

# Los Angeles County

## Retail Market Outlook Q2 2023

### MARKET OVERVIEW

In Q2, the changing economy caused a slowdown in L.A. County's retail market. Landlords with non-prime retail space experienced sluggish progress. The vacant space expanded by 746,932 square feet this quarter, adding to the existing 18.2 million square feet. Occupancy is over 3 million square feet lower than Q2 2020, marking the start of the pandemic shutdown and indicating a long journey for L.A.'s brick and mortar retail sector to reach pre-pandemic vacancy levels. The current vacancy rate stands at 5.8%, surpassing the rate during the Great Recession in Q2 2010.

Despite the increased vacancy, landlords have not significantly reduced rents. The average asking rent in the region remained almost unchanged, with a slight increase of 0.7% compared to the previous quarter and a mere 0.3% higher than the same period last year. Net absorption showed a negative value of 572,641 square feet quarter over quarter, resulting in a total negative absorption of 1.2 million square feet by mid-year, aligning with the rising vacancy. Additionally, available sublease space rose by 17.1% compared to the previous quarter due to excess capacity from existing retailers.

The retail real estate market faced the impact of high interest rates and tight credit, which weakened sales volume. The average sale price per square foot dropped by 13.2% year over year, and the sale volume based on square footage plummeted by 55%, totaling 4.4 million square feet year to date.

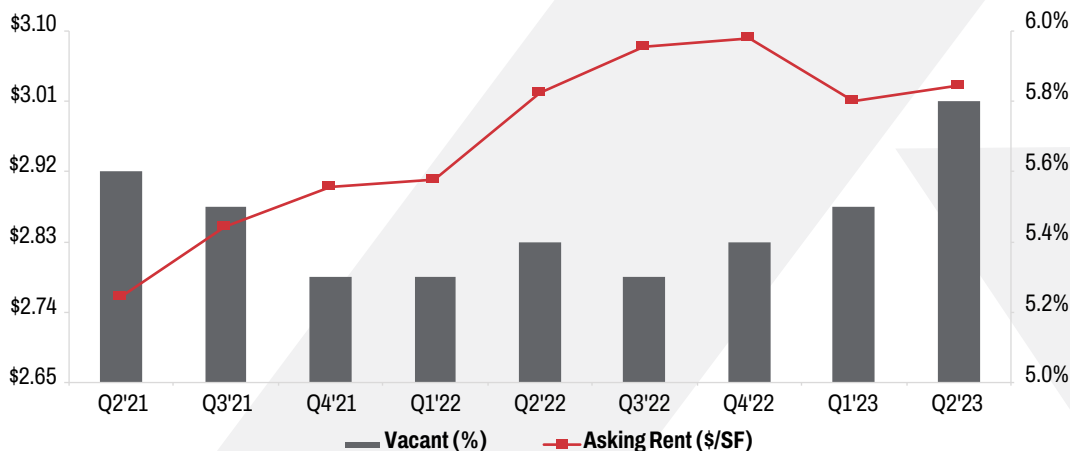
### TRENDS TO WATCH

Landlords and sublessors are actively making adjustments to their asking rent to improve cash flow and fill vacancies. In the region LA West currently has the highest amount of available retail space, totaling approximately 4.4 million square feet. To attract tenants, LA West has seen a quarter over quarter drop of 7.2% in asking rent for sublease space, now standing at \$4.50 per square foot triple net. Sublessors may need to bear additional costs to entice replacement tenants, and some may still face challenges in filling large, vacant spaces. However, many landlords have not significantly discounted their direct asking rents.

LA West, renowned for its prestigious retail market and commanding the highest average rent in L.A. County, experienced positive absorption of 68,705 square feet in Q2, resulting in a 10 basis point decrease in vacancy to 7.4%. Nevertheless, available sublease space in LA West increased by 6.6% quarter over quarter. Retailers seeking expansion will actively pursue well-located retail spaces offered for sublease.

In the largest retail market of the region, LA North, the average asking rent for direct space saw a minor increase of 1 cent, while available sublease space declined by 38.1% quarter over quarter. The competition between sublessors and landlords for tenants remains significant, especially for well-located spaces offered by retailers with existing leases looking to sublease. Sublessors and landlords will continue to aggressively compete in attracting tenants as the retail sector recovers. Tenants and investors will remain engaged in their search for opportunities as the retail market continues to evolve.

### VACANCY RATE AND AVERAGE ASKING RENT



### MARKET OUTLOOK

**Asking  
Rental Rates**



**Sale  
Prices**



**Availability  
Vacancy Rates**



**Landlord  
Concessions**



**Leasing/Sales  
Volume**



**New  
Construction**



**J.C. Casillas**  
Managing Director  
Research  
jcasillas@naicapital.com  
Direct: 818.933.2433

**NAI Capital Commercial  
Research**  
www.naicapital.com

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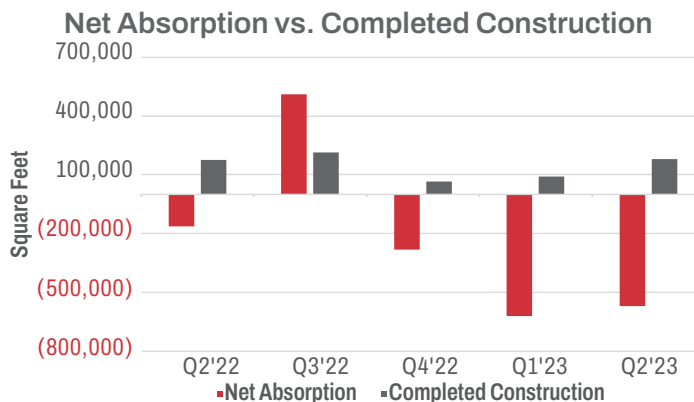
### MARKET STATISTICS\*

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	17,439,190	227,169	8.6%	7.8%	45,675	106,790	7,000	118,915	\$2.23	\$307
Mid-Wilshire	7,805,868	0	6.4%	5.8%	19,606	54,729	25,763	58,939	\$3.47	\$229
LA North	74,591,785	158,117	5.2%	5.3%	343,028	748,382	95,546	826,836	\$2.69	\$371
San Gabriel Valley	69,372,456	279,955	5.1%	4.7%	277,227	563,995	802,638	1,969,228	\$2.15	\$281
South Bay	63,641,810	460,587	6.4%	5.7%	251,292	585,490	195,721	627,387	\$2.59	\$471
Tri-Cities	29,106,644	8,430	5.8%	5.5%	112,278	284,188	59,514	400,594	\$2.87	\$563
LA West	53,799,847	249,757	8.6%	7.4%	263,341	593,839	60,086	438,920	\$4.88	\$879
<b>Los Angeles County</b>	<b>315,757,600</b>	<b>1,384,015</b>	<b>6.3%</b>	<b>5.8%</b>	<b>1,312,447</b>	<b>2,937,413</b>	<b>1,246,268</b>	<b>4,440,819</b>	<b>\$3.03</b>	<b>\$404</b>

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

### LEASING TRENDS

For the third consecutive quarter, the market recorded negative net absorption as demand decreased below the new supply that was added through construction. Over the past five quarters, a total of 731,772 square feet of retail space was added to the market, while 1,179,031 square feet was vacated.

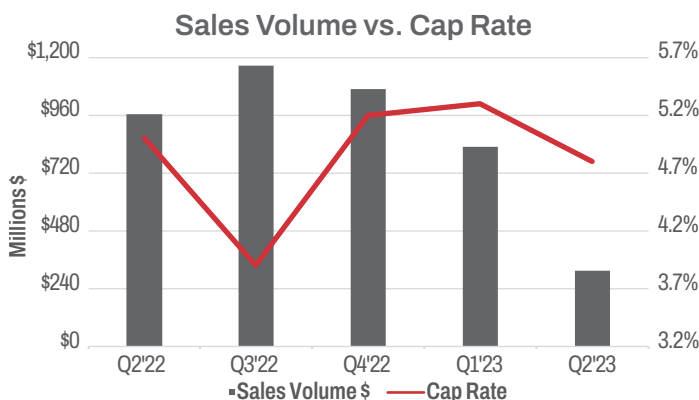


### Select Lease Transactions

Address	City	Submarket	Square Feet
35 N De Lacey Ave: Retail Storefront	Pasadena	Tri-Cities	38,000
4651 Silva St: Super Regional Mall	Lakewood	South Bay	33,244
2130 Pacific Coast Hwy: Supermarket Neighborhood Center	Lomita	South Bay	32,582
500-660 W Huntington Dr: Community Center	Monrovia	San Gabriel Valley	30,000
19500 Plummer St: Community Center	Northridge	LA North	24,053

### SALES TRENDS

In Q2 2023, investors made adjustments to adapt to a changing market environment characterized by rising interest rates, lackluster occupancy, and a decrease in price per square foot. Consequently, the sales volume experienced a significant decline of 62.2% compared to Q1 2023. The cap rate, also dropped by 50 basis points from Q1 2023 and 20 basis points from the previous year, reaching 4.8%. These figures highlight the prevailing conditions of low sales volume and low cap rates in the market.



### Select Sales Transactions

Address	City	Submarket	Square Feet
South Hills Plaza: 4 Retail Properties	West Covina	San Gabriel Valley	126,164
1060 W San Bernardino Rd: 3 Retail Properties	Covina	San Gabriel Valley	84,544
Mission Hills Plaza	Pomona	San Gabriel Valley	35,320
726 E Main St - Alhambra Nissan	Alhambra	San Gabriel Valley	34,527
Beverly Hills Plaza	Beverly Hills	LA West	29,000