



## Message from Jason:

## Vacancies: Downtown's 25-ton gorilla

By JASON HUGHES

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Two weeks ago, this column went to considerable lengths to expose the abundance of both vacant and "available" office space in several San Diego regional submarkets. Despite how landlords and their agents have attempted to concoct an office space crisis, there's no reason for tenants looking to lease office space to believe even for a nanosecond that they have little or no options in finding available space.

One of the biggest movie epics ever, "King Kong," serves as a useful illustration in trying to describe the office space vacancy situation in Downtown San Diego. Here we have a 25-ton-plus hairy ape romping loose through the city streets, wreaking panic among the masses -- much like the hordes of office building landlords and their "broker pets" behave in their attempts to frighten prospective tenants into "take-it-or-leave-it" leases. It's hard for tenants to even think about the possibilities of office vacancies, much less ask about such, when they're being bludgeoned into a panic by the landlord brokers' ape-like sales tactics.

Ah, but there's a better parallel in the tale of King Kong and our own city's availability of office space. I'm suggesting here that the giant gorilla can figuratively symbolize vacant and available office space as he scampers up the side of a high-rise building with damsel in tow.

If you look closely, a good number of our downtown San Diego office buildings have King Kongs hanging off their towers. Class A office buildings in downtown currently are experiencing an overall 19 percent availability rate. Vacant office space sits on the market an average of 22 months before it is leased. Meanwhile, there's been no growth in the downtown office space this year and, coupled with the fact that recent office building sales have involved record-breaking prices, one sees a pretty bleak situation for landlords hoping to try to justify higher rates to ease their pain.

In fact, many tenants are moving out of downtown San Diego, bound for elsewhere. Capital One moved from its 100,000-square-foot quarters in the First National Bank building here to Texas. Stutz, Artiano, Shinoff & Holtz law firm is relocating its 18,000-square-foot space to Liberty Station. Xelan Corp. vacated 12,000 square feet; Buchanan Ingersoll moved its 18,000-square-foot quarters to Carmel Valley; and Arrowhead General is vacating 60,000 square feet of downtown office space for Carlsbad in the near future. There are numerous other relocations either fait accompli or being scheduled in the near-term -- all of which document the number and size of the "vacancy apes" that hang from various downtown structures.

Just one example: The First National Bank Center has 275,000 square feet available -- more than half its 540,000 square feet total. The building was purchased last year by a German investment fund for what was heralded at the time as the largest single-building sale to date in San Diego's central business district. There have been equally crazy prices paid for other buildings since. The net result has been a mass exodus of tenants, brought on by the owner's attempt to get more money in rents than the building is worth. Clearly, the building needs a huge, out-of-left-field type of tenant such as the federal or state government or a rental rate and concession package as reality checks for the landlord in order to evict its vacancy gorilla.

Another new owner with two downtown buildings got off to a shaky start by reneging on already agreed-upon deal points at the last minute -- after a letter of intent was signed but just before the lease was actually finalized. Suffice it to say, it put the tenant in a nightmarish position, having to either scramble to find new space or allow the landlord to cram highly onerous terms down the tenant's throat. Little wonder that there are no longer any tenant tours being conducted in this owner's two buildings.

That kind of "negotiating" is never appropriate in any kind of market, especially one in which the tenants actually do have options. But it demonstrates the disconnect between these landlords and market realities which is being nurtured by arrogance in strong and continuing doses. It's readily apparent to any casual observer that tenants are being asked to subsidize the landlords for the excessive prices they paid for the buildings. That clearly isn't going to happen once tenants begin to see increasing numbers of vacancy gorillas hanging from more and more buildings.

Meanwhile, there are so many more instances in which tenants are being abused -- too many to even casually reference here. What's patently ironic is that there are not that many tenants in the market, considering the growing inventory of available space, and the chances that a landlord can find enough ready, willing and able

tenants to lease space is becoming increasingly problematic.

It's time for downtown San Diego landlords to shoo the King Kongs off their office structures by becoming more accommodating in dealing with their office tenant customers. Let's avoid allowing San Diego to become the "City of the Apes."

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