

GREATER LOS ANGELES | RETAIL

Q2 2019

Accelerating success.

» Market Activity Slows During Mid-Year

Greater Los Angeles Retail Market

Although the Los Angeles Basin retail market closed the second quarter with positive absorption, market fundamentals showed signs of market activity slowing. Tenant demand remained positive as absorption recorded 424,500 for the Los Angeles Basin, which is minimal for the entire basin. There was an additional 826,500 square feet added to the inventory base as new construction delivered to the market. The Los Angeles market had the highest amount of new construction deliveries, recording 509,200 square feet, with Inland Empire following recording 267,100 square feet and Orange County recording the lowest recording 50,200 square feet. Two of the three counties recorded positive tenant movement with Los Angeles recording the highest at 392,300 square feet of net absorption and Inland Empire following at 47,900 square feet. Orange County recorded negative movement at 15,700 square feet.

The vacancy rate for the Greater Los Angeles region remained at 5.3%. Vacancy changes have been minimal movement on a year-to-year basis (0 basis points). Orange County and Los Angeles County recorded the lowest vacancy rate both at 4.1%, while Inland Empire recorded a vacancy rate of 8.2%.

Despite there being a slowdown in tenant movement, the weighted average asking rental rate is continuing to increase while climbing \$0.03 from the previous quarter to \$2.14 per square foot (PSF) triple net (NNN), per month. Asking rents were highest in Los Angeles County at \$2.49 PSF NNN and lowest in the Inland Empire at \$1.74 PSF NNN. Super regional malls in Los Angeles County remains the most expensive space at \$4.09 PSF NNN.

National retail and food services sales for May 2019 increased by 3.2% compared to one year ago. After two consecutive months of improvement in consumer confidence, a decline recorded in June due to a less favorable assessment of business and labor market conditions. The escalation in trade and tariff tensions also most likely contributed to a drop in confidence.

Market Indicators | Relative to prior period

	Q2 2019	Forecast
Vacancy	→	→
Net Absorption	↓	→
Construction	↑	→
Rental Rate	↑	↑
Unemployment: LA 4.5%	↑	→
OC 2.4%	↓	→
IE 3.5%	↓	→

Summary Statistics | Greater Los Angeles, Q2 2019

	GLA Retail Market
Vacancy Rate	5.3%
Change from Q1 '19 (Basis Points)	0 BPS
Net Absorption	424,500 SF
Construction Completions	826,500 SF
Under Construction	3.1 MSF

Asking Rents | Greater Los Angeles, Q2 2019

	GLA Retail Market
Average Asking Rent (\$/NNN)	\$2.14 PSF
Change from Q1 '19 (\$)	\$0.03
Y.O.Y. Change (%)	4.9%

Labor Force | Greater Los Angeles, May 2019

	Wholesale Trade	Retail Trade	Leisure & Hospitality
12-mo Employment Growth (%)	0.8%	-1.3%	2.7%
12-mo Actual Employment Change	3,000	-9,900	24,800

Los Angeles County

Los Angeles County displayed the highest amount of tenant movement, recording 392,300 square feet of absorption. Total vacancy decreased by 20 basis points from last quarter to 4.1%. Asking rental rates dropped \$0.01 from last quarter to \$2.59 PSF NNN. The average asking rental rate was highest in the regional and super regional product type at \$4.09 PSF NNN.

Construction activity in Los Angeles County grew totaling 1,952,600 square feet. The largest project under construction is the Broadway Trade Center in Los Angeles, totaling 345,000 square feet. The project is a mix of hotel, retail and office product which is expected to be completed by the first half of 2020. A notable lease transaction in the Los Angeles County market was Gelson's Market renewing 30,000 square feet at 15424 W Sunset Blvd in Pacific Palisades.

Orange County

Orange County saw negative tenant movement for the second consecutive quarter recording down 15,700 square feet of absorption. Total vacancy remained unchanged from last quarter at 4.1%. Demand for retail space in Orange County is expected to remain favorable as new multifamily product continues to deliver in the market. The overall average asking rental rate increased 6.3% from last quarter to \$2.36 PSF NNN.

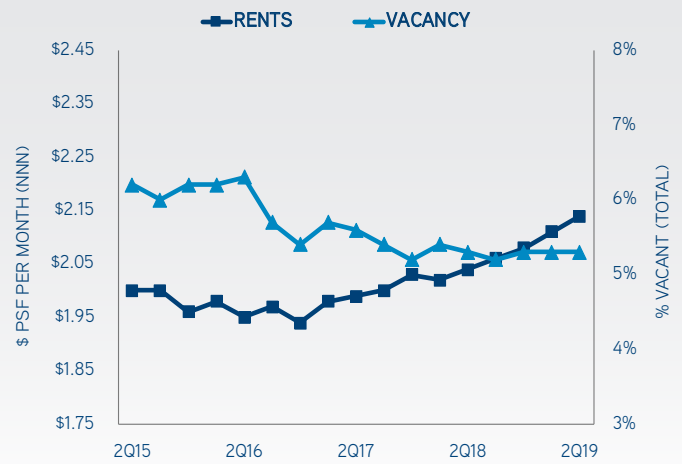
Approximately 106,600 square feet of retail space is under construction in Orange County. The First Harbor Plaza, which consists of 40,100 square feet, is the largest property currently being built and is expected to deliver by the mid-2020.

Inland Empire

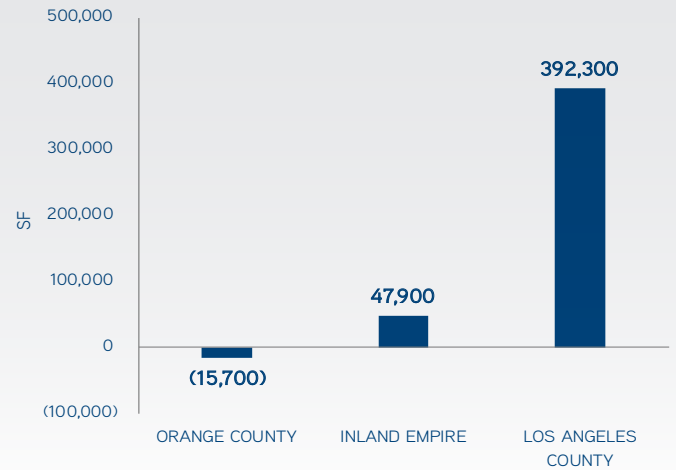
Inland Empire recorded 47,900 square feet of absorption as vacancy increased by 30 basis points due to need inventory delivering to the market. Much of this movement stemmed from tenant move-ins in the super regional/regional malls category. Average asking rents increased \$0.01 PSF NNN from last quarter to end the fourth quarter at \$1.74.

Currently, 1,152,500 square feet of new retail inventory is under construction in the Inland Empire. The largest project under construction is the 354,900 square foot Northgate Crossing project located in Indio. The project is expected to be completed by the end of quarter 2019.

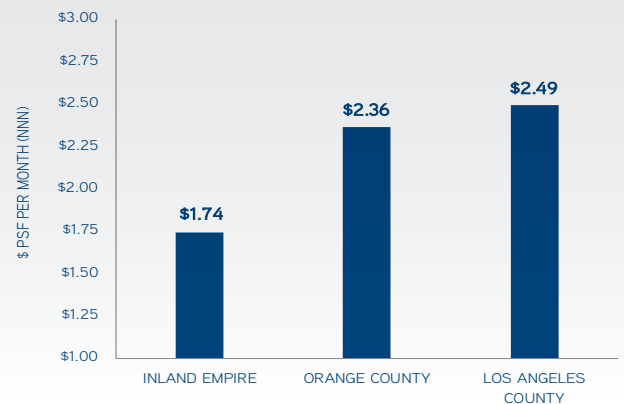
Historical Vacancy v. Rents | GLA Retail Market Q2 '15-'19



Net Absorption by Market | GLA Retail Market Q2 2019



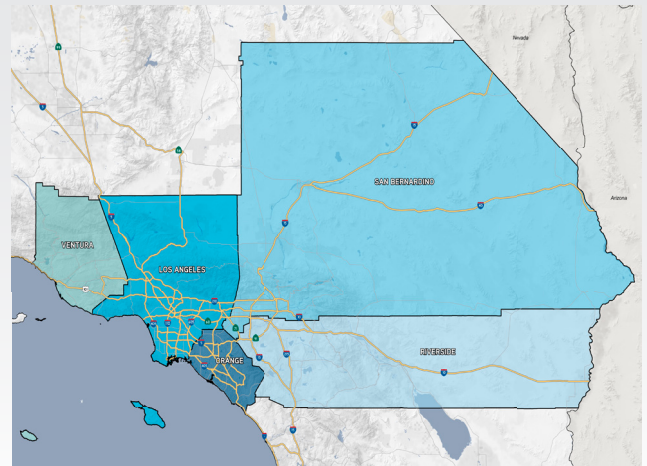
Weighted Average Asking Lease Rates by Market | GLA Retail Market Q2 2019



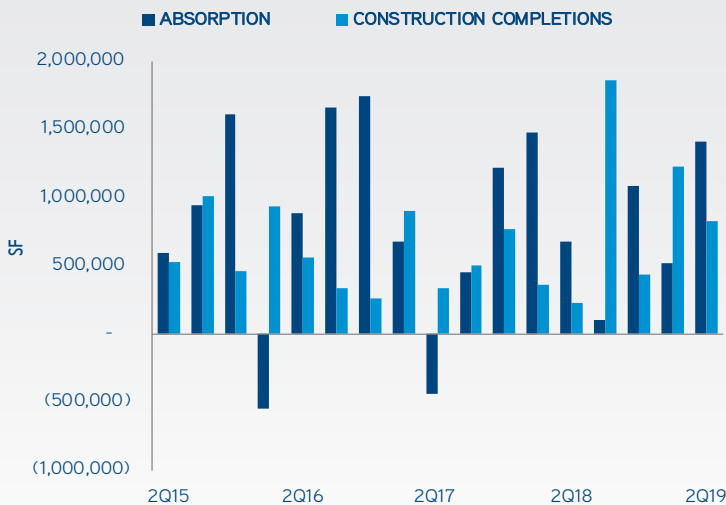
Market Description

The Greater Los Angeles retail market is comprised of 474 million square feet of multi-tenant shopping centers and single-tenant properties. Community and 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.

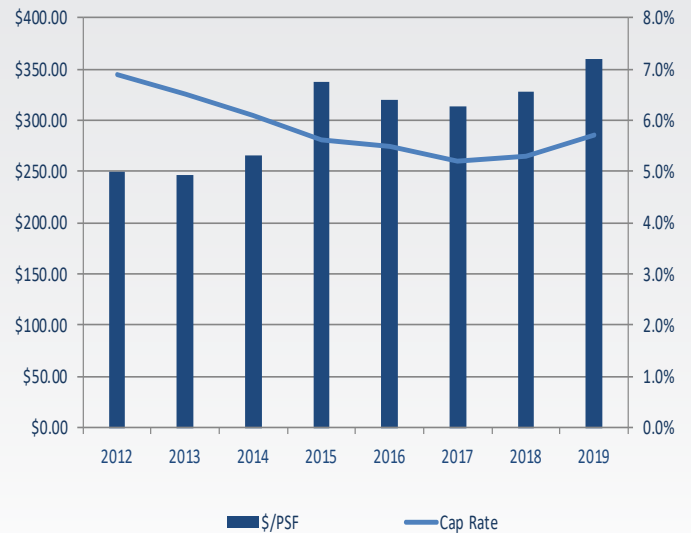
Submarket Map



Historical Net Absorption & Construction Completions
GLA Retail Market Q2 '15-'19



Investment Trends
GLA Retail Market 2012-2019



RETAIL OVERVIEW

GLA Retail Market
Q2 2019

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	25,384,100	2.9%	2.8%	2,500	31,400	21,900	140,000	\$4.09
POWER CENTERS	13,430,900	5.3%	5.3%	5,000	30,000	10,000	6,000	\$2.22
LIFESTYLE/THEME-FESTIVAL CENTERS	6,194,300	4.3%	4.7%	354,200	988,600	345,000	635,700	\$3.95
COMMUNITY/NEIGHBORHOOD CENTERS	80,652,100	6.2%	6.1%	(700)	77,500	111,600	1,154,200	\$2.18
STRIP CENTERS	31,295,900	4.6%	4.7%	11,000	36,100	0	16,700	\$2.35
SINGLE TENANT BLDGS.	78,514,100	1.9%	1.9%	20,300	43,500	20,700	0	\$2.77
SUBTOTAL	235,471,400	4.1%	4.3%	392,300	1,207,100	509,200	1,952,600	\$2.49
ORANGE COUNTY								
SUPER REGIONAL/REGIONAL MALLS	9,442,500	0.6%	0.6%	(2,900)	(8,300)	0	0	\$2.92
POWER CENTERS	8,385,500	3.9%	3.1%	(66,600)	22,900	0	0	\$4.16
LIFESTYLE/THEME-FESTIVAL CENTERS	2,921,600	6.5%	9.0%	84,300	86,800	13,000	9,500	\$1.92
COMMUNITY/NEIGHBORHOOD CENTERS	44,115,200	4.7%	5.0%	157,900	47,700	37,200	82,100	\$2.33
STRIP CENTERS	10,447,300	4.8%	4.9%	5,600	5,600	0	15,000	\$2.14
SINGLE TENANT BLDGS.	24,504,900	3.8%	3.1%	(194,000)	(230,200)	0	0	\$2.00
SUBTOTAL	99,817,000	4.1%	4.1%	(15,700)	(75,500)	50,200	106,600	\$2.36
INLAND EMPIRE								
SUPER REGIONAL/REGIONAL MALLS	10,557,800	9.8%	10.5%	74,600	83,500	0	110,700	\$3.26
POWER CENTERS	11,252,900	9.9%	9.3%	(24,600)	250,700	43,600	148,800	\$1.57
LIFESTYLE/THEME-FESTIVAL CENTERS	1,923,600	8.8%	9.5%	49,200	6,200	39,400	354,900	\$2.93
COMMUNITY/NEIGHBORHOOD CENTERS	52,973,400	11.4%	11.1%	(24,800)	280,900	160,900	436,200	\$1.43
STRIP CENTERS	12,691,900	6.7%	6.8%	26,700	230,600	9,200	101,900	\$1.51
SINGLE TENANT BLDGS.	43,585,300	3.9%	3.8%	(53,200)	(174,300)	14,000	0	\$2.04
SUBTOTAL	132,984,900	8.2%	7.9%	47,900	677,600	267,100	1,152,500	\$1.74
LA BASIN TOTAL								
SUPER REGIONAL/REGIONAL MALLS	45,384,400	4.0%	3.7%	74,200	311,300	21,900	250,700	\$3.58
POWER CENTERS	33,069,300	6.5%	6.5%	(86,200)	(76,600)	53,600	154,800	\$2.18
LIFESTYLE/THEME-FESTIVAL CENTERS	11,039,500	5.7%	8.5%	487,700	173,300	397,400	1,000,100	\$3.06
COMMUNITY/NEIGHBORHOOD CENTERS	177,740,700	7.4%	7.1%	132,400	1,179,000	309,700	1,672,500	\$1.86
STRIP CENTERS	54,435,100	5.2%	5.6%	43,300	217,000	9,200	133,600	\$2.06
SINGLE TENANT BLDGS.	146,604,300	2.8%	2.6%	(226,900)	56,800	34,700	0	\$2.29
TOTAL	468,273,300	5.3%	5.3%	424,500	1,809,200	826,500	3,211,700	\$2.14

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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