2009 Major Business Expansion Activity in Southern California

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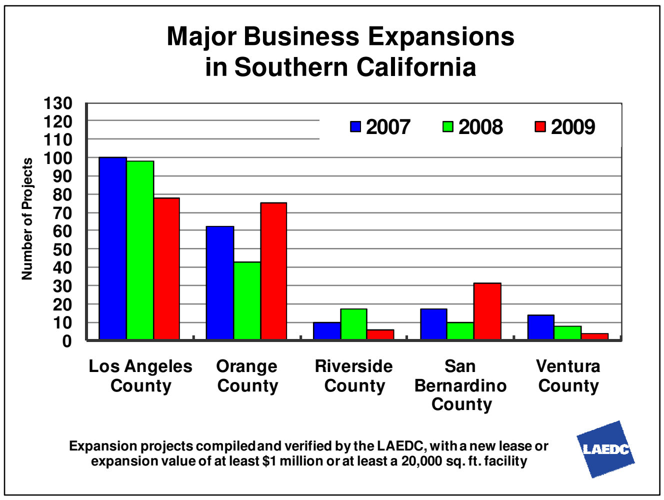
Southern California Major Business Expansion Activity Increased in 2009; Watch for Measured Improvement 2010

The LAEDC regularly tracks major business expansion activity in the Los Angeles five-county region. A "major business expansion" is defined as a new lease (or expansion) of at least $1 million in value or of 20,000 square feet or more. A helpful rule of thumb is that for every major expansion, there are three smaller ones not tracked in the LAEDC's survey.



In the L.A. Five-county region, a total of 194 major business expansions were recorded by the LAEDC during 2009 compared with 176 in 2008, an increase in activity of +10.2%. This was welcome news; activity had been declining since 2004 when 348 major expansion projects were recorded. The total square footage recorded in 2009 was 21.5 million, up by 4.6 million square feet from 2008. Activity varied across the region and largely reflected the disparity of the economic situation in the five counties, with some areas posting sizable gains while others continued to languish.

In Los Angeles County, the number of major expansions suffered a significant decline -- falling from 98 projects in 2008 to 78 in 2009. However, the opposite pattern was exhibited in Orange County, where the count of major projects rose by 32 to a total of 75 projects in 2009. Leasing activity in the Riverside-San Bernardino area also improved over the year with 37 major expansions recorded in 2009. On the other hand, Ventura County's project count declined to a total of only four major projects in 2009 compared with eight projects during the previous year. Among cities, Irvine and Los Angeles were the leaders once more in 2009, with 25 and 17 major projects (four in downtown Los Angeles) respectively in 2009.

The total amount of square footage involved in major business expansions in the five-county region during 2009 exceeded 21.5 million square feet. Orange County and San Bernardino County both experienced noteworthy upswings in leasing activity based on square footage. Riverside County also saw an uptick, while Los Angeles and Ventura Counties suffered large declines.

Major expansions in Los Angeles County totaled more than 5.7 million square feet during 2009, a decrease of 1.9 million square feet from 2008. Ventura County's total square footage fell by nearly

600,000 square feet to just 145,855 square feet during 2009[1]. Riverside County's major expansions totaled more than 4.3 million square feet, an increase of 180,776 square feet over 2008. Riverside County had the distinction of having secured the two largest expansions last year: one for 1.3 million square feet and another for 1.8 million square feet. Both facilities will be used primarily as distribution centers for large apparel companies.

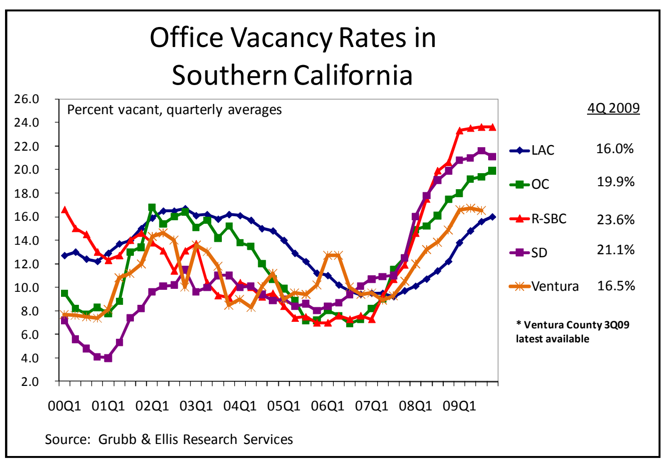
Orange County enjoyed a considerable boost in leasing activity. Major projects in the County used over 6.0 million square feet of space in 2009 in contrast to just 2.2 million square feet in the prior year. Similarly, expansion projects in San Bernardino County totaled more than 5.0 million square feet compared with 2.2 million square feet in 2008.

On average, the size of individual expansion projects tended to be smaller in Orange and Los Angeles Counties (83,000 and 77,000 square feet respectively) compared with Riverside and San Bernardino Counties. With the greater availability of land for enormous distribution and logistics centers, major expansions in the Inland Empire averaged 255,000 square feet last year.

By industry sector, "Other" Industries posted the largest number of major expansions in 2009 with 42, up from 32 in 2008. "Other" Manufacturing had 27 major expansions, down from 39 in 2008. Logistics/Warehousing and Professional Services (which includes accounting, law, architecture & engineering, as well as personnel services) came in next, with 23 major expansions each. Compared with 2008, Logistics/Warehousing was up by five major expansions while Professional Services was down by four. Notable gains were made in Apparel/Textiles which recorded 17 major expansions in 2009 and Technology with 15. Both industry sectors recorded just four major expansions in 2008. Autos (6), Biomedical (5) and Los Angeles' renowned entertainment (9) industries all remained flat in 2009.

Foreign firms accounted for seven major projects during 2009, down for the second year in a row from the 2008 count of 11 major projects. The foreign direct investment expansions came from Canada (2), Germany (2), Belgium (1), Hong Kong (1) and Iceland (1).

Office and Industrial Vacancy Rates

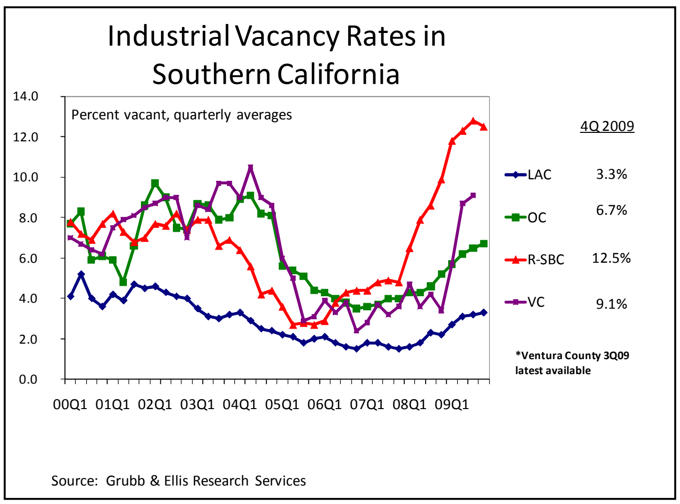


Southern California's job growth came to a grinding halt in 2008 and shifted into reverse in 2009. As 2009 came and went, the monthly litany of falling employment numbers became the touchstone by which the severity of the recession was measured. Office vacancy rates increased throughout the region as more and more companies closed or downsized. Areas within the region fared better or worse

[1] Results for Ventura were skewed by the addition of a single 423,000 square foot distribution center in 2008. Still, even without this one large lease, Ventura would have recorded a decline of 177,000 square feet in 2009 compared with 2008.

depending on their exposure to problem industries and the volume of new construction, but none remained unaffected.

Los Angeles County's average office vacancy rate increased to 16.0% during the fourth quarter of 2009 (compared with 12.2% a year ago) and was the highest rate the county has experienced in nearly five years. In Orange County, the average office vacancy rate edged up for the ninth consecutive quarter, increasing to 19.9% in the fourth quarter of 2009 from 17.5% a year earlier. Although Orange County fared better than several of its neighbors in terms of job losses, the unemployment rate was still high and unlikely to improve appreciably in 2010. Losses are mounting at banks and credit remains tight, a problem for the county's mortgage industry. The Inland Empire's average office vacancy rate rose to 23.6% (the highest in Southern California) at the end of the fourth quarter compared with 20.6% one year earlier. The increase in vacancy rates was due primarily to job losses in industries related to finance, real estate and professional/business services. Market saturation from speculative construction projects in progress prior to the real estate bust was also a contributing factor.



As for industrial space, Southern California is a major center for manufacturing, international trade and logistics and, of course, entertainment (sound stages are industrial space). Los Angeles County remains the nation's largest manufacturing center (based on jobs) and is home to its biggest port complex. Prior to the recession, brisk flows of international trade goods ensured the region's warehouses were filled to bursting. Since the economic downturn, however, declining global demand for U.S exports and a steep drop in domestic demand for imported goods led to a sharp slowdown in port activity. The area's manufacturing and logistics industries, both of which are major users of industrial space, suffered as a result. However, as recovery began to take hold in other countries, local trade activity, particularly exports, started to show signs of life in late 2009.

All things considered, the market for industrial property in Los Angeles County has shown remarkable resiliency. In spite of an increase in vacancy rates to 3.3% during the fourth quarter of 2009 from 2.2% at the end of 2008 (and 1.6% a year earlier), the industrial vacancy rate in Los Angeles County remained the lowest in the nation. Orange County's industrial real estate market fared less well, ending the year with a 6.7% vacancy rate, up from 5.7% a year ago.

Up until 2007, the large influx of distribution businesses into the Inland Empire competed for space with rapidly spreading low-cost housing developments, creating a tight regional industrial real estate market. Conditions have deteriorated markedly since then, however, with the fourth quarter industrial vacancy rate in Riverside-San Bernardino standing at 12.5% compared with 9.9% a year ago (and a low of just 2.7% in 2005).

As the economy recovers, increased port activity and falling industrial vacancy rates will encourage more distribution and warehousing companies to look inland for sizeable properties at more affordable prices. Demand for industrial property is sensitive to the labor market as well as international trade flows, so until the employment outlook improves, a turn-around in commercial real estate will remain elusive.

For the most part, office space development will be restrained in all five counties of the Southern California region. Many companies have ceased shedding employees, but they have adopted a wait-and-see stance regarding new hires due to the uncertain business outlook. With some new projects just now coming on the market, office vacancy rates around the region will increase in 2010. Average rents will continue to soften with a greater demand for concessions, especially in Orange County and the Inland Empire. The few companies considering expansion will look at several different markets to obtain more competitive lease rates.

The outlook for industrial space development, especially in the tight markets of Los Angeles and Orange counties, while not bright, is at least somewhat less terrible. International trade continues to lead the region's economy and will eventually require more distribution and warehouse space as the economies of the nation and its major trading partners recover.

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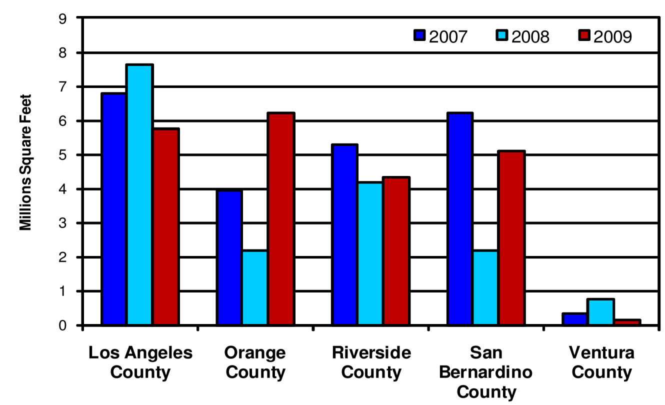
2009 MAJOR BUSINESS EXPANSIONS*

By Number of Projects	2007	2008	2009
Los Angeles County	100	98	78
Orange County	62	43	75
Riverside County	10	17	6
San Bernardino County	17	10	31
Ventura County	14	8	4
TOTAL	**203**	**176**	**194**

By Sq. Ft.	2007	2008	2009
Los Angeles County	6,771,521	7,653,040	5,759,739
Orange County	3,928,293	2,155,929	6,199,460
Riverside County	5,304,575	4,161,858	4,342,634
San Bernardino County	6,206,888	2,191,575	5,093,340
Ventura County	343,615	745,706	145,855
TOTAL	**22,554,892**	**16,908,108**	**21,541,028**

By Industry	2007	2008	2009
Aerospace/Defense	1	2	3
Apparel/Textile	6	4	17
Autos	6	6	6
Biomed	2	5	5
Entertainment	9	9	9
Finance & Insurance	20	11	5
Food	4	4	8
Furniture/Home furnishings	6	2	6
Health	7	5	1
Logistics/Warehousing	13	18	23
Professional Services	50	27	23
Technology	6	4	15
Toys	0	1	0
Information (excl. Entertainment)	10	7	4
Other Manufacturing	39	39	27
Other Industries	24	32	42
TOTAL	**203**	**176**	**194**

Projects by Square Feet 2007-2009



Foreign Investment

2008		2009	
Canada	2	Canada	2
France	1	Belgium	1
Germany	1	Germany	2
Netherlands	1	Hong Kong	1
Sweden	2	Iceland	1
Taiwan	1		
United Kingdom	3		
TOTAL	**11**	**TOTAL**	**7**

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