

Los Angeles County

Retail Market 2Q 2019

MARKET OVERVIEW

The Los Angeles retail leasing market slowed down in 2Q 2019 due to record high asking rent, a modest uptick in vacancy from new construction and the ongoing impact of ecommerce. The average asking rent increased to \$2.92/SF, up 6.6% from the prior year and 1.7% from 1Q 2019. This represented the highest annual rental increase in almost two years and one of the largest hikes since 2008. LA North saw the strongest annual rent growth, up 7.7% as The Vineyards at Porter Ranch, a 345,000 SF upscale lifestyle center occupied by Whole Foods and Nordstrom Rack, came online this quarter.

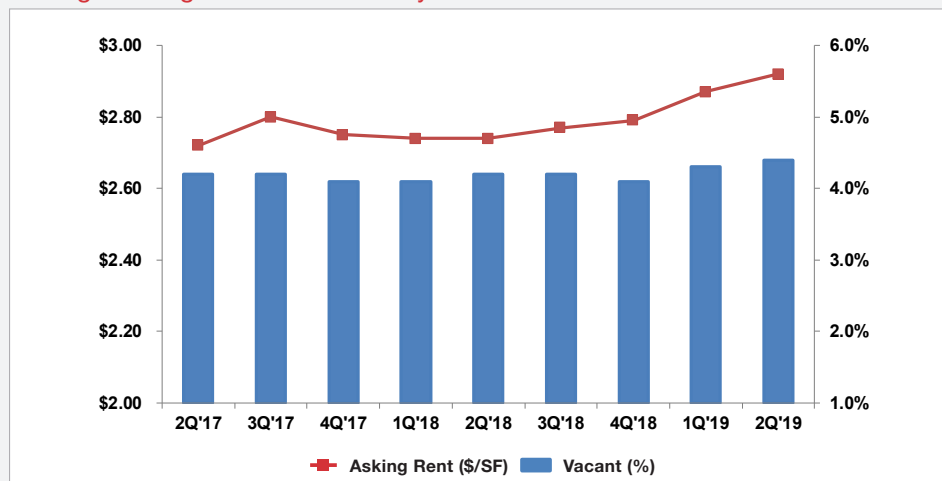
New inventory totaled over 574K SF so far in 2019, pushing the vacancy rate up 20 bps above 2Q 2018 to 4.4%. Vacancy will climb higher in the second half of 2019 as over 1.6M SF of new supply will be delivered in that time. Ecommerce also impacted vacancy as retailers continue to adjust their space needs with consumer preferences for online shopping. This trend coupled with historically high average asking rent contributed to a 26% decline in YTD leasing volume (SF) compared to a year ago.

TRENDS TO WATCH

A robust economy propelled Los Angeles' retail market this quarter. National consumer spending rose 0.6% from March to April 2019 while incomes gained 0.5% over the same period, the biggest increase of 2019 thus far. In May, consumer spending bumped up 0.4% above April and incomes expanded 0.5% during this time. Fundamentals remained strong as Los Angeles County's May 2019 unemployment rate was very low at 4.5%, a 10-bp annual decline. This is compared to California's 4.2% and the Nation's 3.6% unemployment rates.

Retailers will shift their strategies to maintain foot traffic in physical stores in the second half of 2019. For example, Tiffany & Co. launched an "Instagrammable" experience to connect with consumers. Best Buy, Walmart and Target are focusing on convenience with buy online, pick up or return in-store options while offering faster shipping. Target is also expanding with smaller format 15K SF stores on college campuses and in urban areas as opposed to its full-sized 130K SF locations. As these strategies pay off, expect more brick and mortar retailers to follow suit - leasing into smaller spaces.

Average Asking Rent* and Vacancy Rate



MARKET OUTLOOK

Asking Rental Rates



Sale Prices



Availability/Vacancy Rates



Landlord Concessions



Sales/Leasing Volume



New Construction



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Market Statistics*

SUBMARKET	EXISTING TOTAL RBA (SF)	UNDER CONSTRUCTION (SF)	TOTAL AVAILABLE (%)	TOTAL VACANCY (%)	2Q19 LEASING VOLUME (SF)	YTD LEASING VOLUME (SF)	2Q19 SALES VOLUME (SF)	YTD SALES VOLUME (SF)	AVERAGE ASKING RENT (\$/SF NNN)	AVERAGE SALE PRICE (\$/SF)
Central	16,886,852	498,192	11.8%	5.6%	41,059	134,643	98,262	120,853	\$2.81	\$257
Mid-Wilshire	8,129,343	22,579	4.3%	3.7%	33,235	64,867	4,578	31,160	\$2.67	\$295
LA North	72,270,745	518,245	6.6%	4.2%	349,824	663,754	437,194	854,136	\$2.51	\$234
San Gabriel Valley	69,109,562	75,257	5.2%	3.9%	272,854	450,702	542,707	1,157,661	\$1.89	\$367
South Bay	61,775,004	405,667	6.8%	5.0%	279,110	610,215	472,544	898,359	\$2.26	\$369
Tri-Cities	28,427,728	69,865	5.7%	3.7%	164,214	275,278	134,316	434,128	\$2.84	\$487
LA West	53,809,443	379,239	7.2%	4.6%	401,321	996,176	302,858	742,645	\$5.10	\$1,042
Los Angeles County	310,408,677	1,969,044	6.6%	4.4%	1,541,617	3,195,635	1,992,459	4,238,942	\$2.92	\$436

Leasing

LA North and Mid-Wilshire submarkets posted quarterly gains in leasing volume (SF), up 11.4% and 5.1%, respectively. New construction projects drove activity in LA North where Equinox as well as Erewhon pre-leased a combined 41,000 SF at The Shops at Sportsmen's Lodge redevelopment. Midwood Investment and Development anticipate breaking ground in 3Q 2019 for a 4Q 2020 grand opening.

LA West witnessed the strongest demand, accounting for 26% of total quarterly leasing volume. Developers are capitalizing on the recently completed Expo Line expansion to build transit-oriented, mixed-use projects, such as 2300 Wilshire Blvd. in Mid-City Santa Monica. This project includes 30 luxury multifamily units above 25,000 SF of ground-floor retail. Trader Joe's pre-leased 13,650 SF this quarter at an asking rate of \$6.50/SF.

Sales

Second quarter sales volume totaled about 2M SF in 228 transactions while the average sales price registered \$436/SF. LA West saw the highest average sales price at \$1,042/SF. Investors purchased a 29,747 SF supermarket owned and occupied by Gelson's at 15424 W. Sunset Blvd in Pacific Palisades for \$51M or \$1,714/SF at a 4.4% cap rate this quarter. Gelson's leased back the property on an absolute net basis.

The market's average cap rate declined 50 bps from 2Q 2018 to 4.7%. South Bay carried the lowest average cap rate at 4.3%, down 110 bps from 2Q 2018, this submarket's lowest average cap rate on record. Investors are preparing for a demand surge triggered by the new NFL stadium in Inglewood alongside creative office/industrial and retail developments in Long Beach, El Segundo and Manhattan Beach.

Select Lease Transactions

TENANT	ADDRESS	SUBMARKET	ASKING RENT \$/SF**	SQUARE FEET
Marshalls	6840 La Tijera Blvd	LA West	Withheld	31,970
Equinox	12825 Ventura Blvd	LA North	Withheld	30,000
Trader Joe's	2300 Wilshire Blvd	LA West	\$6.50/SF	13,650
The Learning Experience	24525 Copper Hill Dr	LA North	Withheld	11,000
Erewhon	12825 Ventura Blvd	LA North	Withheld	11,000

Select Sales Transactions

BUYER	ADDRESS	SUBMARKET	SALE PRICE \$/SF	SQUARE FEET
Stratton International, Inc.	31810-31970 Castaic Rd	LA North	\$80	124,724
BLT Enterprises	6100 Canoga Ave	LA North	\$307	113,996
Private Investor	1530 W West Covina Pky	San Gabriel Valley	\$553	37,500
Marc Ittah Trust 5/7/97	15424 W Sunset Blvd	LA West	\$1,714	29,747
Private Investor	15902-15946 Halliburton Rd	San Gabriel Valley	\$270	29,222

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