Greater Los Angeles Retail
MarketView

Q1 2014

CBRE Global Research and Consulting

VACANCY RATE	NET ABSORPTION	CONSTRUCTION	LEASE RATE	UNEMPLOYMENT
5.7%	63,000 SF	641,000 SF	$2.05 NNN	8.9%

*Arrows indicate change from previous quarter

RETAIL MARKET STARTING OFF THE YEAR ON A POSITIVE NOTE

RETAILER DEMAND

Retailers continue to demonstrate demand for space translating into healthy levels of net absorption for the market. Although Q1 net absorption is down from the previous quarter, it does mark the fourth consecutive quarter of positive net absorption. This trend is expected to continue throughout 2014, pushing down availability rates.

EMPLOYMENT GROWTH

Employment conditions, both on the national and local levels, continue to improve. The most recent report by the U.S. Bureau of Labor Statistics show a gain of 175,000 payroll jobs in February for a national unemployment rate of 6.7% - a rate not seen since the end of 2008. Employment in Los Angeles County also improved, moving the unemployment rate down to 8.9%. Although not near pre-recession levels, Los Angeles County employment is projected to rise, with growth in all employment sectors.

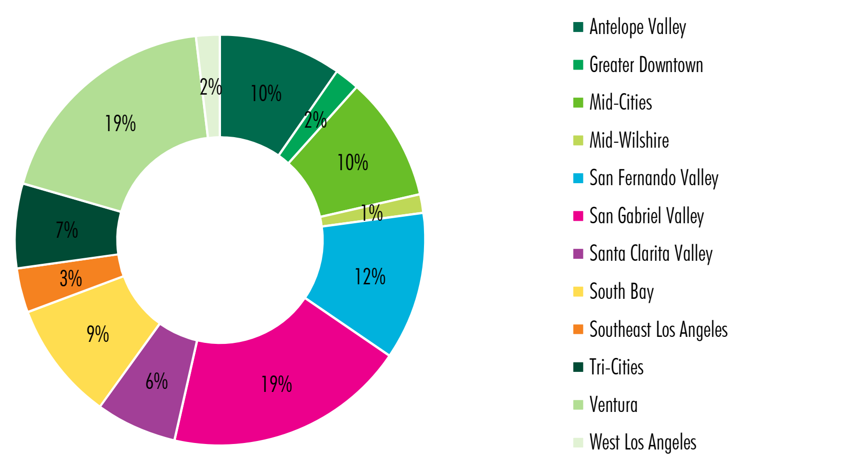
RENTS ON THE RISE

Overall, the asking rental rate for retail space did experience a decline this quarter yet remains nearly $0.10 above the previous year at $2.05 per sq. ft. Rental growth is projected to tick up gradually over the next 12 months.

E-COMMERCE SALES

The growing trend of online shopping continues to increase as more and more shoppers enjoy the convenience and price comparison options that online shopping offers. Today, ecommerce sales represent 6.0% of total retail sales, according to the U.S. Census Bureau. In a 12-month period, it is reported that e-commerce sales have experienced a 16.0% increase. In comparison, overall retail sales have increased by 3.8%.

Chart 1: Vacant Space Distribution



Source: CBRE Research, Q1 2014

National retail sales rose in February, increasing modestly by 0.3% over the previous month, excluding motor vehicles. Year-over year, retail sales have improved by 1.3% according to the U.S. Census Bureau. Following a healthy holiday shopping season, there is a continued sense of optimism moving into the new year. In the last two months, retail sales have increased 1.8% over the same period last year. "Today's positive retail sales report indicates that the economy is primed for growth," says National Retail Federation President and CEO, Matthew Shay.

Advanced monthly sales data shows that some retail category outweighed others, although the majority of retailers experienced positive sales growth. Sporting goods, hobby, book & music stores experienced the largest monthly gain of 2.5% in sales from January, however, are still 5.2% down from last year. Sales at Health & personal care stores were up 1.2% in February from January, and up 5.5% from last year's sales. Clothing & clothing accessories stores posted a monthly gain of 0.4% as well as an annual increase of 2.6%. Non-store retailers reported sales growth with a total of 1.2% for the month, and 6.3% from February of last year. Electronics and appliance stores reported decreased monthly sales of 0.2%, as well as a year-over-year decline of 2.4%.

Improved retail sales steadily aids the U.S. retail market, which continues to make strides towards a full pre-recession recovery. Translating over to the commercial real estate market, the increased spending habits of consumers propel the demand of retailers for additional store locations and expansions. In Greater Los Angeles, the overall vacancy rate for retail space declined to 5.7% in the first quarter. The vacancy level is also below that of last year when the rate stood at 6.1%. The decreased vacancy level is the result of sustained demand and a lessened amount of vacant space coming onto the market. A total of 63,000 sq. ft. of positive net absorption occurred this quarter, which is expected to be a constant theme throughout 2014. The positive net absorption occurring this quarter marks the fourth consecutive quarter of overall positive net absorption. The region's average asking lease rate demonstrated a decrease this quarter and is now tracking at $2.05 per sq. ft., although still above the Q1 2013 rate of $1.96 per sq. ft.

Retail center development is beginning to show some activity in the Greater Los Angeles market. Three centers totaling 640,950 sq. ft. remain in the construction phase, with he majority scheduled to complete this year. In West Los Angeles, Runway Playa Vista is a 200,000 sq. ft. lifestyle center in Playa Vista and is scheduled to deliver July2014, while in the San Gabriel Valley submarket, a neighborhood center totaling 116,950 sq. ft. is scheduled to completed in June. In the Ventura market, one center remains under construction in Westlake Village totaling 240,000 sq. ft.

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Total employment along with population and personal income are the primary drivers of retail demand, according to CBRE Econometric Advisors. Over the last five years, employment in the Los Angeles area has declined at an average annual rate of 0.9%. In comparison, U.S. employment has declined at an average annual rate of 0.3%. However, in the last 12 months, the region's employment has outpaced national employment growth of 1.6%, increasing by an annual average of 1.7%. The most recent retail sales total for Los Angeles is estimated at $95.7 billion, which accounts for approximately 5.6% of the nation's total retail sales. Over the last five years, retail sales in Los Angeles have increased at an annual rate of 1.4% and are forecasted to continue to grow at an annual rate of 4.5% over the next five years.

Forecasts by CBRE Econometric Advisors projects continued overall employment growth. Over the next five years, employment is predicted to grow by 1.1%. The largest growth is expected for the hospitality & leisure sector, which includes food services and restaurants. Employment in this sector is projected to grow by 2.0%.

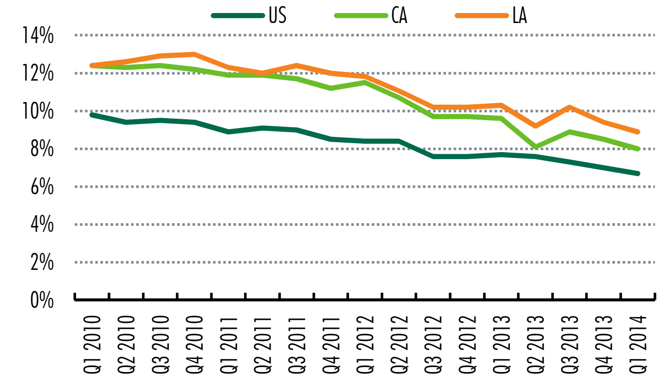
The unemployment rate for Los Angeles County decreased in February to 8.9%, according to the California Economic Development Department. The latest report of unemployment falls below the 9.4% level witnessed in the previous quarter. Over the past 12 months, the unemployment rate has decreased a total of 130 basis points. The unemployment rate for Ventura County decreased to 7.3%, which is down 90 basis points from the 8.2% rate in February of last year. In comparison, the unemployment rate for California decreased to 8.0% in February, while the national unemployment rate decreased to 6.7%.

Since February of last year, total non-farm employment in Los Angeles County has increased by 86,100 jobs or 2.1%. The job sector that experienced the largest year-over-year jobs gain was professional and business services, which added 27,000 jobs, 7,500 of which occurred over the last month. The majority of the annual gain was in the administrative and support and waste services sector, which added 13,700 jobs. Educational and health services also recorded a significant annual increase in employment with the addition of 25,900 jobs. Health care and social assistance made up the bulk of this increase, with a total of 22,000 new jobs. The education and health services sector also posted the largest month-over gain, with the addition of 10,300 jobs.

In the first quarter, the overall average asking lease rate experienced a decrease of two cents from the previous quarter to $2.05, yet is above last year's rate of $1.96. Since the first quarter of 2010, asking rental rates have experienced an average year-over-year decline of approximately 1.0%. However, since the first quarter of last year, rents have increased 0.7%. The upward trend of rents can be partially attributed to the reinstatement of advertised rents by landlords in an effort to attract tenants to their centers.

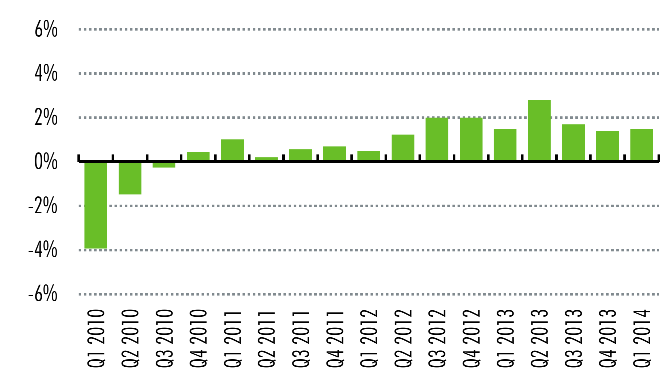
Average asking lease rates range in Los Angeles County from $1.26 per sq. ft. per month in the Antelope Valley submarket, to a high of $5.30 per sq. ft. per month in West Los Angeles which includes the high-street markets of Beverly Hills and Santa Monica. Ventura County falls between the spectrum with an average rate of $2.43 per sq. ft. per month.

Chart 2: Unemployment Rate (%)



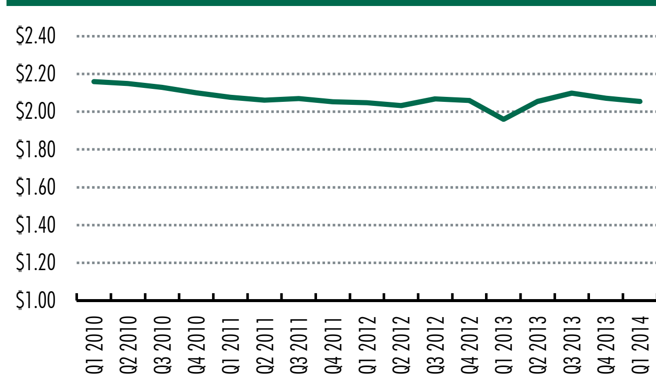
Source: U.S. Bureau of Labor Statistics, Q1 2014

Chart 3: Year-Over-Year Job Growth (%)



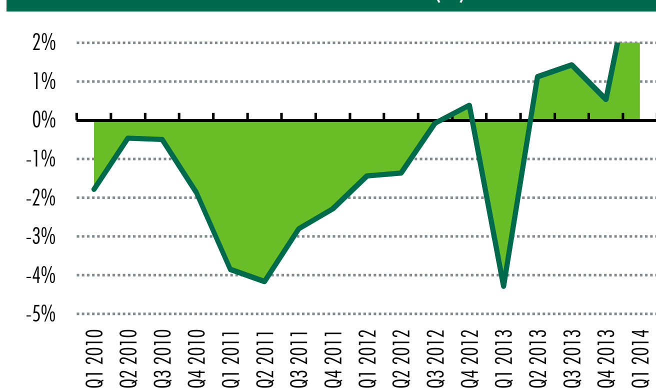
Source: CBRE Econometric Advisors, Q1 2014

Chart 4: Asking Lease Rate ($PSF/MO/NNN)



Source: CBRE Research, Q1 2014

Chart 5: Year-Over-Year Rent Growth (%)



Source: CBRE Research, Q1 2014

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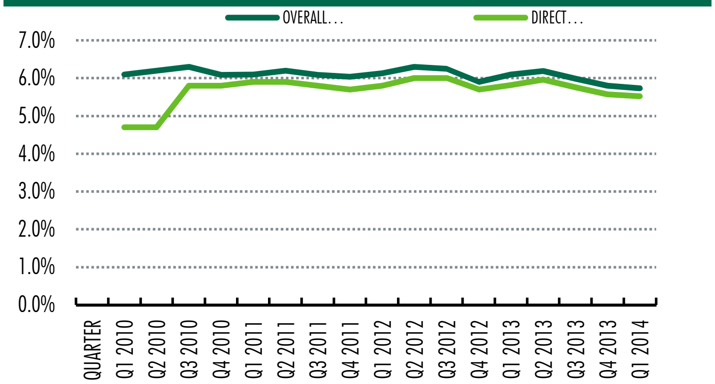
Chart 6: Overall Vacancy Rate (%)

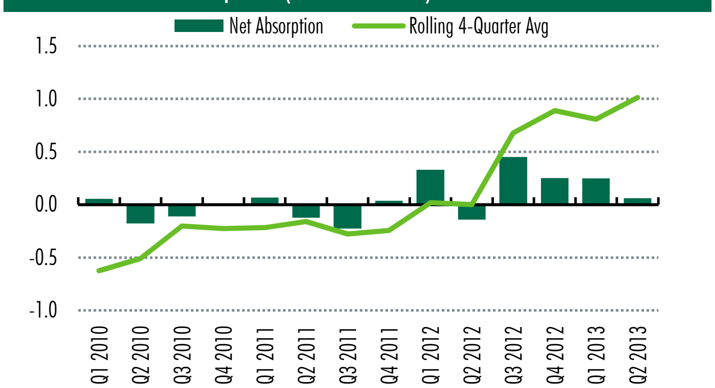
Source: CBRE Research, Q1 2014

Chart 7: Vacancy Rate by Center Type (%)



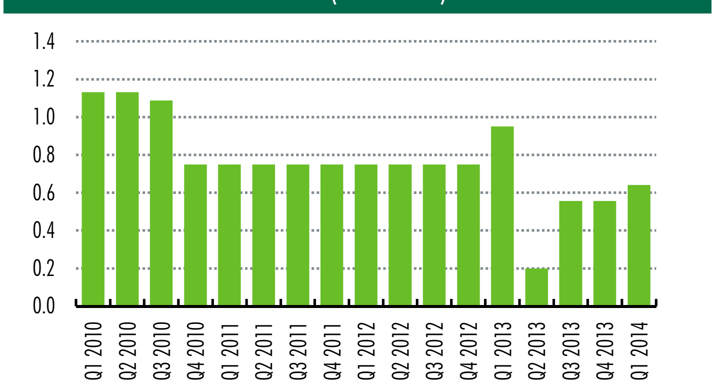
Source: CBRE Research, Q1 2014

Chart 8: Net Absorption (Thousand SF)



Source: CBRE Research, Q1 2014

Chart 9: Under Construction (Million SF)



Source: CBRE Research, Q1 2014

The overall vacancy rate for Greater Los Angeles retail space decreased in the first quarter and now stands at 5.7%. This reflects a decline of 10 basis points from the 5.8% vacancy rate recorded in the previous quarter, and remains below the 6.1% level witnessed in at the start of last year. Vacancy is expected to continue on this downward trend, steadily declining over the next four quarters.

Representing the lowest vacancy rate in the region, the Mid-Wilshire submarket carries a vacancy rate of 2.9%. The South Bay submarket tracks closely behind with an increased vacancy rate of 3.6%, while West Los Angeles has a vacancy rate of 3.1%. The Southeast Los Angeles submarket reported a rate of 3.7%, which is down from the previous quarter of 3.9%. The vacancy level in the Tri-Cities submarket is slightly higher at 5.5%, while Greater Downtown and Mid Cities both hold a rate of 6.2%. The vacancy level for the Ventura and Santa Clarita Valley submarkets are similar at 6.1% and 8.0%, respectively, while the San Fernando Valley area has an increased vacancy rate of 6.0%. The San Gabriel Valley posts a rate above that level at 7.0%. At 8.7%, the Antelope Valley has the highest vacancy rate in the region, although it did decline this quarter.

Keeping the momentum experienced in the previous quarter, the first quarter experienced overall sustained demand. In the first quarter, the Greater Los Angeles market recorded a total of 62,775 sq. ft. of positive net absorption. Activity among tenants is expected to continue and demand to outpace supply. In total, more than half of the 12 submarkets experienced positive net absorption this quarter. The bulk of the quarter's positive absorption was seen in the San Gabriel Valley and Ventura County submarkets, which together recorded a total of 249,234 sq. ft. of positive net absorption. Although the Antelope Valley has the highest vacancy level, it did post a substantial amount of positive absorption this quarter with 41,706 sq. ft. West Los Angeles experienced a healthy amount of positive net absorption with 13.044 sq. ft. The Mid Cities submarket had a total of 10,387 sq. ft. of positive net absorption, while the Mid Wilshire experienced a modest 400 sq. ft. of positive net absorption. Submarkets recording negative demand this quarter include Greater Downtown (-3,616 sq. ft.), San Fernando Valley (-12,514 sq. ft.), the Santa Clarita Valley (-79,427 sq. ft.), South Bay (-76,197 sq. ft.), and Tri Cities (-96,852 sq. ft.).

Construction of new retail centers is gaining some momentum, although well below pre-recession levels. While the majority of new retail developments consist of small retail centers, freestanding properties, or residential mixed-used projects, there are a few larger centers being developed. Due to complete later this year, a 116,950 sq.-ft. center remains under construction in the San Gabriel Valley, while 200,000 sq. ft. in remains in the construction phase in West Los Angeles. The city of Compton, located in the Mid Cities submarket, Gateway Towne Center totaling 84,000 sq. ft. is expected to deliver next quarter. In Ventura County, a Power Center in Westlake Village totaling 240,000 sq. ft. is currently under construction.

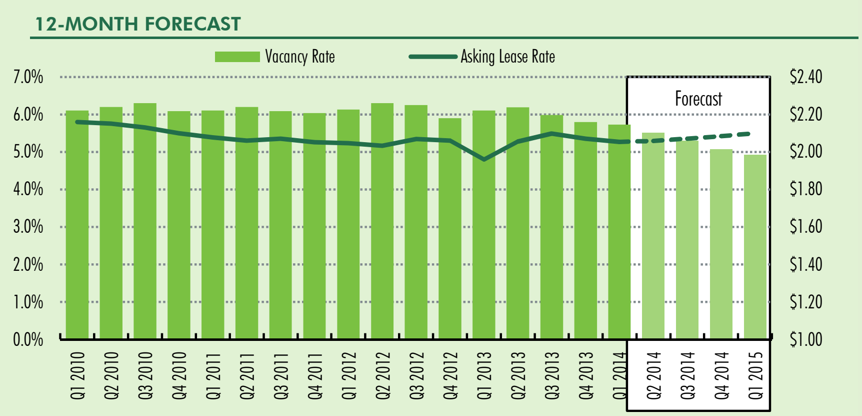
Chart 10: Market Statistics

Submarket	SF GLA	Overall Vacancy %	Current Net Absorption	YTD Net Absorption	Under Construction	Construction Deliveries	Avg Asking Lease Rate
Antelope Valley	8,324,448	8.8%	41,706	41,706	0	0	$1.26
Greater Downtown	2,387,100	6.2%	(3,616)	(3,616)	0	0	$2.25
Mid-Cities	11,968,335	6.2%	10,387	10,387	84,000	0	$1.70
Mid-Wilshire	3,866,362	2.9%	400	400	0	0	$3.19
San Fernando Valley	14,613,214	6.0%	(12,514)	(12,514)	0	0	$1.89
San Gabriel Valley	20,464,556	7.0%	147,061	147,061	116,950	0	$1.76
Santa Clarita Valley	6,072,883	8.0%	(79,427)	(79,427)	0	0	$1.86
South Bay	19,812,547	3.6%	(76,197)	(76,197)	0	0	$2.26
Southeast Los Angeles	7,145,068	3.7%	16,450	16,450	0	0	$1.97
Tri-Cities	9,202,363	5.5%	(96,852)	(96,852)	0	0	$2.72
Ventura	23,264,746	6.1%	102,333	102,333	240,000	0	$2.43
West Los Angeles	4,616,731	3.1%	13,044	13,044	200,000	0	$5.30
Greater Los Angeles	**131,738,353**	**5.7%**	**62,775**	**62,775**	**640,950**	**0**	**$2.05**

Source: CBRE Research, Q1 2014

Chart 11: Market Outlook

Looking ahead, the Greater Los Angeles retail market is on pace for continued positive growth. The expected upward trend of retail sales and employment growth within the region will help strengthen the commercial retail sector. The vacancy rate is projected to decline by approximately 80 basis points over the next 12 months as demand steadily improves, according to CBRE Econometric Advisors. Rental rates are forecasted grow moderately by 2.2% through Q1 2015, and further declines are not expected in the near-term.



Source: CBRE Econometric Advisors, Q1 2014

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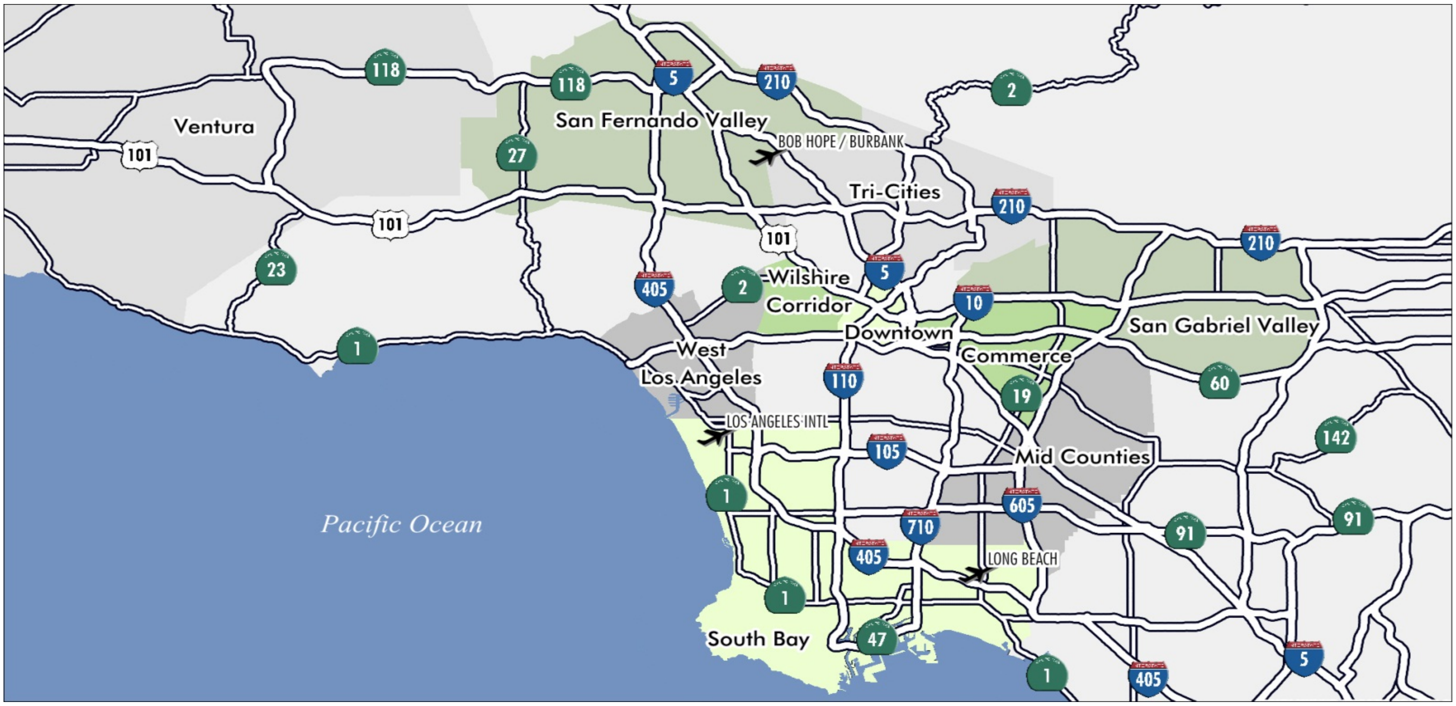

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