

Los Angeles

Retail Market Outlook 4Q 2017

MARKET OVERVIEW

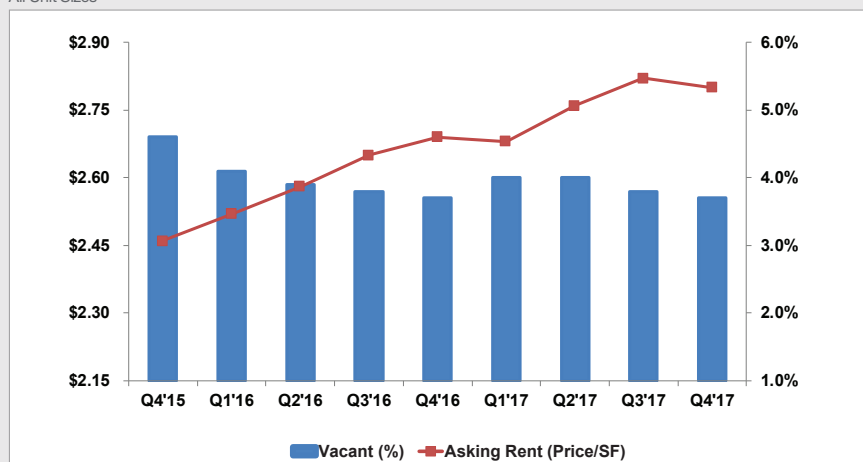
The Los Angeles retail market ended 2017 with low vacancy and higher rents compared to the prior year. Asking rents averaged \$2.80/SF this quarter, up 4.1% over this time last year. The vacancy rate remained steady over the year at 3.7%, which is one of the lowest vacancy rates since 2008. Eight projects totaling 239,538 square feet delivered in the fourth quarter. The largest was a 175,805 square foot community center called Olivo at Mission Hills in the LA North submarket. Olivo at Mission Hills is 93% leased with Target and 24 Hour Fitness as tenants. At the end of the quarter, 1.3 million square feet was under construction in 42 projects. A 258,950 square foot mixed-use retail development in Santa Monica is the largest project. 5601 Santa Monica Blvd will deliver in early 2019 and had not secured tenants as of the fourth quarter. The future outlook for retail is mixed, as consumers are concerned about their economic future despite relatively strong economic indicators. The unemployment rate in Los Angeles County fell to 3.9%, indicating that the region is near full employment. However, over the same time, the retail sector lost 5,500 jobs due to store closures and layoffs.

TRENDS TO WATCH

While the Los Angeles retail market overall is projected to hold steady going in 2018, retail is facing challenges. Clothing and departments stores have borne the brunt of store closures and layoffs, with employment falling by 6.2% and 4.2% respectively. This comes as major retailers, such as Toys R Us, Payless, RadioShack, American Apparel, Sears, Kmart, and others, have announced that they are closing down several underperforming stores in Los Angeles in early 2018. This has particularly impacted Malls and Neighborhood Centers, which saw availability increase over the year to 5.1% and 7.0%, respectively. This is part of a national trend which is showing major retailers struggle as brick-and-mortar retailers face stiff competition from e-commerce and online retailers.

Average Asking Rent and Vacancy Rate

All Unit Sizes



Source: NAI Capital Research, CoStar

MARKET OUTLOOK

Asking Rental Rates



Sale Prices



Availability/Vacancy Rates



Landlord Concessions



Sales/Leasing Volume



New Construction



NAI Capital Research
www.naicapital.com

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Market Statistics

SUBMARKET	EXISTING TOTAL RBA (SF)	UNDER CONSTRUCTION (SF)	TOTAL AVAILABLE (%)	TOTAL VACANCY (%)	4Q17 LEASING VOLUME (SF)	YTD LEASING VOLUME (SF)	4Q17 SALES VOLUME (SF)	YTD SALES VOLUME (SF)	AVERAGE ASKING RENT \$/PSF NNN	AVERAGE SALE PRICE \$/PSF
Central	16,478,532	208,781	9.3%	5.8%	143,491	497,893	262,071	530,865	\$2.61	\$571
Mid-Wilshire	7,996,895	35,000	4.2%	3.0%	53,252	199,830	22,406	255,076	\$2.61	\$508
LA North	71,715,657	308,968	5.3%	3.6%	632,560	1,964,760	240,299	1,345,517	\$2.32	\$392
San Gabriel Valley	63,575,377	112,140	5.7%	3.9%	337,189	1,527,991	1,673,780	3,535,840	\$1.82	\$227
South Bay	63,445,395	219,262	5.3%	3.2%	267,307	1,555,861	667,948	2,556,045	\$2.22	\$309
Tri-Cities	28,604,743	125,000	4.9%	3.1%	122,414	636,367	704,275	2,071,576	\$2.97	\$186
LA West	53,592,356	362,089	6.4%	3.8%	331,280	1,664,794	282,478	1,566,907	\$4.93	\$729
Total	305,408,955	1,371,240	5.7%	3.7%	1,887,493	8,047,496	3,853,257	11,861,826	\$2.80	\$318

RBA includes retail buildings of all sizes and classes. Rents reflect buildings of at least 5,000 square feet.

Leasing

Lease volume totaled 1,887,493 square feet in the fourth quarter of 2017, which represented a 5.1% increase over the year. Year to date leasing activity topped 8.0 million square feet, which was steady over last year's total. While average asking rents have made modest gains across most product types, asking rents in Mall properties fell by 14.6% over the year to \$4.14/SF, as landlords have been forced to lower asking rents to attract tenants. In one of the largest lease transactions this quarter, a 136,325 square foot building previously occupied by Costco in Canoga Park was leased for one year. While the tenant remains unidentified, the property was used as a filming location in 2017 for the television show Hell's Kitchen.

Sales

This quarter, sales volume totaled 3.8 million square feet, which represented a 78.1% increase over this time last year. Annual sale volume was up 8% over the prior year to more than 11.8 million square feet, with an average sale price of \$318/SF. This is a continuation of a larger trend in which investors, who have been priced out of prime retail markets, such as Downtown Los Angeles and LA West, are shifting to periphery submarkets, such as the San Gabriel Valley and the Tri-Cities. The San Gabriel Valley experienced the most sales activity with over 1.6 million square feet sold this quarter and 3.5 million square feet sold in 2017. In one of the largest transactions this quarter, Kimco Realty Corporation purchased the 772,239 square foot Whittwood Town Center in Whittier for \$159/SF. In another major transaction, Blackstone Real Estate Income Trust, Inc., purchased a 165,528 square foot retail center in Burbank for \$276/SF.

Significant Lease Transactions

TENANT	ADDRESS	SUBMARKET	ASKING RENT \$/PSF*	SQUARE FEET
Tenant Not Listed	21300 Roscoe Blvd	LA North	Withheld	136,325
Tenant Not Listed	6651 N Fallbrook Ave	LA North	Withheld	57,617
Planet Fitness	515-655 W Arrow Hwy	San Gabriel Valley	Withheld	18,561
Tenant Not Listed	800 S La Brea Ave	Mid-Wilshire	\$3.25	12,261
Tenant Not Listed	760 S Hill St	Downtown Los Angeles	\$4.00	10,508

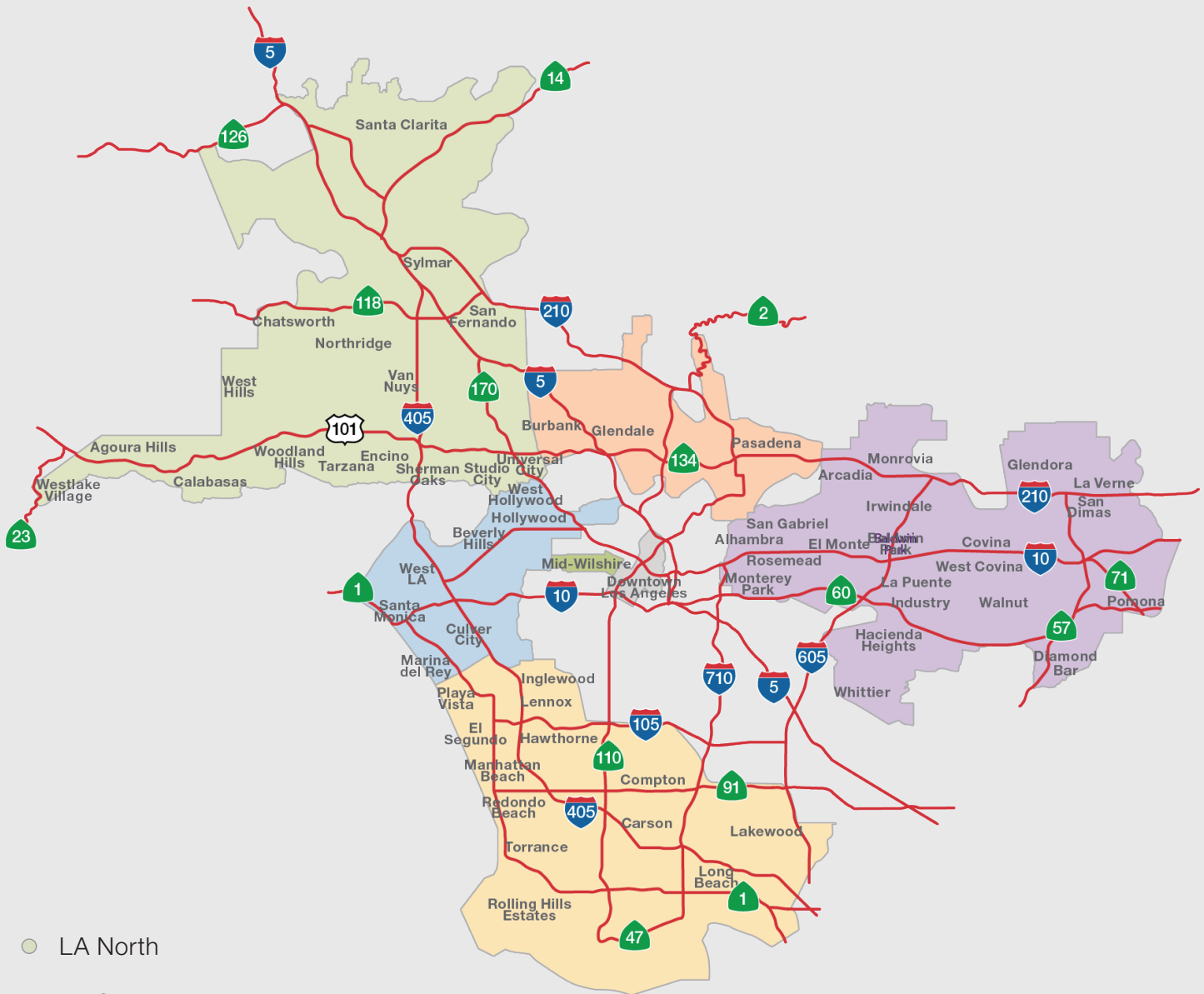
*All rents are FSG unless otherwise stated

Significant Sales Transactions

BUYER	ADDRESS	SUBMARKET	SALE PRICE \$/PSF	SQUARE FEET
Kimco Realty Corporation	Whittwood Town Center	San Gabriel Valley	\$159	772,239
Blackstone Real Estate Income Trust, Inc.	10950-10970 Sherman Way	Tri-Cities	\$276	165,528
Shokrian Property Listings	Canyon Square Plaza	LA North	\$233	96,662
Yong Zhang & Chi Ho	1101-1155 W Huntington Dr	San Gabriel Valley	\$375	69,352
Areia, LLC	9000-9008 Beverly Blvd	West LA	\$1,112	12,588

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- LA North
- Tri-Cities
- San Gabriel Valley
- LA West
- Central
- Mid-Wilshire
- South Bay

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