

Quarter in review

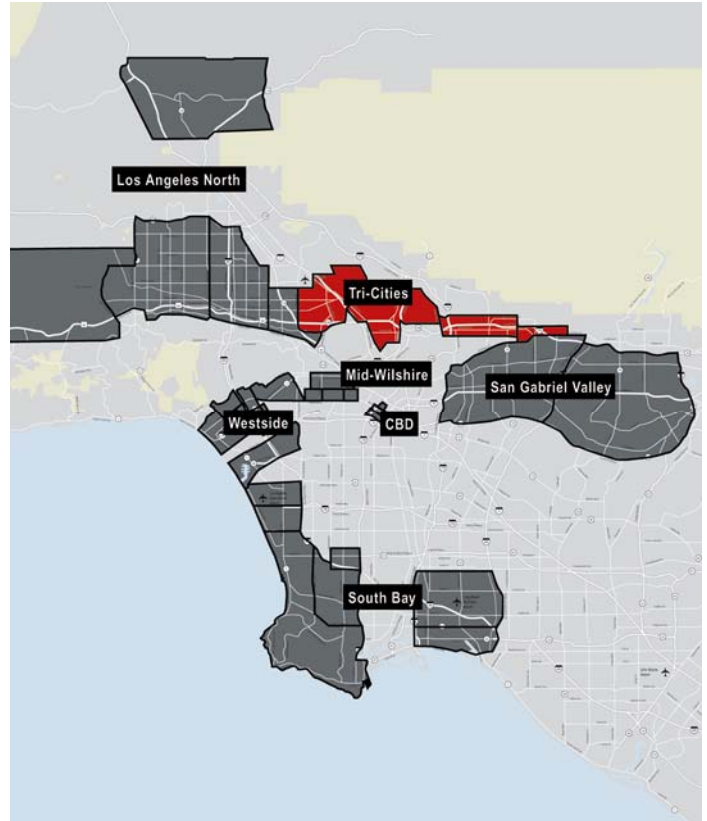
Tri-Cities leasing fundamentals deteriorated further during the third quarter as vacancy reached 20.5 percent, up from 14.6 percent recorded at the beginning 2009, and higher than the 16.6 percent vacancy rate for the greater Los Angeles area. Much of the increase in vacancy was driven by the failure of mortgage and financial services companies located in the Tri-Cities. Additionally, across the broad layoffs in core media, film and television industry led to reductions in occupancy particularly in Burbank. The delivery of three new speculative projects added an additional 1.2 million square feet of vacant space to the market.

Tri-Cities leasing activity was minimal over the last three-months at 438,426 square feet (2.7 percent of the market), down from 790,965 square feet (4.85 percent of the market) in 2008 over the same period. Short-term renewals continued to account for a large number of Tri-Cities leases signed during the quarter as tenants locked in favorable rates and terms. Many Tri-Cities occupants chose to extend their leases rather than commit to longer-term occupancies, believing that the market had not yet reached bottom. However, short-term renewals decreased slightly during the third quarter driven by some recent positive economic news.

Tri-Cities third-quarter rental rates declined 7.4 percent to \$2.92 from \$3.15 recorded at the beginning of 2009. Pasadena asking rents dropped 13.7 percent year-to-date representing the largest decline in the market, with rents ending the third-quarter at \$2.98 per square foot, down from \$3.35 per square foot recorded at the beginning of the year. Rents in Glendale remained the most affordable at \$2.64 per square foot while Burbank was the most expensive market with asking rents averaging \$3.43 per square foot at the end of the third-quarter, higher than Pasadena, which historically has commanded the highest rents in the Tri-Cities before the onset of the economic crisis.

The completion of Maguire Properties' 207 Goode Avenue, an eight-story Class A office building, contributed an additional 187,973 square feet of vacant space to the Glendale market during the third-quarter, driving up vacancies to 23.6 percent, up from 20.1 percent at the beginning of the year.

Submarket boundaries map



Key market indicators

Stock	▲	17,123,665 SF
Overall net absorption	▼	-7,150 SF
Overall vacancy rate	▲	20.5%
Average asking rent	▼	\$2.92PSF
Under construction	▶	0 SF

Change from previous quarter

Special effects-company Deluxe Digital Studios executed a lease renewal for 65,235 square feet, at 2400 Empire Avenue in the Burbank, assuring that the asset remains 100 percent leased. The transaction is the largest office transaction in Burbank in 2009. Deluxe was an original tenant in the building since its completion in 2005.

Market outlook

Tri-Cities leasing fundamentals are expected to be further challenged by business plans calling for additional staff reductions. Oversupply in the Los Angeles North market will further impact Tri-Cities' rental rates as the two adjacent markets occasionally compete for some of the same tenants.

Demand from entertainment, insurance and financial services tenants will remain weak. Healthcare, one of the few growth segments, will likely contribute to some new leasing activity in the Tri-Cities through 2009.

Large availabilities	
2300 West Empire Avenue, Burbank	Class A 351,000 SF
207 Goode Avenue, Glendale	Class A 187,973 SF
3465 E Foothill Boulevard, Pasadena	Class A 141,800 SF

Significant lease transactions	
Deluxe Digital Studios 2400 Empire Avenue, Burbank	65,235 SF
CIBA Insurance 655 N. Central	22,613 SF

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