

MARKET REPORT

RETAIL

Los Angeles Metro Area

IPA
INSTITUTIONAL
PROPERTY
ADVISORS

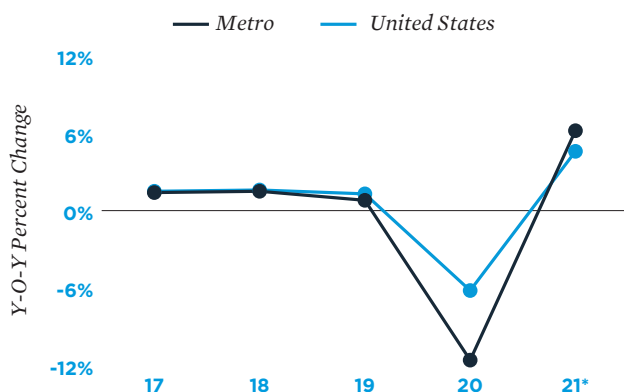
3Q/21

Recent Positives Emerge Amid Los Angeles' Longer-Term Recovery Cycle

Absorption yet to recover as dearth of larger leases persists. Hindered by double-digit unemployment, Los Angeles County's retail sector appears to have a longer road to recovery than that of other neighboring markets. Entering the second half, metro vacancy was at its highest point since at least 2007, with the county's vacant stock having increased in every quarter since the onset of the health crisis. This performance runs in contrast to the trio of other major Southern California metros as each recorded positive retail absorption in the second quarter of 2021. Of concern for Los Angeles, 50,000-square-foot-plus lease executions have been absent from the marketplace since last July with expansions by supermarkets and gyms accounting for most of the 20,000-square-foot-plus commitments.

Bright spots appear amid volatility. The county's retail outlook is being aided by a group of macro and submarket-specific fundamentals. The San Fernando Valley and Mid-Cities areas, which contain one-fourth of the metro's total inventory, each recorded positive absorption during the first half of 2021, helping reduce or keep local vacancies stable. On a broader scale, the county's construction pipeline is historically below average with two-thirds of the nearly 1.6 million square feet underway accounted for. Additionally, assets purchased by investors for redevelopment represented 10 percent of total retail deal flow over the past year, supporting the future removal of vacant inventory from the market.

Employment Trends



* Forecast

Sources: BLS; CoStar Group, Inc.

Retail 2021 Outlook



**250,000
JOBS**

will be created

EMPLOYMENT:

Los Angeles County recovers nearly half of the 534,300 positions lost last year as traditional office-using firms and leisure and hospitality-related businesses bolster staffs. This job creation translates to a 6.2 percent rate of employment growth in 2021.



**1,020,000
SQ. FT.**

will be completed

CONSTRUCTION:

Completions expand the metro's inventory by just 0.3 percent in 2021 as annual delivery volume trails the prior five-year average by 275,000 square feet. Among submarkets, West Los Angeles is slated to receive the largest influx of new supply.



**50
BASIS POINT**

increase in vacancy

VACANCY:

The market's available stock expands by roughly 1.9 million square feet, pushing vacancy up to 6.4 percent. While this represents a fifth consecutive year of increases, the uptick recorded in 2021 marks a reduction from last year's 80-basis-point gain.



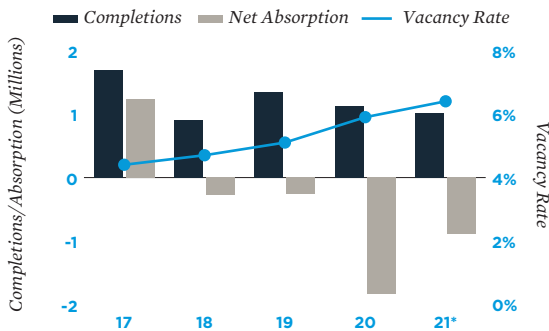
**1.3%
INCREASE**

in asking rent

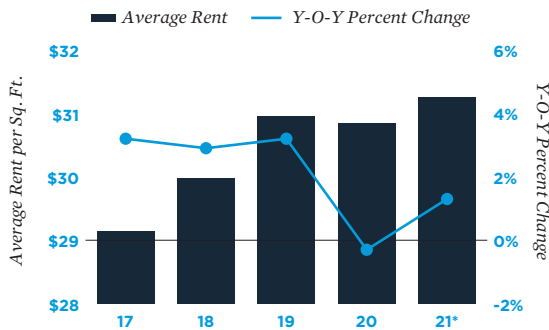
RENT:

Following a nominal decrease in asking rent last year, Los Angeles County's marketed rate rises moderately in 2021 to an average of \$31.25 per square foot. A more pronounced gain in single-tenant rent will boost the overall mean.

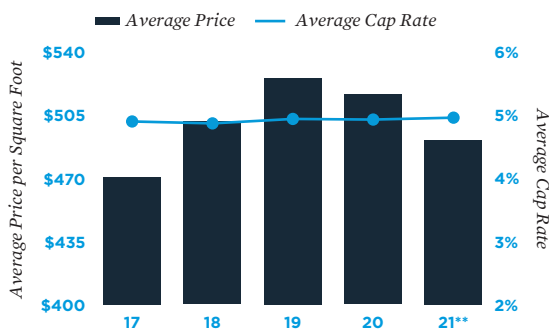
Supply and Demand



Rent Trends



Sales Trends



* Forecast **Through 2Q

Sources: CoStar Group, Inc.; Real Capital Analytics

IPA Retail

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Price: \$250

2Q21 – 12-Month Period



CONSTRUCTION

1,150,000 square feet completed

- Developers expanded Los Angeles County’s inventory by 0.3 percent over the past four quarters ended in June. The San Fernando Valley was the only submarket to add more than 300,000 square feet.
- Entering September, four projects across Downtown Los Angeles, Culver City and Inglewood accounted for half of the active pipeline.



VACANCY

80 basis point increase in vacancy Y-O-Y

- The market’s vacant stock grew by nearly 3 million square feet over the past year, lifting availability to 6.2 percent.
- All submarkets with more than 10 million square feet of inventory recorded vacancy expansion, with Mid-Wilshire and West Los Angeles both registering 150-basis-point increases.



RENT

1.0% increase in the average asking rent Y-O-Y

- The average asking rent rose moderately reaching a record mark of \$31.04 per square foot in June. San Gabriel Valley, South Bay and South-east Los Angeles noted rate gains that exceeded 6 percent.
- Multi-tenant asking rent fell 1.9 percent, while the mean single-tenant rate rose 1.8 percent to a new high of \$31.49 per square foot.

Investment Highlights

- Sales activity fell 25 percent over the past year ended in June with one-third of all trades occurring during the second quarter of 2021. Out-of-state investors have been largely absent from the market with deal flow dominated by California-based buyers that are executing 1031 exchanges or acquiring highly vacant assets.
- Submarkets where asset values are frequently below the metro’s average accounted for a larger percentage of single-tenant transactions over the past 12 months, lowering the sector’s mean price point 7 percent to \$537 per square foot. Mid-Cities, South Bay and the San Gabriel Valley represented top locales for sales activity, with restaurants and fast-food shops carrying deal flow. These properties along with triple net leased supermarkets and convenience stores are trading at low-3 to low-4 percent minimum returns.
- Multi-tenant deal flow declined by roughly 40 percent over the past year with pre-1980s-built shopping centers accounting for the bulk of trades. The volume of lower quality property transactions reduced pricing in the segment by 5 percent to an average of \$433 per square foot. Select strip centers remain available at 6 percent-plus cap rates.

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. Note: 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: IPA Research Services; Bureau of Labor Statistics; CoStar Group, Inc.; Real Capital Analytics