MARKETBEAT
Los Angeles
Retail Mid-Year 2019

CUSHMAN & WAKEFIELD

ECONOMIC INDICATORS

National

	Q2 18	Q2 19*	12-Month Forecast
GDP Growth	2.9%	2.6%	▼
CPI Growth	2.7%	1.8%	▲
Consumer Spending Growth	4.7%	4.5%	▼
Retail Sales Growth	5.6%	3.3%	▼

Q2 19 data are based on latest available data. Growth rates are year-over-year.

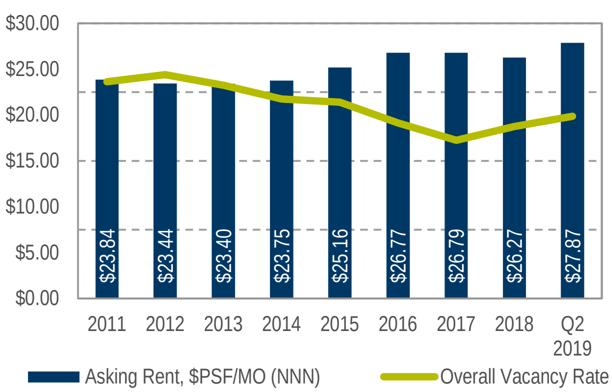
Los Angeles

	Q2 18	Q2 19	12-Month Forecast
Household Income	$66,900	$69,400	▲
Population Growth	-0.1%	0.2%	▲
Unemployment	4.6%	4.4%	▼

Source: BLS, BOC, Moody's Analytics

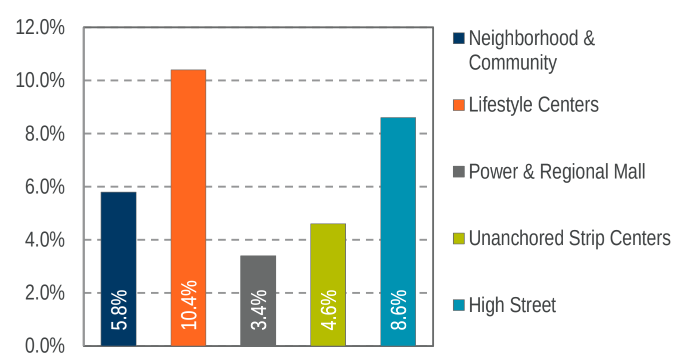
Asking Rental Rate and Overall Vacancy

YEAR-OVER-YEAR TREND DIRECT AND SUBLEASE SPACE



*Statistics include shopping center retail space only

Vacancy by Type



Economy

The Los Angeles economy continued to post healthy employment growth in the second quarter of 2019, with unemployment declining 20 basis points (bps) year-over-year (YoY) to 4.6% in June 2019 with total employment at 4.9 million. The region boasts a Gross Metro Product (GMP) of $700 billion, which has grown 3.0% YoY, just shy of the 3.1% growth reported for the United States' gross domestic product (GDP). According to Moody's Analytics, Los Angeles retail sales increased by 3.1% in 2018 and are projected to maintain upward growth of 3.2% through year-end 2019, despite slower growth in national consumer spending. Robust tourism, a critical driver of retail activity, remains strong as a record 50.0 million tourists visited LA in 2018, up by 3.1% YoY. Continued record tourism, coupled with rising employment and increasing YoY income growth have supported increased retail spending and may help curtail store closures in the near term.

Market Overview

Los Angeles County encompasses just over 190.5 million square feet (msf) of shopping center space. Overall vacancy fluctuated slightly over the twelve-month period ending in second quarter 2019, increasing by 40 bps YoY to an average rate of 5.3% by mid-year 2019. Power and regional centers recorded the lowest vacancy rates amongst shopping center types, at 3.4%, while relatively high asking rents led lifestyle centers to average 10.4% vacancy by the mid-year mark. Net absorption among shopping centers over the first half of 2019 recorded net losses in occupancy, with 202,102 square feet (sf) of move-outs in first quarter while second quarter saw 20,122 sf of move-ins, amounting to a total of negative 181,990 sf over the first half of 2019.

Despite continued retail closures and an uptick in vacancy, average asking rents exhibited an upward trend over the start of 2019, increasing 6.5% YoY to $27.87 per square foot per year (psf/yr) triple net by second quarter 2019. The majority of rental rate growth is driven by premium high-street asking rents in the prime Los Angeles retail corridors which have held strong. The Beverly Hills Golden Triangle, comprised of Rodeo Drive, Canon Drive and North Beverly Drive, remains the shopping destination attaining the highest retail rents in the market. Asking rates for Rodeo Drive range from $650 to $895 psf/yr, while Santa Monica's Third Street Promenade and West Hollywood's Melrose Place follow behind with rental rates as high as $240 psf/yr. Rental rate increases have been driven by efforts to transform the region's leading retail destinations and shopping centers into experiential retail hubs consisting of innovative, lifestyle retail concepts, including increased specialty eateries, interactive entertainment, gathering space, green areas and health and fitness retailers.

By mid-year 2019, nearly 400,000 sf of retail developments were completed with just over 1.6 msf completed over the last twelve months, including new projects and renovations. The most notable construction completions year-to-date include The Vineyards at Porter Ranch community center (289,000 sf) and the mixed-use project Culver Steps (40,000 sf of retail) in Culver City. An additional 2.4 msf of retail space remains in the pipeline, with substantial blocks of space expected to be delivered to the Downtown Los Angeles (DTLA) and Westside submarkets. Significant DTLA development projects underway include the three-story open retail terrace at The Grand (215,000 sf), the open-air luxury galleria dubbed The Collection at Oceanwide Plaza (166,000 sf) and the Broadway Trade Center (200,000 sf) in DTLA. The explosive retail development and revitalization that has been taking place in DTLA since 2012 includes these highly anticipated luxury projects in the Central Business District (CBD), plus a rejuvenation of Broadway, entry of major retailers, and retail additions in the Arts District and will continue to support the area's transformation into–

MARKETBEAT

Los Angeles

Retail Mid-Year 2019

CUSHMAN & WAKEFIELD

A prime retail destination. The majority of retail development on the Westside is centered in West Hollywood and Santa Monica, with the notable pipeline projects consisting of mixed-use developments featuring ground-floor retail as a building amenity. These projects include Cumulus (100,000 sf of retail) in West Los Angeles, Century Plaza (93,000 sf of retail) in Century City, Melrose Triangle (82,000 sf) in West Hollywood and 500 Broadway (54,900 sf) in Santa Monica. Despite substantial retail development activity, ground-up construction remains at record-lows as the majority of projects in the works consist of either retail components in mixed-used developments or adaptive reuse projects. Demand for retail as an amenity for office and multifamily will continue to be the primary driver behind future retail development.

High Street Retail

Among Class A retail properties, high streets continue to outperform others, achieving premium rental rates while maintaining relatively low vacancies. Rodeo Drive and the surrounding streets in the Beverly Hills Golden Triangle serve as Los Angeles' epicenter for fashion, prominent designer flagship stores and a luxury shopping experience. The affluent shopping destination consistently remains in high demand, with limited availabilities and asking rates leading retail rents nationally. Rodeo Drive recorded the second-highest asking rents in the United States behind New York City's Fifth Avenue, with highs of $895 psf/yr while posting vacancy of 6.1% at mid-year 2019.

In the first half of 2019, the Golden Triangle welcomed new, high-profile luxury retailers while securing a number of renewals. Brooks Brothers signed for their new 7,800-sf flagship store, relocating from their recently sold space at 468 North Rodeo Drive to Canon Drive, while Dior renewed for their 11,800-sf flagship store and James Perse for their 8,934-sf store, both on Rodeo Drive. While Beverly Hills continues to maintain its status as Los Angele's premiere designer shopping hub, leasing activity in the West Hollywood Design District and Abbot Kinney Boulevard surpassed that of the Triangle over the first half of the year, as indicated by the areas' declining vacancy, recorded at 12.3% and 1.9% respectively as of mid-year 2019.

Retail Trends

As eCommerce and the online marketplace continue to expand, retailers are recognizing the need to evolve, adopting innovative, omnichannel strategies to create compelling shopping experiences for consumers. Digitally native brands have realized the effect and value of experiential retail on consumer spending and the logistic-related cost advantages associated with establishing physical storefronts, driving the "clicks-to-bricks" retail trend seen across the nation. Continuing its momentum, the trend has led to increased bricks-and-mortar store openings by eRetailers throughout Los Angeles, primarily in the trendiest retail areas and even emerging submarkets.

Several notable online brands have already laid bricks in the market, most recently including The RealReal, PrettyLittleThing, Bluemercury, Glossier and Re-Bag. New additions in 2019 include Allbirds, Happy Socks and Everlane on Abbot Kinney Boulevard in Venice and Bandier, Indochino and Ganni in West Hollywood. Conversely, a number of retailers that have shuttered their storefronts in the Los Angeles market and beyond are joining the "bricks-to-clicks" wave of converting to eCommerce including Topshop, American Apparel and LF Stores, all of which closed their West Hollywood stores this year. While many digital retailers are choosing to lay footprints with– hottest retail areas, and even shop-in-shop retail concepts to increase brand exposure. Pop-up stores have become prevalent in Los Angeles' premiere shopping centers, urban high streets and department stores, becoming a pivotal addition to the traditional retail landscape. Nearly all types of retailers, from established designers to emerging online brands have explored the pop-up model as a means for targeting and testing particular retail locations with minimal risk before establishing long-standing store locations.

Major shopping centers, such as Westfield Century City and The Grove are serving as pop-up hotspots for brands, now even featuring devoted retail space for rotating pop-up shops. Notable pop-up stores of 2019 include: the Murad Wellness Vault, Sergio Rossi and Farm Rio in Century City, Reformation and Madhappy on Abbot Kinney, and Mejuri and Naked Wardrobe on Melrose Place and Boulevard. Brands are additionally utilizing pop-ups as an opportunity to showcase their limited-edition collaboration collections, with Virgil Abloh x Louis Vuitton in Beverly Hills and E.U. x Nike in the Arts District among the most notable this year. Shop-in-shop concepts within major department stores are additionally gaining popularity in the market, as traditional retailers are seeking mutually beneficial partnerships with up-and-coming brands and digital retailers. Featured shops include Barney's New York's collaboration with streetwear media brand Highsnobiety for "thedropLA@barneys" in Beverly Hills and Macy's' recently acquired "Story" pop-up coming to Century City. Retailers and landlords alike are embracing pop-up models within all retail property types as a source of occupancy growth for underutilized retail space.

Concept stores have become a growing trend in Los Angeles, with retailers creating brick-and-mortar stores designed to enrich customer's interaction with the brand rather than focusing on inventory. Retailers are promoting new interactive offerings, including lifestyle and social entertainment elements, as an approach to consumer engagement. This year, Louis Vuitton introduced its latest experiential concept "Louis Vuitton X," an exhibition hosted at a LVMH-owned, 22,000-sf vacant retail property on Rodeo Drive paying tribute to its collaboration collections. Tiffany & Co. additionally debuted its first pop-up dining experience with The Tiffany Café at its store in Beverly Hills, while Mansur Gavriel similarly introduced "La Rose" Café at their Melrose Place boutique in partnership with French luxury bakery Ladurée. Brands are also integrating amenities into their flagship locations, such as Bandier's new Melrose Avenue store featuring "Studio B," a fitness concept with class offerings, as well as a café, "Coffee Dose." Such customer experiences are creating significant social-media buzz, turning these concept stores into must-visit destinations. These new store formats will continue to transform and add vibrance to the new-age retail landscape.

Outlook

As the retail sphere continues to evolve, traditional retailers are recognizing the need to keep up with immersive retail concepts and new market entrants to survive and thrive. These new experiential retailers, including pop-ups and lifestyle-centric retailers, will dominate leasing activity and serve as the main source of positive absorption going forward. With asking rates on the rise and vacancy resetting in prime retail locations, Los Angeles will continue on as one of the most dominant markets for retail in the Unites States.

MARKETBEAT

Los Angeles

Retail Mid-Year 2019

CUSHMAN & WAKEFIELD

High Street Retail Streets & Areas

TYPICAL RENTAL RATE AND VACANCY RATE

SUBMARKET	ASKING RENTAL RATE RANGE*			VACANCY RATE (%)
Beverly Hills Golden Triangle	$90	-	$895	12.4%
Rodeo Drive	$650	-	$895	6.1%
North Beverly Drive	$144	-	$240	11.2%
Canon Drive	$90	-	$108	6.9%
West Hollywood (Melrose/Robertson/Beverly)	$72	-	$240	12.3%
Melrose Avenue	$120	-	$240	15.3%
Melrose Place	$180	-	$240	11.6%
Robertson Boulevard	$72	-	$120	13.0%
Beverly Boulevard	$96	-	$120	7.8%
Third Street Promenade (Santa Monica)	$120	-	$240	9.8%
Abbot Kinney Boulevard (Venice)	$144	-	$180	1.9%
Downtown Los Angeles	$36	-	$85	5.2%

*Rental rates reflect NNN asking $psf/year

Key Lease Transactions 2019

PROPERTY	SF	TENANT	TRANSACTION TYPE	SUBMARKET
309 N Rodeo Drive	11,200	Dior	Renewal	Beverly Hills
357 N Rodeo Drive	8,934	James Perse	Renewal	Beverly Hills
425 N Canon Drive	7,800	Brooks Brothers	New Lease	Beverly Hills
9004 Melrose Avenue	4,251	Ganni	New Lease	West Hollywood
3822 Cross Creek Road / Malibu Village	4,000	Fred Segal	New Lease	Malibu
8808 Melrose Avenue	3,500	John Elliot	New Lease	West Hollywood
1101 Abbot Kinney Boulevard	3,000	Everlane	New Lease	Venice
8410 Melrose Ave / 395 S Santa Monica Place	2,840/ 2,300	Indochino	New Lease	West Hollywood / Santa Monica
8538 Melrose Avenue	2,116	Vince	Renewal	West Hollywood
1335 Abbot Kinney Boulevard	1,875	Allbirds	New Lease	Venice
1208 Abbot Kinney Boulevard	1,681	Birkenstock	New Lease	Venice
3835 Cross Creek Road	1,374	Vince (Home Store)	New Leases	Malibu
842 S Broadway	1,345	Paul Smith	New Lease	DTLA
8424 Melrose Place	1,100	Bldwn	New Lease	West Hollywood

Key Sales Transactions 2019

PROPERTY	SF	SELLER/BUYER	PRICE / $PSF	SUBMARKET
6801 Hollywood Boulevard / Hollywood & Highland Center	642,000	CIM Group / DJM Capital Partners, JV Gaw Capital	$325M / $703	Hollywood
465 S Arroya Parkway / Whole Foods	76,770	Mark Ittah Trust / Kutzer Co.	$105M / $1,368	Pasadena
Gelson's Village at Calabasas (4 property portfolio)	63,789	Mayfair Realty Inc. / Sarofim Realty Advisors	$38M / $610	Calabasas
707 N Sepulveda Boulevard / Gelson's Market	34,000	Paragon Commercial Group / IPX1031	$52M / $1,529	Manhattan Beach
15426 Sunset Boulevard / Gelson's Market	29,747	Mayfair Realty Inc. / Mark Ittah Trust	$51M / $1,714	Pacific Palisades
1452-1456 Third Street Promenade	12,810	Tucker Investments / Blatteis & Schnur Inc.	$34M / $2,693	Santa Monica
2943 Main Street	8,289	American Commercial / Mollica Property Investments LLC	$27M / $3,290	Santa Monica

Cushman & Wakefield
10250 Constellation Blvd
Los Angeles, CA 90067
cushmanwakefield.com

For more information, contact:
Liza Davatgar, Research Analyst
Tel: +1 213 955 5175
liza.davatgar@cushwake.com

About Cushman & Wakefield

Cushman & Wakefield (NYSE:CWK) is a leading global real estate services firm that delivers exceptional value by putting ideas into action for real estate occupiers and owners. Cushman & Wakefield is among the largest real estate services firms with approximately 51,000 employees in 400 offices and 70 countries. In 2018, the firm had revenue of $8.2 billion across core services of property, facilities and project management, leasing, capital markets, valuation and other services. To learn more, visit www.cushmanwakefield.com or follow @CushWake on Twitter.