

GREATER LOS ANGELES | RETAIL

Q4 2017

Accelerating success.

Greater Los Angeles Retail Ends 2017 With Positive Activity

Greater Los Angeles Retail Market

The Los Angeles Basin retail market closed the fourth quarter on a positive note as net absorption recorded 1.5 million square feet. A total of 766,600 square feet was delivered to the base with new construction completions. The Inland Empire market had the highest number of new construction deliveries, recording 439,700 square feet, with Los Angeles County following at 214,900 square feet and Orange County recording last at 112,000 square feet. All counties recorded positive absorption: Inland Empire (813,400 square feet), Los Angeles (479,000 square feet) and Orange County (396,800 square feet).

The vacancy rate for the Greater Los Angeles region decreased to 5.1%, down 30 basis points from last quarter. The vacancy rate a year ago stood at 5.7%. Los Angeles County recorded the lowest vacancy rate at 4.0%, a decrease of 20 basis points. Orange County followed, recording a vacancy of 4.3%, with no change from last quarter, while the Inland Empire recorded the highest vacancy rate at 7.9%, a decrease of 50 basis points.

The weighted average asking rental rate increased \$0.03 from the previous quarter to \$2.03 per square foot (PSF), triple net (NNN), per month. Asking rents were highest in Los Angeles County at \$2.64 PSF NNN and lowest in the Inland Empire at \$1.47 PSF NNN. Super regional malls in Los Angeles County remain the most expensive space at \$5.32 PSF NNN.

Annual national retail and food services sales for December 2017 increased by 5.4%. According to The Conference Board, consumer confidence declined in December after reaching a 17-year high in November 2017. The decline stems from a less optimistic future outlook for business and job prospects. However, consumer assessment of current conditions remain at historically strong levels, suggesting economic growth will continue well into 2018.

Market Indicators | Relative to prior period

	Q4 2017	Forecast
Vacancy	↓	→
Net Absorption	↑	→
Construction	→	→
Rental Rate	↑	↑
Unemployment: LA 4.1%	↓	→
OC 2.8%	↓	→
IE 4.1%	↓	→

Summary Statistics | Greater Los Angeles, Q4 2017

	GLA Retail Market
Vacancy Rate	5.1%
Change from Q2 '17 (Basis Points)	-30 BPS
Net Absorption	1.5M SF
Construction Completions	766,600 SF
Under Construction	2.9M SF

Asking Rents | Greater Los Angeles, Q4 2017

	GLA Retail Market
Average Asking Rent (\$/NNN)	\$2.03 PSF
Change from Q3 '17 (\$)	\$0.03
Y.O.Y. Change (%)	4.6%

Labor Force | Greater Los Angeles, November 2017

	Wholesale Trade	Retail Trade	Leisure & Hospitality
12-mo Employment Growth (%)	0.6%	-0.3%	2.5%
12-mo Actual Employment Change	2,400	-2,500	22,200

Los Angeles County

The Los Angeles County retail market saw positive movement, recording 479,000 square feet of absorption. Year-to-date absorption totaled 986,100 square feet. Due to positive activity, vacancy decreased by 20 basis points to 4.0%. Asking rental rates recorded at \$2.62 PSF NNN. The average asking rental rate was highest in the super regional and super regional product type at \$5.32 PSF NNN.

Currently, a total of 1,318,400 square feet of retail space is under construction in Los Angeles County. The largest project under construction is 5601 Santa Monica Boulevard in Hollywood, consisting of 258,900 square feet. The project is expected to be completed by early 2019. A notable lease transaction in the Los Angeles County market was Planet Fitness leasing 20,000 square feet at 515 W. Arrow Highway in San Dimas.

Orange County

Orange County absorption recorded positive movement at 185,100 square feet. Total vacancy remained unchanged from last quarter at 4.3%. Demand for retail space in Orange County is expected to remain positive as new multifamily product continues to deliver in the market. The overall average asking rental rate increased in comparison from last quarter, increasing \$0.03 to \$2.21 PSF NNN.

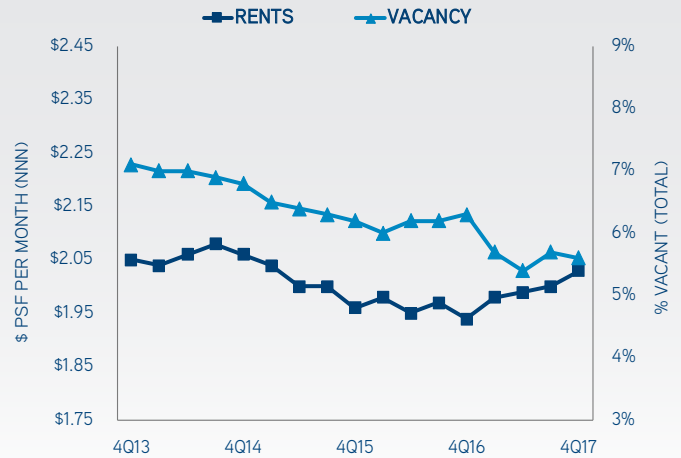
Approximately 483,200 square feet of retail space is under construction in Orange County. The Laguna Hills Mall, which consist of 170,000 square feet, is the largest property currently being built and is expected to be completed by the third quarter of 2018.

Inland Empire

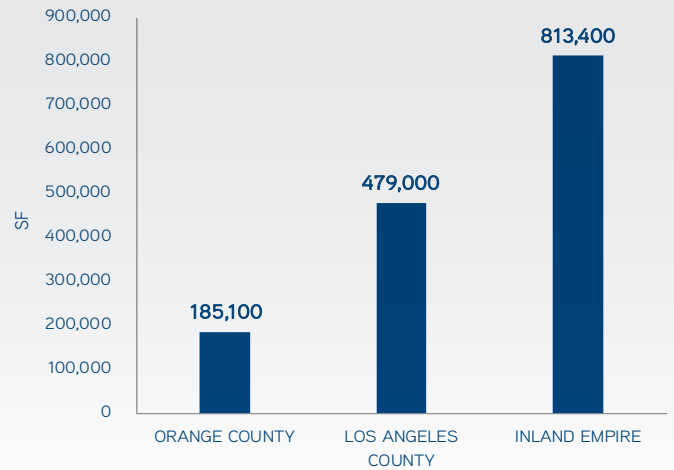
The Inland Empire retail market witnessed a decrease in vacancy by 50 basis points during the fourth quarter to 7.9%. Overall net absorption recorded positive at 813,400 square feet for the quarter. Much of this movement stemmed from new retail product delivering to the market. Average asking rents increased \$0.01 PSF NNN from last quarter to end the fourth quarter at \$1.47.

Currently 1.1 million square feet of new retail inventory is under construction in the Inland Empire. The largest project currently under construction is the 260,765-square-foot Renaissance Marketplace located in Rialto. The regional mall is expected to be completed by mid-2018. A notable lease transaction in the Inland Empire market was Burlington Coat Factory leasing 40,000 square feet at 121 E. Foothill Boulevard in Upland.

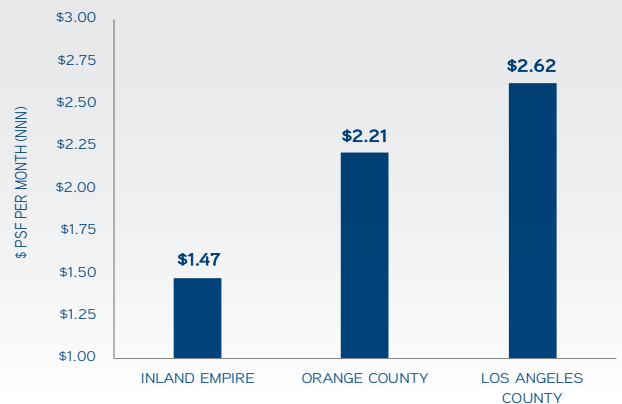
Historical Vacancy v. Rents | GLA Retail Market Q4 '13-'17



Net Absorption by Market | GLA Retail Market Q4 2017



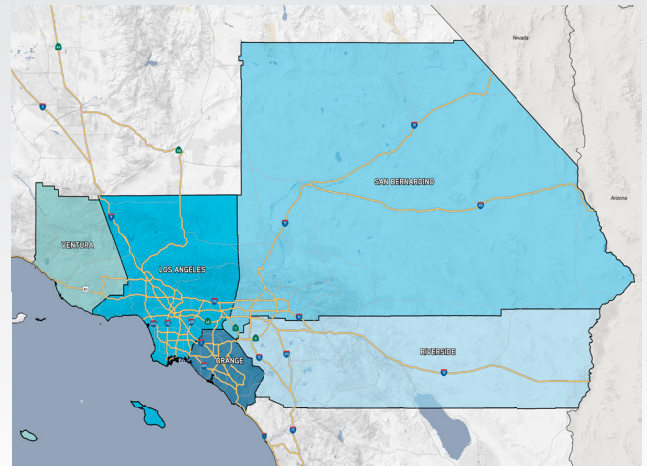
Weighted Average Asking Lease Rates by Market | GLA Retail Market Q4 2017



Market Description

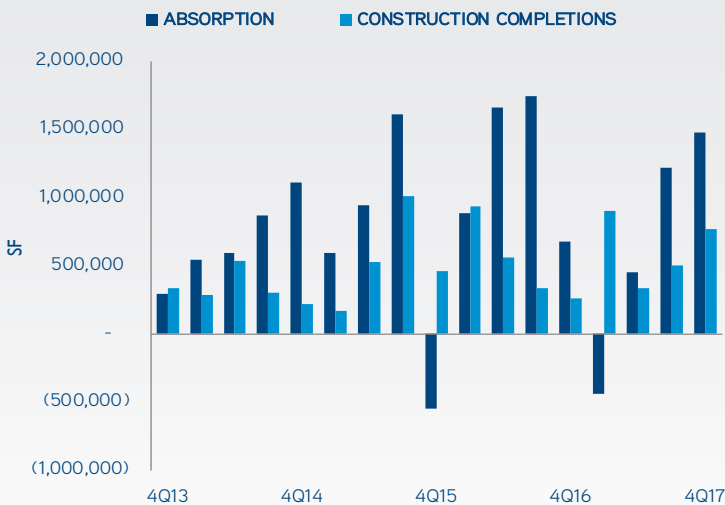
The Greater Los Angeles retail market is comprised of 474 million square feet of multi-tenant shopping centers and single-tenant properties. Community/neighborhood centers represent the majority of space (38%) among the different property types. The market attracts both affordable retailers and high-end stores due to a population that demands a wide variety of product. High median income households and strong population growth contribute to make this region attractive to retailers.

Submarket Map



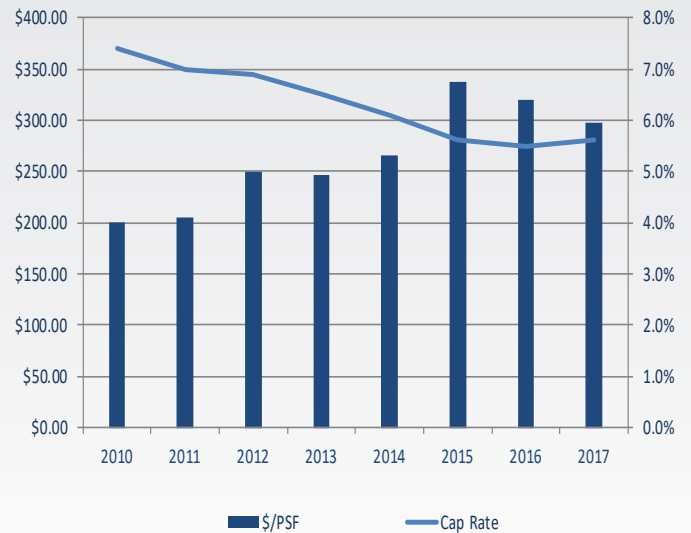
Historical Net Absorption & Construction Completions

GLA Retail Market Q4 '13-'17



Investment Trends

GLA Retail Market 2010-2017



RETAIL OVERVIEW

GLA Retail Market
Q4 2017

EXISTING PROPERTIES		VACANCY		ABSORPTION		CONSTRUCTION		RENTS
Market/ Property Type	Total Inventory SF	Total Vacancy	Total Vacancy Prior Qtr	Net Absorption Current Qtr SF	Net Absorption YTD SF	Completions Current Qtr SF	Under Construction SF	Weighted Avg Asking Lease Rates
LOS ANGELES COUNTY								
SUPER REGIONAL/REGIONAL MALLS	27,614,100	3.8%	2.6%	(328,300)	(112,500)	0	125,000	\$5.32
POWER CENTERS	14,342,000	6.1%	6.5%	59,500	80,000	6,500	0	\$2.15
LIFESTYLE/THEME-FESTIVAL CENTERS	6,284,400	3.1%	3.4%	16,900	2,900	0	446,200	\$3.92
COMMUNITY/NEIGHBORHOOD CENTERS	81,031,500	5.7%	6.0%	343,000	261,100	149,400	592,300	\$2.16
STRIP CENTERS	31,295,900	4.7%	5.1%	117,900	14,700	0	139,700	\$2.28
SINGLE TENANT BLDGS.	77,319,600	1.5%	1.8%	270,000	739,900	59,000	15,200	\$2.64
SUBTOTAL	237,887,500	4.0%	4.2%	479,000	986,100	214,900	1,318,400	\$2.62
ORANGE COUNTY								
SUPER REGIONAL/REGIONAL MALLS	10,592,800	0.7%	0.7%	1,900	25,800	0	170,000	\$2.92
POWER CENTERS	7,945,600	3.8%	3.5%	(19,600)	(18,900)	0	0	\$2.28
LIFESTYLE/THEME-FESTIVAL CENTERS	3,006,200	12.6%	13.7%	32,200	316,500	0	35,000	\$2.26
COMMUNITY/NEIGHBORHOOD CENTERS	46,301,100	5.4%	5.8%	287,500	224,000	112,000	272,200	\$2.26
STRIP CENTERS	10,447,300	5.1%	5.1%	0	(69,900)	0	0	\$2.18
SINGLE TENANT BLDGS.	23,775,500	2.3%	1.8%	(116,900)	(80,700)	0	6,000	\$1.85
SUBTOTAL	102,068,500	4.3%	4.3%	185,100	396,800	112,000	483,200	\$2.21
INLAND EMPIRE								
SUPER REGIONAL/REGIONAL MALLS	11,220,900	7.2%	7.0%	(13,700)	(41,800)	0	349,000	\$2.12
POWER CENTERS	11,466,900	9.4%	9.7%	33,500	148,000	0	0	\$1.63
LIFESTYLE/THEME-FESTIVAL CENTERS	2,151,900	8.3%	8.3%	100	(45,700)	0	40,000	\$2.30
COMMUNITY/NEIGHBORHOOD CENTERS	54,184,200	12.1%	11.8%	(35,900)	241,100	111,400	674,400	\$1.37
STRIP CENTERS	12,666,100	9.1%	9.1%	7,600	31,800	3,500	116,200	\$1.41
SINGLE TENANT BLDGS.	42,029,900	3.6%	4.1%	237,200	171,700	20,300	43,700	\$1.31
SUBTOTAL	133,719,900	8.4%	8.5%	228,800	505,100	135,200	1,223,300	\$1.46
LA BASIN TOTAL								
SUPER REGIONAL/REGIONAL MALLS	49,427,800	3.9%	3.2%	(320,700)	(122,800)	0	644,000	\$3.89
POWER CENTERS	33,887,700	6.5%	6.8%	109,200	278,400	6,500	0	\$1.93
LIFESTYLE/THEME-FESTIVAL CENTERS	11,650,100	6.4%	7.0%	146,700	371,300	90,000	481,200	\$2.70
COMMUNITY/NEIGHBORHOOD CENTERS	181,836,200	7.3%	7.8%	1,062,200	1,157,900	502,300	1,426,500	\$1.83
STRIP CENTERS	54,409,300	5.7%	6.1%	191,300	50,000	26,300	239,700	\$1.96
SINGLE TENANT BLDGS.	143,125,000	2.2%	2.5%	288,800	966,600	141,500	94,000	\$1.88
TOTAL	474,287,323	5.1%	5.4%	1,477,500	2,701,400	766,600	2,885,400	\$2.03

Definitions of key terms in this report

Anchor Tenant:

A large national or regional retailer that serves as a primary draw for a shopping center.

Capitalization (Cap) Rate:

A calculation that shows the relationship between one year's net operating income and the current market value of a property. Is calculated by dividing the annual net operating income by the sales price.

Community Center:

Typically has a total square footage between 100,000 - 350,000 square feet. Often will have 2-3 large anchored tenants, which include supermarkets and drugstores. Other tenants may include retailers that sell items such as apparel, home improvement/furnishings, toys, electronics, or sporting goods.

Direct Vacancy:

Space in existing buildings that is vacant and immediately available during the quarter for direct lease, plus space that is vacant but not available for direct lease or sublease (for example, that is being held for a future commitment).

Lifestyle Center:

An upscale specialty store shopping center that has a total square footage between 150,000 - 500,000 square feet. The center usually has an outdoor setting with dining and entertainment.

Neighborhood Center:

Focuses on retailers that sell convenience items and personal services. The center will often have a supermarket as an anchor tenant. The size range is 30,000 - 300,000 square feet.

Power Center:

The center often consists of several freestanding anchors with a minimum number of small tenants. The size of the property is typically between 250,000 - 600,000 square feet. The anchor tenants are usually discount department stores, off-price stores, and warehouse clubs.

Regional/SuperRegional Mall:

Provides shopping goods, general merchandise, apparel, and furniture. Often consists of multiple department stores. Regional Malls usually are between 400,000 - 800,000 square feet, and Super Regional Malls typically are greater than 800,000 square feet.

Theme/Festival Center:

Predominantly has a unifying theme based on tenants and architectural design. Focuses on restaurants and entertainment while appealing to tourists. The size range is 80,000 - 250,000 square feet.

Single Tenant Free Standing Building:

Retail building occupied by only one tenant.

Space Added (Net):

Total square feet added during the quarter via construction completions, including renovated space returned to market, less total square feet taken off-market due to demolitions or conversions.

Strip Center:

An attached row of stores or service outlets while usually being less than 30,000 square feet.

Under Construction:

Includes buildings that are in some phase of construction, beginning with foundation work and ending with the issuance of a Certificate of Occupancy.

Weighted Average Asking Rental Rates:

Weighted by the total square feet available for direct lease. Data is based on triple net rents, which excludes costs associated with taxes, insurance, maintenance, janitorial service and utilities. Reported on a monthly, per square foot basis.

Technical Note:

Colliers International is continuously refining its database. The data shown in the historical tables and graphics in this report have been adjusted to take into account these changes in the database.

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