



2010 Major Business Lease Expansions

August 2011

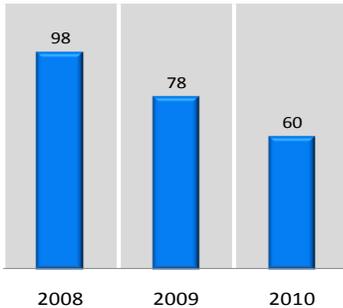
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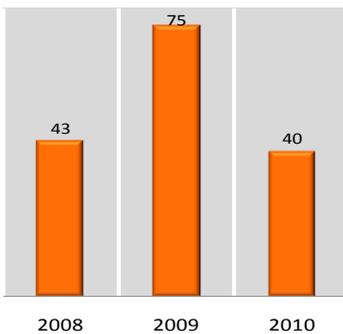
Nancy D. Sidhu, Ph.D.

Southern California Business Leasing Activity Declined in 2010

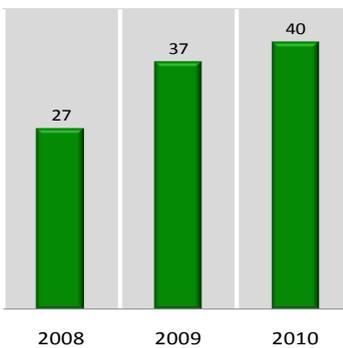
Los Angeles County Lease Expansions



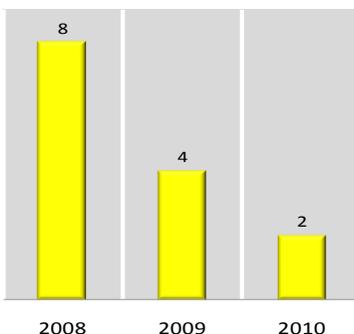
Orange County Lease Expansions



Inland Empire Lease Expansions



Ventura County Lease Expansions



The LAEDC regularly tracks major office and industrial leases (or purchases) as an indicator of economic activity in the Los Angeles five-county region. In particular, we look for firms expanding their footprint in Southern California by 20,000 square feet or more with a lease or purchase value of at least \$1 million. This exercise does not produce a comprehensive list of new companies moving into the area or total new square footage leased. Instead, this report provides a year-to-year comparison of leasing activity that can be used as a barometer of economic activity: are firms growing? Are new companies moving into the region?

Data are collected from company press releases, real estate brokerage firms, newspapers and trade journals. As such, leases that go unreported or are smaller than 20,000 square feet are not included. A general rule of thumb is that for every lease included in this report, there are three smaller ones not tracked.

In the **Los Angeles five-county region**, the LAEDC recorded a total of 142 major business lease expansions during 2010 compared with 194 in 2009, a decline in activity of -26.8%. Given how difficult the economic environment for commercial real estate continues to be, last year's drop was not wholly unexpected. In 2010, unemployment rates in the Los Angeles five-county area remained elevated compared with the national average. While the U.S. economy was adding jobs in 2010, many businesses in Southern California retained a "wait-and-see" attitude about hiring new workers.

On the other hand, while fewer firms were leasing new or additional space, total activity in terms of square footage recorded in 2010 was up by +16.8% from 2009 (to 25.2 million square feet). Activity varied across the region and largely reflected the uneven nature of the economic recovery across the five counties in terms of both geography and industry sector.

In **Los Angeles County**, there was a significant decline in commercial leasing activity with the number of transactions falling from 78 in 2009 to 60 in 2010. Still, new leases in the county totaled more than 6.3 million square feet during 2010, an increase of +0.6 million square feet compared with 2009. Looking at growth by industry sector, the top three industries in Los Angeles County by number of leases were

entertainment, logistics & warehousing, and professional services. All these sectors had nine major lease expansions. These results are consistent with employment growth in Los Angeles County last year, reflecting the uptick in employment in motion picture/TV production, international trade and temporary staffing services.

Leasing activity slowed in **Orange County** as well. The count of major lease expansions dropped from 75 in 2009 to just 40 in 2010. Last year, major expansions in the county absorbed 4.7 million square feet of space in contrast to 6.2 million square feet in the prior year. Leasing activity by sector was broad based in Orange County. The sectors that recorded the most activity were: food (6 major lease expansions) and logistics & warehousing (5). The next most active sectors were apparel & textiles, finance & insurance, technology and professional services, all of which had three major lease expansions each.

Leasing activity in the **Riverside-San Bernardino** area showed a small improvement over the year with 40 major expansions recorded in 2010 versus 37 in 2009. Riverside County’s major expansions totaled 4.4 million square feet, up slightly from 4.3 million square feet in 2009. San Bernardino County had the distinction of recording the most expansion activity (in terms of square feet) that took place in the five-county region last year. In 2010, major expansions in the county used 9.6 million square feet of space compared with 5.1 million square feet in 2009.

The Inland Empire, with its large inventory of huge distribution/warehouse buildings, benefited early from the bounce back in international trade and manufacturing last year. There were 30 lease expansions recorded in 2010 across the five-county region that involved facilities of at least 200,000 square feet; 17 of those were located in the Riverside-San Bernardino region. The largest was for a logistics and transportation company that leased 80 acres (3.5 million square feet). Other large deals were primarily for manufacturing and distribution facilities. By industry sector, logistics & warehousing posted the largest number of major lease expansions (6) followed by apparel & textiles, building supply & home improvement and food, with five major lease expansions each.

Ventura County’s count declined to just two major expansions in 2010 compared with four during the previous year. Major lease expansion in Ventura County totaled just over 122,000 square feet, which was down from 146,000 square feet in 2009.

By **industry sector**¹, The logistics & warehousing industry posted the largest number of major expansions in 2010 with 20, down from 25 in 2009. The food industry posted 12 major expansions, up from the previous year in which 8 major expansions were recorded. Professional services (which includes accounting, law, architecture & engineering, and personnel services) also recorded 12 expansions (versus 23 in 2009). Entertainment was next with 10, followed by apparel & textiles with 9 major expansions. Gains were also made in buildings supplies/home improvement, technology, furniture/home furnishings and health/personal care.

Major Lease Expansions by Top Ten Industry Sectors

Industry	2009	2010
Logistics/Warehousing	25	20
Food	8	12
Professional Services	23	12
Entertainment	9	10
Apparel/Textiles	17	9
Autos	7	8
Bldg Supply/Home Improvement	13	8
Technology	15	8
Furniture/Home Furnishings	9	7
Health/Personal Care	5	7
All Other Industry Sectors	63	41

¹ In 2010, the number of industry sectors called out in this report was expanded. The counts from previous years have been adjusted accordingly.

Foreign firms accounted for just three major projects in 2010 compared with seven in 2009 and were down for the third year in a row. The foreign direct investment expansions came from Germany (1), Japan (1), and the United Kingdom (1).

Office and Industrial Vacancy Rates

The commercial real estate market was a mixed bag in 2010, but fundamentals for the major property types, including office space, showed signs of stabilizing. Demand for office space was up slightly, but most of the activity was lease renewals, which often involved less space.

Southern California's **office market** appeared to have hit bottom in 2010, but remained very weak. Los Angeles County's average office vacancy rate was 17.0% in the fourth quarter of 2010 compared with 16.0% during the fourth quarter of 2009 and was the highest office vacancy rate Los Angeles County has experienced since the end of 1996.

In Orange County, the average office vacancy rate barely changed from the previous year (edging up to 20.0% in 4q10 versus 19.9% in 4q09). More encouraging, the final quarter of 2010 was the second consecutive quarter in which the office vacancy rate fell after rising in each the previous fifteen quarters.

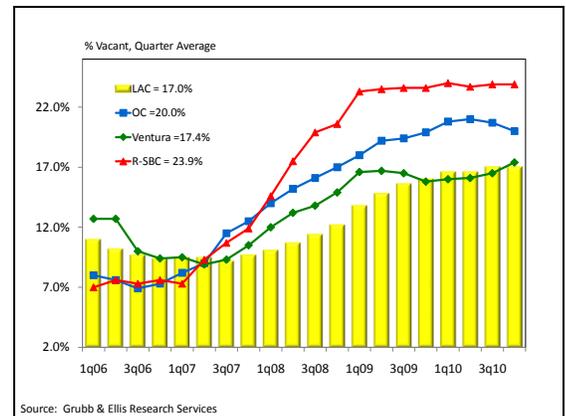
In the Inland Empire, the vacancy rate was 23.9% in the fourth quarter of 2010, up just slightly from the same period in 2009 (23.6%). There was no new construction in the pipeline, and speculative space built prior to the recession began to fill up.

As for **industrial space**, Southern California is a major center for manufacturing, international trade and logistics, and entertainment. Los Angeles County is the nation's largest manufacturing center and is home to its biggest port complex. The manufacturing and trade-related sectors are major users of industrial space and were among the first industries in the region to recovery after the recession.

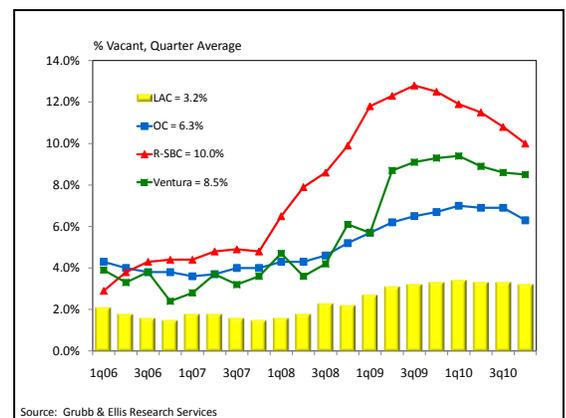
At the close of 2010, the Los Angeles County average industrial vacancy rate was 3.2% (the lowest industrial vacancy rate in the nation); down from 3.3% a year ago. Orange County's industrial real estate market also showed welcome signs of improvement, ending the year with a 6.3% vacancy rate, down from 6.7% a year ago and down from a peak of 7.0% during the first quarter of 2010. The Inland Empire industrial market showed signs of stabilizing. The fourth quarter vacancy rate was 10.0%, which was high compared to pre-recession levels, but down from 12.5% during the same period last year.



Office Vacancy Rates in Southern California



Industrial Vacancy Rates in Southern California





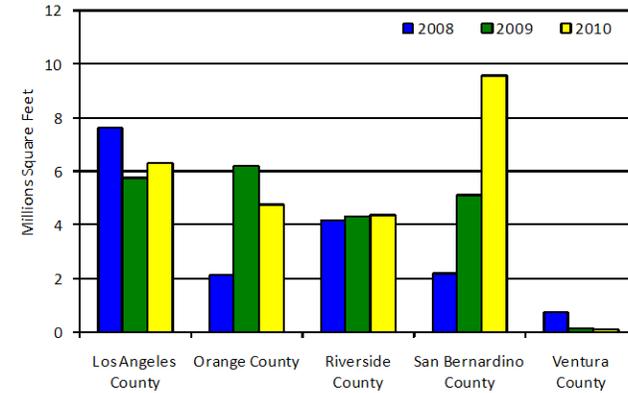
2010 MAJOR BUSINESS LEASE EXPANSIONS*

By Number of Projects	2008	2009	2010
Los Angeles County	98	78	60
Orange County	43	75	40
Riverside County	17	6	18
San Bernardino County	10	31	22
Ventura County	8	4	2
TOTAL	176	194	142

By Sq. Ft.	2008	2009	2010
Los Angeles County	7,653,040	5,759,739	6,310,159
Orange County	2,155,929	6,199,460	4,746,327
Riverside County	4,161,858	4,342,634	4,383,421
San Bernardino County	2,191,575	5,093,340	9,594,266
Ventura County	745,706	145,855	122,447
TOTAL	16,908,108	21,541,028	25,156,620

By Industry	2008	2009	2010
Logistics/Warehousing	23	25	20
Food	8	8	12
Professional Services	29	23	12
Entertainment	13	9	10
Apparel/Textiles	5	17	9
Autos	9	7	8
Bldg. Supplies/Home Improvement	6	13	8
Technology	9	15	8
Furniture/Home Furnishings	5	9	7
Health/Personal Care	9	5	7
Other Manufacturing	12	8	6
Other Industries	6	12	5
Finance/Insurance	11	5	4
All other industry sectors	31	38	26
TOTAL	176	194	142

Projects by Square Feet 2008-2010



Foreign Investment

2009		2010	
Canada	2	Germany	1
Belgium	1	Japan	1
Germany	2	United Kingdom	1
Hong Kong	1		
Iceland	1		
TOTAL	7	TOTAL	3

*Attraction/expansion projects verified by the LAEDC, with a lease value of at least \$1 million or more than 20,000 sq. ft. facility.