MARKET REPORT

Retail

Los Angeles Metro Area

IPA INSTITUTIONAL PROPERTY ADVISORS

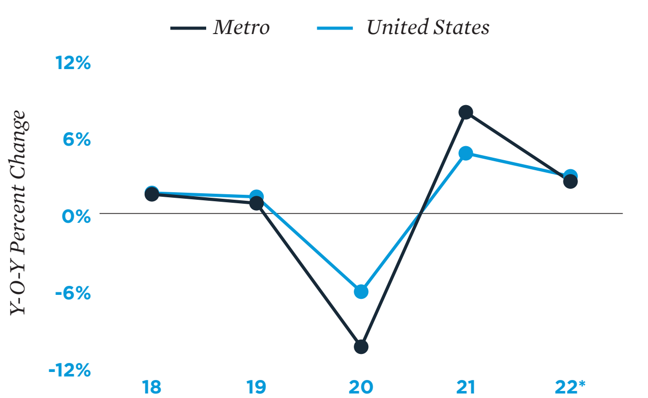
3Q/22

Catalysts for Demand Advancement Cemented, Raising Performance and Investment Outlook

Hard-hit submarkets have reason for optimism. Los Angeles' retail recovery is making progress, with the second half of this year positioned to usher in further improvement. Entering July, both single- and multi-tenant vacancy was down moderately on a year-over-year basis, with average asking rents at record marks in both segments. Rising retailer demand in suburban markets and locales adjacent to Downtown Los Angeles is largely to credit for this performance. Moving forward, assistance is in place for submarkets whose recoveries trail these locales. More financial and tech firms are expected to bring staff back to the office, at least a few days per week if not full time, in the coming months. This change suggests a near-term rise in foot traffic is upcoming for Greater Downtown Los Angeles and West Los Angeles. Such an improvement has the potential to heighten retailer demand for available space in these areas.

Retailers browse existing stock. The metro's construction pipeline is also increasing the likelihood of a near-term improvement in retail fundamentals. Inventory is expected to grow by 0.2 percent this year, with less than 500,000 square feet completed in the second half. Minimal near-term supply additions in South Bay and Greater Downtown Los Angeles should aid vacant storefronts in securing tenants at a time when local vacancy is 80 and 100 basis points above the metrowide average, respectively. On a broader scale, sparse supply additions will persist beyond this year, with active projects slated for 2023 delivery equating to 0.1 percent of existing stock.

Employment Trends



* Forecast

Sources: BLS; CoStar Group, Inc.

Retail 2022 Outlook

110,000 JOBS
will be created

EMPLOYMENT:

Hiring in Los Angeles accounted for one-fourth of the positions added across California's eight major markets in the first seven months of 2022. The metro is expected to record a 2.5 percent annual rate of job growth.

820,000 SQ. FT.
will be completed

CONSTRUCTION:

For the third time in five years, developers finalize less than 1 million square feet. Nationwide, 14 major markets will record larger delivery totals in 2022, notable as Los Angeles is the second-largest metro by stock.

10 BASIS POINT
decrease in vacancy

VACANCY:

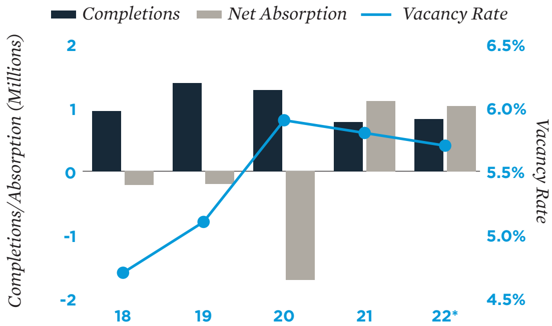
Los Angeles' ongoing retail recovery supports a second consecutive year of moderate vacancy compression. Still, the year-end availability rate of 5.7 percent will trail the metro's long-term average by 60 basis points.

4.9% INCREASE
in asking rent

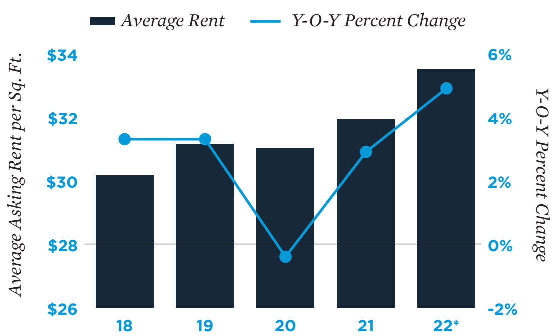
RENT:

Demand exceeds deliveries, fueling the fastest pace of rent growth in the past six years. At $33.50 per square foot, Los Angeles' average marketed rate is bested only by Bay Area markets, Miami and New York City.

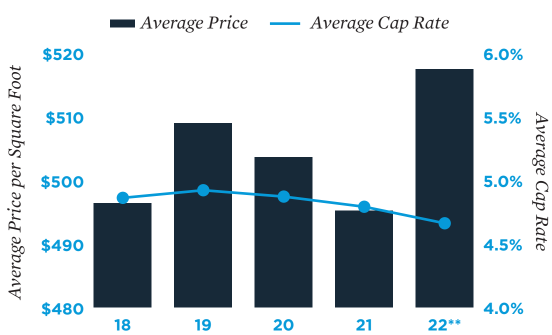
Supply and Demand



Rent Trends



Sales Trends



** Forecast ** Through 2Q*

Sources: CoStar Group, Inc.; Real Capital Analytics

2Q 2022 - 12-Month Period

CONSTRUCTION

703,000 sq. ft. completed

- Inventory grew by just 0.2 percent over the past four quarters ended in June, with less than 200,000 square feet of multi-tenant space delivered.
- Supply additions were concentrated in West Los Angeles and the San Fernando Valley. This will not be the case in the second half, as the two locales are slated to account for less than 20 percent of the space finalized.

VACANCY

30 basis point decrease in vacancy Y-O-Y

- Retailers absorbed more than 1.6 million square feet of space during the 12-month interval, leasing velocity that lowered vacancy to 5.8 percent.
- Eight of 11 submarkets registered compression ranging from 20 to 80 basis points over the past year, with availability unchanged in two locales. Declines were most pronounced in Mid-Cities and the Antelope Valley.

RENT

5.2% increase in the average asking rent Y-O-Y

- Four straight quarters of positive absorption fueled a notable rent gain, one that lifted the average asking rate to a record $32.78 per square foot.
- Five submarkets notched increases that exceeded the metrowide average, led by South Bay. Here, the mean marketed rent rose 12.1 percent, reflecting the quality of available space, as vacancy is nearly at an all-time high.

Investment Highlights

- Encouraging job creation and vacancy compression are bolstering the appeal of Los Angeles retail investment, reflective in the 24 percent jump in deal flow over the past 12 months. Notably, April through June of this year represented the strongest second quarter for sales activity in the past five years. This is a promising achievement, considering the increasing cost of capital and narrowing gap between the average cap rate and 10-year treasury, factors that are translating to more stringent underwriting.
- Investors seeking long-term cash flow are capitalizing on high pricing in other sectors and moving equity via 1031 exchanges into less management intensive net-leased properties. Over the past four quarters, single-tenant sales velocity rose 16 percent, with restaurant and auto parts shops garnering significant attention. Assets in San Gabriel Valley and other submarkets with below-average rental rates are especially attractive, as additional households are relocating to these areas to reduce their living expenses.
- Strong housing demand in the San Fernando and San Gabriel valleys is also driving investor competition for strip and neighborhood centers in these locales. Minimum returns can fall into the 3 percent range for these assets. However, most trade in the mid-4 to high-5 percent band.

IPA Retail

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