

# GREATER LOS ANGELES | RETAIL

## Q3 2017

Accelerating success.

## Positive Momentum Continues for Greater Los Angeles Retail

### Greater Los Angeles Retail Market

The Los Angeles Basin retail market closed the third quarter on a positive note as net absorption recorded 1.2 million square feet (SF). A total of 499,000 SF was delivered to the base with new construction completions. The Los Angeles County market had the highest number of new construction deliveries recording 248,700 SF, with the Inland Empire following at 135,200 SF and Orange County recording last at 115,100 SF. All counties recorded positive absorption: Los Angeles County (934,800SF), Inland Empire (228,800 SF) and Orange County (52,200 SF).

The vacancy rate for the Greater Los Angeles region decreased to 5.4%, down 20 basis points from last quarter. The vacancy rate a year ago stood at 5.7%. Los Angeles County recorded the lowest vacancy rate at 4.2%, a decrease of 60 basis points. Orange County followed, recording a vacancy of 4.3%, a decrease of 10 basis points, and the Inland Empire recorded the highest vacancy rate at 8.4%, a decrease of 10 basis points.

The weighted average asking rental rate increased up \$0.01 to \$2.00 per square foot (PSF), triple net (NNN), per month from the previous quarter. Asking rents were highest in Los Angeles county at \$2.54 PSF NNN and lowest in the Inland Empire at \$1.46 PSF NNN. Super regional malls in Los Angeles County remain the most expensive space at \$6.20 PSF NNN.

Annual national retail and food services sales for August 2017 increased by 3.2%. According to the Conference Board Consumer Confidence Index, consumer confidence decreased slightly in September due to the impact of recent weather events. Despite the slight downtick in confidence, consumer assessment of current economic conditions remains favorable as the economy is expected to expand at its current pace.

### Market Indicators | Relative to prior period

|                       | Q3 2017 | Forecast |
|-----------------------|---------|----------|
| Vacancy               | ↓       | →        |
| Net Absorption        | ↑       | →        |
| Construction          | ↓       | →        |
| Rental Rate           | ↑       | ↑        |
| Unemployment: LA 4.8% | ↑       | →        |
| OC 4.2%               | ↑       | →        |
| IE 6.2%               | ↑       | →        |

### Summary Statistics | Greater Los Angeles, Q3 2017

|                                   | GLA Retail Market |
|-----------------------------------|-------------------|
| Vacancy Rate                      | 5.4%              |
| Change from Q2 '17 (Basis Points) | -20 BPS           |
| Net Absorption                    | 1.2M SF           |
| Construction Completions          | 499,000 SF        |
| Under Construction                | 2.9M SF           |

### Asking Rents | Greater Los Angeles, Q3 2017

|                              | GLA Retail Market |
|------------------------------|-------------------|
| Average Asking Rent (\$/NNN) | \$2.00 PSF        |
| Change from Q2 '17 (\$)      | \$0.01            |
| Y.O.Y. Change (%)            | 1.5%              |

### Labor Force | Greater Los Angeles, August 2017

|                                | Wholesale Trade | Retail Trade | Leisure & Hospitality |
|--------------------------------|-----------------|--------------|-----------------------|
| 12-mo Employment Growth (%)    | 0.2%            | 0.2%         | 1.7%                  |
| 12-mo Actual Employment Change | 800             | 1,500        | -1,500                |

## Los Angeles County

The Los Angeles County retail market recorded positive movement, recording 934,800 SF of absorption and resulting in the highest amount of absorption in the Los Angeles Basin. Due to positive absorption, vacancy decreased by 60 basis points to 4.2%. Asking rental rates recorded at \$2.45 PSF NNN. The average asking rental rate was highest in the super regional/regional malls product type.

Currently, a total of 1,180,800 SF of retail space is under construction in Los Angeles County. The largest project under construction is The Vineyards in Porter Ranch, consisting of 214,800 SF. The project is expected to be completed by mid-2018. A notable lease transaction in the Los Angeles County market was Target leasing 45,000 SF at 1 Sport Chalet Drive in La Canada Flintridge.

## Orange County

Orange County absorption recorded positive movement at 52,200 SF. Total vacancy decreased to 4.3% from last quarter's 4.4%. Demand for retail space in Orange County is expected to remain positive as new multifamily product continues to deliver within the market. The overall average asking rental rate increased in comparison from last quarter, increasing \$0.03 to \$2.18 PSF NNN.

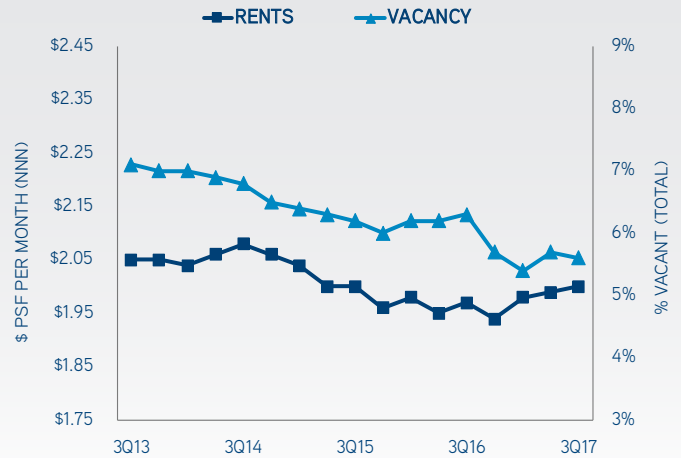
Approximately 555,000 SF of retail space is under construction in Orange County. The largest property currently being built is the Laguna Hills Mall, which consists of 170,000 SF and is expected to be completed by the third quarter of 2018.

## Inland Empire

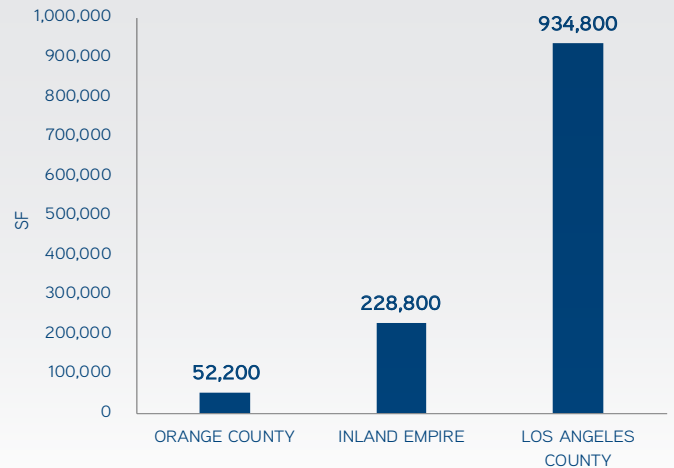
Inland Empire retail market activity witnessed a decrease in vacancy by 10 basis points to 8.4% during the third quarter. Overall net absorption recorded positive at 228,800 SF for the quarter. Average asking rents increased \$0.05 PSF NNN from last quarter to end the third quarter at \$1.46 PSF NNN.

Currently 1.2 million SF of new retail inventory is under construction in the Inland Empire market. The largest project currently under construction is the 260,765 SF Renaissance Marketplace located in Rialto. The regional mall is expected to be completed by mid-2018. The Renaissance Marketplace also marked a recent notable lease as Cinemark leased 56,500 SF.

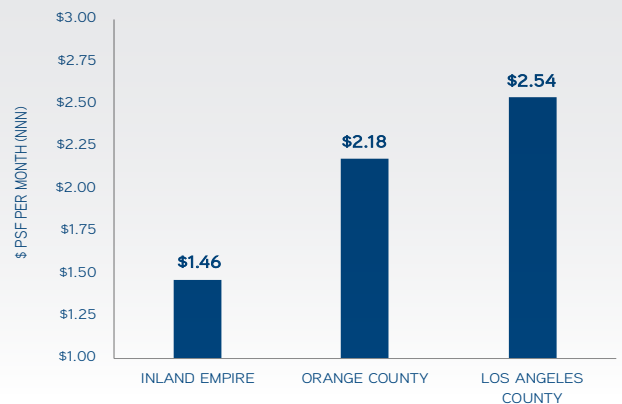
Historical Vacancy v. Rents | GLA Retail Market Q3 '13-'17



Net Absorption by Market | GLA Retail Market Q3 2017



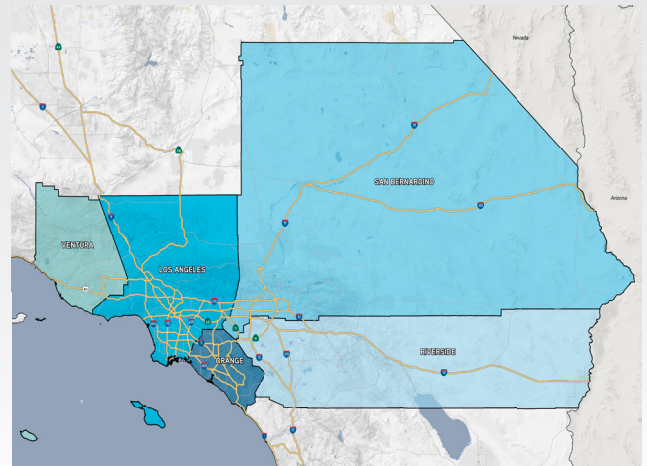
Weighted Average Asking Lease Rates by Market | GLA Retail Market Q3 2017



## Market Description

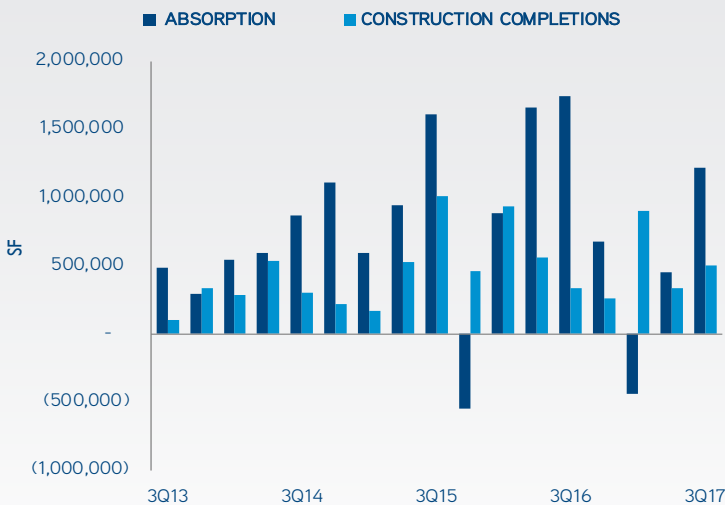
The Greater Los Angeles retail market is comprised of 474 million square feet of multi-tenant shopping centers and single tenant properties. Community/neighborhood centers represent the majority of space (38%) among the different property types. The market attracts both affordable retailers and high-end stores due to a population that demands a wide variety of product. High median income households and strong population growth contribute to make this region attractive to retailers.

## Submarket Map



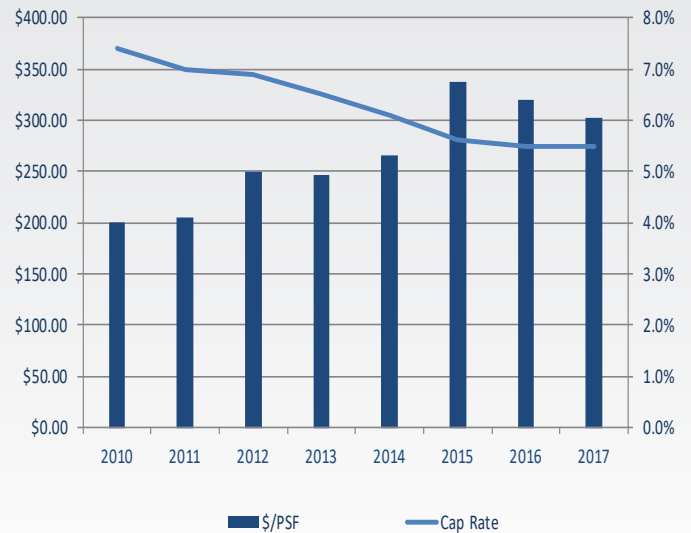
## Historical Net Absorption & Construction Completions

GLA Retail Market Q3 '13-'17



## Investment Trends

GLA Retail Market 2010-2017



## RETAIL OVERVIEW

GLA Retail Market  
Q2 2017

| EXISTING PROPERTIES              |                          | VACANCY          |                               | ABSORPTION                             |                                | CONSTRUCTION                     |                             | RENTS                                 |
|----------------------------------|--------------------------|------------------|-------------------------------|--|--------------------------------|----------------------------------|-----------------------------|---------------------------------------|
| Market/<br>Property Type         | Total<br>Inventory<br>SF | Total<br>Vacancy | Total<br>Vacancy<br>Prior Qtr | Net<br>Absorption<br>Current Qtr<br>SF | Net<br>Absorption<br>YTD<br>SF | Completions<br>Current Qtr<br>SF | Under<br>Construction<br>SF | Weighted<br>Avg Asking<br>Lease Rates |
| <b>LOS ANGELES COUNTY</b>        |                          |                  |                               |  |                                |                                  |                             |                                       |
| SUPER REGIONAL/REGIONAL MALLS    | 27,614,100               | 2.6%             | 3.2%                          | 171,000                                | 215,800                        | 0                                | 125,000                     | \$6.20                                |
| POWER CENTERS                    | 14,342,000               | 6.5%             | 6.3%                          | 66,500                                 | 20,500                         | 91,000                           | 0                           | \$2.12                                |
| LIFESTYLE/THEME-FESTIVAL CENTERS | 6,506,800                | 3.4%             | 4.0%                          | 38,800                                 | (14,000)                       | 0                                | 450,200                     | \$2.97                                |
| COMMUNITY/NEIGHBORHOOD CENTERS   | 81,031,500               | 6.0%             | 6.4%                          | 385,200                                | (81,900)                       | 51,700                           | 439,400                     | \$2.12                                |
| STRIP CENTERS                    | 31,295,900               | 5.2%             | 5.0%                          | (51,900)                               | (103,200)                      | 0                                | 136,500                     | \$2.27                                |
| SINGLE TENANT BLDGS.             | 77,319,600               | 2.2%             | 2.5%                          | 325,200                                | 469,900                        | 106,000                          | 29,700                      | \$2.61                                |
| <b>SUBTOTAL</b>                  | <b>238,109,900</b>       | <b>4.2%</b>      | <b>4.8%</b>                   | <b>934,800</b>                         | <b>507,100</b>                 | <b>248,700</b>                   | <b>1,180,800</b>            | <b>\$2.54</b>                         |
| <b>ORANGE COUNTY</b>             |                          |                  |                               |  |                                |                                  |                             |                                       |
| SUPER REGIONAL/REGIONAL MALLS    | 10,592,800               | 0.7%             | 0.7%                          | 3,000                                  | 23,900                         | 0                                | 170,000                     | \$2.92                                |
| POWER CENTERS                    | 7,945,600                | 3.5%             | 3.4%                          | (9,600)                                | 700                            | 0                                | 0                           | \$2.00                                |
| LIFESTYLE/THEME-FESTIVAL CENTERS | 3,006,200                | 13.7%            | 15.3%                         | 59,600                                 | 284,300                        | 13,800                           | 35,000                      | \$2.22                                |
| COMMUNITY/NEIGHBORHOOD CENTERS   | 46,246,200               | 5.8%             | 5.6%                          | (6,000)                                | (63,500)                       | 101,300                          | 350,000                     | \$2.23                                |
| STRIP CENTERS                    | 10,447,300               | 5.1%             | 5.2%                          | 4,000                                  | (69,900)                       | 0                                | 0                           | \$2.13                                |
| SINGLE TENANT BLDGS.             | 23,775,500               | 1.8%             | 1.8%                          | 1,200                                  | 36,200                         | 0                                | 0                           | \$1.85                                |
| <b>SUBTOTAL</b>                  | <b>102,013,600</b>       | <b>4.3%</b>      | <b>4.4%</b>                   | <b>52,200</b>                          | <b>211,700</b>                 | <b>115,100</b>                   | <b>555,000</b>              | <b>\$2.18</b>                         |
| <b>INLAND EMPIRE</b>             |                          |                  |                               |  |                                |                                  |                             |                                       |
| SUPER REGIONAL/REGIONAL MALLS    | 11,220,900               | 7.2%             | 7.0%                          | (13,700)                               | (41,800)                       | 0                                | 349,000                     | \$2.12                                |
| POWER CENTERS                    | 11,466,900               | 9.4%             | 9.7%                          | 33,500                                 | 148,000                        | 0                                | 0                           | \$1.63                                |
| LIFESTYLE/THEME-FESTIVAL CENTERS | 2,151,900                | 8.3%             | 8.3%                          | 100                                    | (45,700)                       | 0                                | 40,000                      | \$2.30                                |
| COMMUNITY/NEIGHBORHOOD CENTERS   | 54,184,200               | 12.1%            | 11.8%                         | (35,900)                               | 241,100                        | 111,400                          | 674,400                     | \$1.37                                |
| STRIP CENTERS                    | 12,666,100               | 9.1%             | 9.1%                          | 7,600                                  | 31,800                         | 3,500                            | 116,200                     | \$1.41                                |
| SINGLE TENANT BLDGS.             | 42,029,900               | 3.6%             | 4.1%                          | 237,200                                | 171,700                        | 20,300                           | 43,700                      | \$1.31                                |
| <b>SUBTOTAL</b>                  | <b>133,719,900</b>       | <b>8.4%</b>      | <b>8.5%</b>                   | <b>228,800</b>                         | <b>505,100</b>                 | <b>135,200</b>                   | <b>1,223,300</b>            | <b>\$1.46</b>                         |
| <b>LA BASIN TOTAL</b>            |                          |                  |                               |  |                                |                                  |                             |                                       |
| SUPER REGIONAL/REGIONAL MALLS    | 49,427,800               | 3.2%             | 3.2%                          | 160,300                                | 197,900                        | 0                                | 644,000                     | \$3.99                                |
| POWER CENTERS                    | 33,754,500               | 6.8%             | 6.9%                          | 90,400                                 | 169,200                        | 91,000                           | 0                           | \$1.87                                |
| LIFESTYLE/THEME-FESTIVAL CENTERS | 11,664,900               | 7.0%             | 10.2%                         | 98,500                                 | 224,600                        | 13,800                           | 525,200                     | \$2.44                                |
| COMMUNITY/NEIGHBORHOOD CENTERS   | 181,461,900              | 7.8%             | 7.8%                          | 343,300                                | 95,700                         | 264,400                          | 1,463,800                   | \$1.79                                |
| STRIP CENTERS                    | 54,409,300               | 6.1%             | 5.9%                          | (40,300)                               | (141,300)                      | 3,500                            | 252,700                     | \$1.95                                |
| SINGLE TENANT BLDGS.             | 143,125,000              | 2.5%             | 3.3%                          | 563,600                                | 677,800                        | 126,300                          | 73,400                      | \$1.98                                |
| <b>TOTAL</b>                     | <b>474,287,323</b>       | <b>5.4%</b>      | <b>5.6%</b>                   | <b>1,215,800</b>                       | <b>1,223,900</b>               | <b>499,000</b>                   | <b>2,959,100</b>            | <b>\$2.00</b>                         |

## Definitions of key terms in this report

### Anchor Tenant:

A large national or regional retailer that serves as a primary draw for a shopping center.

### Capitalization (Cap) Rate:

A calculation that shows the relationship between one year's net operating income and the current market value of a property. Is calculated by dividing the annual net operating income by the sales price.

### Community Center:

Typically has a total square footage between 100,000 - 350,000 square feet. Often will have 2-3 large anchored tenants, which include supermarkets and drugstores. Other tenants may include retailers that sell items such as apparel, home improvement/furnishings, toys, electronics, or sporting goods.

### Direct Vacancy:

Space in existing buildings that is vacant and immediately available during the quarter for direct lease, plus space that is vacant but not available for direct lease or sublease (for example, that is being held for a future commitment).

### Lifestyle Center:

An upscale specialty store shopping center that has a total square footage between 150,000 - 500,000 square feet. The center usually has an outdoor setting with dining and entertainment.

### Neighborhood Center:

Focuses on retailers that sell convenience items and personal services. The center will often have a supermarket as an anchor tenant. The size range is 30,000 - 300,000 square feet.

### Power Center:

The center often consists of several freestanding anchors with a minimum number of small tenants. The size of the property is typically between 250,000 - 600,000 square feet. The anchor tenants are usually discount department stores, off-price stores, and warehouse clubs.

### Regional/SuperRegional Mall:

Provides shopping goods, general merchandise, apparel, and furniture. Often consists of multiple department stores. Regional Malls usually are between 400,000 - 800,000 square feet, and Super Regional Malls typically are greater than 800,000 square feet.

### Theme/Festival Center:

Predominantly has a unifying theme based on tenants and architectural design. Focuses on restaurants and entertainment while appealing to tourists. The size range is 80,000 - 250,000 square feet.

### Single Tenant Free Standing Building:

Retail building occupied by only one tenant.

### Space Added (Net):

Total square feet added during the quarter via construction completions, including renovated space returned to market, less total square feet taken off-market due to demolitions or conversions.

### Strip Center:

An attached row of stores or service outlets while usually being less than 30,000 square feet.

### Under Construction:

Includes buildings that are in some phase of construction, beginning with foundation work and ending with the issuance of a Certificate of Occupancy.

### Weighted Average Asking Rental Rates:

Weighted by the total square feet available for direct lease. Data is based on triple net rents, which excludes costs associated with taxes, insurance, maintenance, janitorial service and utilities. Reported on a monthly, per square foot basis.

### Technical Note:

*Colliers International is continuously refining its database. The data shown in the historical tables and graphics in this report have been adjusted to take into account these changes in the database.*

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## 396 offices in 68 countries on 6 continents

|                    |  |
|--------------------|--|
| United States: 153 | > \$2.6 billion in annual revenue          |
| Canada: 29         | > 2.0 billion square feet under management |
| Latin America: 24  |  |
| Asia Pacific: 79   | > Over 15,000 professionals                |
| EMEA: 111          |  |

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