

Los Angeles County

Retail Market Outlook Q2 2024

MARKET OVERVIEW

L.A. County's retail market recovery, four years post-pandemic, continues at a slow pace. In Q2 2024, the retail sector saw another uptick in the vacancy rate, rising 20 bps quarter-over-quarter and remaining flat year-over-year at 5.7%. Leasing volume increased by 3.3% quarter-over-quarter but remained 13.0% below last year's levels for the first half of 2024. At the same time, bankruptcies among major retail chains such as 99 Cents Only Stores and Rite Aid continue, with Big Lots also rumored to be at risk. Retail bankruptcies have become exceedingly common, compounded by revenue loss and further aggravated by higher supply chain and labor costs. California's fast-food minimum wage increase to \$20 an hour is the latest challenge. Since the wage mandate took effect in April, representing a 25% increase from the statewide \$16 an hour minimum, California fast-food franchises have been cutting worker hours. Rubio's Coastal Grill, citing rising business costs, abruptly shut down 48 restaurants in California. The move came two months after the state's \$20 an hour minimum wage took effect for fast-food employees.

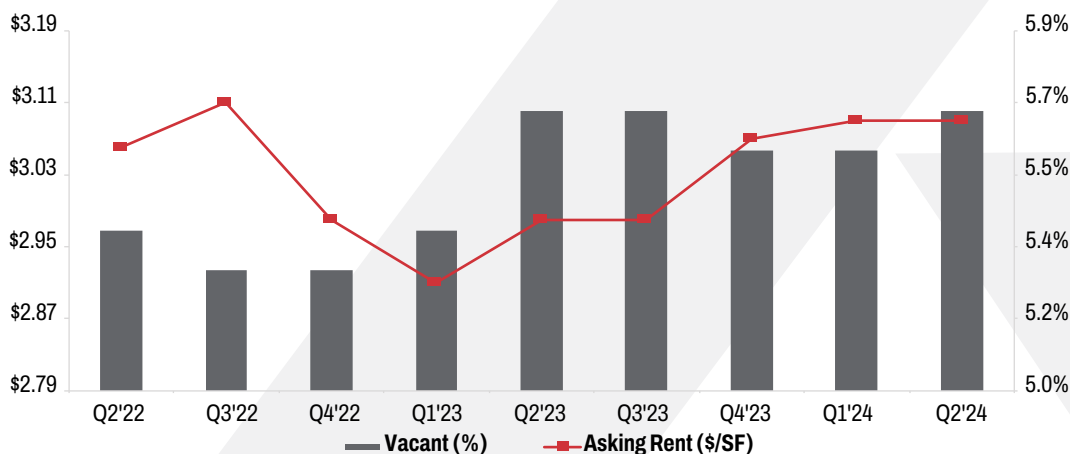
The tough economic climate and cost-of-living crisis have forced many retailers to shed space and announce closures, including several well-known food and retail brands. The total vacant space on the market, exceeding 18.9M square feet in the first half of 2024, represents an all-time high, highlighting the retail market's ongoing struggle to return to 'normal' vacancy levels. In 2024, the U.S. economy continues to face macroeconomic challenges, including elevated inflation, which has adversely impacted consumer buying power.

TRENDS TO WATCH

As the economy evolves, the demand for retail space is shifting. Despite challenges, investor interest, especially in prime locations, remains strong. The average sale price for retail space increased by 59.5% compared Q2 2023, while the average asking rent for direct space rose by 3.7% over the same period. Deal velocity indicates that bid and ask prices are stabilizing. While sale volume on a square footage basis decreased by 26.9% quarter-over-quarter, it improved by 8.4% compared to midyear Q2 2023. The backfilling of retail space vacated by bankrupt retailers is expected to help maintain occupancy levels. In June, Dollar Tree Inc. announced it acquired leases and assets from 99 Cents Only Stores.

This acquisition should help stabilize vacancy rates, though increasing occupancy will require organic growth, which may take time. Meanwhile, the grocery sector faces potential disruption from the impending Kroger and Albertsons merger, as the companies work to address federal concerns about creating a grocery monopoly. Kroger and Albertsons agreed to sell 579 locations of their respective supermarket chains. This deal is under review by the FTC to prevent issues similar to those encountered with the 2014 Albertsons-Safeway merger, which required Albertsons to divest stores in competitive areas. Most of these divested stores were acquired by Haggen, but Haggen declared bankruptcy within months, leading to store closures. The resulting vacancies took time to absorb as some sites were repurposed into hardware stores and gyms, while others were acquired by competing grocers. A decade later, both antitrust officials and investors are concerned that a similar scenario might unfold.

VACANCY RATE AND AVERAGE ASKING RENT



MARKET OUTLOOK

**Asking
Rental Rates**



**Sale
Prices**



**Availability
Vacancy Rates**



**Landlord
Concessions**



**Leasing/Sales
Volume**



**New
Construction**



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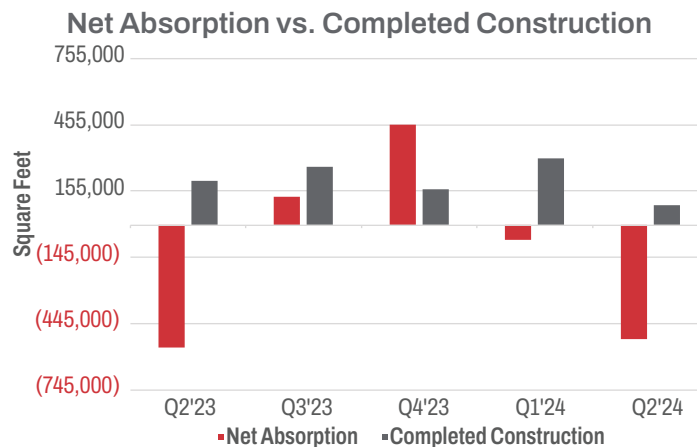
MARKET STATISTICS*

Submarket	Existing Total RBA (SF)	Under Construction (SF)	Total Available (%)	Total Vacancy (%)	Leasing Volume (SF)	YTD Leasing Volume (SF)	Sales Volume (SF)	YTD Sales Volume (SF)	Average Asking Rent (\$/SF NNN)	Average Sale Price (\$/SF)
Central	17,441,971	20,017	8.6%	8.0%	81,308	135,167	32,119	38,941	\$2.84	\$375
Mid-Wilshire	7,858,434	0	4.9%	4.9%	30,060	94,550	4,800	48,813	\$3.34	\$271
LA North	74,363,275	2,304	5.1%	5.0%	402,967	750,759	220,002	334,335	\$2.67	\$605
San Gabriel Valley	69,982,355	238,597	4.8%	4.7%	428,669	563,995	802,638	309,161	\$2.11	\$331
South Bay	64,056,781	802,095	6.4%	5.8%	237,176	450,748	318,502	1,039,179	\$2.73	\$474
Tri-Cities	29,760,814	0	4.8%	5.6%	172,812	288,184	68,824	143,586	\$3.16	\$501
LA West	54,192,081	193,400	9.5%	7.4%	375,648	688,543	249,037	441,354	\$4.74	\$659
Los Angeles County	317,655,711	1,256,413	6.2%	5.7%	1,728,640	2,971,946	1,695,922	2,355,369	\$3.09	\$531

*RBA includes retail buildings of all sizes. Rents reflect buildings of 5,000 square feet or greater.

LEASING TRENDS

Over the past five quarters, approximately 1 million square feet of new construction has been added to the market, highlighting shifts in supply and demand. However, net absorption during the same period was negative 550,100 square feet, indicating a significant disparity between the supply of newly constructed space and the pace of demand for retail space.

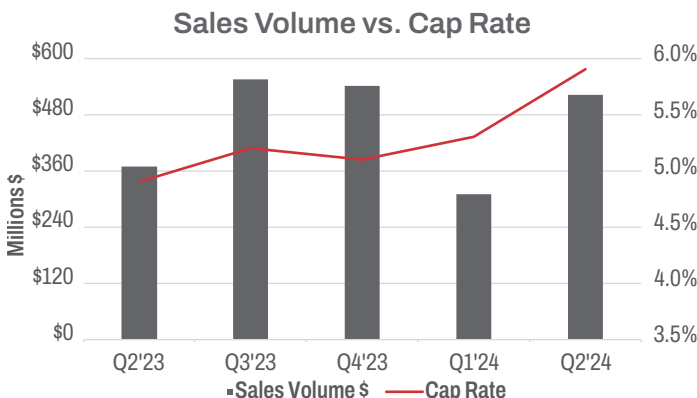


Select Lease Transactions

Address	City	Submarket	Square Feet
1345 N Montebello Blvd: Retail Community Center	Montebello	San Gabriel Valley	140,023
6005-6101 Rosemead Blvd:	Pico Rivera	San Gabriel Valley	36,009
5252 W Adams Blvd: Ground Floor Retail	Los Angeles	LA West	32,629
26573-26583: Community Center	Santa Clarita	LA North	30,624
6820 De Soto Ave: Neighborhood Center	Canoga Park	LA North	28,312

SALES TRENDS

Over the last five quarters, sales volume has fluctuated due to the impact of rising interest rates. In the first half of 2024, sales volume was approximately 24.0% lower than in the second half of 2023, totaling around \$833 million. Additionally, Q2 2024 saw the average cap rate on investment sales increase by 100 basis points from Q2 2023, reaching 5.9%.



Select Sales Transactions

Address	City	Submarket	Square Feet
19330-19350 Hawthorne Blvd: Neighborhood Center	Torrance	South Bay	104,906
1202 3rd Street Promenade: Lifestyle Retail Portfolio Sale	Santa Monica	LA West	74,202
Westlake Commons: 5 Retail Properties Sold	Westlake Village	LA North	69,692
200-290 E 4th St: Sold for Land Value	Long Beach	South Bay	68,742
2302 S Western Ave: Strip Center	San Pedro	South Bay	31,834