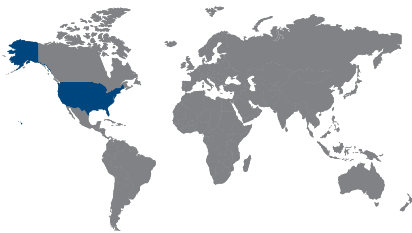


# LOS ANGELES BASIN MARKET REPORT



## Market Retreats Amid Store Closures

### EXECUTIVE SUMMARY

Market fundamentals of the Los Angeles Basin retail market took a step back during the second quarter of the year. During Q2, the market recorded net absorption of -543,900 SF. Los Angeles County, Orange County, and the Inland Empire recorded negative net absorption. Community/neighborhood centers experienced the sharpest decline in net absorption with an amount of -442,200 SF, while power centers saw the greatest increase of net absorption with a positive figure of 82,500 SF. The vacancy rate for the region increased 20 basis points to 7.5%. The weighted average asking lease rate increased \$0.01 from the previous quarter to \$1.93 PSF per month, NNN.<sup>1</sup>

### LOS ANGELES COUNTY

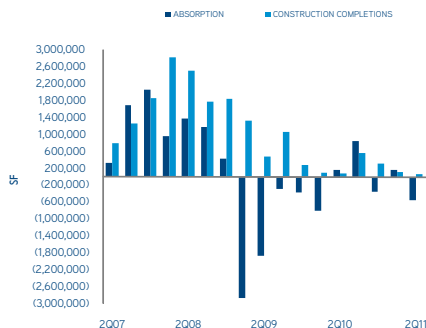
Over the last 12 months, the unemployment rate for Los Angeles County declined to 12.1% in May 2011, down from 12.4% one year ago which equates to a gain of 23,500 jobs (0.6%). During Q2, Los Angeles County recorded net absorption of -44,500 SF. Four of the six different property types witnessed negative net absorption, of which strip centers recorded the largest amount of space givebacks with a figure of -73,200 SF, while single tenant buildings came in at the other end of the spectrum with a positive net absorption amount of 151,200 SF. During Q2, Los Angeles County reported several significant leases. The largest deals included dd's Discount leasing 23,600 SF

### MARKET INDICATORS

	Q2 2011	Q3 2011 (p)
VACANCY	↓	→
NET ABSORPTION	↓	→
CONSTRUCTION	→	→
RENTAL RATE	↑	→

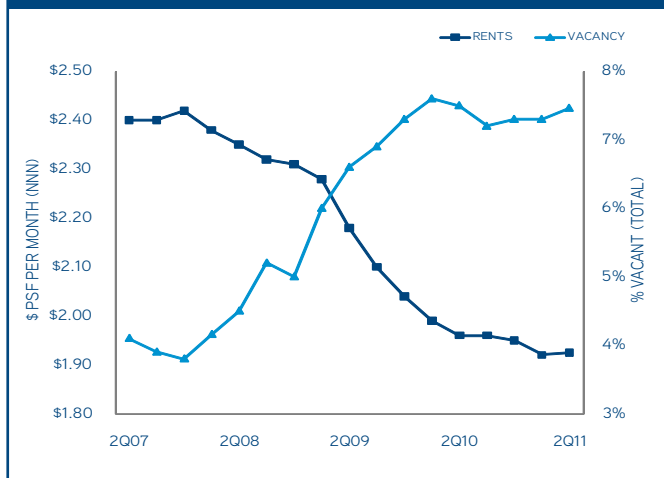
### HISTORICAL NET ABSORPTION & CONSTRUCTION COMPLETIONS

Q2 2007 - Q2 2011



### HISTORICAL VACANCY VS RENTS

Los Angeles Basin Retail Market  
Q2 2007 - Q2 2011



### MARKET TRENDS

- Total vacancy rate at 7.5%
- Net absorption at negative -543,900 SF
- Weighted average asking rents at \$1.93 PSF NNN

<sup>1</sup>Colliers International continuously refines its database. As a result, data reflected in this report may not be consistent with data reported in previous quarters.



**LOS ANGELES BASIN DEMOGRAPHICS**

- > POPULATION:  
18,095,500 (2011 Estimate)  
19,167,700 (2016 Projection)  
5.9% (Growth 2011-2016)
- > HOUSEHOLD INCOME:  
\$77,900 (Average)  
\$56,800 (Median)
- > JOB GROWTH:  
-0.7% (past 12 months)
- > UNEMPLOYMENT RATE:  
11.4% (as of May 2011)

at the Park Plaza Shopping Center at 6001-6105 Rosemead Boulevard in Pico Rivera and PETCO renewing their space for 13,600 SF at 5215 Lakewood Boulevard in Lakewood. With regards to sales activity, the most significant transaction occurred when MSPN, LLC purchased the 37,800 SF multi-tenant property, (part of the Chatsworth Street Plaza), located at 17020 Chatsworth Street in Granada Hills, for \$11.7 million (\$311 PSF). New construction completions totaled 49,400 SF. There is currently 445,100 SF under construction.

Total vacancy for Los Angeles County came in at 5.7%, for an uptick of 10 basis points from the 5.6% rate of the previous quarter. Strip centers recorded the highest vacancy rate (8.5%), while super regional/regional malls were the lowest at 3.0%.

For Q2, the weighted average asking lease rate was \$2.27 PSF which represented no change from the previous quarter. Super regional/regional malls had the highest average asking lease rate with a figure of \$3.15 PSF, while strip centers accounted for the lowest at \$1.65 PSF. Despite the setbacks that occurred during Q2, Los Angeles remains one of the most attractive retail markets for both retailers and property investors.

**ORANGE COUNTY**

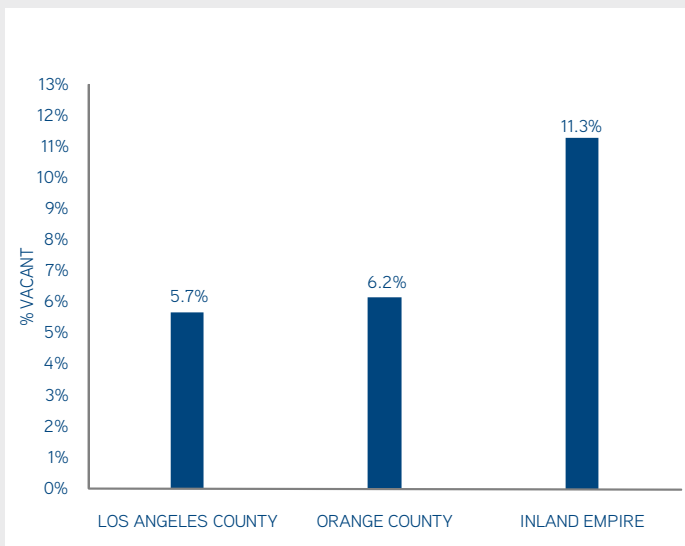
Unemployment figures remain stagnant for Orange County. Over the last 12 months, Orange County has gained 1,900 jobs (0.1%), which caused the current unemployment rate to decrease to 8.5% from the 9.2% figure reported one year ago.<sup>2</sup>

For Q2, Orange County's net absorption was -188,500 SF. Community/neighborhood centers recorded the largest drop of net absorption with a figure of -251,800 SF. Power centers witnessed the greatest amount of positive net absorption of 122,800 SF. During Q2, Orange County experienced several large leases. The most significant leases involved Walmart signing for 118,300 SF at Von Karman Plaza (16555 Von Karman Avenue) in Irvine and Super Irvine Grocery leasing 108,400 SF at 2505 El Camino Real in Tustin. The largest sale of the quarter occurred when the Altemus Company acquired the 30,500 SF Smart & Final single tenant property located at 7050 Katella Avenue in Stanton for \$8,125,000 (\$267 PSF). New construction completions totaled 10,100 SF, while no new developments are currently under construction.

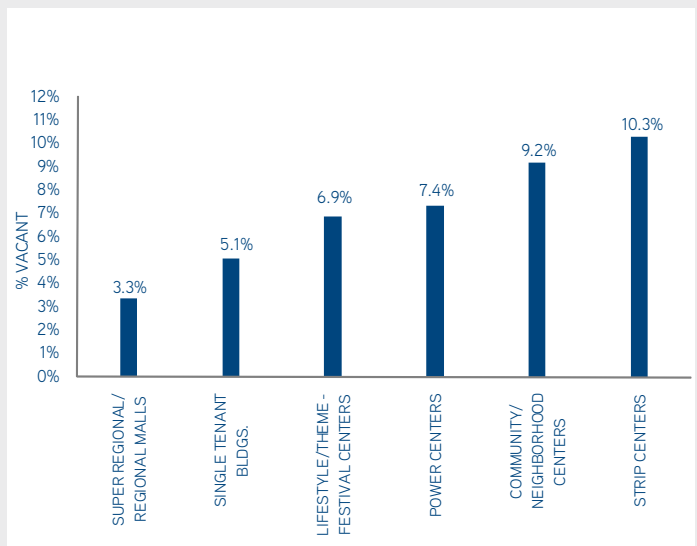
The total vacancy rate for Orange County increased to 6.2%, up 30 basis points from the

<sup>2</sup>Source: California Employment Development Department, May 2011.

**VACANCY BY MARKET**  
Los Angeles Basin Retail Market  
Q2 2011



**VACANCY BY PROPERTY TYPE**  
Los Angeles Basin Retail Market  
Q2 2011



**RETAIL OVERVIEW**

 Los Angeles Basin Retail Market  
 Q2 2011

EXISTING PROPERTIES		VACANCY		ACTIVITY		CONSTRUCTION		RENTS	SALES
Market/ Property Type	Total Inventory SF	Total <sup>1</sup> Vacancy Rate	Total <sup>1</sup> Vacancy Rate Prior Qtr	Net <sup>2</sup> Absorption Current Qtr SF	Net <sup>2</sup> Absorption YTD SF	Completions <sup>3</sup> Current Qtr SF	Under Construction/ Renovation SF	Weighted <sup>4</sup> Avg Asking Lease Rates PSF/Month	Average <sup>5</sup> Sales Price PSF
<b>LOS ANGELES COUNTY</b>									
SUPER REGIONAL/REGIONAL MALLS	26,234,600	3.0%	2.7%	(70,600)	(35,700)	0	0	\$3.15	\$123
POWER CENTERS	16,175,700	6.0%	5.9%	(3,800)	66,700	0	0	\$2.74	-
LIFESTYLE/THEME-FESTIVAL CENTERS	4,607,500	5.1%	5.1%	2,000	49,100	0	0	\$2.86	\$266
COMMUNITY/NEIGHBORHOOD CENTERS	77,346,300	7.0%	7.0%	(50,100)	(29,700)	0	164,500	\$2.36	\$265
STRIP CENTERS	26,221,900	8.5%	8.1%	(73,200)	(92,000)	18,300	51,900	\$1.65	\$247
SINGLE TENANT BLDGS.	45,918,100	3.3%	3.6%	151,200	279,000	31,100	228,700	\$2.02	\$517
<b>Subtotal</b>	<b>196,504,100</b>	<b>5.7%</b>	<b>5.6%</b>	<b>(44,500)</b>	<b>237,400</b>	<b>49,400</b>	<b>445,100</b>	<b>\$2.27</b>	<b>\$284</b>
<b>ORANGE COUNTY</b>									
SUPER REGIONAL/REGIONAL MALLS	13,172,000	2.5%	2.5%	(6,200)	700	0	0	\$3.20	-
POWER CENTERS	6,765,800	5.4%	7.2%	122,800	110,300	0	0	\$2.77	-
LIFESTYLE/THEME-FESTIVAL CENTERS	3,331,000	7.6%	9.6%	63,900	61,700	0	0	\$2.80	-
COMMUNITY/NEIGHBORHOOD CENTERS	44,442,100	7.1%	6.5%	(251,800)	(71,400)	0	0	\$2.34	\$170
STRIP CENTERS	8,125,100	9.2%	8.0%	(90,100)	(66,600)	6,600	0	\$1.60	\$184
SINGLE TENANT BLDGS.	13,427,200	4.9%	4.6%	(27,100)	20,300	3,500	0	\$1.98	\$489
<b>Subtotal</b>	<b>89,263,200</b>	<b>6.2%</b>	<b>5.9%</b>	<b>(188,500)</b>	<b>55,000</b>	<b>10,100</b>	<b>0</b>	<b>\$2.30</b>	<b>\$281</b>
<b>INLAND EMPIRE</b>									
SUPER REGIONAL/REGIONAL MALLS	12,094,700	5.0%	3.9%	(128,600)	(133,500)	0	0	\$2.08	-
POWER CENTERS	12,305,500	10.3%	10.0%	(36,500)	49,300	0	98,200	\$1.80	\$74
LIFESTYLE/THEME-FESTIVAL CENTERS	1,852,900	10.0%	8.5%	(26,900)	(4,600)	0	6,500	\$1.75	\$250
COMMUNITY/NEIGHBORHOOD CENTERS	55,406,700	13.9%	13.6%	(140,300)	(268,500)	10,300	42,000	\$1.48	\$174
STRIP CENTERS	10,800,500	15.6%	16.3%	79,300	(73,100)	0	22,500	\$1.24	\$135
SINGLE TENANT BLDGS.	29,027,100	7.9%	7.7%	(57,900)	(235,200)	1,800	16,900	\$1.38	\$416
<b>Subtotal</b>	<b>121,487,400</b>	<b>11.3%</b>	<b>11.1%</b>	<b>(310,900)</b>	<b>(665,600)</b>	<b>12,100</b>	<b>186,100</b>	<b>\$1.49</b>	<b>\$210</b>
<b>AREA TOTAL</b>									
SUPER REGIONAL/REGIONAL MALLS	<b>51,501,300</b>	<b>3.3%</b>	<b>2.9%</b>	<b>(205,400)</b>	<b>(168,500)</b>	<b>0</b>	<b>0</b>	<b>\$2.78</b>	<b>-</b>
POWER CENTERS	<b>35,247,000</b>	<b>7.4%</b>	<b>7.6%</b>	<b>82,500</b>	<b>226,300</b>	<b>0</b>	<b>98,200</b>	<b>\$2.29</b>	<b>-</b>
LIFESTYLE/THEME-FESTIVAL CENTERS	<b>9,791,400</b>	<b>6.9%</b>	<b>7.3%</b>	<b>39,000</b>	<b>106,200</b>	<b>0</b>	<b>6,500</b>	<b>\$2.53</b>	<b>\$250</b>
COMMUNITY/NEIGHBORHOOD CENTERS	<b>177,195,100</b>	<b>9.2%</b>	<b>8.9%</b>	<b>(442,200)</b>	<b>(369,600)</b>	<b>10,300</b>	<b>206,500</b>	<b>\$1.94</b>	<b>\$203</b>
STRIP CENTERS	<b>45,147,500</b>	<b>10.3%</b>	<b>10.0%</b>	<b>(84,000)</b>	<b>(231,700)</b>	<b>24,900</b>	<b>74,400</b>	<b>\$1.49</b>	<b>\$189</b>
SINGLE TENANT BLDGS.	<b>88,372,400</b>	<b>5.1%</b>	<b>5.1%</b>	<b>66,200</b>	<b>64,100</b>	<b>36,400</b>	<b>245,600</b>	<b>\$1.69</b>	<b>\$474</b>
<b>TOTAL</b>	<b>407,254,700</b>	<b>7.5%</b>	<b>7.3%</b>	<b>(543,900)</b>	<b>(373,200)</b>	<b>71,600</b>	<b>631,200</b>	<b>\$1.93</b>	<b>\$279</b>
<b>QUARTERLY COMPARISON AND TOTALS</b>									
<b>Q2 2011</b>	<b>407,254,700</b>	<b>7.5%</b>	<b>7.3%</b>	<b>(543,900)</b>	<b>(373,200)</b>	<b>71,600</b>	<b>631,200</b>	<b>\$1.93</b>	<b>\$279</b>
<b>Q1 2011</b>	<b>407,183,100</b>	<b>7.3%</b>	<b>7.3%</b>	<b>170,700</b>	<b>170,700</b>	<b>123,300</b>	<b>424,500</b>	<b>\$1.92</b>	<b>\$296</b>
<b>Q4 2010</b>	<b>407,059,800</b>	<b>7.3%</b>	<b>7.2%</b>	<b>(343,700)</b>	<b>(124,400)</b>	<b>310,000</b>	<b>303,100</b>	<b>\$1.95</b>	<b>\$266</b>
<b>Q3 2010</b>	<b>406,749,800</b>	<b>7.2%</b>	<b>7.5%</b>	<b>848,500</b>	<b>219,300</b>	<b>566,000</b>	<b>305,400</b>	<b>\$1.96</b>	<b>\$279</b>
<b>Q2 2010</b>	<b>406,183,800</b>	<b>7.5%</b>	<b>7.6%</b>	<b>163,600</b>	<b>(629,200)</b>	<b>86,300</b>	<b>226,600</b>	<b>\$1.96</b>	<b>\$288</b>

<sup>1</sup>Existing space that is vacant and immediately available for direct lease or for purchase. <sup>2</sup>Includes return to market of renovated space, less space taken off market or demolished. <sup>3</sup>Includes return to market of renovated space, less space taken off market or demolished. <sup>4</sup>Weighted by vacant direct lease SF. Triple Net (NNN). <sup>5</sup>Straight average based on actual sales transactions. Per SF. Significant revisions to building inventory were made effective Q1 2011, historical data reported here reflects these revisions and therefore does not match reported in previous quarters.



> Los Angeles remains one of the most attractive retail markets for both retailers and property investors

> The Orange County retail market continues to offer some of the highest barriers for entry in the nation for investors

5.9% reported the previous quarter. Strip centers accounted for the highest vacancy rate (9.2%), while super regional/regional malls recorded the lowest at 2.5%.

For Q2, the weighted average asking lease rate was \$2.30 PSF NNN, down \$0.02 from the \$2.32 PSF reported the previous quarter. Super regional/regional malls recorded the highest average asking lease rate at \$3.20 PSF, while strip centers had the lowest at \$1.60 PSF. The Orange County retail market continues to offer some of the highest barriers for entry in the nation for investors looking to purchase retail investment properties. Potential buyers are attracted to the high return on investments, while sellers are able to maximize the strong interest of their properties into lower cap rates.

### INLAND EMPIRE

Over the last 12 months, the Inland Empire has lost 16,900 jobs (-1.5%). The current unemployment rate is 13.2%, down from the 13.9% reported one year ago.<sup>2</sup>

For Q2, the Inland Empire net absorption came in at -310,900 SF. Community/neighborhood centers experienced the highest amount of space givebacks with net absorption of -140,300 SF, while strip centers recorded the greatest amount of positive net absorption with an amount of 79,300 SF. Significant leases were present

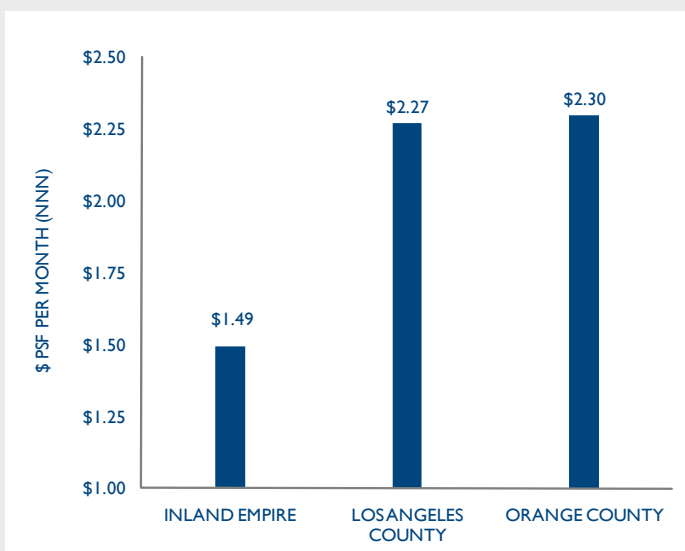
during Q2. The largest leases that occurred had Cardenas Market leasing 32,100 SF at Vineyard Plaza at 1821-1881 East 4th Street in Ontario, and Buy Buy Baby signing for 28,900 SF at The Commons at Temecula located at 40420-40458 Winchester Road in Temecula. With regards to sales activity, the most significant transaction involved California Pacific Properties, LLC acquiring the 13,300 SF Rite Aid single tenant property located at 14629 7th Street in Victorville for \$2.9 million (\$219 PSF).

During Q2, the total vacancy rate was 11.3% for an increase of 20 basis points from the 11.1% reported during Q1. Strip centers recorded the highest vacancy (15.6%) while super regional/regional malls ended the quarter with the lowest vacancy of 5.0%.

The weighted average asking lease rate for the Inland Empire was \$1.49 PSF NNN, which is flat from the previous quarter. Super regional/regional malls had the highest average asking lease rate of \$2.08 PSF, while strip centers had the lowest at \$1.24 PSF. The Inland Empire has been one of the hardest hit regions in the nation with regards to unemployment, therefore, retailers remain cautious about expanding within this market because their projected sales do not support it.

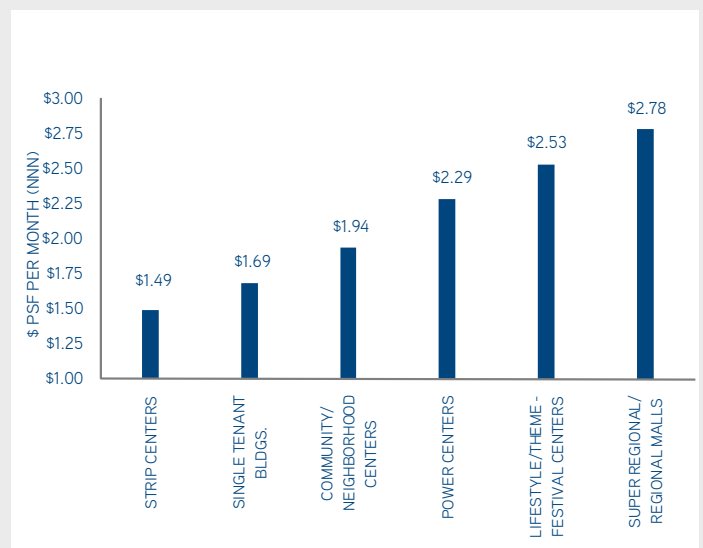
### WEIGHTED AVERAGE ASKING LEASE RATES BY MARKET

Los Angeles Basin Retail Market  
Q2 2011



### WEIGHTED AVERAGE ASKING LEASE RATES BY PROPERTY TYPE

Los Angeles Basin Retail Market  
Q2 2011



**MAJOR RETAILERS IN THE LOS ANGELES BASIN MARKET**

- ›99 Cents Only
- ›Albertsons
- ›Best Buy
- ›Costco
- ›CVS
- ›Home Depot
- ›Kohl's
- ›Marshall's
- ›PetSmart
- ›Ralphs
- ›Ross Dress For Less
- ›Target
- ›T.J. Maxx
- ›Vons
- ›Wal Mart
- ›Walgreens

**BEYOND THE NUMBERS**

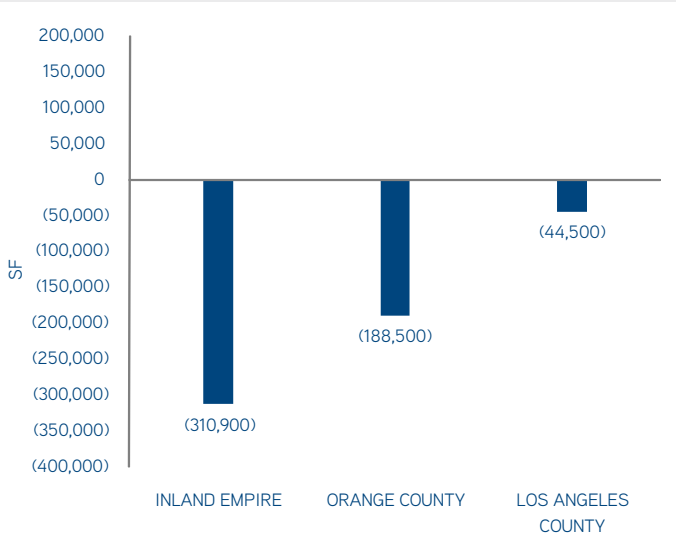
The Los Angeles basin retail real estate market witnessed negative net absorption in large part due to the shuttering of several Borders bookstores and Blockbuster video locations. Other retail markets throughout the nation where Borders and Blockbuster had a large presence have experienced negative net absorption as well for this quarter. The closing of these sites will pose problems mainly for landlords of secondary locations, but they also open up new opportunities. Many retailers that historically would have been interested in leasing space formerly occupied by Borders and Blockbuster have already recently expanded at nearby locations, which could leave landlords with a small pool of possible retailers to fill in the available spaces. However, landlords of these properties now have the option of transforming these locations to attract a new tenant mix. Core locations with quality co-tenants will be the first sites to be leased, while the vacant spaces in secondary markets will remain on the market for a longer period of time. With lease rates flattening out and purchase prices of well-leased properties on the rise, the Los Angeles basin retail market has seen improvements in these fundamentals despite the closings of retailers locations. Due to the strong draw of retailers to the Los Angeles basin, this market is better equipped than most to withstand these setbacks.

**MARKET DESCRIPTION**

The Greater Los Angeles retail market is comprised of 407.2 million SF of multi-tenant shopping centers and single tenant properties. Community/neighborhood centers represents the most amount of space (44%) 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 stores. High median income households and strong population growth contribute to make this region attractive to retailers.

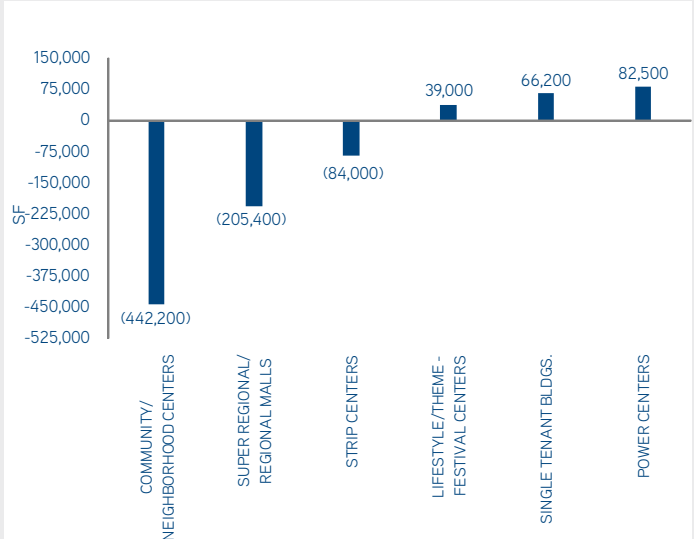
**NET ABSORPTION BY MARKET**

Los Angeles Basin Retail Market  
Q2 2011



**NET ABSORPTION BY PROPERTY TYPE**

Los Angeles Basin Retail Market  
Q2 2011



## DEFINITIONS OF KEY TERMS USED 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 SF. 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 SF. 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 SF.

### 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 SF. 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 SF, and Super Regional Malls typically are greater than 800,000 SF.

### 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 SF.

### 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 SF.

### Under-Construction/Renovation:

Includes buildings that are in some phase of construction, beginning with foundation work and ending with the issuance of a Certificate of Occupancy. Also includes buildings that are under going substantial renovation.

### Weighted Average Asking Rental Rates:

Weighted by the total square feet available for direct lease. Data is based on Full Service Gross rents, and includes all costs associated with occupying the space, including taxes, insurance, maintenance, janitorial service and utilities. Reported on a monthly, per SF 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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United States: 125  
Canada: 38  
Latin America: 18  
Asia Pacific: 214  
EMEA: 117

- \$1.5 billion in annual revenue
- 978.6 million square feet under management
- Over 12,500 professionals

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