MARKET REPORT

Retail

Los Angeles Metro Area

IPA INSTITUTIONAL PROPERTY ADVISORS

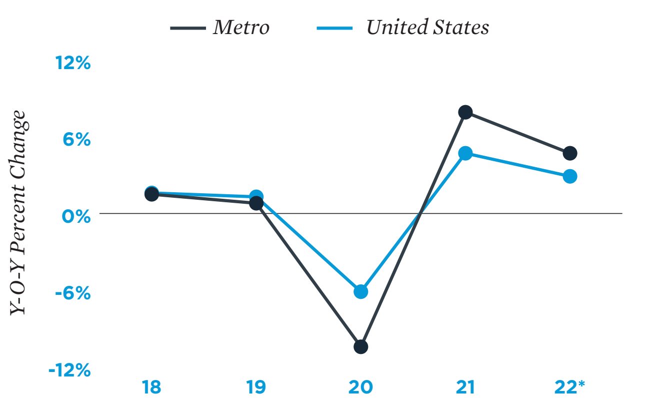
2Q/22

Suburban Vacancies Hold Below Market; Recovery Catalysts Surface in Job Hubs

Largest locales display positive momentum. The recent performance of Los Angeles County submarkets has emulated the broader national trend of suburban retail outperforming the CBD. Over the past year ended in March, the San Gabriel and San Fernando valleys each recorded vacancy compression, with both submarkets entering the second quarter with availability below the metrowide average of 5.8 percent. Tightening conditions and positive absorption here and in Burbank-Glendale-Pasadena are supporting above-average rent growth, with the latter suburban locale home to the lowest vacancy rate among metro submarkets with at least 20 million square feet of inventory. Moving forward, near-term supply additions will be minimal across the San Fernando Valley region, while deliveries in the San Gabriel Valley are mostly accounted for, a boon for existing suburban properties with available space.

Foot traffic poised to improve in office-heavy locales. Contrasting suburban submarkets, Downtown Los Angeles and tech-centric West Los Angeles each noted vacancy increases of 90 basis points during the past 12 months, pushing local availability to 7.0 percent and 6.7 percent, respectively. Still, avenues for near-term recovery have emerged. Professionals that work in these submarkets are returning to some form of in-person operations in greater force, reviving midweek foot traffic. Additionally, apartment demand in both areas was historically strong over the past year, a trend that will lift local consumer demand for necessity-based shops and dining.

Employment Trends



* Forecast

Sources: BLS; CoStar Group, Inc.

Retail 2022 Outlook

210,000 JOBS
will be created

EMPLOYMENT:

Metro employers added more than 49,000 positions during the first quarter, with job creation recorded across nearly every sector. This hiring activity has Los Angeles County on pace to record a 4.7 percent rate of employment growth during 2022.

955,000 SQ. FT.
will be completed

CONSTRUCTION:

Of the nation's five largest retail markets by inventory, Los Angeles records the lowest volume of deliveries during 2022, as stock increases by 0.3 percent. Additionally, completions will trail the prior five-year average by 235,000 square feet.

10 BASIS POINT
decrease in vacancy

VACANCY:

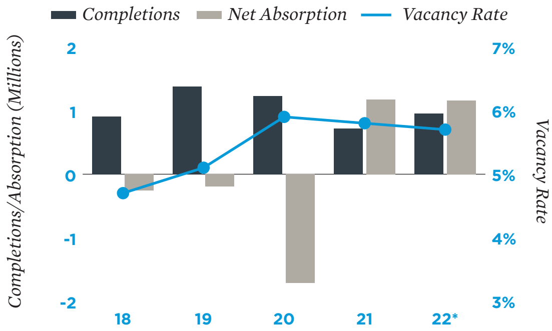
The county notches moderate vacancy compression for a second consecutive year, with retailers absorbing more than 1.1 million square feet. This leasing lowers retail availability to 5.7 percent, a rate 60 basis points above the year-end 2019 mark.

3.8% INCREASE
in asking rent

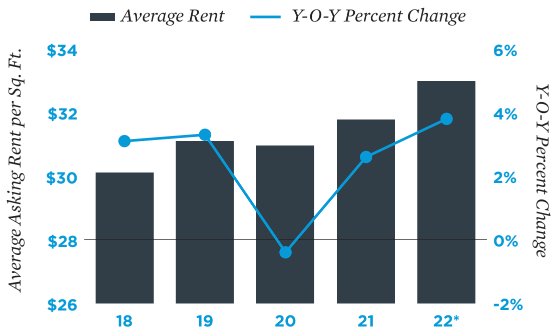
RENT:

Building on last year's 2.6 percent gain, the average marketed rate for Los Angeles County retail space elevates to a record mark of $33.00 per square foot in 2022. Suburban submarkets are positioned to register the most pronounced rent increases.

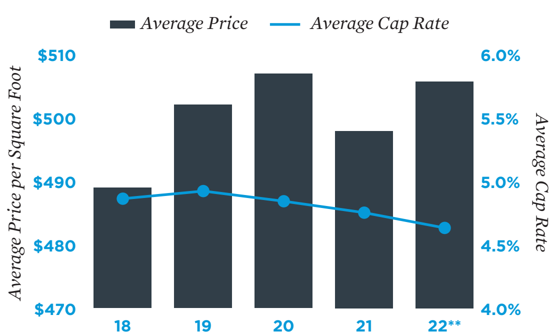
Supply and Demand



Rent Trends



Sales Trends



** Forecast ** Through 1Q*

Sources: CoStar Group, Inc.; Real Capital Analytics

IPA Retail

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Price: $250

1Q 2022 - 12-Month Period

CONSTRUCTION

789,000 sq. ft. completed

- Deliveries were historically sparse over the past year ended in March, with developers increasing the county's inventory by 0.2 percent. South Bay and West Los Angeles completions accounted for half the space finalized.
- The Shops at The Grand in Downtown Los Angeles and buildings at Inglewood's Hollywood Park comprise 40 percent of the active pipeline.

VACANCY

20 basis point decrease in vacancy Y-O-Y

- Spearheaded by the absorption of more than 1.2 million square feet in the third quarter of 2021, metro vacancy stood at 5.8 percent in March 2022.
- Single-tenant leasing was responsible for the recent drop in countywide vacancy, with availability in the segment falling 30 basis points to 5.6 percent. In contrast, multi-tenant vacancy rose 10 basis points to 6.5 percent.

RENT

5.0% increase in the average asking rent Y-O-Y

- After declining nominally during the prior yearlong span, the average marketed rent rose over the past four quarters to $32.38 per square foot.
- Asking rates are at record marks in both retail segments. Over the last 12 months, multi-tenant rent rose 6.2 percent to $31.18 per square foot, while the single-tenant rate reached $32.71 per square foot on a 4.7 percent gain.

Investment Highlights

- Across primary markets, Los Angeles noted the second most retail transactions over the past 12 months ended in March, supporting a more than 40 percent increase in deal flow. Recent sales activity was highlighted by investors moving equity via 1031 exchanges into less management intensive single-tenant properties, and buyers acquiring retail properties positioned for redevelopment.
- Single-tenant transaction velocity over the past year was the strongest on record; however, the segment's average price point declined for a second straight year, falling to a mean of $560 per square foot. Net-leased properties continue to steer deal flow in the segment, with restaurants and fast-food chains accounting for the bulk of these trades. The San Gabriel and San Fernando valleys represent favored submarkets among investors, with single-tenant assets trading at mid-3 percent minimum returns.
- Sales activity also elevated notably in the multi-tenant sector, partially driven by a rise in $10 million-plus transactions. Supermarket-anchored centers and properties with a mix of retail and office space are garnering widespread attention, with these assets trading at high-3 to mid-5 percent yields depending on tenant mix and lease terms.