## 2008 Major Business Expansion Activity in Southern California



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

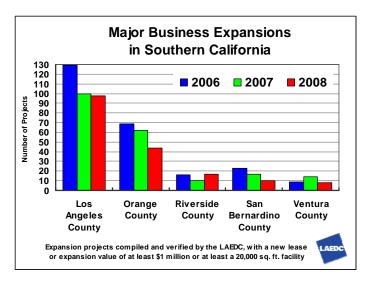
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## Southern California Major Business Expansion Activity Declined in 2008; Brace for a Challenging Year in 2009

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 in value or of 20,000 square feet 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.



were 176 major business expansions in the L.A. five-county region recorded by LAEDC during 2008, a decline of -13.3% in activity or -27 projects from 2007. This is not unexpected news; activity has been declining since 2004 when 348 major expansion projects were recorded. The total square footage in 2008 was 16.9 million, down by 5.6 million square feet from 2007. Activity varied across the region with the number of projects by county generally lower in 2008. In some areas, however, the amount of square footage leased actually increased.

In Los Angeles County, the number of major expansions decreased slightly from 100 projects in 2007 to 98 projects in 2008. Orange County's major project count dropped by 19 to a total of 43 projects in 2008. The Riverside-San Bernardino area remained stable over the year with 27 major expansions in 2008. On the other hand, Ventura County's major projects count decreased drastically, to a total of 8 projects in 2008 compared with 14 projects the previous year. Among cities, Irvine and Los Angeles were the leaders again in 2008, with 16 and 14 major projects (7 in downtown Los Angeles) respectively in 2008.

The total square footage of major business expansions in the five-county region during 2008 exceeded 17.1 million square feet. Los Angeles and Ventura counties were the only regions that experienced an increase in total square footage. Major expansions in Los Angeles County totaled more than 7.6 million square feet during 2008, an increase of 881,519 square feet from 2007. Ventura's total square footage increased by 402,091 square feet to 745,706 square feet (one project accounted for 423,106 sq. ft. of the total) during 2008. Orange County's major expansions totaled more than 2.1 million square feet in 2008, in contrast to over 3.9 million square feet during 2007, a decrease of more than 1.7 million square feet. Projects in Riverside County totaled more than 4.1 million square feet compared with 5.3 million square feet in 2007.

San Bernardino County suffered a significant decline, with only 2.2 million square feet in major projects during 2008 compared with 6.2 million square feet in 2007.

By industry sector, "other" manufacturing posted the largest number of major expansions in 2008 with 39. "Other" industries came in second with 22 major expansions in 2008. "Professional Services" (which includes accounting, law, architecture & engineering, as well as personnel services) had 27 major expansions, down by 23 from 2007. The Logistics and Warehousing sector had 18 major expansions, up by 5 since 2008 (after falling by 5 in 2007). The "Finance & Insurance" industry followed with 11 major expansions down by 9 since 2008, and Los Angeles' renowned entertainment industry remained flat in 2008 with 9 major expansions.

Foreign firms accounted for 11 major projects during 2008, up from the 2007 count of 9 major projects. The foreign direct investment expansions came from the United Kingdom (3), Canada (2), Sweden (2), France (1), Germany (1), the Netherlands (1) and Taiwan (1).

Southern California's job growth came to a grinding halt in 2008 and ended the year with the highest level of unemployment in years. As fallout from dysfunctional financial system hit the real economy, unemployment spread across the board. Companies have become quite cautious about their space needs. office vacancy Subsequently, rates throughout the region increased companies closed or contracted. areas fared better than others depending on their exposure to problem industries and the volume of new construction, but none have remained unscathed.



A comparison of office vacancy rates during the fourth quarter of 2008 versus the same period of 2007 shows that Los Angeles County's office vacancy rate increased to 12.2%, up from 9.7%. In Orange County, which had more exposure to mortgage-related companies, the average office vacancy rate jumped to 17.5% at the end of 2008 from a rate of 12.5% just one year ago. Problems in the financial services sector spread to real estate and to the wider economy in 2008. As a result, the office space inventory in Orange County will increase as more companies contract or close their doors throughout 2009. The same story is unfolding in the Riverside-San Bernardino area. The scale of the decline has been far more devastating, however, due to the region's greater exposure to the subprime crisis. The office vacancy rate went from 11.9% during the fourth quarter of 2007 to 20.6% at the end of 2008. Ventura County's office vacancy rate was up by 4.4 percentage points to 14.9% during the fourth quarter of 2008 compared with the same period in 2007.

Southern California is a major center for manufacturing, international trade and logistics, and, of course, entertainment. Los Angeles County remains the nation's largest manufacturing center and is home to its biggest port complex. Two years ago, the energetic flows of international trade goods ensured the region's warehouses were filled to bursting. Lackluster consumer demand has slowed port traffic, but all things considered, the market for industrial property has done pretty well



During the fourth quarter of 2008, the industrial vacancy rate in Los Angeles County was 2.2% (rates were even lower in some sub-markets), Riverside-San Bernardino had a 9.9% rate, Orange County was at 5.2%, and Ventura County was at 3.4%.

With an uncertain economic outlook for Southern California in 2009, 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 mixed job growth in 2009, with declines in law and accounting, but growth in architecture & engineering and in research & development. Growth in the Logistics/Warehousing sector will decline in 2009 reflecting weak consumer demand at home and abroad. Although largely dependent on a global recovery, modest growth in both imports and exports is expected in 2010. However, job growth in the industry will be modest. The logistics industry will continue to drive development in the Inland Empire, though large blocks of land on the western end are becoming scarce. The scarcity of water may also become an important factor influencing expansion decisions. Overall, expect the slowdown in major expansion activity in Southern California to continue in 2009.

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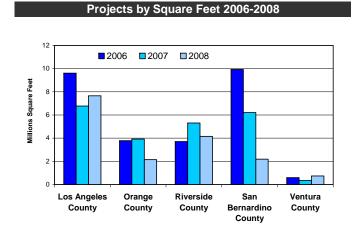


## **2008 MAJOR BUSINESS EXPANSIONS\***

| By Number of Projects | s     | 2006 | 2007 | 2008 |
|-----------------------|-------|------|------|------|
| Los Angeles County    |       | 129  | 100  | 98   |
| Orange County         |       | 69   | 62   | 43   |
| Riverside County      |       | 16   | 10   | 17   |
| San Bernardino County |       | 23   | 17   | 10   |
| Ventura County        |       | 9    | 14   | 8    |
|                       | TOTAL | 246  | 203  | 176  |

| By Sq. Ft.            |       | 2006       | 2007       | 2008       |
|-----------------------|-------|------------|------------|------------|
| Los Angeles County    |       | 9,606,162  | 6,771,521  | 7,653,040  |
| Orange County         |       | 3,790,606  | 3,928,293  | 2,155,929  |
| Riverside County      |       | 3,711,540  | 5,304,575  | 4,161,858  |
| San Bernardino County |       | 9,928,165  | 6,206,888  | 2,191,575  |
| Ventura County        | _     | 598,659    | 343,615    | 745,706    |
|                       | TOTAL | 27,635,132 | 22,554,892 | 16,908,108 |

| By Industry                       | 2006 | 2007 | 2008 |
|-----------------------------------|------|------|------|
| Aerospace/Defense                 | 8    | 1    | 2    |
| Apparel/Textile                   | 10   | 6    | 4    |
| Autos                             | 6    | 6    | 6    |
| Biomed                            | 12   | 2    | 5    |
| Entertainment                     | 11   | 9    | 9    |
| Finance & Insurance               | 18   | 20   | 11   |
| Food                              | 9    | 4    | 4    |
| Furniture/Home furnishings        | 10   | 6    | 2    |
| Health                            | 2    | 7    | 5    |
| Logistics/Warehousing             | 18   | 13   | 18   |
| Professional Services             | 49   | 50   | 27   |
| Technology                        | 7    | 6    | 4    |
| Toys                              | 2    | 0    | 1    |
| Information (excl. Entertainment) | 4    | 10   | 7    |
| Other Manufacturing               | 38   | 39   | 39   |
| Other Industries                  | 42   | 24   | 32   |
| TOTAL                             | 246  | 203  | 176  |



| Foreign Investment |       |                |    |  |  |
|--------------------|-------|----------------|----|--|--|
| 2007               |       | 2008           |    |  |  |
| Japan              | 3     | Canada         | 2  |  |  |
| China              | 1     | France         | 1  |  |  |
| France             | 1     | Germany        | 1  |  |  |
| Netherlands        | 1     | Netherlands    | 1  |  |  |
| S. Korea           | 1     | Sweden         | 2  |  |  |
| Sweden             | 1     | Taiwan         | 1  |  |  |
| Switzerland        | 1     | United Kingdom | 3  |  |  |
| то                 | TAL 9 | TOTAL          | 11 |  |  |

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