Retail Market Report

Los Angeles - CA USA

PREPARED BY

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Overview

KEY INDICATORS

Current Quarter	RBA	Vacancy Rate	Market Asking Rent	Availability Rate	Net Absorption SF	Deliveries SF	Under Construction
Malls	40,027,126	10.0%	$3.74	6.8%	5,731	0	208,020
Power Center	22,518,009	5.1%	$3.02	6.5%	(52,297)	0	0
Neighborhood Center	101,210,811	6.8%	$2.96	7.7%	(60,468)	0	38,878
Strip Center	36,133,653	5.6%	$2.77	6.4%	(3,527)	0	104,030
General Retail	243,466,787	4.9%	$3.02	5.6%	(89,470)	0	204,666
Other	2,490,742	6.4%	$3.10	7.7%	(3,010)	0	0
Market	**445,847,128**	**5.9%**	**$3.05**	**6.3%**	**(203,041)**	**0**	**555,594**

Annual Trends	12 Month	Historical Average	Forecast Average	Peak	When	Trough	When
Vacancy	0.2% (YOY)	4.7%	5.7%	5.9%	2025 Q3	2.9%	2007 Q3
Net Absorption SF	(1M)	374,623	(264,300)	6,336,963	2007 Q1	(4,134,571)	2009 Q3
Deliveries SF	455K	1,938,450	252,136	6,244,381	2008 Q3	347,427	2025 Q2
Market Asking Rent Growth	-1.3%	1.5%	1.1%	5.2%	2007 Q2	-5.0%	2009 Q4
Sales Volume	$4.1B	$3.7B	N/A	$7.4B	2022 Q3	$1B	2010 Q1

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The Los Angeles area's retail market has faced several headwinds in recent years that have restrained space demand. Softer economic fundamentals than most U.S. metros and elevated housing costs have left residents less confident in spending. Additionally, high interest rates have weighed on operational costs and business formation.

Spaces ranging from 5,000 to 25,000 square feet have seen an increase in availability this year, primarily due to the closure of major national retailers such as Joann, Party City, Rite Aid, CVS, and Claire's. Some example of tenants backfilling these vacated locations include Dollar Tree, Trader Joe's, Vons, and Planet Fitness. This activity aligns with a broader national trend in which discount and value-oriented retailers are expanding, as well as fitness concepts and grocery stores. There has been a notable shift toward greater budget consciousness among consumers amid current economic conditions.

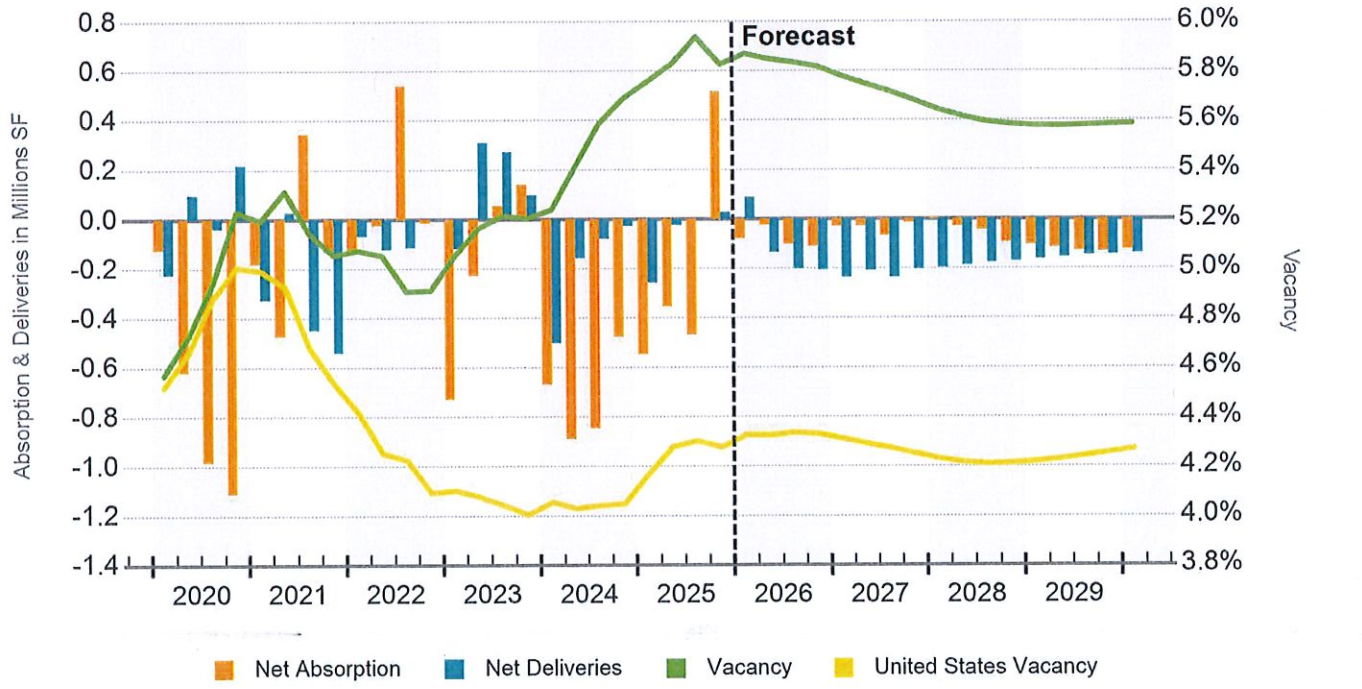
Within the market, occupancy rates are lower in urban areas compared to suburban locations. Santa Monica, West Hollywood, and Downtown Los Angeles have higher availability rates, with Santa Monica at 15.3%, West Hollywood at 10.6%, and Downtown at 10.0%. These urban areas have experienced slower demand growth in recent years, partly due to delayed recovery in international tourism following the pandemic and ongoing concerns related to homelessness, safety, and crime. Nordstrom at Third Street Promenade in Santa Monica closed in August after 15 years, adding 132,000 SF of availability to the market. In contrast, Glendale, Torrance, and San Gabriel Valley report lower availability rates, approximately 4%.

Retailers are still hunting for the best and newest spaces. Only around 10% of the total available space in Los Angeles is in Class A properties. Similarly, the newest retail spaces account for only 4% of the total available space in the region.

What retail space is available skews toward older, lower-quality properties. About 61% of total availabilities are in properties built before 1980, and properties that were built before 1980 make up 54% of total inventory. The average age of properties that have become available this year is nearly 60 years.

Current conditions look unlikely to change soon. Vacancy will likely rise softly, restrained by redevelopment into high and better use, although availability should rise as closures ripple across the region through the end of the year. The economic and demographic factors underpinning recent underperformance may continue to persist and impede tenant demand.

NET ABSORPTION, NET DELIVERIES & VACANCY



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Rent growth has measured -1.3% in the past year, compared to 1.9% nationally, and rents have increased 8.9% cumulatively in the past five years in Los Angeles versus 17.6% across the U.S. The last time rent growth was negative in Los Angeles was over a decade ago in 12Q1.

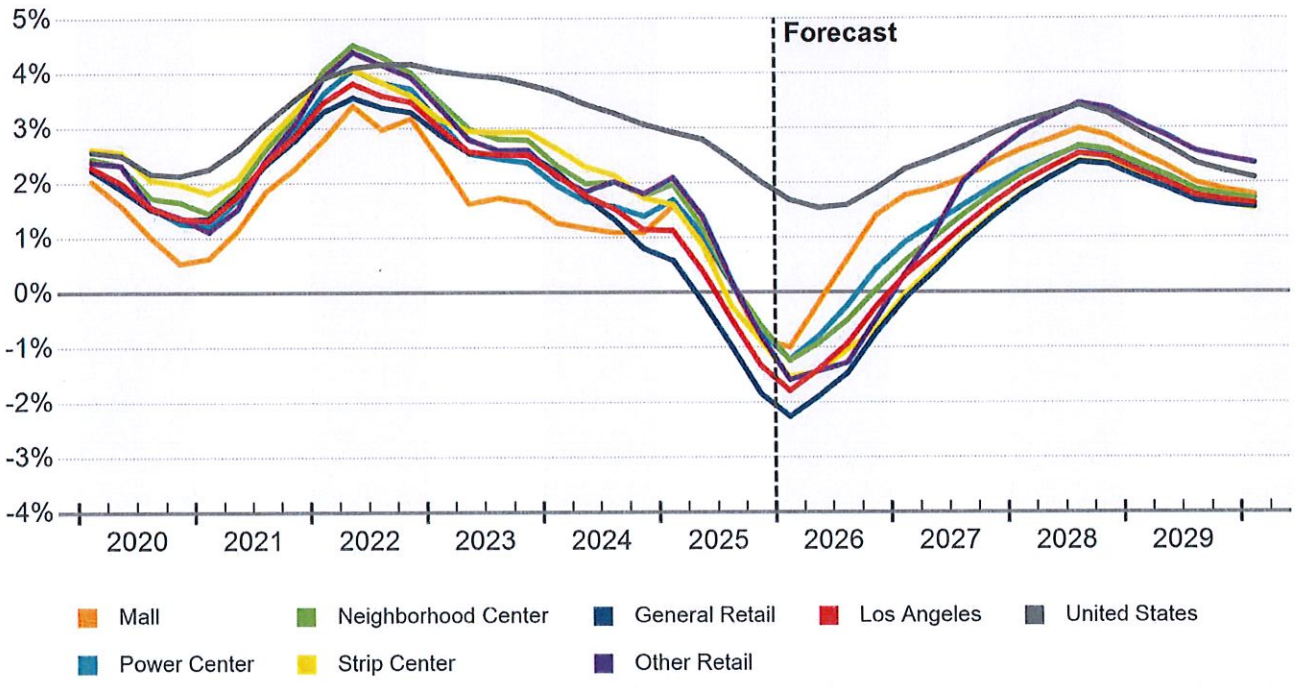
Soft demand given the current economic climate is one reason for weak pricing power. Another factor limiting landlords' capacity to increase rents is the added financial pressure retailers are experiencing due to escalating labor costs. With many employees paid at the local minimum wage, the disparity between Los Angeles's minimum wage and the federal minimum wage has grown substantially—from 15% in 2009 to just over 230% at present. Currently, fast food workers statewide earn a minimum wage of $20 per hour, while the general minimum wage in the area approaches $18 per hour.

Looking at performance within the market, momentum is soft across all of Los Angeles, but more suburban locations are generally faring better. The San Fernando Valley and areas of the San Gabriel Valley have posted some of the smallest decreases in annual rent growth of all submarkets, maintaining relatively flat rent growth annually. These locations typically have lower availability rates and have been less reliant on international tourism. They have been less exposed to homelessness and crime, which is more pronounced in more urban locations. In contrast, many more urban locations with higher availability rates, including those in Westwood, Miracle Mile, and West Hollywood, have recorded steeper year-over-year losses for three consecutive quarters and are trending negatively to end the year.

The Los Angeles retail market has some of the highest rents for space in the nation at $37.00/SF NNN, about 42% above the national average. Rental rates within the market vary widely by location. Rents are highest in submarkets that depend more on tourism or have more affluent demographics. Average rents are highest in Beverly Hills, around $100/SF NNN. Santa Monica and West Hollywood have average monthly rents of around $70/SF NNN. In contrast, the more affordable, suburban submarkets, including the Mid-Cities and Southeast Los Angeles, have asking rates below the metro average closer to $30/SF NNN.

Rent growth is forecast to underperform the long-term benchmark, which has been 1.5%, through at least 2026, by which time the demand environment is forecast to improve.

MARKET ASKING RENT GROWTH (YOY)



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As the nation's second largest metropolitan area, Los Angeles possesses a robust and multifaceted economy encompassing key sectors such as entertainment, tourism, international trade, fashion, and aerospace. The city benefits from a high concentration of creative professionals and entrepreneurial activity, which supports strong business formation and elevated levels of self-employment. Demographically, Los Angeles is highly diverse in terms of race, ethnicity, educational attainment, income, and wealth. The region also hosts several prominent institutions of higher education, including the University of Southern California (USC), the University of California, Los Angeles (UCLA), and the California Institute of Technology (Caltech), serving as significant sources of talent.

Outmigration has been a significant challenge to the Los Angeles economy, as the city contends with declining population growth. The population declined for consecutive years during 2021-2023, but 2024 posted a net positive population gain of 40,000, which could potentially be the beginning of a recovery.

Disputes between workers and employers have arisen in recent years across various industries. Most recently in April over 50,000 LA County workers went on strike, representing health care, social services, public works, and many others. Los Angeles' high cost of living exacerbates labor disputes and motivates outmigration, with the median listing price for homes in Los Angeles County over $1 million and some of the highest apartment rents nationally. The metro is among the least affordable nationally and globally based on home-price-to-income ratios.

The entertainment sector accounts for around a fifth of the metro's total economic output. It has been slow to rebound from the actors' and writers' strikes of 2023, and production has slowed from increased competition from more cost-effective locations worldwide. In response, Governor Newsom doubled the Film and Television Tax Credit program this past July to $750 million, which is projected to bring in an estimated $1.1 billion in economic activity to the state. Though it is a state-wide credit, Los Angeles will be the primary beneficiary as the majority of the 22 television shows will be filmed and produced in Los Angeles.

The transportation sector is another critical economic anchor, with the Los Angeles and Long Beach ports forming the nation's largest port complex and handling about a quarter of U.S. container ships. Much of the activity involves trade with China, making the region sensitive to tariff changes, which impact job numbers and industrial demand. Fluctuating trade flows due to tariffs may reduce transportation employment and temper demand for industrial space.

With 50 million visitors a year, tourism is important for the local economy, stimulating nearly $35 billion in the local business community and supporting over a half-million jobs, according to the Los Angeles Tourism & Convention Board. Stores, restaurants, and lodging in tourist hotspots like Downtown L.A., Hollywood, Beverly Hills, and Santa Monica depend on visitor spending. Recently, Mayor Bass approved a $2.6 billion plan to expand and renovate the LA Convention Center, which is estimated to create more than 15,000 jobs and draw in over $150M in additional visitor spending each year. Ground broke in early October and is aiming for completion prior to the 2028 Olympics.

The wildfires in January 2025 represent one of the costliest national disasters in U.S. history. The resulting devastation will create economic headwinds for years in what is likely to be a drawn-out rebuilding process. A report commissioned by the Southern California Leadership Council and LA County Economic Development Corporation estimated property losses between $28 and $54 billion. Additionally, the fires could lead to billions in labor income reductions, significant losses in tax revenue, and business disruptions. The pace of rebuilding will be a critical determinant of the extent of economic losses.

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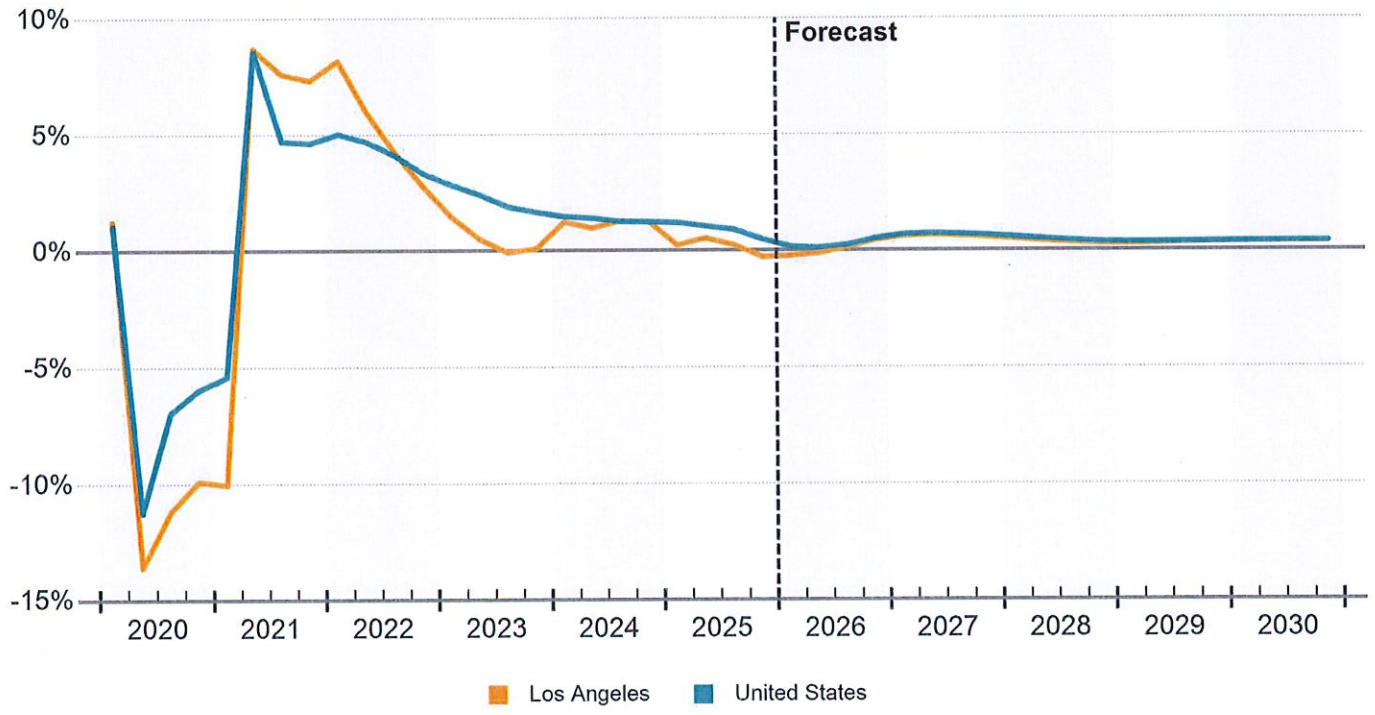
LOS ANGELES EMPLOYMENT BY INDUSTRY IN THOUSANDS

	CURRENT JOBS		CURRENT GROWTH		10 YR HISTORICAL		5 YR FORECAST	
Industry	Jobs	LQ	Market	US	Market	US	Market	US
Manufacturing	296	0.8	-3.43%	-0.97%	-2.15%	0.24%	-0.54%	0.24%
Trade, Transportation and Utilities	808	1.0	-1.07%	0.26%	-0.17%	0.78%	0.16%	0.26%
Retail Trade	401	0.9	0.07%	0.49%	-0.42%	-0.02%	0.17%	0.16%
Financial Activities	205	0.8	-1.73%	0.35%	-0.61%	1.21%	-0.05%	0.34%
Government	591	0.9	-0.57%	-0.42%	0.48%	0.60%	0.23%	0.33%
Natural Resources, Mining and Construction	151	0.6	-1.39%	-0.11%	1.16%	1.92%	0.20%	0.63%
Education and Health Services	1,030	1.3	3.65%	2.66%	3.16%	2.16%	0.73%	0.52%
Professional and Business Services	639	1.0	-2.67%	-0.07%	0.65%	1.22%	0.22%	0.62%
Information	186	2.2	-0.30%	-0.02%	-1.30%	0.60%	0.57%	0.30%
Leisure and Hospitality	538	1.1	-0.64%	0.55%	0.78%	1.02%	1.17%	0.88%
Other Services	157	0.9	0.50%	0.91%	0.32%	0.70%	0.46%	0.22%
Total Employment	**4,603**	**1.0**	**-0.28%**	**0.45%**	**0.63%**	**1.10%**	**0.40%**	**0.46%**

Source: Oxford Economics
LQ = Location Quotient

JOB GROWTH (YOY)



Source: Oxford Economics

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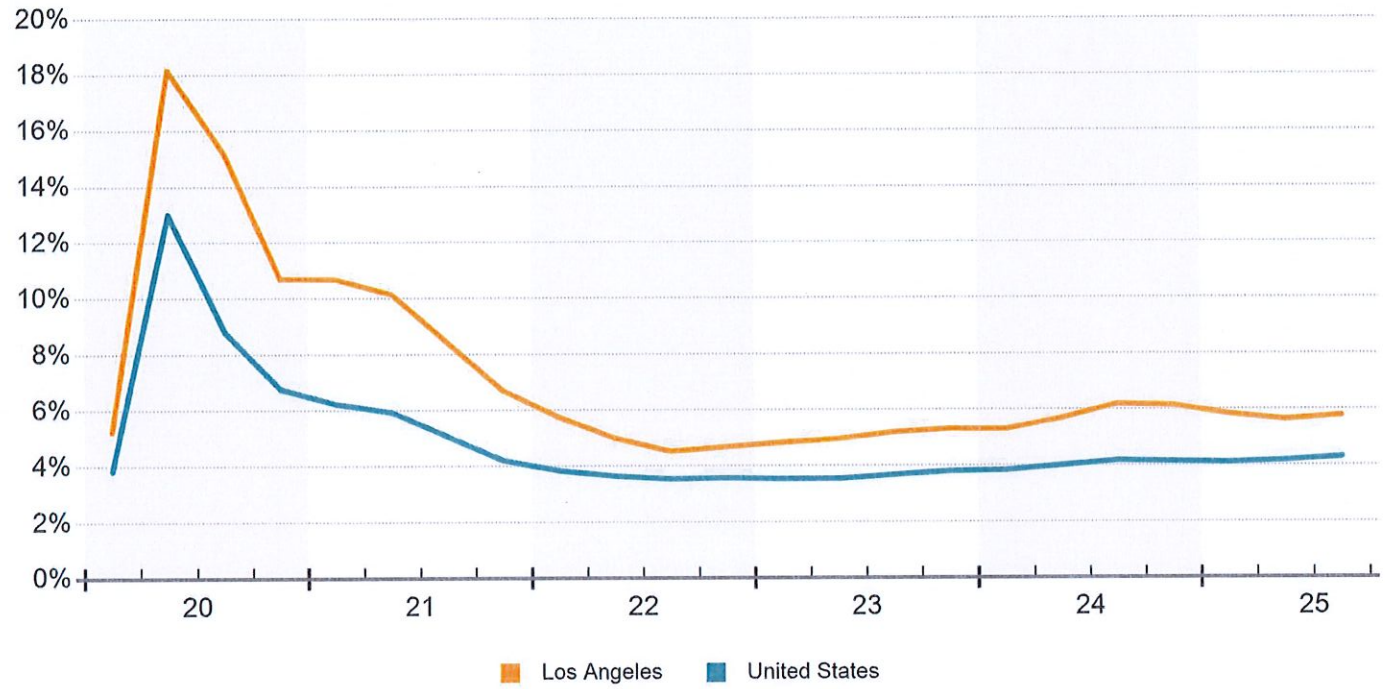
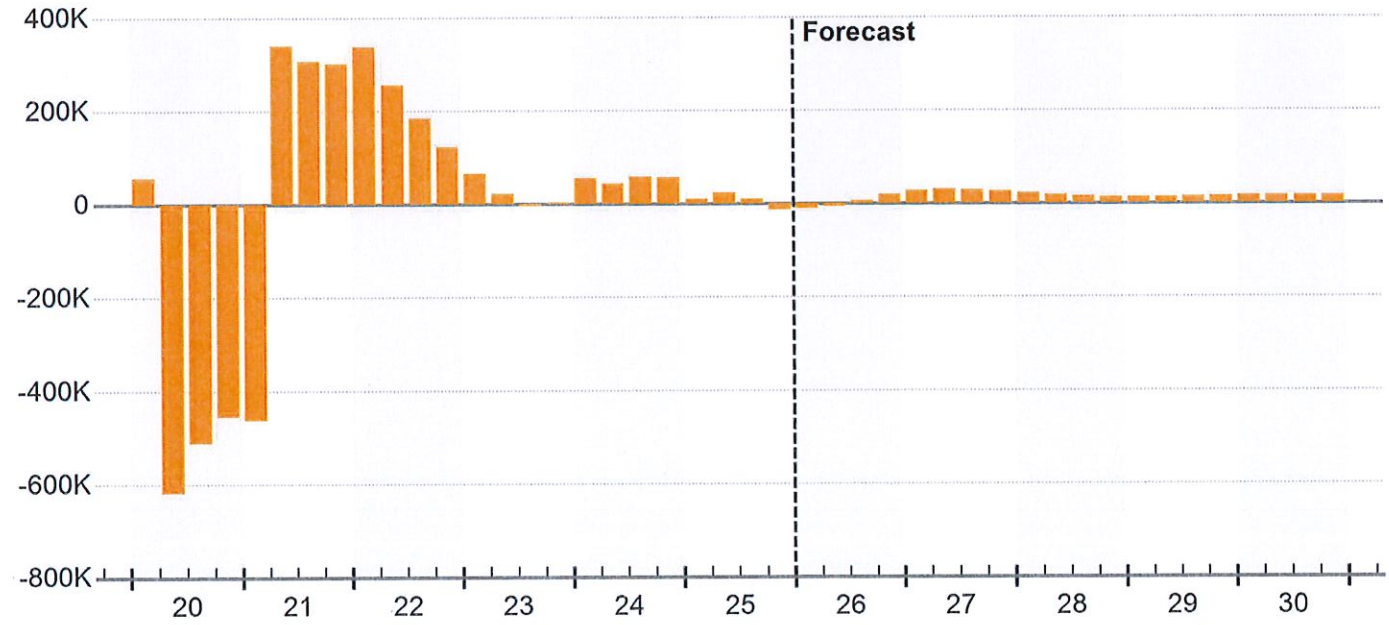
UNEMPLOYMENT RATE (%)



NET EMPLOYMENT CHANGE (YOY)



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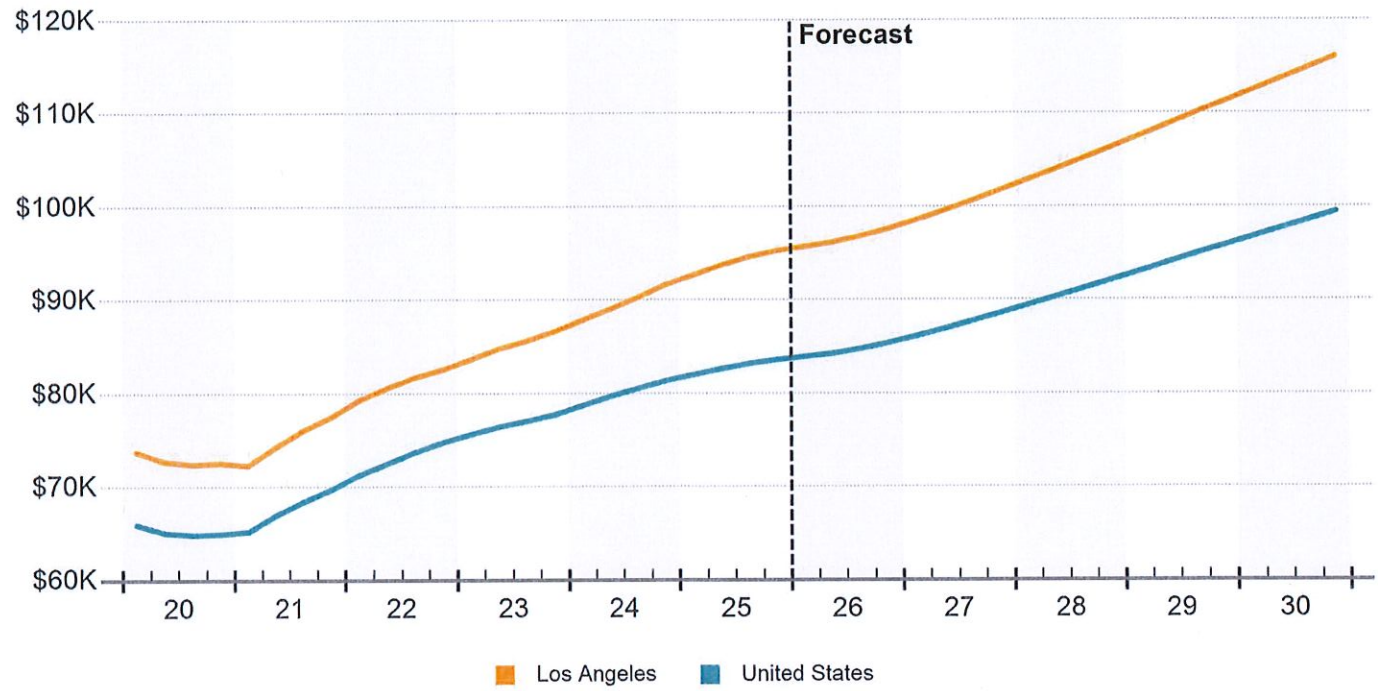
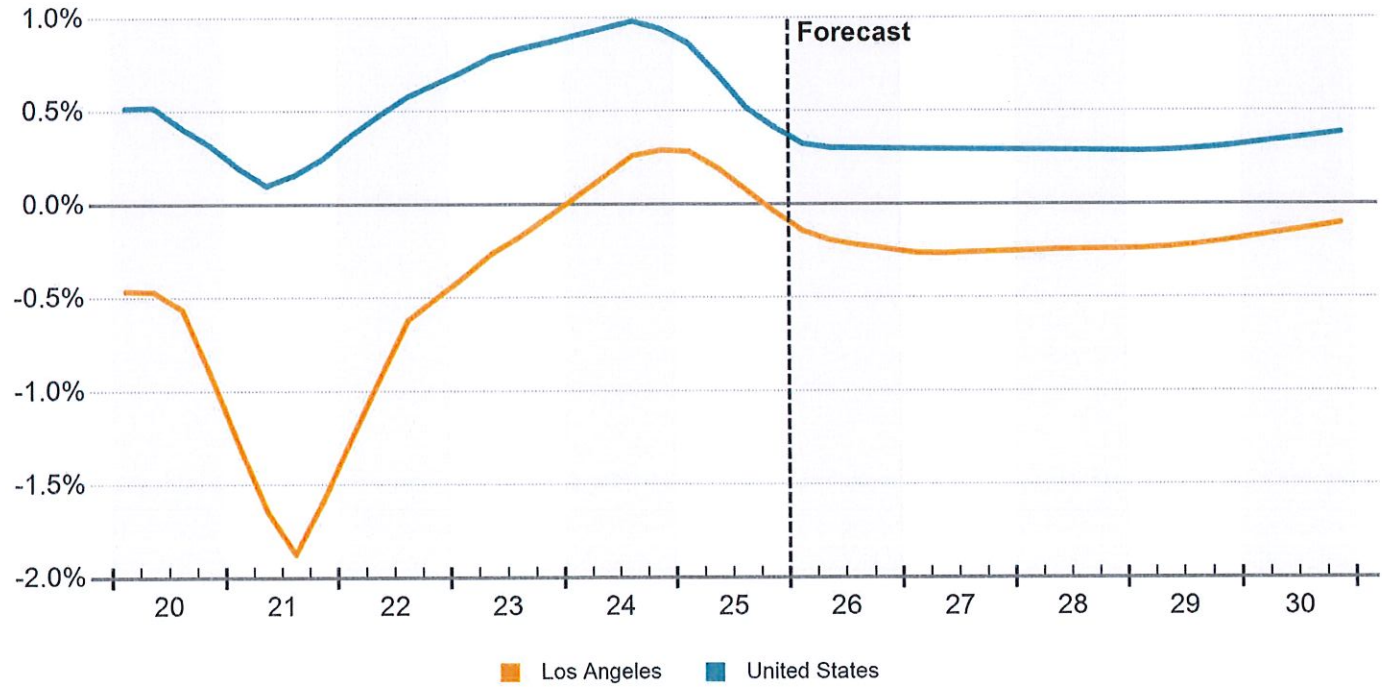
MEDIAN HOUSEHOLD INCOME



POPULATION GROWTH (YOY %)



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