



FIRST QUARTER 2016 GREATER LOS ANGELES RETAIL

Voit
REAL ESTATE SERVICES

MARKET CHANGE

Compared to Previous Quarter:

Vacancy

DOWN



Net Absorption

POSITIVE



Lease Rates

DOWN



Transactions

DOWN



Deliveries

DOWN



HIGHLIGHTS

- **Encouraging Numbers** - Job growth in Los Angeles County over the past several years has exceeded the national average, a rarity for this slow-growth metro. With the local economy outpacing its structural growth rate, retail demand has surged. Centers with the broadest appeal to national tenants are winning. Malls have been the true core performers in Los Angeles this cycle, commanding an occupancy premium over all other retail subtypes from the start of the recession through to the present.
- **Construction** - Development is back on the table as notable projects have been given the green light. Developers have been keen to exploit LA's shifting demographics by uncovering new infill opportunities and building in gentrifying neighborhoods. One such project is At Mateo, a 130,000 SF shopping center underway in Downtown LA. There was just over 1.96 million square feet of retail space under construction in Los Angeles County at the end of first quarter 2016.
- **Vacancy** - Desirable centers are filling quickly. Greater than half of the market's vacant space is more than 40% empty. Unfilled centers generally need a significant capital infusion to become competitive, and until they do they aren't likely to attract new tenants. Excluding these, LA's vacancy rate is just 4.37%, or about the same level as 2007-08.
- **Availability** - Direct/sublease space being marketed was 6.14% this quarter, increasing from the previous quarter's rate of 6.07% and 7 basis points higher than the previous year's rate. Specialty Centers displayed the lowest availability rate of all of the retail types, at 2.00%, while the West LA area displayed the lowest rate of all of the submarkets, at 3.15%.
- **Lease Rates** - The average asking triple net lease rate per month per square foot in the Los Angeles retail market was \$2.32 at the end of the first quarter of 2016, up 18 cents year over year, an indication that the market is improving.
- **Absorption** - The Los Angeles County retail market posted 990,997 square feet of positive net absorption in the first quarter. Community-neighborhood shopping centers posted 398,154 square feet of positive net absorption, the highest among the five property types.
- **Transaction Activity** - Retail transaction volume has increased significantly over the past three years, and the largest proportion of buyers has been REITs/public companies. Leasing activity checked in at over 2.02 million square feet in the first quarter of 2016. The market saw 5.75 million square feet of sales for the quarter, a year-over-year increase of 32.6% when compared with 1st Quarter 2015.
- **Employment** - The unemployment rate in Los Angeles County declined to 5.6% in February 2016, down from a revised 5.8% in January 2016 and below the previous year's estimate of 7.5%. This compares with an unadjusted unemployment rate of 5.5% for California and 4.9% for the nation during the same period. According to the State of California Employment Development Department, Los Angeles County saw a net increase of 107,300 payroll jobs from February 2015 to February 2016. Major labor market contributions were seen from leisure and hospitality (up 19,500 jobs), accommodation & food services (up 15,300 jobs), and arts, entertainment, and recreation (up 4,200 jobs).
- **Overall** - Vacancies will be impacted by two major supermarket chains going out of business. Fresh & Easy and Haggen are shutting down and they both have a strong presence in LA. Fresh & Easy will close 54 stores in the Los Angeles area and Haggen will close 19 area stores. With the local economy outpacing its structural growth rate, retail demand has surged. Vacancies have tightened close to prerecession levels, and rent growth has ranked among the top markets in the country over the past year.

FORECAST

- **Construction** - Building out existing centers is a good strategy for development during this recovery. With few exceptions, the retail development being discussed today tends to involve expansion of existing centers rather than brand new construction.
- **Employment** - Los Angeles County has seen steady improvement over the past four years, both in terms of job gains and unemployment rate declines. This improvement is expected to continue in 2016 and 2017, although at a slower pace. With the economy back at full employment levels, wage gains are expected over the next year across many occupations.
- **Lease Rates** - Expect average asking lease rates to increase by 3% to 5% over the next four quarters.
- **Vacancy** - We anticipate vacancy rates continuing to descend in coming quarters, dropping by 37 basis points to around 4.00%, by the fourth quarter of 2016.

OVERVIEW

	1Q16	4Q15	1Q15	% of Change vs. 1Q15
Total Vacancy Rate	4.37%	4.55%	4.50%	(2.89%)
Availability Rate	6.14%	6.07%	6.07%	1.15%
Average Asking Lease Rate	\$2.32	\$2.42	\$2.14	8.41%
Sale & Lease Transactions	7,786,767	9,578,489	6,721,893	15.84%
Gross Absorption	3,674,160	3,648,907	2,897,766	26.79%
Net Absorption	990,997	6,041	347,561	N/A

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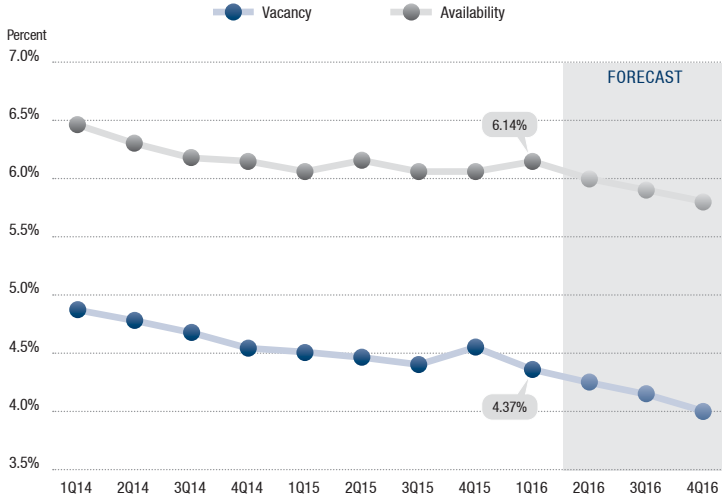
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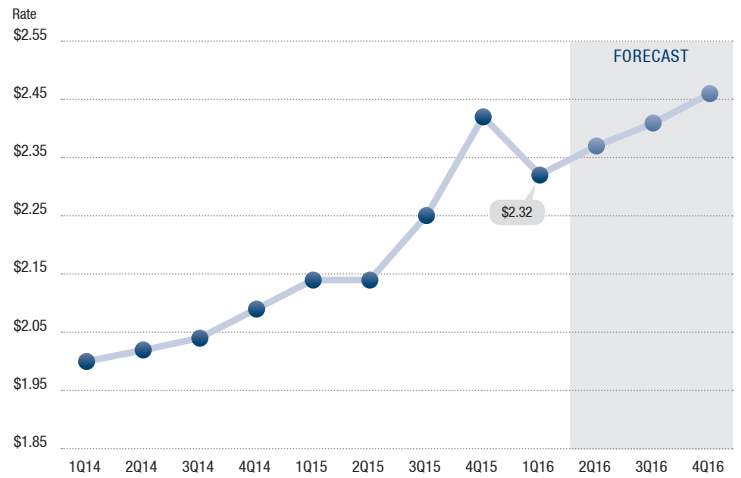
VACANCY & AVAILABILITY RATE

VACANCY – UNOCCUPIED SPACE | AVAILABILITY – ALL SPACE BEING MARKETED



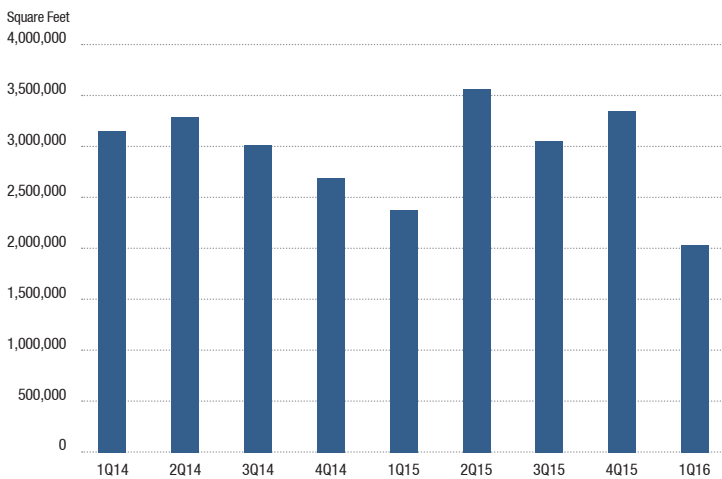
AVERAGE ASKING TRIPLE-NET LEASE RATE

MONTHLY OCCUPANCY COST ON A PER SQ. FT. BASIS



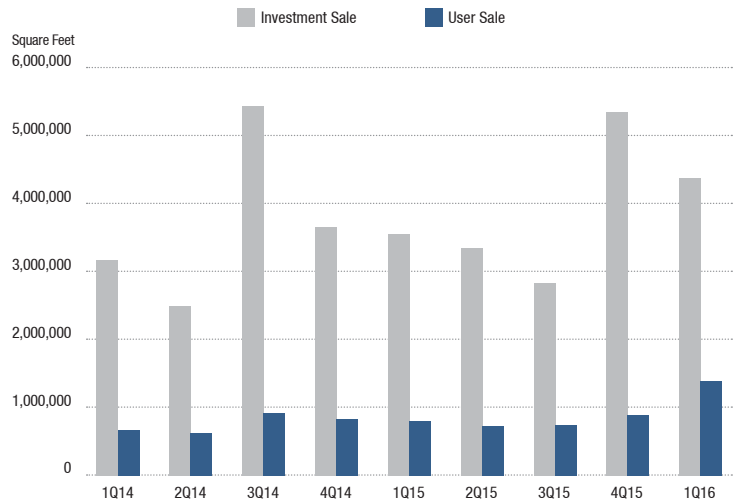
LEASE TRANSACTIONS

TOTAL AMOUNT OF SPACE THAT LEASED IN A QUARTER



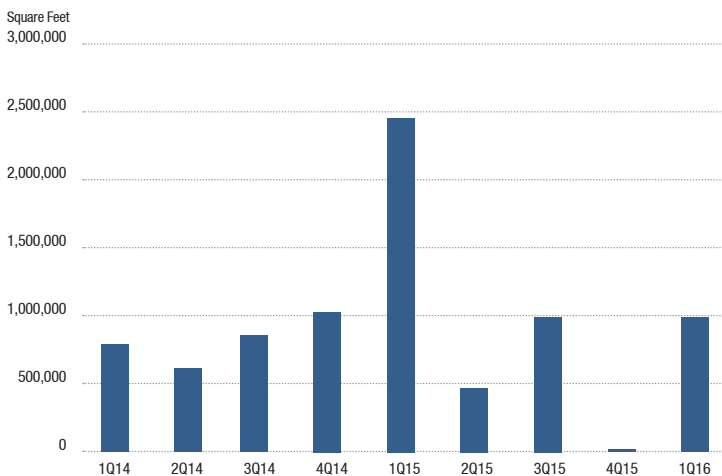
SALES TRANSACTIONS

TOTAL AMOUNT OF SPACE THAT SOLD IN A QUARTER



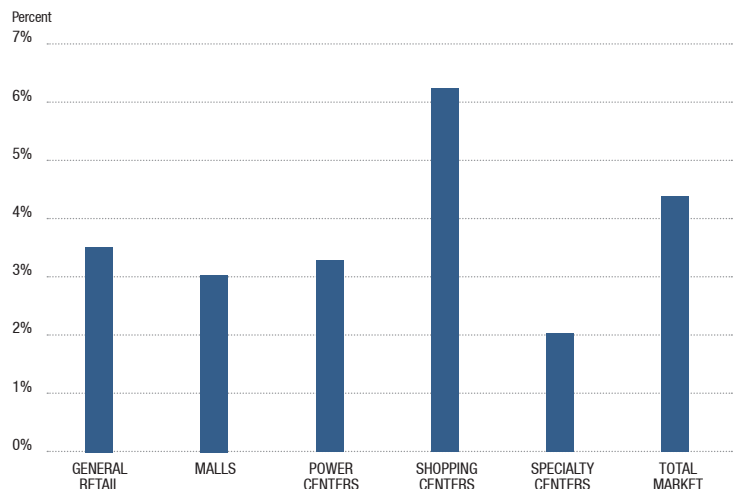
NET ABSORPTION

CHANGE IN THE AMOUNT OF OCCUPIED SPACE FROM ONE QUARTER TO THE NEXT



VACANCY RATE BY PRODUCT TYPE

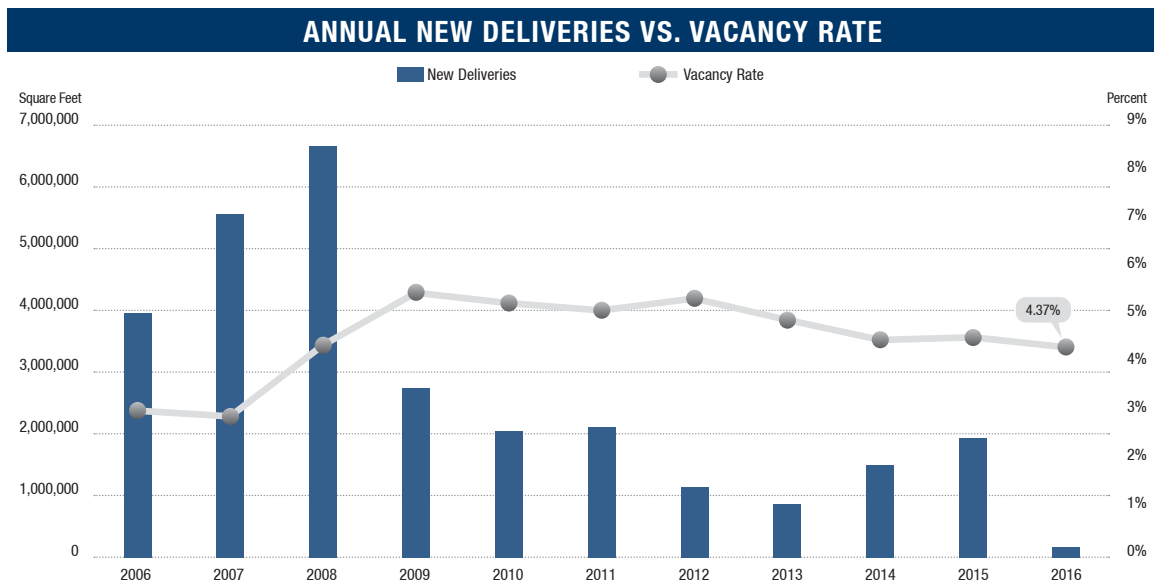
VACANCY – UNOCCUPIED SPACE



	INVENTORY				VACANCY & LEASE RATES					ABSORPTION			
	Number of Bldgs.	Net Rentable Square Feet	Square Feet U/C	Square Feet Planned	Square Feet Vacant	Vacancy Rate 1Q2016	Square Feet Available	Availability Rate 1Q2016	Average Asking Lease Rate	Net Absorption 1Q2016	Net Absorption 2015	Gross Absorption 1Q2016	Gross Absorption 2015
Los Angeles Market Total													
Antelope Valley	1,137	15,889,148	24,399	2,384,622	1,304,986	8.21%	1,413,328	8.89%	\$1.24	25,104	(74,991)	83,195	410,376
Burbank / Glendale / Pasadena	6,396	52,009,779	622,824	451,638	1,836,717	3.53%	2,255,287	4.34%	\$2.74	88,997	(162,904)	398,333	1,111,512
Downtown	2,004	23,715,920	407,138	674,477	926,340	3.91%	1,494,370	6.30%	\$2.68	(36,242)	361,677	81,426	796,298
Mid-Cities	5,603	47,322,954	80,889	1,297,111	2,406,080	5.08%	3,428,731	7.25%	\$1.59	161,762	70,652	382,087	1,308,251
Mid-Wilshire	3,951	34,518,795	170,497	411,649	1,287,096	3.73%	1,986,810	5.76%	\$3.87	52,009	146,415	286,406	1,263,261
San Fernando Valley	4,613	50,438,787	5,000	274,759	2,517,273	4.99%	3,092,435	6.13%	\$2.02	100,612	340,915	364,020	1,839,880
San Gabriel Valley	5,584	60,622,346	231,138	608,710	2,609,483	4.30%	3,721,039	6.14%	\$1.75	277,774	409,564	600,207	1,884,874
Santa Clarita Valley	739	12,625,073	0	159,688	662,409	5.25%	808,432	6.40%	\$1.85	34,243	167,391	69,410	430,024
South Bay	7,034	67,212,089	238,616	1,050,285	2,468,485	3.67%	3,740,939	5.57%	\$2.04	(39,937)	319,198	475,357	1,817,588
Southeast LA	1,845	19,131,241	23,606	351,259	667,009	3.49%	1,028,465	5.38%	\$1.81	62,038	219,838	174,357	676,012
Ventura North	1,778	18,046,025	4,306	183,675	1,013,686	5.62%	1,614,013	8.94%	\$1.70	57,524	(196,157)	119,221	330,353
Ventura South	1,738	25,761,477	83,833	731,313	1,436,694	5.58%	1,854,819	7.20%	\$2.07	32,967	(21,181)	214,082	685,889
West LA	4,454	39,056,075	70,410	2,073,612	1,229,606	3.15%	2,182,236	5.59%	\$4.73	174,146	95,623	426,059	1,277,341
Los Angeles Market Total	46,876	466,349,709	1,962,656	10,652,798	20,365,864	4.37%	28,620,904	6.14%	\$2.32	990,997	1,676,040	3,674,160	13,831,659

General Retail	36,924	233,791,249	1,549,437	6,631,344	8,192,021	3.50%	12,772,337	5.46%	\$2.57	325,904	858,884	1,769,350	6,825,849
Malls	447	42,689,247	0	257,565	1,286,357	3.01%	1,703,162	3.99%	\$4.56	66,279	745,035	103,444	965,701
Power Centers	634	26,902,578	34,625	621,380	876,164	3.26%	1,006,370	3.74%	\$1.65	179,415	55,144	207,856	352,912
Shopping Centers	8,833	159,076,431	378,594	3,112,509	9,933,442	6.24%	13,021,086	8.19%	\$2.03	398,154	(18,328)	1,567,098	5,632,440
Specialty Centers	38	3,890,204	0	30,000	77,880	2.00%	117,949	3.03%	\$1.16	21,245	35,305	26,412	54,757
Los Angeles Market Total	46,876	466,349,709	1,962,656	10,652,798	20,365,864	4.37%	28,620,904	6.14%	\$2.32	990,997	1,676,040	3,674,160	13,831,659

Lease rates are on a triple-net basis.



MAJOR TRANSACTIONS

Sales Transactions

Property Address	Submarket	Square Feet	Price Per SF	Buyer	Seller
12760 W. Millennium Dr. (6 Properties)	West LA	705,000	\$673.76	Invesco Real Estate	Lincoln Property Company
3500–3610 Peck Rd. (7 Properties)	San Gabriel Valley	473,347	\$178.52	Merlone Geier Management, Inc.	Decron Properties Corporation
12620–12770 Hawthorne Blvd. (2 Properties)	South Bay	97,719	\$440.04	AK Hawthorne, LLC	Paragon Commercial Group
8100–8118 Melrose Ave.	Mid–Wilshire	13,017	\$3,303.37	Cormackhill, LP	8100 Melrose Associates, LLC
2900 Townsgate Rd. (5 Properties)	Ventura South	76,613	\$528.63	Atlas Capital Group, LLC	Frank Miller

Lease Transactions

Property Address	Submarket	Square Feet	Transaction Date	Tenant	Owner
2301 E. Palmdale Blvd.	Antelope Valley	45,100	Mar-2016	Antelope Valley College	The Abbey Company
150 E. Main St.	San Gabriel Valley	42,856	Feb-2016	Burlington Coat Factory	Lloyds Bank
670 E. Los Angeles Ave.	Ventura North	40,518	Mar-2016	State Bros	Alton Plaza Dev. Co. Lessor
571 Lindero Canyon Rd.	Ventura South	37,703	Feb-2016	Smart & Final	Spirit Realty Capital
240 S. Diamond Bar Blvd.	San Gabriel Valley	33,262	Feb-2016	Smart & Final	Diamontris, LLC

General Retail: Typically single-tenant freestanding general purpose commercial buildings with parking. Many single retail buildings fall into this use code, especially when they don't meet any of the more detailed use code descriptions.

Mall: Retail centers which provide shopping goods, general merchandise, apparel, furniture, and home furnishings in full depth and variety. Malls are generally built around one or more full-line department stores as the major drawing powers. However, some malls, such as lifestyle centers, lack major anchors and instead rely on trendier, upscale retail to draw business from nearby affluent neighborhoods.

Power Center: The center typically consists of several freestanding anchors and only a minimum amount of small specialty tenants. 250,000–600,000 SF and is dominated by several large anchors, including discount department stores, off-price stores, and warehouse clubs.

Shopping Center: Combination of the following retail types:

Strip Center: An attached row of stores or service outlets managed as a coherent retail entity. May be configured in a straight line, L, or U shape. On-site parking usually in front of stores.

Neighborhood Center: Centers providing convenience goods (food, drugs, etc.) and personal services (laundry, dry cleaning, etc.) for day-to-day needs of surrounding neighborhood. Generally 30,000–100,000 square feet in size.

Community Center: Centers offering a wider range of apparel and goods than community centers. Often anchored by supermarkets, super drugstores, or discount department stores. Usually configured in a straight line or L or U shape. Generally 100,000–350,000 square feet in size.

Specialty Center: Centers focused on a particular specialty or theme. Examples include Airport Retail (a center using an airport as its main draw), Outlet Center (a center of bigger chain stores often found in malls selling their own merchandise at a discount), and Theme / Festival Center (centers built around a unifying theme, often appealing most to tourists).

SUBMARKETS

Antelope Valley
 Burbank / Glendale / Pasadena
 Downtown
 Mid-Cities
 Mid-Wilshire
 San Fernando Valley
 San Gabriel Valley
 Santa Clarita Valley
 South Bay
 Southeast LA
 Ventura North
 Ventura South
 West LA

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