

Quarter in review

Despite adverse economic conditions in the South Bay, vacancy rose only one percentage point since the beginning of the year. The market ended the quarter with a 16.9 percent vacancy rate, slightly higher than Los Angeles County's 16.7 percent vacancy average. South Bay leasing velocity picked up significantly during the third-quarter driven by two large leases signed in the LAX submarket, however the South Bay's overall year-to-date leasing activity still remained 60 percent below 2008 levels highlighting weak tenant demand.

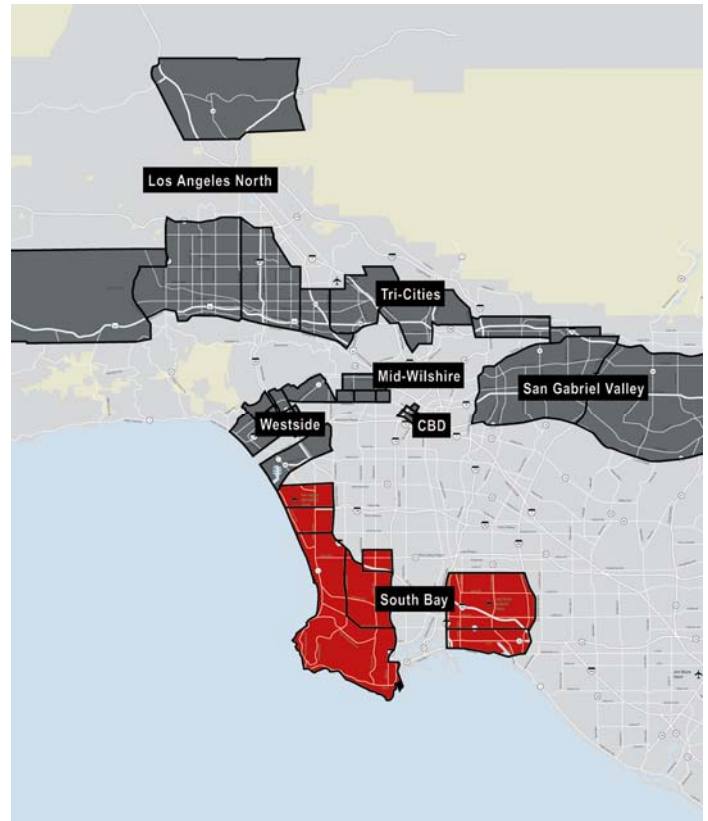
LAX experienced a significant boost during the third-quarter driven by a new 115,000 square foot lease signed by The Los Angeles World Airport (LAWA), and a 42,000 square foot transaction executed by Expeditors International of Washington. The two large signings are welcomed news for LAX, which has the highest vacancy rate in the South Bay. LAX ended the third-quarter 30.5 percent vacant, down from 32.1 percent recorded at the beginning of 2009.

South Bay landlords, facing a challenging leasing environment, dropped their asking rate by 4.7 percent to \$2.17 per square foot over the last nine months in an effort to retain tenants. The average contract rate, which is more indicative of true market rate, decreased by 18 percent over the same period.

Tenant migration from the Westside, which has historically been a strong driver for new South Bay tenancy, moderated significantly as the gap in rents between the two markets narrowed, minimizing traditional economic benefits a Westside tenant would gain from relocating to the South Bay.

Renewals by smaller occupants under 10,000 square feet accounted for a majority of South Bay leases signed during the third-quarter as tenants locked in favorable rates and terms. Other South Bay occupants chose to extend their leases rather than commit to longer-term occupancies believing that the market had not yet reached bottom.

Submarket boundaries map



Key market indicators

Stock	▶	22,226,668 SF
Overall net absorption	▶	44,909 SF
Overall vacancy rate	▶	16.9%
Average asking rent	▼	\$2.17 PSF
Under construction	▶	0 SF

Change from previous quarter

Market outlook

South Bay leasing fundamentals will likely not experience any further dramatic declines as long as the economy continues on the path of recovery. Defense, a massive regional employer, is anticipated to maintain a stable growth rate. This is further affirmed by a likely Senate vote to continue funding (at least until 2012) the Boeing's C-17 program in Long Beach, which employs over 5,000 workers in the South Bay.

The region is not over supplied in terms of new developments. However, the large amount of shadow space will likely need to be absorbed first before tenants consider expanding.

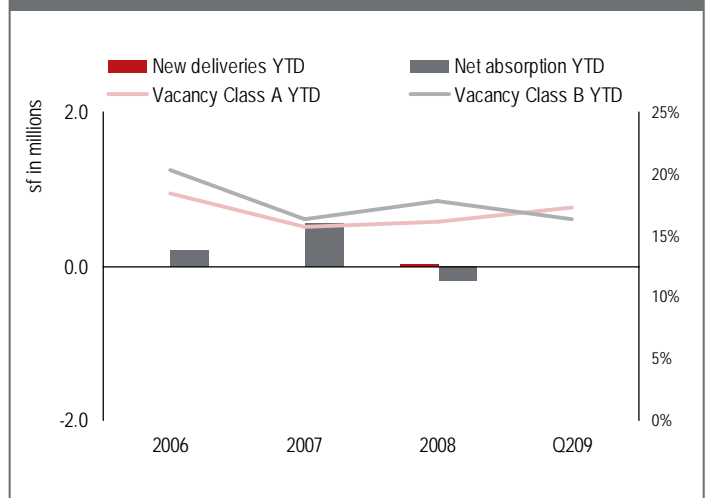
Large availabilities	
9920 S La Cienega	Class A 243,000 SF
21250 Hawthorne Blvd	Class A 105,700 SF
2300 E Imperial Hwy	Class A 81,418 SF

Significant lease transactions	
Los Angeles World Airports	115,000 SF
6053 West Century Boulevard	New
Expeditors International	42,000 SF
5757 West Century Boulevard	New

Average rental rates (Class A vs. Class B)



Overall new deliveries / overall net absorption / overall vacancy rates



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