interior Designer and Pacific Building Group as the General Contractor.

**STEPSTONE**

Hughes Marino represented StepStone in the recent expansion of their Southern California office. The global private markets firm specializes in providing customized investment, portfolio monitoring and advice to investors. The space occupies three floors of a high rise, which was designed to maximize light and views with glass office fronts and low paneled workstations. Hughes Marino partnered with Gensler as the Interior Designer and Bycor as the General Contractor.

**AIRSPACE TECHNOLOGIES**

Airspace Technologies offers a platform which provides shipping details, container tracking and delivery process services. The creative open office features modern design elements, exposed structure, multiple team collaboration areas, a large break room and glass front offices. Hughes Marino partnered with Ware Malcomb as the Interior Designer and Good & Roberts as the General Contractor.

Hughes Marino’s program, project and construction management team was created to become your partner and ensure any project proceeds with your best interests in mind, on time and on budget. Our team has decades of experience orchestrating the design and construction of virtually all types of projects—corporate, life science, residential, nonprofit, education, health services and much more, and we look forward to the many more exciting projects to come.

Hughes Marino represented StepStone in the recent expansion of their Southern California office. The global private markets firm specializes in providing customized investment, portfolio monitoring and advice to investors. The space occupies three floors of a high rise, which was designed to maximize light and views with glass office fronts and low paneled workstations. Hughes Marino partnered with Gensler as the Interior Designer and Bycor as the General Contractor.

**Photo by Haley Hill Photography.**

A: Evofem Biosciences | B: Quidel test kit product | C: Airspace Technologies
To Avoid Costly Mistakes

Imagine trying to manage your leasing portfolio, with renewal and termination option notice dates, security deposit or letter of credit reduction dates, tenant improvement allowance use-by dates, insurance renewals, expansion & contraction options, base rent increases, and other critical dates in an excel spreadsheet, all while simultaneously juggling your other job functions? Maybe you don’t need to imagine—this could be you! Similar to ensuring your landlord is following the terms and conditions of your lease when reviewing your annual operating expense charges, it is important to diligently track key lease dates to ensure you don’t miss out on the lease options you negotiated for. Overlooking an important key date in a lease can be an easy mistake by an already busy team member when relying on an Excel spreadsheet, and this can manifest quickly into costly ramifications or missed opportunities for the company.

By Paisley Bittner

By utilizing a lease administration team with the right experience and technology, companies can leverage a third-party partner to ensure no critical key dates are missed. The basic lease terms initially agreed to are being honored, and no employees are burdened with the responsibility of managing the leasing portfolio on top of their existing workload. When onboarding new clients, our Lease Administration team often discovers key dates that have fallen to the wayside. Here are a few of the most common we flag for our clients:

1. Security Deposit Reductions
   Occasionally, if a landlord requests a large security deposit upfront, they may agree upon security deposit reductions on certain lease anniversaries, provided the tenant has fulfilled their obligations and are not in default. Since the reduction typically only occurs upon tenant request, this is an important key date to track to recover funds, and one that we often see missed.

2. Renewal Option Notice
   Typically, landlords require a certain number of days or months written notice from the tenant if the tenant wishes to exercise their right to renew. Missing these key dates can create a sticky situation if the tenant wishes to remain in the premises but no longer has the guaranteed option to do so.

3. Tenant Improvement Allowance Submittal
   Your brokerage partner was able to negotiate a substantial tenant improvement allowance for your new lease—nice work! It is now important to ensure construction is completed and the proper documents are submitted to the landlord within the stipulated allowance period in the lease. If the correct information is not submitted on time, tenants can forfeit tens of thousands of dollars (or more) of reimbursements from the landlord.

4. Estimated Commencement & Expiration Dates
   Not all lease dates are set in stone upon execution of the lease. In fact, many commencement and expiration dates are contingent upon prior tenant vacancy, construction, and more. Since tenants are often anxious to move into their new space, ensuring that a commencement memorandum is signed is a step often forgotten. This can lead to issues down the road when the expiration date is approaching and the tenant and landlord have different dates on record, or there is a disagreement regarding rent increase dates.

5. Base Year Resets
   Many brokers will successfully negotiate a new base year when applicable in lease renewals, and the tenant will not have to pay operating expenses (OpEx)—also known as common area maintenance (CAM) expenses—during the new base year. Tracking this reset date is important to ensure there are no clerical errors on the landlord’s side, causing them to erroneously bill for CAM (and your team to erroneously pay for CAM!).

6. Termination & Expansion/Reduction Options
   Is your company expecting to grow in the next few years, or perhaps has the potential to downsize? If a termination or expansion/reduction option is present in the lease, there is likely a certain lease anniversary date upon when the option begins and when notice is required. Knowing when you may be able to terminate a lease early, expand into a nearby suite, or reduce space are other dates to add to the growing list of key dates.

As you can see—and may know from experience—there are endless key dates essential to track in a lease, and storing these in an Excel spreadsheet leaves too much room for error. Instead, work with an experienced lease administration team who utilizes a sophisticated, web-based system to manage your portfolio. This is an investment that will quickly pay off in significant financial savings and increased confidence! By staying aware and ahead of key dates such as the ones mentioned above, companies ensure enough time to make the best decisions for the future of their leasing portfolio, while also avoiding costly missteps.

Paisley Bittner is a senior lease administration manager at Hughes Marino’s Portfolio Lease Administration and Advisory team, where she helps tenants address issues that arise during their occupancy. Contact Paisley at 1-844-NO-CONFLICT or paisley.bittner@hughesmarino.com to learn more.

Paisley Bittner Senior Lease Administration Manager Hughes Marino
For almost exactly 100 years, one of real estate’s best attributes causing an incredible amount of capital to be invested in the asset class, has existed. That vehicle? Like-kind exchanges, also known as, a 1031 exchange. In this short article, we will briefly explore the definitions of like-kind exchanges, the history behind them and provide an understanding of what’s on the table for like-kind exchanges in the weeks to come.

Dating back to 1921, like-kind exchanges have held their place in our tax code. An investment strategy used by people of all levels of wealth, the strategy provides an opportunity to defer capital gains under a specified process and certain guidelines by trading into a like-kind asset and placing the capital gains into a new property.

The way that these like-kind exchanges work is that if someone owns a property and decides to sell it years later, they can sell their current asset. Once their current asset is sold, the seller has 45 days to identify a potential replacement property and 180 days to complete their acquisition process of the new property.

So, what is considered a “like-kind” asset that would qualify? Notoriously, all real properties are typically like-kind, regardless of type of property is being exchanged for another. For example, the owner of a shopping center could sell his or her property in exchange for raw land, or even a ranch. That said, all like-kind exchanges must be for investment, and cannot be for personal use. And it goes without saying (or should) that exchanging property in the United States for property outside of the United States would not be considered like-kind.

The argument for 1031 exchanges is strong, and the current administration is not the first to propose changes to the 1031 tax rule, but it begs the question as a current property owner… what should I do right now? As with every real estate transaction, we recommend speaking with a trusted tenant and owner-user representative to explore all options including a sale or a sale-leaseback.
I have been talking a lot with our brokers here at Hughes Marino about getting out on wilderness adventures as a team. For my part, I typically have one or two trips on the calendar at any given time, either with the National Outdoor Leadership School (NOLS) or Cairn Leadership Strategies. The NOLS Alumni trips are a week long, but Cairn packs most of their adventures into weekend getaways, which get me thinking—we could sign up for those weekend Cairn adventures with each of our offices. Wouldn’t that be great for team building, each office doing a different trip, and as a company we would have all these different but common experiences that we could talk about and share and compare notes. Yeah, let’s do it! Except, many of our team members have young families, and it can be really challenging to get away for a weekend with your workmates. I totally get that. What to do?

And then it occurred to me, these adventures are really comprised of just three core elements: we do something hard, we do it together, and we do it in a beautiful outdoor setting. As long as we capture these three elements, maybe we don’t need a full weekend? And thus, was born the idea for a sunrise peak hike! Our Denver team took the idea and ran with it. Last week I had the pleasure of joining with them as we hiked up the Manitou Incline.

The Manitou Incline is 2,744 steps, climbing over 2,000 vertical feet in just over a mile. The average grade is 41% and the steepest grade is 68%. (Most staircases are between 30-35% grade.) The incline was originally built as a cable car to carry materials to build pipelines on Pikes Peak, and once that project was finished, apparently they turned it into a staircase, knowing that the hearty, healthy Colorado community would jump at the chance to hike, climb or run a cool staircase up a mountainside.

When I woke up that morning at 4:00 AM, the forecast called for rain, and at over 8,000 feet of elevation, I was thinking that there was a good chance the weather could turn nasty and really enhance the challenge. This, I thought, could be a good thing. Knight Campbell, CEO of Cairn, has been known to say, “I almost hope that there is at least one point during the weekend when each person says to themselves ‘I wish I hadn’t signed up for this.’” It is supposed to be gritty. It is supposed to be hard.

So, let’s talk about hard things. Each and every one of us on this planet over the course of our lives are going to have to go through hard things. This, unfortunately, is a fact of life. As I was pondering all of this, it occurred to me that all those hard things fit exactly into two buckets: The hard things we choose and the hard things we didn’t choose. For me, the hard things I choose are much more tolerable than the hard things I didn’t choose. If I am suffering on a long, hot trail hike, all I have to do is remind myself: I chose this, now let’s get through it. And those other hard things, the ones that I didn’t choose, those awful things that just happened, man, those are really hard.

Another thing about the hard things that we choose—we are essentially practicing getting through hard things. The more we practice, the better we get. And when the bad things, aka the really hard things, happen, we are, perhaps, a bit better prepared to deal with them, to get through it, to maintain our composure and to just take one step at a time and move forward, maybe even with a clear mind and a calm manner.

As it turns out, for our climb up the Manitou Incline, it didn’t rain, and that is OK. It was hard, but not too hard. It was certainly beautiful and awe-inspiring like one would expect of the Colorado mountains. Everyone made it to the top and everyone made it back down. There were a few sore knees, and we will all recover. We made a plan, and we executed that plan very well. And we did it together. That checks all the boxes for me.

John Jarvis
Senior Vice President
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 Ethernet has been a senior vice president of Hughes Marino, an award-winning commercial real estate company specializing in tenant representation and building purchases with offices across the nation. Contact John at john@hughesmarino.com or 1-844-662-6635 to learn more.
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