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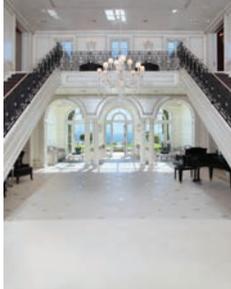
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Mazda Gives Spectrum Tower New Gear

Takes 5 Floors for HQ as Speculative Project Nears Completion

By MARK MUELLER

The **Irvine Company** has landed Orange County's largest automaker to anchor its new office tower in the Irvine Spectrum.

Mazda North America Operations recently completed a deal to lease five floors at the 200 Spectrum Center tower, a 21-story building that's opening this year next to the Spectrum shopping center.

The lease runs about 102,000 square feet and will include signage atop the glass-sheathed tower for Mazda, whose North American operations oversee the sales, marketing, parts and customer service support of Mazda vehicles in the United States and Mexico through nearly 700 dealers.

The company, a unit of Japan-based **Mazda Motor Corp.**, is OC's largest automaker by employee count, with more than 500 local workers, according to Business Journal data.

It will relocate employees from 7755 Irvine Center Drive, a five story office next to the Santa Ana (5) freeway.

It occupies all of the space at that 118,000-square-foot office, which is owned by Palo Alto-based **Menlo Equities**.

Mazda's lease at that building—one of the largest Spectrum-area office buildings not owned by Irvine Co.—runs through

➔ *Mazda 75*



200 Spectrum Center: auto brand's new home will be in OC's tallest office building



CSUF Index Continues to Mix It Up in Q1

ECONOMY: OC execs register slight dip in sentiment to start 2016

By JANE YU

Orange County executives are entering the first quarter of the new year with mixed expectations that combine for a slight dip in overall business outlook, according to the latest quarterly index by California State University-Fullerton's Mihaylo College of Business and Economics.

The school conducts a business-sentiment survey of local executives and business owners at the end of each quarter to gauge the outlook for the coming three months. It asks questions pertaining to overall economic and business strength, hiring plans, sales

➔ *CSUF 76*

Bandai Vacates HQ, Cypress Office in Line for Sale

REAL ESTATE: Toy maker to L.A.; Japan-based investor to buy office

By MARK MUELLER

A real estate investor based in Japan is in line to buy the most distinctive office building in Cypress in the recently vacated headquarters of toy company **Bandai America Inc.**

Global Hospitality Service, a Japanese investor that has traditionally bought hotel properties in its home country, is under contract to buy 5551 E. Katella Ave.

The deal, whose financial terms haven't been disclosed, is expected to close in about a month.

The building was listed for sale in mid-2015 at about \$17 million, or \$220 per square foot, according to marketing materials from the Irvine office of brokerage **JLL**.

The 77,000-square-foot steel and glass office sports one of the area's most unique designs, punctuated inside by a giant circular lobby area.

"It's a beautiful building" with architecture on par with the **Cesar Pelli**-designed Plaza Tower near South Coast Plaza in Costa Mesa, according to **Louis Tomaselli**, JLL senior managing director.

Bandai America built the three-story office for its

➔ *Bandai 67*

Talent, Treasure Anchor UCI's Cove

Research, Donors Combine to Power Startup Efforts

By PAUL HUGHES

Don't let chitchat on startups and "ecosystems" at the surfboard-themed tables fool you.

The Cove means business.

The 31,000-square-foot digs are home to **Applied Innovation**, the **University of California-Irvine's** effort to build a "startup ecosystem" in Orange County. It hosts the common complement of students, entrepreneurs and investors.

"It's a marketplace for ideas," said **Richard Sudek**, an angel investor UCI recruited away from **Chapman University** in Orange in 2014 to lead the work in Irvine.

He's executive director of Applied Innovation. The UCI alum sold his computer systems company 16



Beall: "I know we're on the right track"

years ago and began to invest in other startups, then earned an MBA and a doctorate.

It's a learning-for-life approach that started with his stint as an entrepreneur.

"I made every mistake in the book" starting a company, Sudek said.

Now he, UCI, and backing from local businesses aim to help companies facing steep learning curves.

"We needed to create that space," Sudek said, "a

➔ *Cove 76*



It isn't what you do, but how you do it.

— John Wooden

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and profit growth rates, and inventory, among other things.

The first-quarter index registered at 82.6, a slip from 83.8 in the fourth quarter. The current reading compares with 91.5 for the opening quarter of last year, when local executives exhibited a significantly more positive view. The optimism held with a reading of 92 for the second quarter of last year before falling to 81.7 for the third.

A level of 50 or more generally indicates expectations of growth in business.

The latest index was based on responses from 54 participants. About 44% of the survey pool are representatives of companies with more than 100 employees; 33% have 20 to 100 employees; and the remaining 22% have workforces smaller than 20.

Most of the respondents to the latest survey—89%, roughly in line with a quarter earlier—said they expect “overall business activity to improve or stay the same” in the next three months.

The proportion was much smaller when respondents considered their own industries—54% said they expect “significant or some” growth in their sectors,” on par with the outlook for the prior quarter. About 11%, versus 8% last quarter, said their sectors are likely to weaken. The remaining 35%, versus 39%, said they expect business to remain stable.

Building construction management company **Cumming** is entering the quarter with expectations of modest growth, said **Brian Ruttencutter**, chief financial officer in the Los Angeles-based firm’s Aliso Viejo office.

“I see the domestic market continuing with a modest expansion in 2016 and the international markets we are in—including the Middle East, the EU and Asia—providing growth potential, as well,” Ruttencutter said in an email. “That will provide Cumming with continuing opportunities to grow ... especially in ‘hotter’ regional markets, such as the Bay Area and the Northeast, and in some of our traditional industry sectors, such as hospitality, healthcare and technology.”

He said the company “foresee[s] strong growth in revenues, hiring and earnings.”

Cumming has more than 400 employees, about 20 of them in Aliso Viejo. It had recent revenue topping \$100 million, a double-digit growth over the past three years, according to Ruttencutter, who added that challenges exist, including “the threat of international terrorism, higher interest rates, the slowdown in China and the unknowns of an election year.”

Survey respondents’ expectations on the hiring front were generally curbed, according to the CSUF study. About 33% of the pool, down from 41% last quarter, said they intend to increase their workforces during the quarter. About 59%, versus 54%, said they expect to keep their labor forces the same, while 7% said they plan to cut jobs, up from 6%.

Projections for revenues and operating



Puri: upbeat expectations on sales, profits indicate that “sentiments are down, psychologically ... while the real side of business is expected to get better”

profits were improved, leading **Anil Puri**, dean of the Mihaylo School and head of the quarterly survey project, to infer that “sentiments are down, psychologically ... while the real side of business is expected to get better.”

He said the “political climate, terrorism and interest rate hike ... as well as tax-reform issues that aren’t expected to go anywhere” could somewhat dampen prospects.

Respondents who said they expect stronger sales in the next three months accounted for nearly 67% of the participant group, up from 52% last quarter. About 7%, down from 13%, said they anticipate lower sales, and 26%, versus 35%, said they expect little change.

About 60% of participants, up from 42% last quarter, said they expect higher profits. Eleven percent, versus 13%, said they anticipate lower profits.

Growing interest by employers in reviewing and enhancing employee retirement plans is expected to boost business for **QBI LLC**, a retirement-plan consulting and administration firm with offices in Irvine and Los Angeles. It has 80 employees and services more than 3,200 retirement plans, working with financial advisers and certified public accountants to help their clients operate various programs, such as 401(k) plans.

“We have a positive outlook for 2016 as more and more employers are reviewing their existing retirement programs to determine if the plan is doing what it was established to do, if eligible employees understand the benefits of the plan ... and making sure that the plan is operating in accordance to the regulations,” said Executive Vice President **Peter Stephan**, who joined the firm in 2014 to help lead the Orange County office.

He said the company has seen more professional-services firms looking to “go beyond a traditional 401(k) plan and add an option known as a defined benefit pension plan.” It’s also noticed “more and more closely-held business owners ... enjoying the tax-deductible benefits of a qualified retirement plan as a vehicle for diversification, retirement accumulation beyond their business, estate planning purposes and employee attraction and retention.”

The CSUF study asked participants to rank their biggest concerns among a number of categories. The state of the overall economy got the most votes, accounting for 41% of responses while appearing less of a concern than it was three months ago, when 54% of the responses pointed to it.

Government regulation followed, with 24%, up from last quarter’s 17%. Labor costs were a major concern to 13% of the survey pool versus nearly 6% last quarter.

The study also asked what respondents considered some of the biggest threats to the U.S. economy. Congressional inaction came in at the top, with 52%, compared with 32% last quarter. The Federal Reserve Bank’s interest rate increase was No. 2 with 23%, versus 17% last quarter; and the performance of China’s economy followed at 10%, down from 30% last quarter.

The bulk of the respondent group—about 68%—said they expect median housing prices to rise by up to 5% by the end of this year. About 19% expect the increase to be by more than 10%, and the remaining 13% said housing prices will likely inch lower, by up to 5%, through the year.

Yu is a freelance contributor to the Business Journal

Cove

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safe harbor for startups in Orange County.” Branding, design, and decor at the Cove are heavy on OC’s surf and sand lore.

The term “cove”—which fits with the vision of a safe harbor—comes from a melding of the term “collaborative venture.”

Action

People who benefit from the Cove agree that the resource was needed in the community.

“There was no single place for entrepreneurs,” said **Samit Desai**, a UCI alum who

founded **Seva LLC**, which leases one of a half-dozen small offices at the Cove.

Seva—Sanskrit for “service”—is a 2-year-old software company pitching productivity and performance at restaurant and retail chains. Its “smart badge” is tracking productivity and performance at about two dozen locations, mainly gas stations and convenience stores in the Southeast U.S.

“We capture the natural activities at a site and see where they can be improved,” Desai said.

Seva is based in Placentia, but “when I heard they were going to put this together, I wanted to be part of it.”

Desai pays market rates for a small chunk of office space—about \$750 a month.

Carolyn Stephens, associate director of Applied Innovation and Sudek’s chief of staff, said the Cove’s ultimate goal for companies like Desai’s is to evict them.

“We are a farm team,” she said. “The ob-

jective is to get them ready to go out into other environments.”

The Cove also has about 15 “desk” spaces—dedicated work stations—for earlier stage companies or entrepreneurs who don’t need an office to themselves. Stephens said there’s also a bank of computers used by “40 to 50 teams a week,” which often include students just starting on their ideas.

Wednesday meetings of **1 Million Cups**—a local chapter of an entrepreneurship program funded by the **Ewing Marion Kauffman Foundation** in Kansas City, Mo.—brings younger startup efforts to the Cove.

“The currency of the Cove is the startup or team,” Stephens said. “We add community and the resources.”

Money

The currency to start the Cove came from **Donald Beall**, retired chairman of the former **Rockwell International**, and his family foundation in Newport Beach.

“We’ve always been very interested in supporting innovation and entrepreneurship,” he said.

The Bealls gave \$6.5 million to UCI’s Paul Merage School of Business in 2007 to start a center dedicated to those areas, and in 2014 \$5 million of that was committed to an **Institute for Innovation**—the precursor to Applied Innovation—and the Bealls renewed their commitment to Merage.

“We in effect doubled up,” Beall said. “We’re serious about this—providing significant funds to physical sciences, engineering, art and technology. We view it as very important.”



Desai: “there was no single place for entrepreneurs” before the Cove



Gillman: “able to go big because there was strong support in the community”

The Cove’s Stephens said it cost about \$2 million to ready the new building.

Applied Innovation itself runs on about \$7 million a year, she said, which largely goes toward faculty research, patents development and facility operations for the Cove.

Revenue comes mostly from state and UCI funding, philanthropic giving, and fees the Cove charges.

UCI Chancellor **Howard Gillman** said several donors gave “initial \$100,000 checks” toward the work.

“We were able to go big (with the Cove) because there was strong support in the community,” he said.

Also at the Cove is a separate for-profit LLC—not part of UCI—called **Cove Fund I**, which raised about \$5 million to fund ventures beyond the campus.

Cove Fund I investors, including Seva’s Samit Desai, kicked in \$45,000 to \$600,000. The fund plans to give at the “early seed level”—\$50,000 to \$250,000, according to Stephens.

Results

Beall said a couple of overarching goals of Applied Innovation are to “bust up some of

the bureaucratic impediments” that can grind down innovation work in academia and “identify business development opportunities on campus.”

Those were key ideas behind the decision to recruit Sudek in 2014.

“Richard didn’t (initially) apply,” for the job, Beall said. “We persuaded him to jump over here and lead this.”

How to measure the results of the Cove’s various ventures remains undetermined.

Stephens said UCI tracks innovation—patent applications, for instance—and Gillman said the new work first has to gain traction and garner attention to be “a regional catalyst” for startups.

“At some point, we’ll create the metrics—how many jobs, new companies—and measure that,” he said.

Kauffman Foundation senior research analyst **Arnobio Morelix** sometimes conducts reviews of “density, fluidity, connectivity, and diversity” in individual markets.

That brings some understanding of the number of startups, how they grow and change, the degree of interaction among companies and related organizations, and how many are started by women and ethnic minorities.

The Cove and Applied Innovation are relative newcomers to such efforts, but they’re making their mark, even if it’s difficult to measure at this point.

Beall said, “I know we’re on the right track.” ■

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