

# Los Angeles County

## Retail Market Outlook Q1 2020

### MARKET OVERVIEW

The Los Angeles retail market cooled in the first quarter in the wake of the COVID-19 shutdown. The average asking rent declined for the first time since Q2 2018, dipping 1.3% quarter over quarter, yet up 4.2% from Q1 2019 to \$2.95/SF. This decline coupled with changing economic conditions indicated that Q4 2019 likely represented the peak of an extraordinary growth cycle that pushed rent to a historical high. Vacancy rose 20 bps from the previous quarter and 40 bps from Q1 2019 to 4.9% — the highest rate since Q2 2014. Completed construction contributed to the uptick as nearly 222K SF of retail space came online this quarter, bringing the total to 1.2M SF added to the market since Q1 2019.

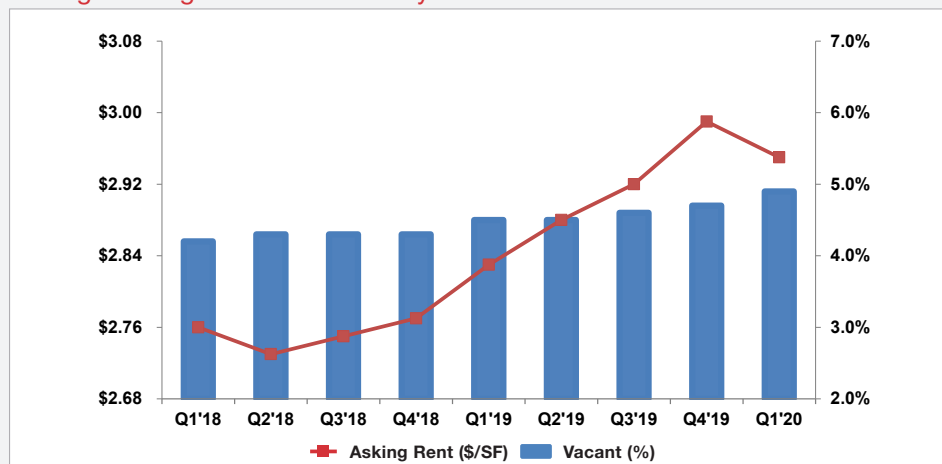
However, the quarter ended with the unprecedented COVID-19 shutdown. Now the LA retail market faces uncertainty as the pandemic evolves. Retailers will continue grappling with ecommerce along with reduced revenues from the shutdown and tourism — the LA Tourism Board predicts \$12B in spending for 2020 instead of the \$25B anticipated pre-pandemic. At the same time, most of the County's essential retailers that remained open during the shutdown, such as grocery stores and pharmacies, saw higher revenues.

### TRENDS TO WATCH

Employment and income are key drivers of demand for retail space. According to the EED, LA County lost 35,200 net jobs over the month in March as the unemployment rate jumped 200 bps to 6.3%. These losses translate to reduced consumer spending from a lack of disposable income. The Retail Trade sector itself shed 1,100 jobs but added jobs in building material and food & beverage stores. This demonstrated that some LA retailers will fare better than others during the shutdown.

Nevertheless, the COVID-19 shutdown will have a lasting impact on demand for retail space in the coming quarters. NAI Capital conducted a COVID-19 Impact Survey of retail market professionals to get a pulse of where the market could be headed. Respondents said: rents will decline as market conditions will not sustain pre-pandemic growth and some tenants move toward online-only sales. Sales prices will be lower; however, quality centers will still see demand from investors. Vacancy will increase and landlords will offer more concessions to keep tenants. Many landlords are proactively renegotiating leases, offering abatement or deferring rent with repayment plans.

#### 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 (%)	Q1 2020 LEASING VOLUME (SF)	YTD LEASING VOLUME (SF)	Q1 2020 SALES VOLUME (SF)	YTD SALES VOLUME (SF)	AVERAGE ASKING RENT (\$/SF NNN)	AVERAGE SALE PRICE (\$/SF)
Central	16,243,923	674,192	11.2%	6.4%	49,076	49,076	16,965	16,965	\$2.88	\$376
Mid-Wilshire	8,091,211	27,597	5.3%	4.8%	36,429	36,429	16,482	16,482	\$3.12	\$892
LA North	71,872,245	588,980	6.1%	5.0%	352,379	352,379	425,084	425,084	\$2.59	\$430
San Gabriel Valley	69,436,197	84,910	5.5%	4.6%	297,251	297,251	420,380	420,380	\$1.94	\$320
South Bay	63,981,261	583,513	6.1%	4.7%	266,065	266,065	483,647	483,647	\$2.35	\$429
Tri-Cities	28,805,490	35,050	5.8%	4.0%	163,502	163,502	114,791	114,791	\$2.94	\$488
LA West	54,005,178	411,350	7.5%	5.4%	348,491	348,491	225,536	225,536	\$5.03	\$1,083
<b>L.A. County</b>	<b>312,435,505</b>	<b>2,405,592</b>	<b>6.4%</b>	<b>4.9%</b>	<b>1,513,193</b>	<b>1,513,193</b>	<b>1,702,885</b>	<b>1,702,885</b>	<b>\$2.95</b>	<b>\$494</b>

### Leasing

Quarterly leasing activity reflected the slower velocity seen since 2017. Leasing volume by square footage declined 17.5% from the prior quarter and 21.5% from Q1 2019 to 1.5M SF. While tepid demand played a role, it's important to note that retailers continued taking smaller spaces—the average deal decreased from 2,866 SF a year ago to 2,464 SF this quarter.

LA North saw the strongest activity in terms of square footage at more than 352K SF in 163 deals, accounting for 23.3% of total market leasing volume. LA North transaction volume decreased 11.7% year over year and 36.7% from Q4 2019. Bloomingdale's The Outlet Store expanded its SoCal footprint taking 33K SF in Warner Center for the first LA County store. The transit-oriented location enjoys proximity to Westfield Topanga & the Village and numerous multifamily projects in the pipeline as part of the Warner Center 2035 plan.

### Sales

Elevated pricing persisted in Q1 as the average sales price reached \$494/SF, up 15.1% from Q4 2019 and 6.7% from a year ago. This indicates that higher-value assets traded hands. Cap rates averaged 4.8%, unchanged from Q1 2019, and down 30 bps from the previous quarter. Overall, sales volume dipped 27% from Q4 2019 and 21.7% year over year to 1.7M SF.

Investors focused on properties with redevelopment potential. Kaplan Management Company acquired a 113K SF free-standing asset in Warner Center for \$48M or \$421/SF this quarter. Kaplan plans to utilize the eight-acre site for a mixed-use project featuring multifamily, office and/or hospitality space. The seller, BLT Enterprises, purchased the property from Fry's for \$35M or \$307/SF in May 2019, representing 37.1% appreciation.

### Select Lease Transactions

TENANT	ADDRESS	SUBMARKET	ASKING RENT \$/SF**	SQUARE FEET
Round 1 Bowling & Amusement	201 E. Magnolia Blvd.	Tri-Cities	TBD	43,355
Bloomingdale's The Outlet Store	21494 Victory Blvd.	LA North	TBD	33,144
USPS	321 N. Vincent Ave.	SGV	\$1.25	21,000
Amoeba Music	6200 Hollywood Blvd.	LA West	TBD	17,000
Anawalt Lumber	15140 W. Sunset Blvd.	LA West	\$4.75	12,400

### Select Sales Transactions

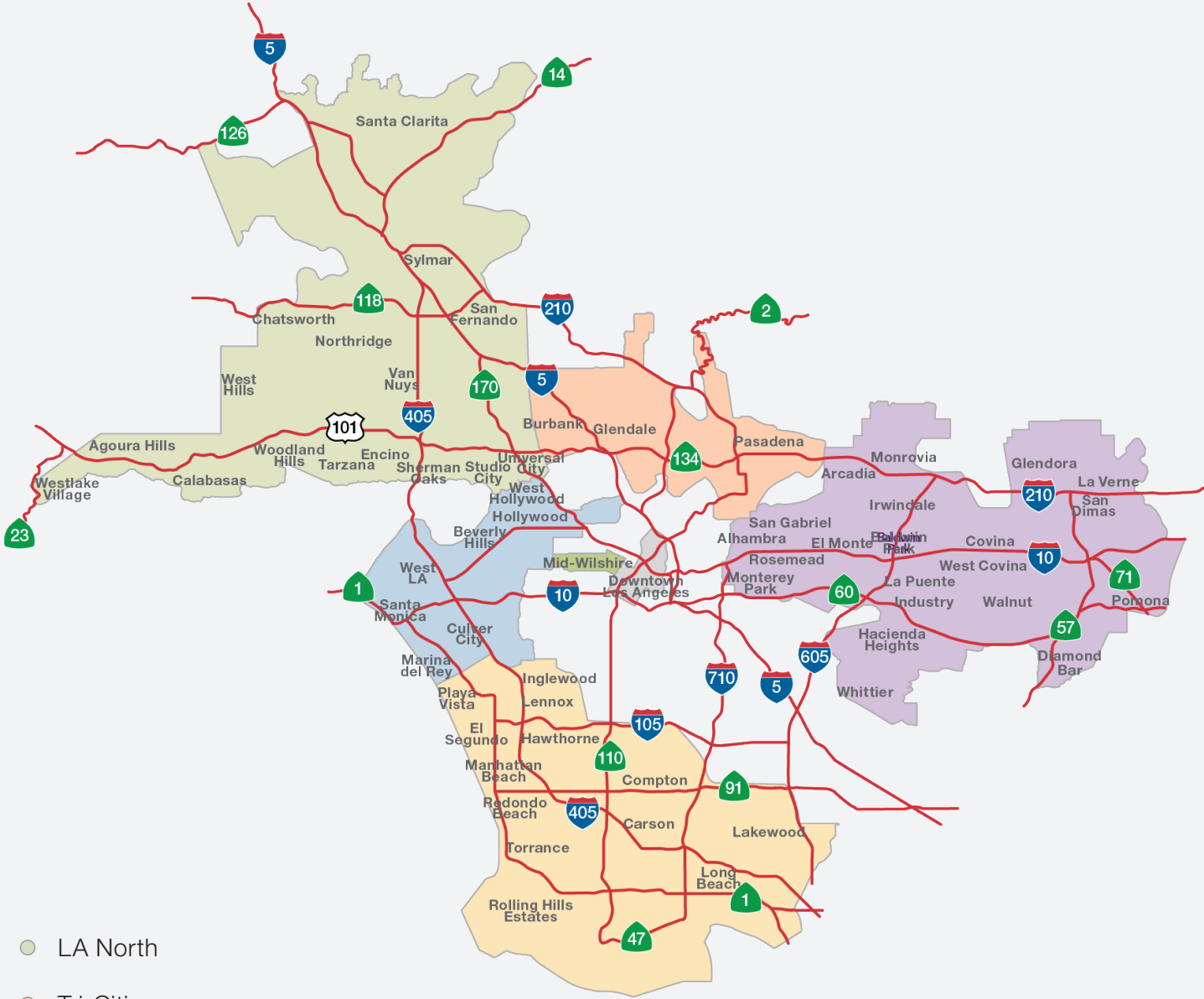
BUYER	ADDRESS	SUBMARKET	SALE PRICE \$/SF	SQUARE FEET
Kaplan Management Company	6100 Canoga Ave.	LA North	\$421	113,996
Gerrity Group	900 - 962 E. 11th St. & 390 N. Citrus Ave.	SGV	\$248	74,828
Agree Realty	2701 Cherry Ave.	South Bay	\$368	45,111
Hanhil Properties	17020 Chatsworth St.	LA North	\$195	43,017
Private Investor	14351 Hindry Ave.	South Bay	\$346	40,500

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COMMERCIAL REAL ESTATE SERVICES, WORLDWIDE



- LA North
- Tri-Cities
- San Gabriel Valley
- LA West
- Central
- Mid-Wilshire
- South Bay

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#### Property Management

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San Clemente, CA 92674  
949.874.0415

#### Los Angeles County

##### Downtown LA

707 Wilshire Blvd., Suite 5125  
Los Angeles, CA 90017  
213.632.7700

##### West Los Angeles

11835 Olympic Blvd., Ste. 700E  
Los Angeles, CA 90064  
310.440.8500

##### Torrance

970 W. 190th St., Ste. 100  
Torrance, CA 90502  
310.532.9080

##### Pasadena

225 S. Lake Ave., Ste. 1170  
Pasadena, CA 91101  
626.564.4800

##### Valencia

25060 Avenue Stanford, Ste. 165  
Valencia, CA 91355  
661.705.3550

##### Diamond Bar

21660 E. Copley Dr., Ste. 320  
Diamond Bar, CA 91765  
909.348.0600

#### Ventura County

##### Oxnard

300 Esplanade Dr., Ste. 1660  
Oxnard, CA 93036  
805.278.1400

##### Westlake Village

2555 Townsgate Rd., Ste. 320  
Westlake Village, CA 91361  
805.446.2400

#### Inland Empire

##### Ontario

800 N. Haven Dr., Ste. 400  
Ontario, CA 91764  
909.945.2339

##### Temecula

27720 Jefferson Ave., Ste. 330  
Temecula, CA 92590  
951.491.7590

##### Victorville

13911 Park Ave., Ste. 206  
Victorville, CA 92392  
760.780.4200

#### Orange County

##### Irvine

1920 Main St., Ste. 100  
Irvine, CA 92614  
949.854.6600

#### Coachella Valley

##### Palm Desert

75-410 Gerald Ford Dr., Ste. 200  
Palm Desert, CA 92211  
760.346.1566