

2007 Major Business Expansion Activity in Southern California



Los Angeles County Economic Development Corporation
The Kyser Center for Economic Research

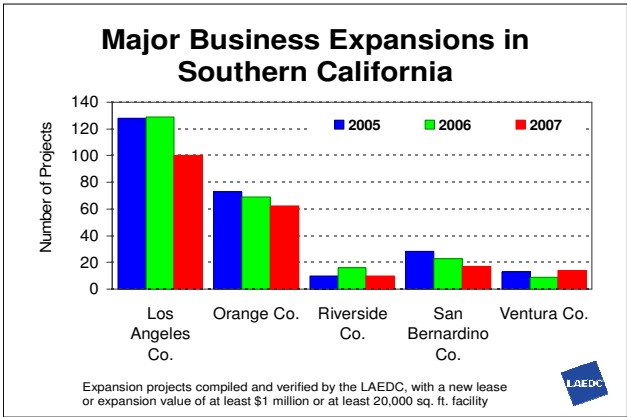
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Southern California Major Business Expansion Activity Declined in 2007; Challenging Year Ahead in 2008

The LAEDC regularly tracks major business expansion activity in the Los Angeles five-county region. The LAEDC defines a “major business expansion” as a new lease (or expansion) of at least \$1 million or of 20,000 sq. ft. or more. A useful rule of thumb is that for every major expansion, there are three smaller ones not tracked in the LAEDC’s survey. The survey is a useful indicator of who is doing what and where.

There were 203 major business expansions in the L.A. five-county region recorded by LAEDC during 2007, a decline of -17.5% in activity or 43 projects from 2006. This is not necessarily unexpected news; activity has been declining since 2004 when 348 major expansion projects were recorded. The total square footage in 2007 was 22.6 million, down by 5.1 million sq. ft. from 2006. Declines or flattening of activity were experienced across the region. In Los Angeles County, the number of major expansions decreased from 129 projects in 2006 to 100 projects in 2007. Orange County’s major project count dropped by 7 to a total of 62 projects in 2007. The Riverside-San Bernardino area experienced a decline in activity as well, with 27 major expansions in 2007 compared with 39 projects in 2006. On the other hand, Ventura County’s major projects count increased a bit, to a total of 14 projects in 2007 compared with 9 projects the previous year. Among cities, Irvine and Downtown Los Angeles were the leaders, with 21 and 19 major projects respectively in 2007.



The total square footage of major business expansions in the five-county region during 2007 exceeded 22.6 million square feet. Riverside and Orange counties were the only regions that experienced an increase in total square footage. Major expansions in Riverside County totaled more than 5.3 million sq. ft. during 2007, an increase of more than 1.6 million sq. ft. from 2006. Orange County’s total square footage increased by more than 138,000 sq. ft. to 3.9 million sq. ft. during 2007. Los Angeles County’s major expansions totaled more than 6.8 million sq. ft. in 2007, in contrast to over 9.6 million sq. ft. during 2006, a decrease of more than 2.8 million sq. ft. Projects in San Bernardino County totaled more than 6.2 million sq. ft. compared with 9.9 million sq. ft. in 2006. Ventura County also saw a decline, with over 344,000 sq. ft. in major projects during 2007 compared with 599,000 sq. ft. in 2006.

By industry sector, “Professional Services” (which includes accounting, law, architecture & engineering, as well as personnel services) posted the largest number of major expansions in 2007 with 50. The “Finance & Insurance” industry came in second with 20 major expansions in 2007. The Logistics and Warehousing sector had 13 major expansions, down by 5 from 2006.

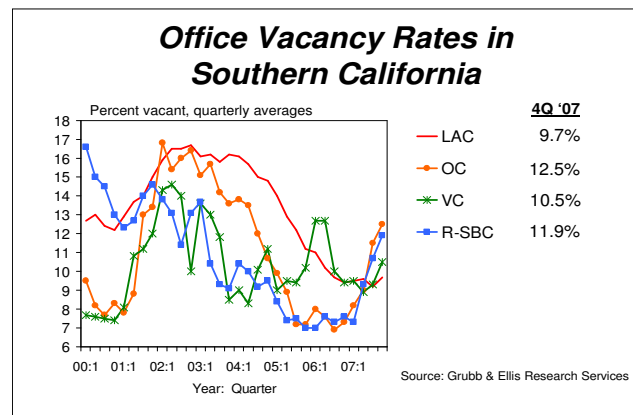
The Information sector (excluding Motion Picture/TV Production) had 10 major expansions. Los Angeles' flagship entertainment industry had 9 major expansions in 2007, down a tad from 11 in 2006.

Foreign firms accounted for 9 major projects during 2007, down from the 2006 count of 21 major projects. The foreign direct investment expansions came from Japan (3), China (1), France (1), Netherlands (1), South Korea (1), Sweden (1), and Switzerland (1).

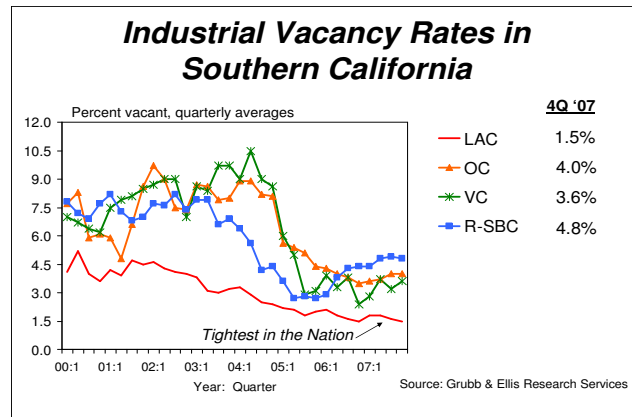
One factor driving location and expansion decisions is Southern California's commercial real estate market, which has challenges. It is the tightest industrial market in the nation and has a fairly healthy office market. Rents in the latter have been rising. A major challenge and concern for the area is that there is not enough land available for new commercial development to accommodate business growth. And with the limited land, there is ongoing competition between residential, retail, and commercial development.

Through the first part of 2007, cheap money and easy credit helped spur commercial real estate investment activities in the region. A number of companies moved from leasing space to purchasing (not counted as a major expansion) due to increasing rental costs. Purchasing makes more sense to businesses that are planning to stay in Southern California. However, the subprime mortgage woes resulted in a credit crunch in late summer 2007, which has become more severe. New development activity has slowed to a crawl.

Office vacancy rates have been declining across the Los Angeles five-county region since 2004 as businesses started hiring more employees to accommodate their growth as well as to improve productivity. They also expanded and/or relocated their offices. Many were pushed out by rising lease rates (especially in the Westside market) due to consolidation in ownership of prime office properties. Vacancy rates moved up a bit during the latter half of 2007. Mortgage-related woes resulted in the downsizing and closure of several large financial companies, which dumped office space back on the market. A comparison of office vacancy rates during the fourth quarter of 2007 versus the same period of 2006 shows that Los Angeles County's office vacancy rate increased a tad to 9.7% from 9.4%. Orange County, which had more exposure to mortgage-related companies, experienced a downward trend in office vacancy rates beginning 2004 through first half of 2007. However, the County is now back to double-digit rates, at 12.5%. It was the same story in the Riverside-San Bernardino area (though the subprime exposure was not as bad), as the office vacancy rate went from 7.6% during the fourth quarter of 2006 to 11.9% at the end of 2007. Ventura County's office vacancy rate was up by 1.1 percentage points to 10.5% during the fourth quarter of 2007 compared with the same period in 2006.



Southern California is a major center for manufacturing, international trade, and logistics and for this reason, the industrial real estate market has generally been healthy in the region. Industrial vacancies have remained low, unaffected by housing problems, while international trade activity has held up. Los Angeles County remained number one among industrial markets nationwide based on vacancy rates. The Riverside-San Bernardino market ranked high as well. During the fourth quarter of 2007, the industrial vacancy rate in Los Angeles County was 1.5% (rates were even lower in some sub-markets), Riverside-San Bernardino had a 4.8% rate, Orange County was at 4.0%, and Ventura County was at 3.2%.



With an uncertain economic outlook for Southern California in 2008, businesses will try to delay or limit hiring workers, and will be more cautious in expanding their facilities. In addition, lenders burned by the subprime mess, have become more hesitant about making other types of loans. The “Professional Services” sector will experience moderate job growth in 2008 and will require more office space. The Logistics/Warehousing sector remains strong in Southern California as international trade activity will remain high. This will continue to drive demand in industrial/logistics space development in the Inland Empire, though large blocks of land are starting to get scarce there. One caveat -- water supply considerations could crimp development of new projects. Overall, expect a slowdown in major expansion activity to continue in 2008.

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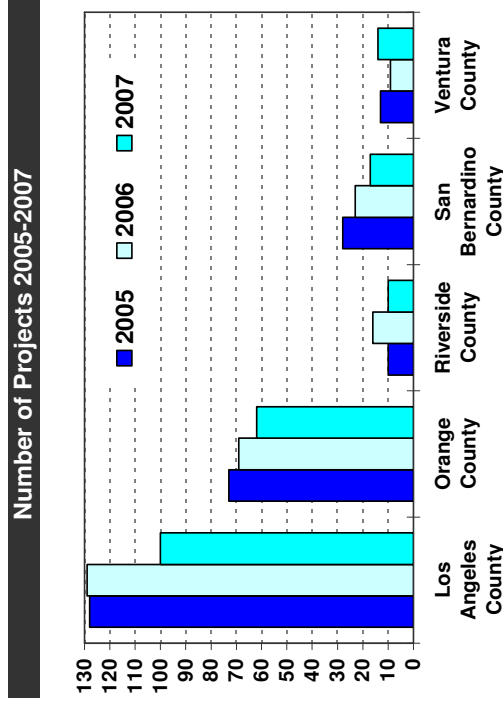


2007 MAJOR BUSINESS EXPANSIONS*

By Number of Projects			
	2005	2006	2007
Los Angeles County	128	129	100
Orange County	73	69	62
Riverside County	10	16	10
San Bernardino County	28	23	17
Ventura County	13	9	14
TOTAL	252	246	203

By Sq. Ft.			
	2005	2006	2007
Los Angeles County	11,460,331	9,606,162	6,771,521
Orange County	5,340,643	3,790,606	3,928,293
Riverside County	3,434,750	3,711,540	5,304,575
San Bernardino County	9,208,763	9,928,165	6,206,888
Ventura County	554,219	598,659	343,615
TOTAL	29,998,706	27,635,132	22,554,892

By Industry			
	2005	2006	2007
Aerospace/Defense	9	8	1
Apparel/Textile	10	10	6
Autos	4	6	6
Biomed	8	12	2
Entertainment	11	11	9
Finance & Insurance	12	18	20
Food	6	9	4
Furniture/Home furnishings	5	10	6
Health	4	2	7
Logistics/Warehousing	26	18	13
Professional Services	53	49	50
Technology	9	7	6
Toys	2	2	0
Information (excl. Entertainment)	4	4	10
Other Manufacturing	46	38	39
Other Industries	43	42	24
TOTAL	252	246	203



Foreign Investment		
	2006	2007
Japan	5	3
England	4	1
Germany	3	1
Australia	2	1
Canada	2	1
Austria	1	1
China	1	1
France	1	1
S. Korea	1	1
Switzerland	1	1
TOTAL	21	9

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