

Los Angeles County

Retail Market Outlook Q3 2023

MARKET OVERVIEW

In Q3 2023, LA County's retail market recovery continued, marking three years post-pandemic. With construction easing and vacancy slowing down, landlords are contending with a changing economy, leading to mixed demand for retail space. The initial pivot back to brick and mortar from retailers that vacated space during the pandemic shutdown is now more about economic survival, as bankruptcy has caused several popular chains to close their doors. Nevertheless, the pace at which retail space is being vacated slowed significantly up a mere 150,000 square feet quarter over quarter in contrast to 1.6 million square feet or 9.4 percent year over year. While the total amount of vacant space on the market at 18.2 million square feet this quarter is at an all-time high it appears to be reaching its peak. Still, the retail market has a way to go toward getting vacancy back to 'normal' levels. Since Q3 2020, as retail started to recover from the pandemic shutdown, there has been an increase in the vacancy of retail space by more than 1.9 million square feet.

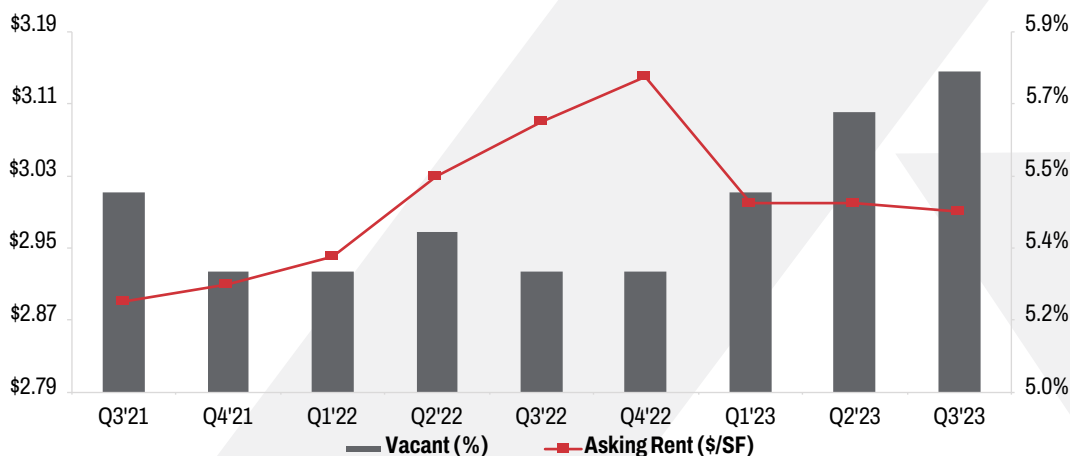
Slack demand has prompted landlords to soften their concessions, lowering asking rents, and investors are reducing prices to close deals. The average sale price for retail space, at \$276 per square foot, dropped by 17.2 percent from the prior quarter, while the average asking rent for direct space in the region decreased by 3.2 percent from Q3 2022. These declining prices have stimulated quarter-over-quarter increases in sales and leasing volume, with both experiencing a significant uptick of 119.5 percent and 11.7 percent, respectively.

TRENDS TO WATCH

Landlords with retail vacancies looking to improve occupancy are making concession adjustments as retailers continue to battle online threats, with Amazon being the usual suspect, and facing increased competition from direct-to-consumer e-commerce. While big chains like Walmart, Kroger, Costco, Walgreens, Target, and others maintain a strong presence in brick-and-mortar, they are not all immune to rising costs and stagnant revenue. Rite Aid, with 2,111 stores in 17 states and seven distribution centers, has filed for Chapter 11 bankruptcy protection. In its court filing, Rite Aid announced plans to "Reject Leases" at over 347 locations, 30 of them in Los Angeles County, to renegotiate more favorable terms from landlords in their reorganization. However, they plan to close 10 stores in Los Angeles County. Rite Aid's owned and leased stores range from 6,400 to 37,154 square feet, and this will have an impact on the retail market. Rivals CVS and Walgreens may view this as an opportunity to expand, and retailers will compete for the better sites, while some locations may sit vacant as landlords work to secure new retailers.

In September, the Census Bureau reported that national retail sales surpassed expectations, indicating robust consumer spending in stores, online platforms, and restaurants, which strengthens the retail sector. However, despite the outstanding economic growth in the third quarter, investors should prepare for a potentially slower fourth quarter due to the tightening financial conditions in the economy. Retail property investment sales dollar volume dropped by 42.4 percent year over year as the average cap rate increased by 160 bps to reach 5.9 percent.

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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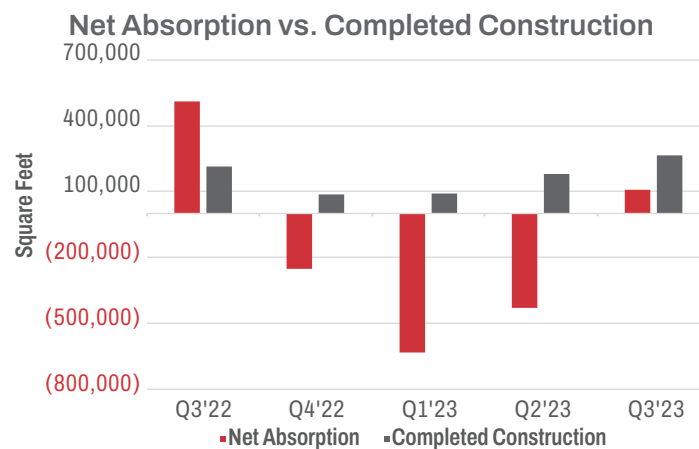
MARKET STATISTICS*

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	17,695,732	20,017	8.3%	7.4%	78,254	184,878	6,678	132,271	\$2.13	\$371
Mid-Wilshire	7,829,476	0	6.5%	5.8%	35,899	90,628	0	43,756	\$3.48	\$473
LA North	74,716,326	163,117	5.2%	5.1%	288,241	1,066,325	1,278,212	2,132,954	\$2.58	\$196
San Gabriel Valley	69,497,257	275,253	4.8%	4.6%	492,925	1,311,597	654,264	2,092,129	\$2.11	\$318
South Bay	63,832,862	439,342	6.3%	5.8%	270,017	911,507	163,234	805,336	\$2.57	\$328
Tri-Cities	29,123,419	5,847	5.5%	5.2%	136,795	429,999	91,548	500,705	\$3.05	\$530
LA West	53,956,545	243,837	8.9%	7.8%	366,493	1,010,163	236,748	678,477	\$4.86	\$525
Los Angeles County	316,651,617	1,147,413	6.2%	5.8%	1,668,624	5,005,097	2,430,684	6,385,628	\$2.99	\$276

*RBA includes industrial buildings of all sizes. Rents reflect buildings of at least 10,000 square feet.

LEASING TRENDS

In the third quarter, the retail market experienced a slight change in momentum in terms of net absorption. As the market introduced new construction, demand mostly remained below the newly added supply. Over the past five quarters, the market completed 841,766 square feet of retail space, while recording negative net absorption of 697,394 square feet.



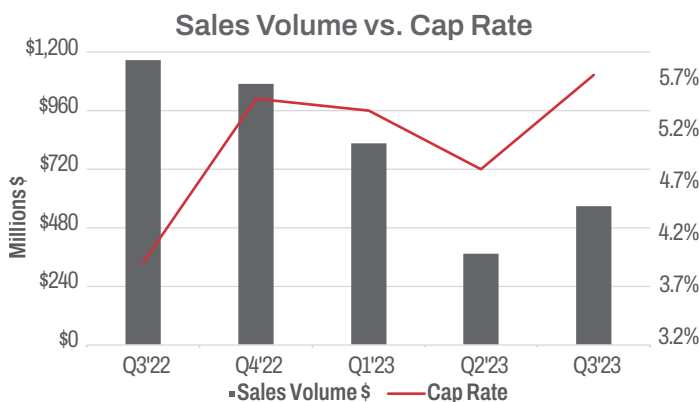
Select Lease Transactions

Address	City	Submarket	Square Feet
2207 W Commonwealth Ave: Costco*	Alhambra	San Gabriel Valley	157,019
3300 W Slauson Ave: Community Center	Los Angeles	LA West	46,333
710-770 S Sepulveda Blvd: Power Center	El Segundo	South Bay	44,950
1841 N Western Ave: Grocery Store	Los Angeles	Central	30,000
19500 Plummer St: Neighborhood Center	Long Beach	South Bay	30,000

*Renewal

SALES TRENDS

In Q3 2023, sales volume increased by 51.3 percent over Q2. However, when compared to last year, volume declined by 51.4 percent as users and investors sought opportunities in the market, considering the outlook in demand for brick-and-mortar retail. The average cap rate increased by 160 basis points last year, reaching 5.5 percent.



Select Sales Transactions

Address	City	Submarket	Square Feet
3846 Cardiff Ave: Portfolio of 2 Retail Properties Sold	Culver City	LA West	98,141
17320 Gale Ave: Greg Nissan Puente Hills	City Of Industry	San Gabriel Valley	76,109
1231-1233 3rd St Promenade	Santa Monica	LA West	30,660
8950 W Olympic Blvd - Beverly Hills Plaza	Beverly Hills	LA West	29,000
1294 E Colorado Blvd	Pasadena	Tri-Cities	26,669