

on point

Americas Research

Southern California Industrial Report Q2 2009

Leasing activity showed quarter-over-quarter declines across the region

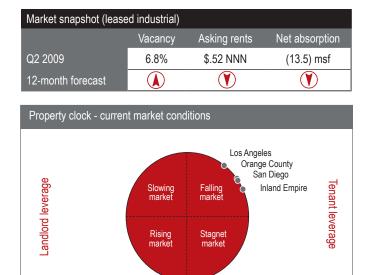
Shadow space will drive vacancy up during the second half of 2009 as it hits the market

Unemployment rates at 30 year highs, significantly impacting industrial demand



The state of the Southern California industrial market





Key market indicators

Southern California industrial market

All classes, 30,000 s.f. and higher

Southern California inc		All classes, 30,000 s.f. and nigher						
	Total industrial mark	ket including owner oc	cupied space	Leased industrial market				
	Total stock	Under construction	Total vacancy	Total stock	Total vacancy	Total availability	YTD net absorption	Average asking rents (NNN)
North	112,084,520	125,061	2.7%	71,791,428	3.2%	7.7%	-468,207	\$0.62
Central	216,118,368	0	3.5%	123,376,619	3.6%	7.5%	-2,218,558	\$0.57
Mid-Counties	127,006,210	67,360	3.7%	90,877,560	3.9%	9.3%	-2,300,121	\$0.54
South	163,336,487	214,397	4.8%	138,385,575	4.8%	9.2%	-1,298,926	\$0.60
San Gabriel Valley	124,232,538	0	6.5%	84,409,800	6.6%	11.7%	-2,284,470	\$0.46
Los Angeles - Total	742,778,123	406,818	4.2%	508,840,982	4.4%	9.0%	-8,570,282	\$0.56
Airport	36,524,354	0	6.1%	25,632,990	7.5%	8.1%	-767,608	\$0.68
	35,253,494	0	5.1%	24,744,603	5.8%	6.9%	-541,532	\$0.54
	13,944,216	0	7.0%	9,481,461	6.8%	7.9%	-59,048	\$0.57
	16,190,352	0	4.7%	10,052,365	6.9%	8.3%	-101,832	\$0.79
West	11,383,663	0	1.9%	7,468,323	2.9%	2.9%	65,735	\$0.74
Orange County - Total	113,296,079	0	5.3%	77,379,742	6.3%	7.2%	-1,404,285	\$0.64
West	206,059,658	99,002	8.8%	160,831,622	9.8%	10.3%	-2,616,783	\$0.41
East	189,452,615	650,513	15.5%	143,519,362	18.2%	18.9%	-502,305	\$0.37
Inland Empire - Total	395,512,273	749,515	12.0%	304,350,984	13.8%	14.4%	-3,119,088	\$0.39
San Diego - Total	101,385,055	214,532	7.1%	66,256,562	9.5%	10.2%	-383,901	\$0.70
Market Total	1,352,971,530	1,370,865	6.8%	956,828,270	7.9%	10.6%	-13,477,556	\$0.52

Southern California flex market

All classes, 30,000 s.f. and higher

						, ,	om ama mgmor		
	Total flex market including owner occupied space					Leased flex market			
	Total stock	Under construction	Total vacancy	Total stock	Total vacancy	Total availability	YTD net absorption	Average asking rents (NNN)	
Los Angeles	40,555,445	0	5.8%	32,522,089	6.3%	6.9%	-432,214	\$0.89	
Orange County	33,873,798	32,232	6.0%	25,411,218	7.2%	7.4%	-258,844	\$1.04	
Inland Empire	8,513,962	0	13.2%	7,436,821	14.8%	15.2%	-79,197	\$0.82	
San Diego	25,389,907	0	16.1%	20,010,865	19.5%	20.7%	-464,157	\$1.37	
Market Total	108,333,112	32,232	8.9%	85,380,993	10.4%	11.0%	-1,234,412	\$1.04	

Southern California's overall industrial market

Economy

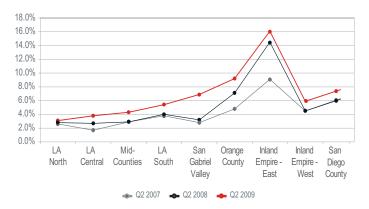
The past six months have not been rosy for the world economy by any means. Global carriers have been forced to lay up roughly 10 percent of their global container fleet. The leading manufacturing index is still contracting, albeit at a slower pace. Unemployment and housing foreclosures are expected to rise through mid-2010, and consumer spending, which comprises 70 percent of gross domestic product, is still constrained. Fortunately, distributors and manufacturers across the country were able to respond to changing economic conditions by rapidly destocking their inventories earlier this year. This proactive stance has worked in their favor as signs indicate that this trend has slowed considerably recently, and in some cases, production has even started again. The road to increased production will be a slow one though over the next 12 months, as domestic demand has decreased with rising unemployment. On a positive note, US exports rose by \$1.9 billion between June and July, helping narrow the current deficit and improve overall container trade volumes.

Los Angeles County

Unemployment rates across Southern California are the highest they have been in over 30 years and are not expected to retract any time soon. As expected, a similar pattern has also developed in the industrial market, with vacancy rates in Los Angeles county rising by 30 basis points from last quarter. Rental rates dropped another five percent this quarter as well for an average asking rate of \$.56 nnn/psf/mo. The South Bay submarket showed the strongest leasing activity this quarter with 850,000 square feet leased. Carson and Rancho Dominguez in particular had several large deals signed by Tatung Company of America and Luggage America. Despite some tenant movement, all five submarkets showed weaker leasing activity quarter over quarter as well as year-over-year.

While the economy seeks to correct itself over the next year, the slower pace of trade and activity has allowed some industries to reinvent themselves and differentiate from their competitors for the future. In the Central Los Angeles submarket, a 20 acre Clean Tech Corridor has been established along the Los Angeles River for companies focused on green initiatives and sustainability. The area falls in both an Enterprise and Empowerment Zone, offering tax incentives amongst others for businesses willing to relocate there. At the Port of Los Angeles, plans are moving forward to deepen the main channel to 53 feet in order to accommodate the larger vessels that will be calling at West Coast ports in the years ahead with the expansion of the Panama Canal. Expansion projects at the San Pedro ports are crucial to maintaining market share and competitiveness with East Coast ports.

Southern California industrial vacancy analysis



Trends spotlight - The future of renewable energy

Wind, solar, thermal and other renewable energy projects have been gaining momentum across the nation, but have seen the most activity in California. In addition to the 30% federal investment tax credit, several states, including California offer tax incentives and rebates for commercial buildings willing to commit to renewable initiatives, particularly solar ones. While the industry is currently facing supply and economic constraints, future legislation is expected to change these issues, to the benefit of tenants and building owners looking to lower operating expenses through renewable energy.

Inland Empire

The Inland Empire has taken a hard hit this year as the construction, manufacturing and logistics industries that comprise such a large portion of its economic base continue to post losses in revenue resulting in increased unemployment. These troubled blue-collar sectors helped push vacancy rates up nearly two percent from last quarter to 13.8

percent. For an area that relies so heavily on imports, the declines in port traffic have arguably

Unemployment is at an all-time high over the past 30 years.
- chart on page 4

affected the region more-so than others. While several large leases were signed during the quarter, leasing activity was not strong enough to offset new vacancies, and net absorption totaled a negative 3.1 million square feet year-to-date. In one of the largest leases of the quarter, Hong Kong clothing distributor IDS Group took 645,000 square feet of warehouse space in Mira Loma. Renewals and short term leases still seem to be the dominant trend as only one tenant took space for more than five years.

Waning retail demand will continue to put upward pressure on vacancy

Sales highlights

Location	Market	Buyer	Seller	Price	Size (s.f.)	Price (p.s.f.)
Jasmine Distribution Center	Inland Empire	KTR Capital Partners	Adaya Slover Holdings LLC	\$29,935,000	650,790	\$46
10288 Calabash Avenue	Inland Empire	Trader Joe's Company	The Alter Group	\$31,000,320	574,080	\$54
Cooley Ranch Industrial Park	Inland Empire	Ashley Furniture	Overton Moore Properties	\$19,298,224	438,596	\$44
Santa Ana Distribution Center	Orange County	KTR Capital Partners	Prudential RE Investors	\$25,500,000	296,000	\$86
1245 Peerless Way	Los Angeles	Guardian Life Insurance Co.	Fullmer Companies	\$20,000,000	269,050	\$74
440 N Baldwin Park Boulevard	Los Angeles	AIC Corporation	Orange County Container Group	\$13,748,476	226,938	\$61

Lease highlights

Location	Market	Tenant	Size (s.f.)	Туре
5691 E Philadelphia Street	Inland Empire	Sears Logistics Services, Inc	802,201	renewal
11905 Landon Drive	Inland Empire	IDS USA	645,311	new lease
6550 Katella Avenue	Orange County	Empire Logistics	234,763	new lease
5100 Shea Center Drive	Inland Empire	Trek Bicycle Corporation	207,018	new lease
711 W Walnut Street	Los Angeles	Crown Crafts Infant Products	157,400	renewal
6049 E Slauson Avenue	Los Angeles	Ultra Pro	146,000	renewal
4901 Alexander Road	Los Angeles	Roland Corporation	127,000	renewal

continued

rates as retailers who leased millions of square feet prior to the peak, but now face reduced inventory needs, place this excess space back on the market. This "shadow space" will be monitored carefully over the second half of this year and has the potential to increase vacancy by an additional two to three percent if expected volumes come to market. Fortunately, construction has nearly ceased in the Inland Empire with only 750,000 square feet under construction. A lack of additional supply will likely be the only factor working in the market's favor in the upcoming months.

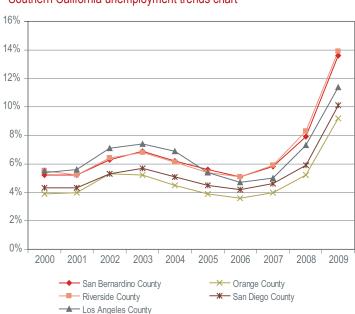
Orange County

Demand for industrial space in the Orange County industrial market dropped significantly during the second quarter with net absorption more than doubling to a negative 1.4 million square feet. In turn, average asking rates dropped another 4.4 percent this quarter to \$.64 nnn/psf/mo. In one of the only significant lease transactions of the quarter, Northgate Gonzales Markets signed a 15 year lease for a build-to-suit facility in Anaheim. The 21.6 acre property was purchased by Birtcher Development and Cornerstone Real Estate Advisors in April for just over \$19.3 million. The facility will be LEED certified and is slated to deliver in 2010. In Anaheim, two notable leases were also signed this quarter by Dynamic Details Inc and Arden Engineering for a combined 150,000 square feet.

Vacancy rates have increased moderately over the last year and currently stand at 6.3 percent. With no buildings currently under construction in Orange County, the majority of this increase is

attributed to weakened demand throughout the region. At the end of the quarter, approximately 32 buildings over 100,000 square feet were being marketed for lease. Deal flow has improved slightly in the 20,000-30,000 square foot building range. In Irvine, Incipio Technologies, Passionate Pet and DMJ Design all signed leases in that size range. Looking forward, leasing activity will be challenged by an unemployment rate in the county that has nearly doubled over the course of the past year.

Southern California unemployment trends chart





Real value in a changing world

Southern California offices

Downtown Los Angeles 515 South Flower Street Suite 1300 Los Angeles, CA 90071 +1 213 239 6000

West Los Angeles 2049 Century Park East Suite 2750 Los Angeles, CA 90067 +1 310 595 3660

Los Angeles North 21080 Centre Pointe Parkway Suite 102 Santa Clarita, CA 91350 +1 661 946 6200

El Segundo 2361 Rosecrans Avenue Suite 150 El Segundo, CA 90245 +1 424 294 3400

Orange County 4 Park Plaza Suite 550 Irvine, CA 92614 +1 949 724 3400

San Diego 4747 Executive Drive Suite 400 San Diego, CA 92121 +1 858 410 1200

Nicole Page Senior Research Analyst +1 213 239 6229 nicole.page@am.jll.com

About Jones Lang LaSalle

Jones Lang LaSalle (NYSE:JLL) is a financial and professional services firm specializing in real estate. The firm offers integrated services delivered by expert teams worldwide to clients seeking increased value by owning, occupying or investing in real estate. With 2008 global revenue of \$2.7 billion, Jones Lang LaSalle serves clients in 60 countries from 750 locations worldwide, including 180 corporate offices. The firm is an industry leader in property and corporate facility management services, with a portfolio of approximately 1.4 billion square feet worldwide. LaSalle Investment Management, the company's investment management business, is one of the world's largest and most diverse in real estate with more than \$46 billion of assets under management. For further information, please visit our Web site, www.us.joneslanglasalle.com.