

MARKET REPORT

Retail
Los Angeles Metro Area

IPA
INSTITUTIONAL
PROPERTY
ADVISORS

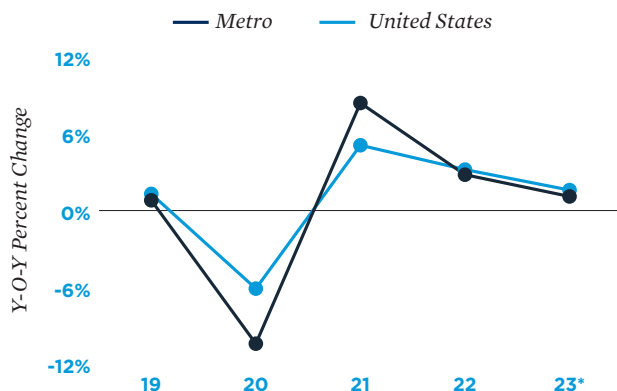
4Q/23

Vacancy Reaches Prior High, Despite Pockets of Improvement and Modest Construction Activity

Metro enters second half in unfamiliar territory. Los Angeles was the only Southern California market to record a rise in retail vacancy over the 12-month period ending in June, placing its local rate at a historical high of 6 percent. While the volume of available space across both the single- and multi-tenant segments sits at record levels, several macro and submarket-level dynamics offer reasons for long-term optimism. Entering October, the county's active pipeline was modest, with just one submarket — West Los Angeles — expected to add more than 80,000 square feet this year. Limited short-term supply pressure and near-record asking rents could benefit property owners with available square footage, should tenant demand improve. Those in West Los Angeles, South Bay, Antelope Valley and Santa Clarita Valley may already be capturing upside, as each of these submarkets noted positive first half absorption.

Eastern submarket outperforms. San Gabriel Valley, the largest area by stock, is home to the lowest vacancy rate among submarkets with more than 10 million square feet of inventory. At 4.9 percent in June, local vacancy was 110 basis points below the metro mean, an indication that necessity, discount and experiential tenants value a presence in an area known for strong apartment demand. Recently inked leases with near-term move-ins include Target's commitment to 125,000 square feet and agreements by Dollar Tree, Crunch Fitness and Global Fresh Market, which may preserve tight conditions.

Employment Trends



* Forecast

Sources: BLS; CoStar Group, Inc.

Retail 2023 Outlook



**50,000
JOBS**

will be created

EMPLOYMENT:

The metro's employment base is on pace to increase by 1.1 percent in 2023, pushing the total job count 44,000 positions beyond the year-end 2019 mark. Retail trade roles account for nearly 20 percent of this hiring.



**780,000
SQ. FT.**

will be completed

CONSTRUCTION:

For a third straight year, less than 1 million square feet is finalized across the county, growing inventory by just 0.2 percent. Nearly one-third of the space delivered is proximate to SoFi Stadium in Inglewood.



**60
BASIS POINT**

increase in vacancy

VACANCY:

Contrasting the prior two years, supply additions outpace demand in 2023. This shift pushes vacancy up to 6.2 percent, a rate that exceeds the year-end 2019 recording by 120 basis points.



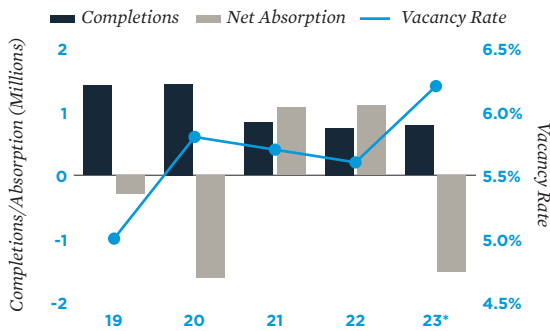
**0.6%
INCREASE**

in asking rent

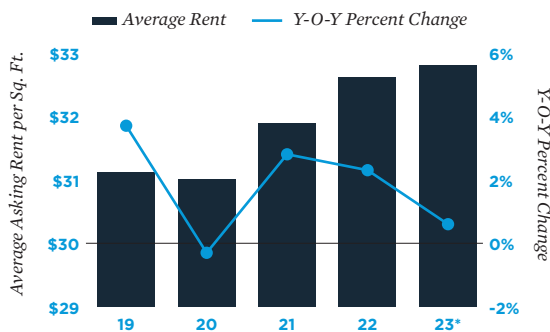
RENT:

Record-high vacancy impacts many operators' ability to raise rents this year. Still, an increase comparable to the long-term growth rate is noted, nudging the mean asking rent up to \$32.80 per square foot.

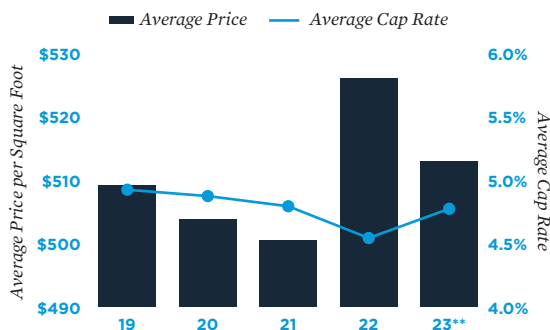
Supply and Demand



Rent Trends



Sales Trends



* Forecast ** Through 2Q

Sources: CoStar Group, Inc.; Real Capital Analytics

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Price: \$250

2Q 2023 - 12-Month Period



CONSTRUCTION

633,000 sq. ft. completed

- Deliveries were nominal across San Gabriel Valley, South Bay, Mid-Wilshire and Burbank-Glendale-Pasadena during the 12-month span ending in June, with metro inventory growing by just 0.2 percent.
- Los Angeles Premium Outlets, a project in Carson, accounts for 35 percent of the active pipeline, which comprised 1.1 million square feet in October.



VACANCY

20 basis point increase in vacancy Y-O-Y

- After declining 20 basis points during the final six months of 2022, vacancy rose 40 basis points over the first half of 2023 to 6.0 percent in June.
- Antelope Valley was the only submarket with more than 10 million square feet of inventory to note a decline in both its single- and multi-tenant vacancy rates over the past year.



RENT

0.5% increase in the average asking rent Y-O-Y

- A record amount of vacant stock slowed the pace of rent growth over the past year, placing the mean asking rate at \$32.89 per square foot in June.
- Reflecting its elevated vacancy rate of 9.0 percent and the quality of the space available for lease, the mean marketed rent in Downtown Los Angeles fell 15.3 percent over the last four quarters.

Investment Highlights

- The metro noted a 30 percent drop in transaction activity over the 12-month interval ending in September; however, among U.S. markets only New York noted a larger volume of closings. Additionally, deal flow in the first three quarters of 2023 exceeded nine-month totals from 2008-2012.
- Properties net-leased to restaurants and fast food chains are most frequently transacting in the San Gabriel and San Fernando valleys. Investors targeting mixed-use assets with ground floor retail are most active in West Los Angeles, often paying less than \$700 per square foot.
- Enacted in Los Angeles proper at the onset of the second quarter, Measure ULA appears to be adversely impacting local deal flow. Preliminary data for the April-September window reflects a nominal number of closings in the city above the \$5 million mark. This contrasts the first three months of 2023, when the number of these transactions reached a double-digit count.
- Buildings with vacancy issues and properties positioned for redevelopment accounted for a notable share of trading during the first nine months of this year. Specifically, highly-vacant assets have recently netted an average of \$390 per square foot, well below the metro's average price point.

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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