MARKET OVERVIEW

The Los Angeles retail market continued to tighten. Vacancy decreased 10 basis points from the previous quarter and the prior year ending at 4.0% this quarter. Average asking rents rose to $2.64/SF but can vary widely between the submarkets. On the high end, rents on the Westside registered $4.61/SF, up 21.6% from last year. On the other end, rents in the San Gabriel Valley were at $1.81/SF, up 5.8% over the same period. More than 1.2 million square feet of retail space is currently under construction, most of which is taking place in Downtown Los Angeles and the Tri-Cities. Retail employment growth in Los Angeles was 2.9% in May, outpacing the U.S. average 2.4% growth rate. Retailers are seeking to occupy locations by stores that have closed, are closing or reducing business in the area. Regional sporting goods store Sport Chalet closed all 47 stores in April, Sport Authority closed three Los Angeles locations, Kohls is closing two locations in LA and several other retailers are closing across the region.

TRENDS TO WATCH

Brick and mortar stores continue to face pressure to attract customers. Online shopping continues to outpace traditional retail sales. As of the first quarter, traditional retail sales in the U.S. were up only 2.2% year over year compared to e-commerce’s 15.2% growth rate. Los Angeles’ growing population will continue to drive demand for retail services. The population is projected to top 10,240,000 by the end of the year, according to Department of Finance estimates. Much of this growth is coming from millennials. Retailers focused on this demographic are poised to do well. Employment growth and wage growth will drive retail demand. Expect to see a combination of brick and mortar with online sales as retailers evolve.

Average Asking Rent and Vacancy Rate

![Graph showing average asking rent and vacancy rate](image-url)
Leasing activity for the first half of the year totaled nearly 3.6 million square feet, of which more than 1.8 million was leased in the second quarter. This equates to a slight 2.9% increase in lease volume over the first half of last year. Direct rents averaged $2.64/SF NNN, up 3.5% from the first quarter and 10.0% higher than last year. Robust demand in the retail market has pushed up asking rents and leasing volume. This quarter, contemporary apparel retailer Kitross signed a lease for 5,000 square feet of retail storefront space in West Hollywood at an asking rate of $8.00/SF.

Sales

Second quarter sale volume topped 3.7 million square feet for a year to date total of more than 6.4 million square feet. This represents a 26.3% increase of from the first half of 2015. The 678 sale transactions so far are more than the total from last year at this time. The average building size increased to 10,804 square feet compared to 7,396 square feet last year. Average sale price this quarter was $320/SF, though the range was from $233/SF in the Tri-Cities to $864/SF in the Los Angeles West submarket. In one of the largest transactions this quarter, Cypress Equities acquired Burbank Town Center, a 15 property portfolio consisting of nearly 1.2 million square feet of retail in Burbank at $210/SF.