

Los Angeles

Retail Market 3Q 2018

MARKET OVERVIEW

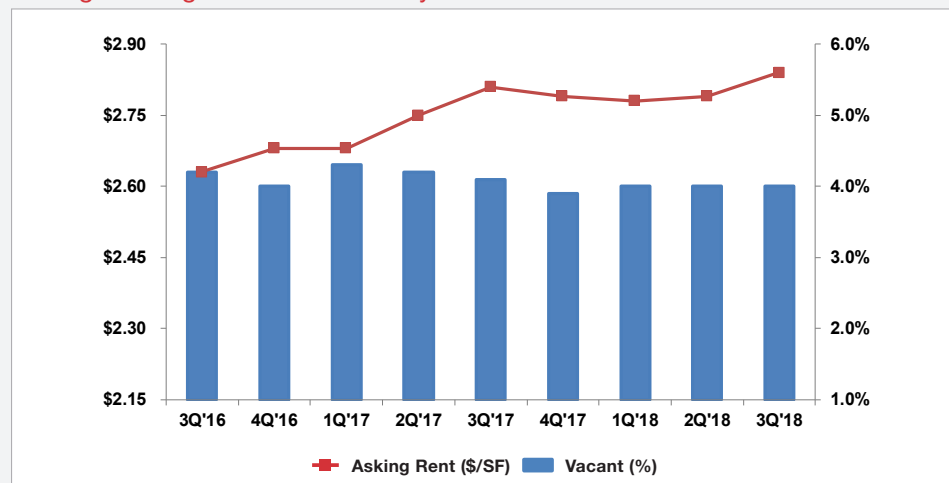
The Los Angeles retail market continued on a steady course in 3Q 2018. The average asking rent reached a 10-year high of \$2.84/SF— signaling that the retail market reached a new peak. The vacancy rate remained at 4.0%, down 10 basis points year over year. Completed construction added 233,774 SF to the market, including Palisades Village, a 125,000 SF upscale lifestyle center in Pacific Palisades. The Village was fully leased at completion to Amazon Books and over 43 local boutique retailers. Approximately 1.5M SF of retail space remains under construction, such as mixed-use developments The Collection at Oceanwide Plaza in Downtown Los Angeles and The Vineyards at Porter Ranch.

Employment trends bode well for the retail trade sector as Leisure and Hospitality, which included food services, lead Los Angeles County in annual increases with 21,800 new jobs from July to August 2018. Moreover, U.S. consumer confidence surged to near an 18-year high in August. These indicators reveal a healthy economy leading up to the fourth quarter, which is typically the strongest sales period of the year for the retail industry.

TRENDS TO WATCH

This has been yet another challenging year for traditional retailers with pending store closures from Lowe's Orchard stores, Starbucks, and H&R Block. Although the nationwide landscape appears rocky for retail, Los Angeles looks solid. In Downtown L.A.'s Arts District, Two Bit Circus, a 50,000 SF micro-amusement park opened this quarter, bringing a distinct brand of ecommerce-proof entertainment to this emerging community. Dover Street Market, a high-fashion retailer based in London, will open a 2,500 SF store in the Arts District this fall. Expect more retail tenants to follow their lead to the Arts District. Discount retail also remains strong in L.A. with the planned 400,000 SF Los Angeles Premium Outlets in Carson, from developers Macerich Co. in partnership with Simon, scheduled to open 3Q 2021. The property will enjoy proximity to the new NFL stadium and is expected to turn Carson into a thriving commerce/tourism center.

Average Asking Rent* and Vacancy Rate



MARKET OUTLOOK

Asking Rental Rates



Sale Prices



Availability/Vacancy Rates



Landlord Concessions



Sales/Leasing Volume



New Construction



NAI Capital Research
www.naicapital.com

Los Angeles

Retail Market 3Q 2018

Market Statistics

SUBMARKET	EXISTING TOTAL RBA (SF)	UNDER CONSTRUCTION (SF)	TOTAL AVAILABLE (%)	TOTAL VACANCY (%)	3Q18 LEASING VOLUME (SF)	YTD LEASING VOLUME (SF)	3Q18 SALES VOLUME (SF)	YTD SALES VOLUME (SF)	AVERAGE ASKING RENT \$/SF NNN	AVERAGE SALE PRICE \$/SF
Central	16,627,450	153,192	9.5%	5.3%	47,444	275,824	71,896	675,454	\$2.67	\$716
Mid-Wilshire	7,793,979	45,179	4.7%	3.6%	42,023	131,067	75,387	194,871	\$2.58	\$401
LA North	71,786,887	478,094	6.1%	3.6%	311,960	1,182,152	649,035	1,417,126	\$2.32	\$319
San Gabriel Valley	63,911,795	157,109	5.0%	3.3%	232,980	997,584	459,916	1,431,146	\$1.84	\$251
South Bay	64,209,863	338,809	6.4%	5.1%	274,073	1,116,829	508,962	1,241,504	\$2.26	\$333
Tri-Cities	28,213,244	134,987	5.4%	3.8%	178,072	398,231	329,172	590,304	\$3.04	\$531
LA West	53,550,110	204,766	5.8%	4.1%	387,138	1,077,832	373,641	950,349	\$4.96	\$1,081
Los Angeles County	306,093,328	1,512,136	5.9%	4.0%	1,473,690	5,179,519	2,468,009	6,500,754	\$2.84	\$466

Leasing

Overall leasing volume in Greater Los Angeles was lower this quarter, totaling nearly 1.5M SF, down 10.1% from 2Q 2018 and 37.7% year over year. Tri-Cities was the only market to experience an increase in leasing volume over the prior quarter. Blink Fitness, a value-based fitness club franchise established in New York, signed a 17,000 SF lease in Burbank along with 5,526 SF in Glendale with plans to open two new locations.

Developer Rick Caruso's redevelopment of the Palisades Village in the exclusive coastal community of Pacific Palisades opened in September 2018 fully leased. This long-awaited luxe project, designed to blend into the surrounding neighborhood, spurred a spike in the average asking rent for similar properties. Consequently, lifestyle centers witnessed an impressive 45.5% surge in the average asking rent year over year to \$4.80/SF.

Sales

Sales activity maintained a brisk space heading into the second half of 2018. Sales volume totaled just under 2.5M SF while the average sales price registered at \$466/SF. The LA West market posted the highest average sales price this quarter at \$1,081/SF in 56 transactions. Children's Hospital Los Angeles purchased a 43,526 SF supermarket building in Los Feliz for \$90M or \$2,068/SF from Albertsons Companies. Cannabis industry titan MedMen expanded its West Hollywood footprint buying 5,166 SF of space from R & L Properties for \$17.3M or \$3,339/SF.

Cap rates averaged 4.5% this quarter, down 34 basis points from 3Q 2017. LA West saw a 3.89% average cap rate, so expect investors to focus on that market for the remainder of the year.

Select Lease Transactions

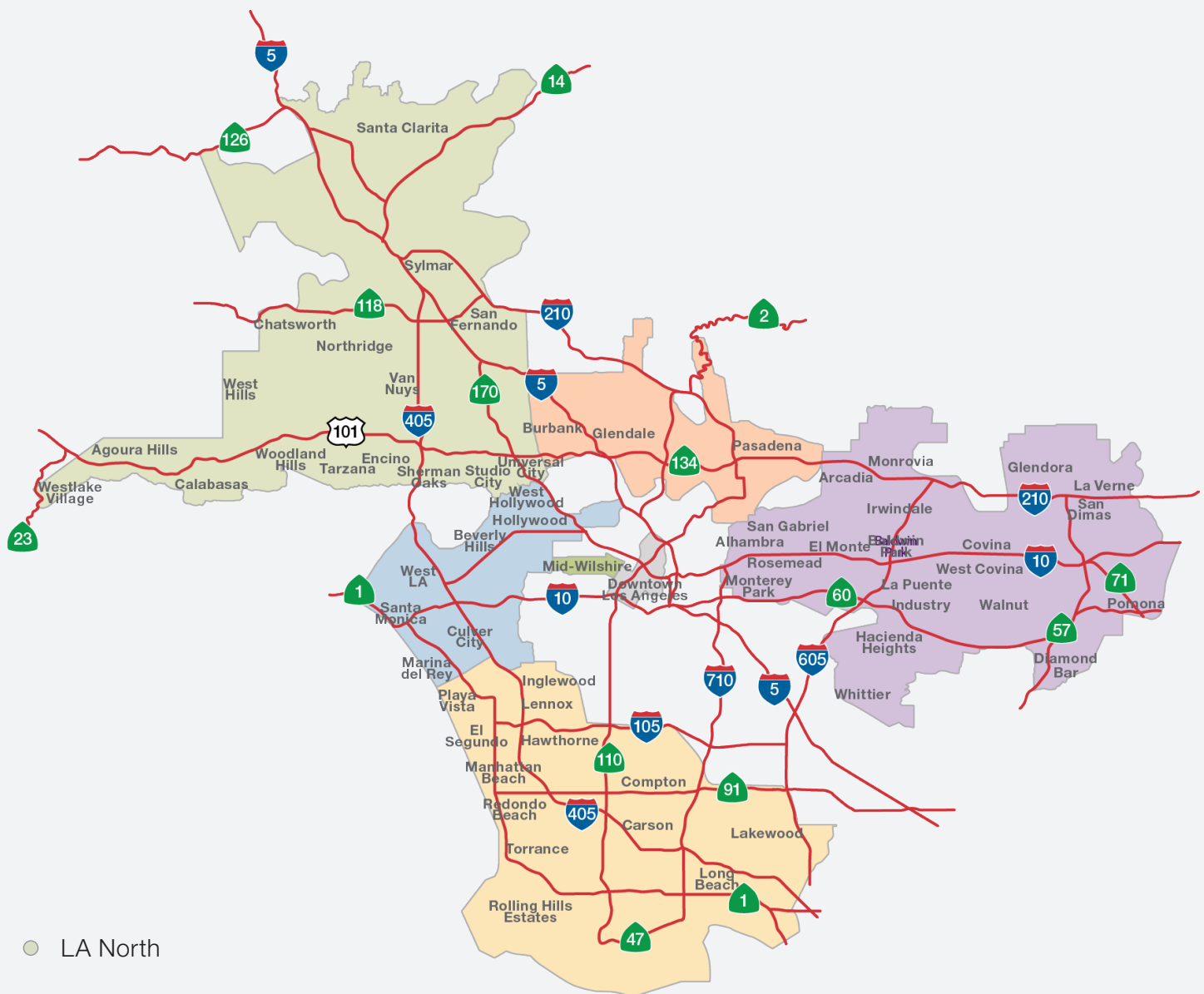
TENANT	ADDRESS	SUBMARKET	ASKING RENT \$/SF**	SQUARE FEET
PK Market	712 S Olive St	Central	Withheld	51,700
Smart & Final	701 S Garey Ave	SGV	Withheld	28,000
Planet Fitness	1890 Ximeno Ave	South Bay	Withheld	21,440
Blink Fitness	1060 W Alameda Ave	LA North	Withheld	17,000
Fashion Q	6418-6446 Bellingham St	LA North	\$1.75	6,720

Select Sales Transactions

BUYER	ADDRESS	SUBMARKET	SALE PRICE \$/SF	SQUARE FEET
Private Investor	11801 W Olympic Blvd	LA West	\$904	50,000
Children's Hospital Los Angeles	4520 W Sunset Blvd	LA West	\$2,068	43,526
Windsor Fashions, Inc.	310 S Lake Ave	Tri-Cities	\$585	39,290
Private Investor	7060 W Sunset Blvd	LA West	\$690	27,168
Outlook Resources, Inc.	1710-1772 Clark Ave	South Bay	\$306	19,720

Los Angeles

Retail Market 3Q 2018



- LA North
- Tri-Cities
- San Gabriel Valley
- LA West
- Central
- Mid-Wilshire
- South Bay

Los Angeles

Retail Market 3Q 2018



The Wehrmann Group



Walt Wehrmann

Vice President

D 949.468.2326 • C 760.508.9253
wwehrmann@naicapital.com
Cal DRE Lic #01168981

Janette Wehrmann

Vice President

D 949.468.2339 • C 949.836.6459
jwehrmann@naicapital.com
Cal DRE Lic #01213603

NAI Capital Research

J.C. Casillas

Vice President

Research, Marketing and Communications
jcasillas@naicapital.com

Jillian Olivas

Research and Communications Assistant
jolivas@naicapital.com

Kevin de Bree

Research Analyst

kdebree@naicapital.com

Katherine Tattersfield

Marketing Research Writer

ktattersfield@naicapital.com

NAI Capital Southern California Office Locations

Headquarters

16001 Ventura Blvd., Ste. 200
Los Angeles, CA 91436
818.905.2400

Property Management

120^{1/2} South El Camino Real, Ste. 210
San Clemente, CA 92674
949.874.0415

Los Angeles County

Downtown LA

601 S. Figueroa St., Ste 3825
Los Angeles, CA 90017
213.632.7700

West Los Angeles

11835 Olympic Blvd., Ste. 700E
Los Angeles, CA 90064
310.440.8500

Torrance

970 W. 190th St. Dr., Ste. 100
Torrance, CA 90502
310.532.9080

Pasadena

225 S. Lake Ave., Ste. 1170
Pasadena, CA 91101
626.564.4800

Valencia

27451 Tournay Rd., Ste. 200
Valencia, CA 91355
661.705.3550

Diamond Bar

21660 E. Copley Dr., Ste. 320
Diamond Bar, CA 91765
909.348.0600

Ventura County

Oxnard

300 Esplanade Dr., Ste. 1660
Oxnard, CA 93036
805.278.1400

Westlake Village

2555 Townsgate Rd., Ste. 320
Westlake Village, CA 91361
805.446.2400

Inland Empire

Ontario

800 N. Haven Dr., Ste. 400
Ontario, CA 91764
909.945.2339

Temecula

27720 Jefferson Ave., Ste. 330
Temecula, CA 92590
951.491.7590

Victorville

13911 Park Avenue, Ste. 206
Victorville, CA 92392
760.780.4200

Orange County

Irvine

1920 Main St., Ste. 100
Irvine, CA 92614
949.854.6600

Coachella Valley

Palm Desert

75-410 Gerald Ford Dr., Ste. 200
Palm Desert, CA 92211
760.346.1566