

BUSINESS

TODAY'S
FOCUS **LEADERSHIP**

FILLING UP: Commercial real estate is rebounding throughout Orange County. **Page 3**



JOSHUA SUDOCK, ORANGE COUNTY REGISTER

Attorney Michael Hornak of Rutan & Tucker is chairman of the Orange County Business Council.

THE ATTORNEY WHO CAME IN FROM THE COLD

Business Council
Chairman Michael T.
Hornak talks about
Orange County's
entrepreneurial energy
and its future growth.

Upon graduating from Los Alamitos High School, where he was a varsity wrestler and a much-lauded scholar, Michael T. Hornak held a dim view of Orange County. In the early 1970s, he saw it as a homogenous bedroom community caught in a fog of boredom.

"I wanted to get out of here and get as far away as possible," says Hornak, now 59, who fled to the East and enrolled at Yale University.

While Orange County was evolving, Hornak was undergoing changes, too. Inspired by charismatic professors – and social unrest over the Vietnam War – Hornak changed his major from chem-

istry to political science and gravitated toward the study of philosophy and law.

Upon returning to California, he attended the UCLA School of Law and eventually joined the powerful law firm of Rutan & Tucker in Costa Mesa, where today he is a partner. The veteran civil litigator – who lives with his wife, Alicia, and their two golden retrievers in the Canyon Crest community in Mission Viejo – is midway through a one-year term as chairman of the Orange County Business Council.

In an interview with the Register, Hornak talked about the council's ambitions, Orange County's entrepreneurial energy and his passion for hockey.

Q. Why did you come back to Orange County?

A. I got married during my third year of law school to Al-

icia, another law student. We wanted to have a family, and we thought, "Where's a good place to raise a family?" I still felt tied to my roots. I spoke to one of my law school professors, who later became an appellate justice. He (suggested) Rutan & Tucker.

Q. What are your goals as chairman of the Orange County Business Council?

A. If you look at the Business Council's goals, the key initiatives are in four areas: infrastructure, workforce development, housing and economic development. One of my goals is to increase the level of cooperation and collaboration between business, our educational institutions and government. We have terrific uni-



DAVID
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SEE HORNAK • PAGE 3

LANSNER'S SCORECARD

Really? A shortage of workers?

Our occasional recap of economic patterns ponders "worker shortages" while unemployment rates remain stubbornly high.

PLUS: Are bosses finally giving out raises?

June's U.S. jobs report included this nugget: Average hourly wages for all workers rose 2.2 percent in a year. While nobody gets rich with that pay bump, it was the second largest monthly year-over-year gain since October 2009.

Supply may have finally met demand at the pay-check.

MINUS: Not enough truckers?

Bob Costello, American Trucking Association's chief economist, fears a "driver shortage storm" that's coming when the freight economy accelerates.

The industry is facing a retirement of veteran drivers and regulatory constraints that will require more drivers and make it tougher for those drivers to make a decent living.

The association estimates the nation is short as many as 25,000 long-



JONATHAN LANSNER
REGISTER COLUMNIST

haul drivers – and Costello adds, "Once we see steady, more robust economic growth, we could see an industry that is short by as many as 239,000 drivers by 2022."

MINUS: Construction workers needed.

Friday's national jobs report gives another snapshot of real estate's rebound: Unemployment for construction in June fell to 9.8 percent – the lowest since 2008 as the number of workers on the job hit a four-year high.

Ken Simonson, chief economist at the Associated General Contractors of America, said his industry still has one-fourth fewer workers than it did at its 2006 peak, and "Many of those laid-off workers have left the industry – whether for employment elsewhere, more education or retire-

ment – and construction companies face a looming worker shortage."

Weekly hours jumped 4.7 percent. Simonson noted, "Contractors have filled the gap so far by adding to workers' hours, but this 'solution' may be reaching its limit."

EQUALS: Shortages won't be short-lived.

"While widespread talent shortages are probably five to 10 years away, some regions and industries already may be feeling the pinch," says John Challenger of outplacement experts Challenger, Gray & Christman.

He continues: "The shortages are not simply a matter of a lack of warm bodies. As we know, there are plenty of available individuals in the labor pool. The problem is that many are in the wrong city and cannot move because they are tied down by family, homeownership or other factors. Others simply do not have the skills that are in demand and training in those skills is a multiyear process that will not address current demand."

ASK THE ADVISOR

POST-RETIREMENT FINANCIAL PLANNING

"As featured in newspapers across the country"

WHERE HAVE YOU GONE, JOE DIMAGGIO?

QUESTION: I have put off retirement for now. Is it okay to be so worried about retiring?

ANSWER: The last five years have taken a dramatic toll on baby boomers. The timing of this perfect storm could not have been worse. Think about the many issues facing this group: loss of home values at the time you are downsizing, loss of value in your retirement accounts when you will need to start taking income, stagnated wages during peak earning years, delayed reduction of debt, increasing support of adult children facing bleak employment prospects, aging parents that will need increased involvement. These issues are coupled with the sinking feeling that things won't get better in time to make a difference.

The biggest retirement challenge facing this generation will be to secure income to cover expenses. Current retirees lived through, grew up in or were children of the Great Depression. They spend very little because they always spent very little. Baby boomers will spend more because they always spent



Eric Holtz, ChFC, CASL

more. Adding to this equation is the quality of medical care and the overall better health of boomers. People will live longer but more will need caregivers. Add the current reality that the cost of care continues to rise dramatically but pre and post retirees' savings plans continue to remain flat.

We are very proactive in educating clients in this group how to position assets today to safely create necessary future income. As well, incorporating chronic illness protection without increasing expenses is another area where we excel. We like the plans that are free. The earlier this planning occurs, the better.

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JOSHUA SUDOCK, ORANGE COUNTY REGISTER

When he's not working, attorney Michael Hornak enjoys watching and playing ice hockey.

HORNAK: O.C. has 'entrepreneurial spirit' that helps keep the economy booming

FROM PAGE 1

versities in UC Irvine, Chapman and Cal State Fullerton, but we haven't developed enough synergies between those institutions and the business community so that the business community can benefit from (university) research, and also so that local students can see opportunities here in Orange County. It's difficult to keep the twentysomethings and thirtysomethings from moving out of the county looking for better jobs or less expensive places to live.

Q. At this point in the economic recovery, what are the biggest challenges still facing the county's business community?

A. I'd say most of the things that still need to be addressed are not local issues. The bigger problems are at the state level, where you have a difficult regulatory environment that needs to be modernized and a high income-tax rate that dissuades a lot of companies that might consider expanding here or moving here from doing so. Orange County really attracts businesses because it's a great place to live and has a diverse economic base.

Q. So it's changed since you left for Yale. How do you view Orange County today?

A. If you compare (the economy of) Orange County to all the other countries of the world, we're somewhere around 22nd. Tourism has grown tremendously. You have (Disney) California Adventure. They've put more than \$1 billion into upgrading that park. We're seeing a lot of foreign visitors. International trade, believe it or not, is expanding even though we don't have a port. In the past, many businesses didn't consider the foreign market. Now they are. The green economy is growing. The health care industry in Orange County is large. And it's the medical device capital of the world.

Q. Why is this such a hotbed for medical devices?

A. It's the entrepreneurial spirit that's here – and I'm not sure why it's here. Maybe because foreigners tend to have an entrepreneurial spirit. More than 30 percent of the people who live in Orange County were born in a foreign country. Ernst & Young has its annual Entrepreneur of the Year competition. Last year, the three national winners were from Orange County. That's never happened before ... to have the three top

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MICHAEL HORNAK

winners from one county.

Q. What advice do you give to someone who wants to start a business here?

A. One, talk to the Business Council, because our folks have some great ideas. Go to LocationOC.com. You're going to find (information) on the business climate, industry clusters, major employers and what kind of local and/or state incentives there might be to locate here. And talk to the city officials wherever you're thinking of locating because many of them will be helpful and want to attract you to their cities.

Q. Do you have interests outside of the courtroom and the business world?

A. Quite a few. I spend a lot of time with our golden retrievers. They swim in our pool almost every day during the summer. I play hockey three to four times a week. I've been a Ducks season-ticket holder since the first season. I'm a classical pianist. And I hike. I'm taking my son, Tim, and my son-in-law, Chuck McGraw, on a 10-day trek up in the mountains in Peru – up to the 15,000-foot level – and on part of that we will see Machu Picchu.

Q. Do you play ice hockey or roller

hockey?

A. Ice hockey. We play in an adult league at the Aliso Viejo Ice Palace. Our team is older than most of the people we play, so our name is the Geri Hat Tricks.

Q. Is hockey something you started at Yale?

A. No. I never put on a pair of skates until I was 43.

Q. Why hockey?

A. You know why hockey is so great for me? You can't think of anything else when you're on the ice or you'll get hurt. The stress of being a litigator is intense. On the ice, you're forced to think of something else.

Q. Do you have a favorite book?

A. "The Pillars of the Earth," by Ken Follett. I've read it twice. It's about 1,000 pages. It's fiction, but it's one of those historical novels. It's about the building of cathedrals in Europe.

Q. What is the best advice you've ever received?

A. From my dad, who was a big influence on me. He said, "I don't care what you do with your life or what career you choose, but whatever you do, be the best you can be at it." For most of his life, he was a car salesman, but he had more integrity than anyone I've met.

Q. What do your own children do?

A. My oldest, Natalie, is a doctor.

She met her husband, Chuck, at Dartmouth Medical School. Incidentally, my wife said I had heart palpitations over her choosing Dartmouth over Yale. My son, Tim, is a personal trainer studying to be an occupational therapist. My youngest daughter, Ginny, just graduated from UCI, studying criminology.

Q. What was it like for you going away to Yale?

A. It was a different world, and I grew a lot from the experience. I was the valedictorian at Los Alamitos High School, but once I got to Yale, I was in a crop of students where I was a dime a dozen. I had some fascinating instructors. Yale had a tremendous political society. Back in the '70s, Yale was the place where presidents announced they were running for election. Quite a few lawyers came out of Yale.

Q. Were you a member of Yale's famous secret society, Skull and Bones?

A. I was not. (Hornak laughs.) And I couldn't tell you if I was. I believe one of my roommates was, but he was sworn to secrecy.

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Retail, office markets rebound

Office building rents increase for the first time in 5 years, a brokerage notes.

Commercial real estate is recovering throughout Orange County, with vacancies dropping steadily for the past 18 to 24 months and lease rates starting to turn around, according to recent reports by brokerage Voigt Real Estate Services.

Owners of industrial and research and development properties saw rents climb during the three months ending in June. Office building owners raised their asking rents for the first time in about five years in the spring. Voigt projects rising rents for the rest of the year for retail, office and "flex" properties, which are industrial buildings used as offices.

"All segments of the market are doing really well," said Jerry Holdner, vice president of market research for the Newport Beach brokerage. "It's not anything like we saw in '05 or '06, but the market is improving."

Construction of office buildings and retail centers also increased in the spring quarter.

Voigt noted, for example, that 1.4 million square feet of office space was under construction by June, due mainly to the new Hyundai headquarters rising along I-405 in Fountain Valley and the new PIMCO headquarters going up at Newport Beach's Fashion Island.

In addition, more than 900,000 square feet of retail space was under construction, more than half of it in north Orange County.

"The overall slowdown in construction has eased," Voigt's retail market report said.

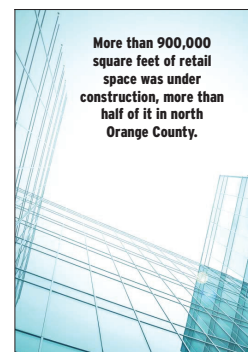
Commercial real estate tenants leased almost 1.3 million square feet more space than they vacated in the spring, with occupancy up significantly in every sector but industrial, due to a lack of vacancies in that sector.

Highlights of Voigt's spring quarter reports include:

- **Office buildings:** Vacancies dropped to 12.5 percent of total space, down for a fifth consecutive quarter. The average office vacancy rate was just under 16 percent at the end of 2011. Average asking rents increased for the first time in five years, to \$1.89 per square foot. That's up from the average asking rent for the previous three quarters but down from the same quarter a year earlier.
- **Retail:** Vacancies fell to 5.5 percent, down from 6.1 percent in the spring of 2012. Asking rents continued to fall for a fourth consecutive quarter, dropping to an average of \$1.82 per square foot. Voigt forecast, however, that lease rates will turn around and rise gradually in the next three quarters.
- **Industrial:** Vacancy rates have dropped off and on for the past two years, falling to 4.7 percent in the spring. Rent has climbed steadily, rising to 59 cents per square foot, vs. 54 cents a foot in spring 2011. That amounts to an additional \$5,000 a month in rent on a 100,000-square-foot space.
- **Flex properties:** About one-third of these are in the Irvine Spectrum. The vacancy rate fell to 12.3 percent, down from 15.6 percent a year earlier and nearly 20 percent in the depth of the recession. Rent fell to \$1.66 per square foot, but Voigt projects that rents will rise in the next three quarters.
- **Research and development:** Vacancy rates fell to 7.2 percent, vs. 9 percent in the depth of the recession. Rent was 88 cents per square foot this spring, down from the winter quarter, but up from 83 cents a foot in the spring of 2012.

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