

MARKET REPORT

Retail
Los Angeles Metro Area

IPA
INSTITUTIONAL
PROPERTY
ADVISORS

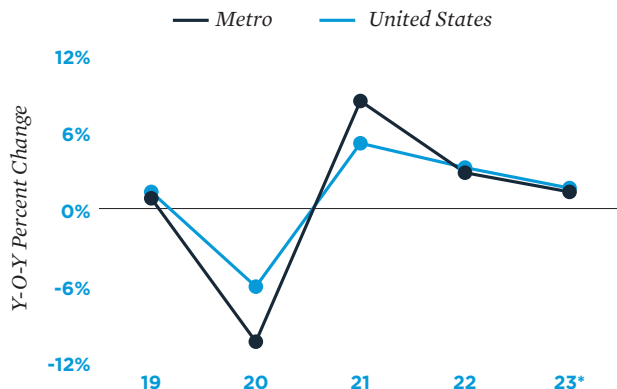
2Q/23

Emerging Tailwinds Potentially Accelerate Retail Sales in Nation's Second-Largest Market

Suburban retail outperforms. At 5.8 percent, vacancy in Los Angeles was nearly at an all-time high in March. This rate, however, distracts from the solid tenant demand that exists in large suburbs and centrally-located neighborhoods. Outside Downtown Los Angeles and Mid-Wilshire, collective vacancy fell 10 basis points over the past 12 months to 5.6 percent, aided by more pronounced declines in the San Gabriel Valley and Mid-Cities — areas of locally lower apartment rents. While vacancy in Greater Downtown Los Angeles is elevated in comparison to these submarkets, conditions in the core may improve. During the first quarter, the CBD noted positive multifamily absorption, and most of the 7,500 rentals underway in Los Angeles proper are located here. As more residents return to areas of higher density, tenant demand for nearby retail space should follow.

Top vacation destination benefits from travel sector's recovery. Retailers whose viability is tied to tourism spending stand to record near-term increases in foot traffic and sales. This summer is expected to be a record period for domestic travel, with some households traveling farther away from home than in recent years. Of equal importance to Los Angeles vendors, international visitations are slated to rise after the lifting of vaccine requirements earlier this year. The full-fledged return of this foundational demand driver should have the largest impact on retail conditions in beach cities, Greater Downtown Los Angeles and areas proximate to tourist attractions.

Employment Trends



* Forecast

Sources: BLS; CoStar Group, Inc.

Retail 2023 Outlook



**60,000
JOBS**
will be created

EMPLOYMENT:

Los Angeles' job market was resilient over the first four months of 2023. Historically low unemployment and economic headwinds, however, temper near-term hiring, equating to a 1.3 percent rate of employment growth.



**700,000
SQ. FT.**
will be completed

CONSTRUCTION:

Developers grow the metro's inventory by just 0.2 percent for a third straight year. This streak runs in contrast to the prior decade-long period, when an average of 1.4 million square feet was finalized annually.



**50
BASIS POINT**
increase in vacancy

VACANCY:

Vacancy rises slightly over the next three quarters, placing the year-end rate at 6.1 percent. While this figure is 110 basis points above its long-term mean, three other California markets will end 2023 with higher vacancy.

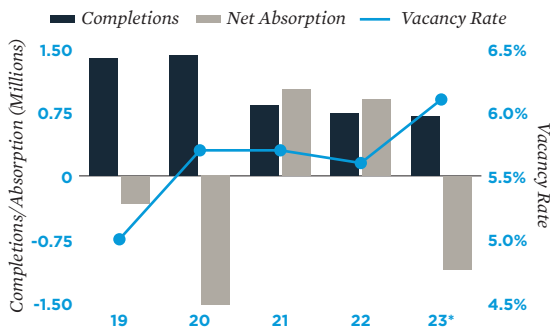


**0.5%
INCREASE**
in asking rent

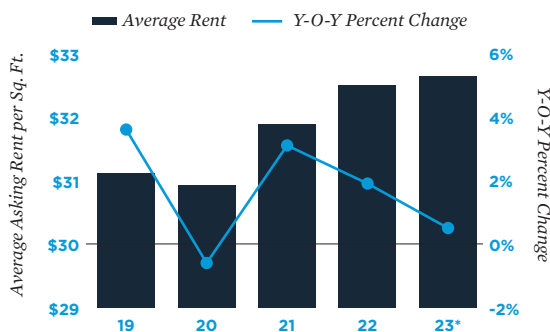
RENT:

Single-tenant rent growth in the suburbs offsets an overall decline in multi-tenant rates, inching the county's average up to \$32.65 per square foot. This figure is the fifth-largest among major U.S. markets.

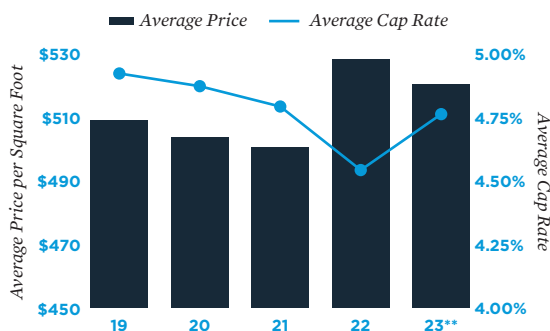
Supply and Demand



Rent Trends



Sales Trends



* Forecast ** Through 1Q

Sources: CoStar Group, Inc.; Real Capital Analytics

IPA Retail

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Price: \$250

1Q 2023 - 12-Month Period



CONSTRUCTION

507,000 sq. ft. completed

- Retail inventory expanded by just 0.1 percent over the past year ending in March. Developers completed only 30,000 square feet during the first three months of 2023 – the lowest quarterly total on record.
- Of the 1.4 million square feet underway as of April, 80 percent was spread between projects in West Los Angeles, San Gabriel Valley and South Bay.



VACANCY

10 basis point increase in vacancy Y-O-Y

- Los Angeles' vacancy rate sat at 5.8 percent in March as the metro's available stock grew by nearly 1 million square feet over the past six months.
- Single-tenant vacancy was unchanged over the past year, holding at 5.6 percent, as supply and demand fell relatively in line. In contrast, the multi-tenant rate rose 20 basis points to a record high of 6.6 percent.



RENT

0.1% decrease in the average asking rent Y-O-Y

- Above-average vacancy had an adverse impact on rents, with the mean asking rate falling nominally over the past year to \$32.45 per square foot.
- The multi-tenant segment drove the overall decline in rent as the sector's mean marketed rate dropped by 1.9 percent. Single-tenant momentum, however, remained positive, with the asking rent rising 0.4 percent.

Investment Highlights

- Los Angeles recorded the most retail closings of any major U.S. market over the yearlong span ending in March, and the least year-over-year fluctuation in deal flow – 12 percent – among Southern California markets.
- Despite the metro's standout performance, preliminary data for the first five months of 2023 reflects a pullback in sales activity, specifically in Los Angeles proper. Here, trading above \$5 million has been extremely sparse since the enactment of Measure ULA in April. California voters, however, will have the chance to block the measure in 2024. If approved, the ballot item would create a new requirement for two-thirds approval of state referendums that impose local special tax increases. The referendum would also grandfather the requirement, invalidating the measure.
- Investor demand for net-leased assets and well-located centers outside the city of Los Angeles could heat up until the fate of Measure ULA is determined. Through the first five months of 2023, buyers were most active in the Greater San Fernando Valley, acquiring restaurants, strip centers and mixed-use assets with a retail component. Remaining closings were concentrated in West Los Angeles, South Bay and the San Gabriel Valley.

The information contained in this report was obtained from sources deemed to be reliable. Every effort was made to obtain accurate and complete information; however, no representation, warranty or guarantee, express or implied, may be made as to the accuracy or reliability of the information contained herein. Metro-level employment growth is calculated based on the last month of the quarter/year. Sales data includes transactions sold for \$1 million or greater unless otherwise noted. This is not intended to be a forecast of future events and this is not a guaranty regarding a future event. This is not intended to provide specific investment advice and should not be considered as investment advice. Sources: Marcus & Millichap Research Services; Bureau of Labor Statistics; CoStar Group, Inc.; Real Capital Analytics

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