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SoCal's Industrial Real Estate: Will Cooling Activity Levels Affect the Outlook for the Future?

By NANCY ZHAO and KEN FIELDS

Southern California has been one of the hottest industrial markets in the nation, and the past few years have been no exception. SoCal's commercial real estate market has been hit especially hard, with the shockwaves forcing some investors, owners, and developers to course correct in order to survive. However, for those nimble enough to pivot, the industrial sector has been a beacon of hope.

For several years now, industrial has been a strong counterpoint to the blighted climate for retail and office real estate. Demand for industrial space climbed to a historic high during the pandemic, when online retail surged and the e-commerce companies selling goods needed large industrial warehousing spaces to operate their businesses. Industrial warehouses were built as quickly as possible to meet demand. But no trend in real estate lasts forever, and the industrial sector is finally meeting headwinds, with data indicating a return to more normal (pre-pandemic) levels of activity.

According to Voit Real Estate Services' market reports, Q2 2023 Los Angeles industrial sale and lease transactions were down 45.31% compared to Q2 2022 (13,526,436 in 2022 vs. 7,397,521 in 2023). There was also a similar decrease (27.49%) in the Inland Empire (14,339,481 vs. 10,397,826).

When discussing overall outlook, several factors driving this slowdown are worth addressing. First, rising development costs (land, materials, and labor) have made it increasingly difficult to develop new industrial space. These higher capital costs, coupled with ongoing recession concerns, have many developers taking a "wait-and-see" approach. At the same time, the Federal Reserve's interest rate increases have negatively impacted the ability to purchase and/or develop industrial properties.

Second, California has one of the nation's highest tax rates, and our tax environment is not friendly, relative to certain other states. For example, the Measure ULA transfer tax in the City of Los Angeles that began on April 1 of this year helped trigger a steep drop in sales activity as measured by square footage and transaction count. For years, companies have been leaving California and going to other states with more friendly corporate tax environments. In 2020, CBRE, one of the largest commercial real estate services companies in the US, moved its headquarters from Los Angeles to Dallas. Paint manufacturer and retailer Kelly-Moore Paint Co. Inc. also announced that it will move its headquarters from California to Texas in 2024. These are just two examples of what has been a significant corporate exodus from California.

The massive rise in industrial activity over the past years has also generated a large anti-industrial sentiment, making it difficult for the sector to sustain its explosive growth. Some cities in the Inland Empire, including Colton and Norco, have already imposed a moratorium on, or limited the size of new industrial warehouse construction. Residents are unhappy about the heavy truck traffic transporting goods to and from the warehouses, as well as air and noise pollution.

Lastly, in what might be considered a positive change by many in the non-industrial sectors, consumers are finally returning to retail stores in the post-pandemic world. This means that demand for industrial space is decreasing while there is an uptick in the supply of new industrial properties coming to market, in part due to the aforementioned frenzy of developing new industrial properties during the pandemic.

All of the above present challenges that the industrial real estate market will continue to grapple with, and they have certainly cooled the fires of industrial real estate activity. However, the long-term outlook for the industrial sector in Southern California remains strong. While we are seeing more shoppers return to in-person, pre-pandemic habits, it seems unlikely that we as a society will completely forgo online shopping – a prime driver of the industrial craze.

The massive rise in industrial activity over the past years has also generated a large anti-industrial sentiment, making it difficult for the sector to sustain its explosive growth.

Another key factor that points to long-term success is Southern California's land-constrained markets. For example, infill markets like the cities of Commerce and Industry are built out. Thus, we are likely to see more redevelopment in those areas, where dilapidated buildings will be upgraded through renovations. This dynamic is resulting in strong industrial leasing activity in infill Southern California markets. According to Voit's Second Quarter 2023 Market Report for the Greater Los Angeles Industrial area, Southern California's vacancy rate remained low at 3.4%. This is a strong sign when compared to the national overall vacancy rate of 4.1%, as reported by Cushman & Wakefield in its Q2 2023 industrial market report.

Then, there are Southern California's ports, which boast high activity relative to other ports across the country. As measured by container volume, the Ports of Los Angeles and Long Beach remain the largest ports in the United States. They offer the most direct route from the Asia-Pacific region, ensuring that Southern California will remain a hotbed for the global exchange of goods.

After the past three years of record activity, the downturn in the industrial sector may seem like a cause for concern. The acute challenges noted above have certainly lowered the temperature of the market and must be reckoned with by those hoping to succeed in the days ahead. Nevertheless, Southern California's unique makeup and resiliency are enough to hold promise for the future of the industrial sector.

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The Santa Clarita Valley: A Business Oasis in Southern California


Logix HQ

Nestled in the heart of Southern California, the Santa Clarita Valley (SCV) presents an enticing destination for businesses seeking a thriving, dynamic environment to call home. With its strategic location, business-friendly climate, skilled workforce, quality of life, and robust infrastructure, the SCV stands out as an optimal choice for companies looking to establish or expand their operations. In this article, we will explore why companies should seriously consider locating in the Santa Clarita Valley.

PRIME LOCATION

Positioned just 30 miles north of downtown Los Angeles, the Santa Clarita Valley enjoys close proximity to one of the largest and most vibrant metropolitan areas in the world. This strategic location offers a myriad of benefits, including access to major transportation hubs, such as Los Angeles International Airport (LAX) and the Port of Los Angeles, facilitating easy global connectivity for businesses engaged in import and export activities. The Santa Clarita Valley is home to numerous business parks with zoning designed to protect industrial and commercial uses.

BUSINESS-FRIENDLY ENVIRONMENT

The Santa Clarita Valley Economic Development Corporation (SCVEDC) plays a pivotal role in fostering a business-friendly environment that encourages growth and success. The organization offers valuable resources and support, assisting companies in navigating the local regulatory landscape, permitting processes, and facilitating connections with key stakeholders and partners. The SCVEDC's dedication to enhancing the region's economic vitality ensures that businesses receive the assistance they need to thrive.

SKILLED WORKFORCE

With a population of over 300,000, the Santa Clarita Valley boasts a highly educated and skilled workforce. The region's renowned educational institutions, including California Institute of the Arts (CalArts) and College of the Canyons, produce a steady stream of talented graduates in various fields. Furthermore, the SCV's proximity to Los Angeles attracts professionals from diverse industries seeking a more affordable and family-friendly setting without compromising career opportunities. There are more than 500,000 workers within a 30-minute commute of the Santa Clarita Valley.

QUALITY OF LIFE

One of the most compelling reasons for companies to consider locating in the Santa Clarita Valley is the unparalleled quality of life it offers to employees. The region boasts a wide array of recreational activities, including hiking trails, parks, golf courses, and recreational centers. The SCV's family-friendly communities, top-rated schools, and cultural amenities make it an attractive destination for employees seeking a balance between work and personal life. The Santa Clarita Valley is regularly recognized as a one of the safest and healthiest cities in the county, as well as a great place to raise a family.

DIVERSE INDUSTRIES AND THRIVING BUSINESS ECOSYSTEM

The Santa Clarita Valley is home to a diverse range of industries, ranging from aerospace and advanced manufacturing to healthcare and technology. The variety of businesses present in the region fosters a collaborative and innovative atmosphere, where companies can synergize and benefit from shared expertise and resources. Moreover, the SCV's robust business ecosystem encourages networking and the exchange of ideas, contributing to the growth and success of all companies within the region.

Industries are supported through coalitions such as the Aerospace & Defense Consortium and the SCV Media Collaborative. These coalitions help companies meet other executives to build business relationships, partner networks, and share industry information. Due to the high demand for TV and film content, SCV now has more sound stage space than the entire country of Australia! Companies like Logix, DrinkPAK, and recently Vallarta supermarkets opened new headquarters in SCV, bringing hundreds of new jobs to our valley. Businesses of all sizes and sectors find success in SCV, including longtime HQ residents Princess Cruises, Scorpion, Sunkist, Remo, and more.

MODERN INFRASTRUCTURE

The SCV boasts modern and reliable infrastructure, crucial for businesses seeking a seamless and efficient operation. The region has a well-developed road network, providing easy access to major highways like Interstate 5 and State Route 14. Additionally, the SCV is serviced by a public transportation system, making commuting convenient for both employees and employers.

Moreover, SCV is an attractive location for their employees, with exceptional schools, expansive outdoor recreation space, safe neighborhoods, high quality healthcare, and more affordable pricing than most regions in Los Angeles. That's why, in a recent survey of business executives, 82% of respondents rated the business climate as positive or extremely positive and a whopping 91% rated the quality of life as good or extremely good. Whether you are working for a great SCV company or working remotely, the SCV has everything you need within arm's reach, with room to grow.

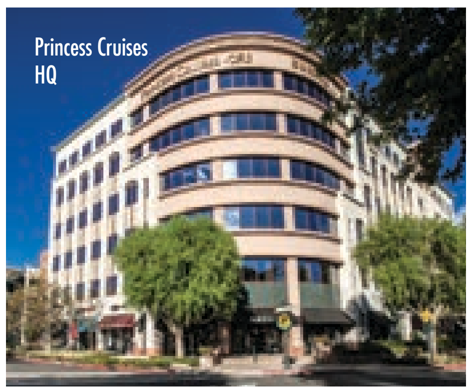
SUPPORTIVE LOCAL GOVERNMENT

The Santa Clarita Valley is fortunate to have a local government that recognizes the importance of economic development. The City of Santa Clarita consistently invests in infrastructure improvements, public safety, and community services to create an attractive environment for businesses and residents alike. The collaborative approach between the government and private sector fosters an environment where businesses can thrive and contribute to the overall economic growth of the region.

In conclusion, the Santa Clarita Valley stands out as an exceptional location for companies looking to establish or expand their operations. With its prime location, business-friendly environment, skilled workforce, exceptional quality of life, diverse industries, robust infrastructure, and supportive local government, the SCV provides an ideal setting for businesses to flourish and prosper. By choosing to locate in the Santa Clarita Valley, companies can benefit from the region's unique advantages, ensuring long-term success and growth for their venture.

The Santa Clarita Valley Economic Development Corporation is a public-private partnership dedicated to growing jobs and the economy in the Santa Clarita Valley. SCVEDC is the one-stop resource for information about business opportunities, resources, and assistance in a company's expansion. Learn more at scvedc.org.


DrinkPAK HQ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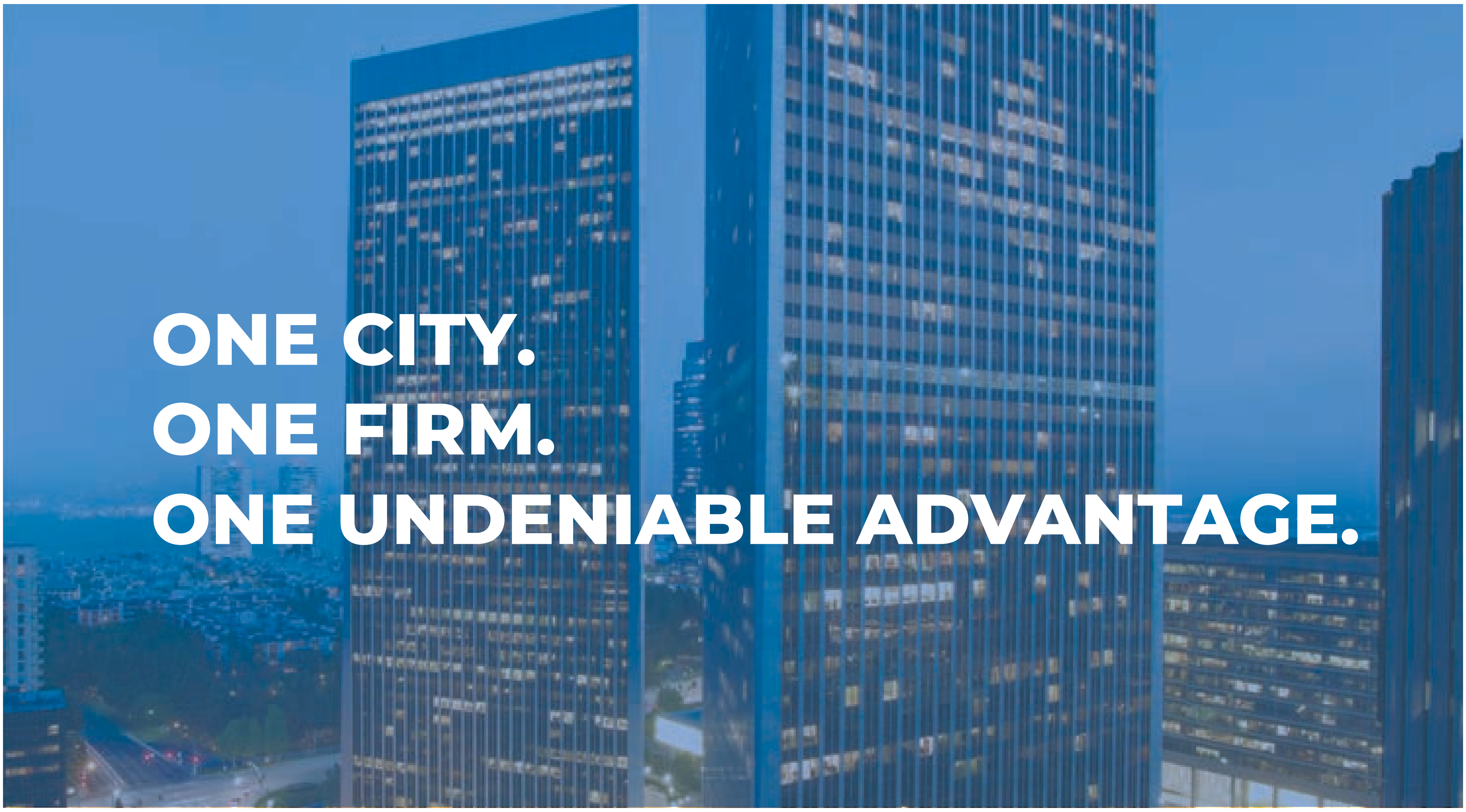

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Los Angeles Business Journal
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Ontario: One of Southern California's Brightest Lights

Ontario is the heartbeat of one of Southern California's most exciting and fast-growing metropolitan areas.

Today, the Inland Empire ranks as the 12th largest Metropolitan Statistical Area (MSA) in the United States, having recently surpassed the San Francisco Bay Area. By 2050, the population of the two-county region is expected to reach 5.7 million people, up 20% from current levels, according to the state Department of Finance. By contrast, L.A. County will have lost population during that same period.

And yet, the Ontario story goes far beyond the numbers. Fueled by a strategic economic development strategy and visionary land-use regulations, Ontario is attracting world-class businesses, innovative developers and forward-thinking investors who see boundless opportunities for growth and prosperity.

And it's happening all across the city.

Through bold leadership and innovative partnerships, Ontario has embarked on a renaissance of its historic core that is redefining what a 21st century downtown area can, and should, be – with a combination of modern affordable housing, adaptive re-use of historic structures, an urban greening program, new business opportunities and, soon, the latest in zero-emission bus rapid transit. That system, the West Valley Connector, will link the downtown area with stops in eastern Los Angeles County, Ontario International Airport (ONT) and across western San Bernardino County.

So impressive was Ontario's vision for downtown that in 2018 the state awarded the city a $35 million Transformative Climate Communities (TCC) grant – a highly competitive source of funding given only to those communities, and projects, that are committed to improving the health and well-being of all residents. Other downtown partners include the University of La Verne, which for years has operated its College of Law in the historic core and plans to add its College of Health and the Randall Lewis Center of Innovation, Social Impact and Entrepreneurship.

To the south of the city, Ontario Ranch, the largest master-planned community in California, will feature 46,000 new homes along with schools, and millions of square feet in retail, office, commercial and industrial spaces, all strategically positioned within 13 square miles. Among the major distribution centers that will call Ontario Ranch home: VF Corporation, Home Depot, Lululemon and the largest Amazon fulfillment center in the world.

Along the city's north end, Ontario stakes claim to the region's foremost entertainment hub. There, the 11,000-seat Toyota Arena and the Ontario Convention Center host more than 250 events annually and welcome more than 1.2 million guests. Upcoming development projects in the Arena District will feature pedestrian and entertainment-oriented development that will add 70,000 square feet of commercial space and 700 new apartments. Future development will also include a performance arts center, a hotel and the California Sports Hall of Fame.

Among other developments that are taking shape within the growing Arena District is Neuhouse, a thoughtfully planned community by Landsea Homes, featuring a mix of apartments, townhomes, single-family residences and a retail center. Notably, "The Collection," developed by Lewis Retail Centers, will cater to nearby residents with a conveniently located Stater Brothers supermarket and various retail opportunities.

Toyota Arena

The University of La Verne will expand its presence in Ontario with the brand new La Verne College of Health, and Randal Lewis Center of Innovation, Social Impact, and Entrepreneurship.

Ontario also is home to the world-famous Ontario Mills Mall, which attracts more visitors each year than does Disneyland.

Meanwhile, ONT will serve nearly six million passengers in 2023 and has been recognized as the fastest growing airport in the U.S. for five years in a row. The airport offers nonstop commercial jet service to nearly two dozen major airports in the US, Mexico, Central America and Taiwan. It's also among the Top 10 cargo airports in North America, serving as a hub for UPS, Federal Express and Amazon. Recently, the Ontario International Airport Authority Board of Commissioners authorized airport staff to negotiate an agreement with DHL for a fourth major cargo operation.

Add it up and ONT is a major economic driver – not only for the Inland Empire, but all of Southern California. According to a 2022 study by Oxford Economics, Ontario International creates $3.8 billion a year in economic activity, supports 27,800 jobs and is the center of a global logistics network that generates $17.8 billion in economic output.

Ontario's role in this transformation of the Southern California landscape is indisputable. According to the Southern California Association of Governments, Ontario is expected to add nearly 97,000 residents by 2048, making it the fastest-growing city in the Inland Empire.

None of this would mean as much if Ontario weren't the balanced community that it is. Home to high-performing schools, great recreational amenities and a cultural scene that includes museums, libraries and community events such as the Route 66 Cruisin' Reunion, Ontario offers its 185,000 residents a way of life that is unrivaled in the Inland Empire.

Ontario is attracting world-class businesses, innovative developers and forward-thinking investors who see boundless opportunities for growth and prosperity.

Ontario truly has it all. And the best is yet to come.

Learn more at OntarioThinksBusiness.com.

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Los Angeles Business Journal
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A Temperature Check on the State of Commercial Real Estate

By LEW HORNE, JESSICA LALL and DAVID BARNETT

Commercial real estate in Los Angeles faces uncertain economic conditions, uneven recovery from the COVID-19 pandemic and structural shifts in demand. Despite these challenges, not every sector and market is created equal. There are signs of strength across LA that point to a strong and resilient future. The current market conditions call for a temperature check to gain a more holistic view of LA's real estate.

THE BIG PICTURE... LA IS RESILIENT

The region's diversity of industry and talent bodes well for resiliency. LA has over 700,000 college students, 6.3 million employees, top universities, major sports teams, and world-leading film and production talent. Other strengths include:

- The San Pedro Bay Port Complex is unmatched. These ports account for 31% of all container movement in seaports.
- LA has fared better with inflation than other metros. At the end of April 2023, LA's inflation grew at a slower pace than Miami, Detroit, Phoenix, Tampa, Seattle, Dallas, Chicago, and others.
- Not one industry accounts for more than 20% of the market's employment.

OFFICE: COLD, BUT ALL STORMS END

Headwinds

- The sector faces high interest rates, debt maturity, and decline in demand.
- Office owners have buildings worth less than the debt owed.

Tailwinds

- Occupiers should lock in favorable terms for high-quality spaces that foster collaboration.
- Cash buyers will seek out quality office product at a discount.
- Medical office has performed better than the overall sector. Vacancy declined from 11.7% in Q1 2023 to 11.2% in Q2 2023.

INDUSTRIAL: COOLING BACK TO NORMAL

Industrial demand skyrocketed amid the COVID-19 pandemic. While 2022 was a record year for annual rent growth, projections show the market returning to normal levels and growing steadily.

Headwinds

- Greater LA started the year with two consecutive quarters of negative absorption. Inland Empire absorption turned negative in Q2 2023.
- Record rents have impacted tenants unable to afford their existing operations as sublease availability grows.

Tailwinds

- Vacancy remains tight for LA relative to other markets in the United States. Greater LA vacancy was 1.5% in Q2 2023 and Inland Empire was 2.7%.
- Rents are projected to increase 5-12% over the next year in Inland Empire, according to CBRE Econometric Advisors.
- A diverse tenant mix of third party logistics, food and beverage, and retailers supports strong fundamentals.

HOTELS: WARMING UP AND REVITALIZED

Tourism will always be a major contributor to LA's economy.

Headwinds

- A looming recession is at the forefront of consumers' minds and may lead them to pull back on discretionary spending, including travel.
- Labor shortages impact services. In the LA-Long Beach-Glendale area, leisure and hospitality employment was still below its pre-pandemic levels, as of April 2023.

Tailwinds

- Average daily rate increased 4.0% and revenue per available room increased 12.5% year-over-year in LA.
- Average daily rates exceed pre-pandemic levels in Los Angeles. The figure increased from $175.16 in Q1 2019 to $189.25 in Q1 2023.
- Passenger volume at LAX in Q1 2023 increased 23% from Q1 2022.

RETAIL: LUKEWARM WITH STRONG FUNDAMENTALS

Retail was hit hard from the COVID-19 pandemic leading to closings and a decline in leasing activity. However, underlying fundamentals led to a better-than-expected recovery as consumer spending surged.

Headwinds

- Elevated production costs erode retailer profit margins.
- Food and beverage retailers continue to experience shortages in labor, disrupting services.

Tailwinds

- Availability remains tight, below 7.0%, in LA, with low levels of new construction.
- Grocery-anchored retail and power centers are the preferred retail subtype for investment.

The region's diversity of industry and talent bodes well for resiliency. LA has over 700,000 college students, 6.3 million employees, top universities, major sports teams, and world-leading film and production talent.

MULTIFAMILY: MOST SOUGHT-AFTER SECTOR IS WARM

Annualized rent growth exceeded 10% in each quarter in 2022 due to limited availability. Increasingly higher mortgage rates priced out prospective buyers and incentivized them to rent.

Headwinds

- Lending conditions continue to tighten.
- Population growth remains stagnant or negative in submarkets around Greater LA.

Tailwinds

- Transaction volume reached $2.05 billion in Q1 2023 in LA.
- Multifamily is the most sought-after sector for investment.

Lew Horne, Jessica Lall, and David Barnett are with CBRE. Learn more at CBRE.com.

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Why Commercial Real Estate is Vital to the Economy

The impact of new commercial real estate development in the US continues to grow, according to the annual Economic Impacts of Commercial Real Estate research study conducted by the NAIOP Research Foundation.

The combined economic contributions of new commercial building development and the operations of existing commercial buildings in 2022 resulted in direct expenditures of $826.9 billion and the following impacts on the U.S. economy:

- Contributed $2.3 trillion to U.S. gross domestic product (GDP).
- Generated $831.8 billion in personal earnings.
- Supported 15.1 million jobs.

Among other highlights:

- Significant (143.4%) increase in non-warehouse (manufacturing) industrial building construction in 2022, making it the largest segment of new CRE construction in 2022.
- The four property types covered in the report saw increased construction spending (hard costs) last year.
- With continued remote work, some firms are defensively putting space onto the sublease market, a trend exacerbated by true downsizing and layoffs, which has been especially concentrated in the tech sector.
- Notwithstanding the challenges of office-linked retail in urban-core markets, demand for traditional retail space has rebounded, and overall occupancy rates have recovered to pre-pandemic levels.

"The construction sector ended 2022 with positive momentum that we hope will continue," said Richard Branch, chief economist, Dodge Construction Network, provider of the commercial construction data cited in the report. "As we look ahead, growth in sectors such as life sciences, data centers and manufacturing will be important for seeing the potential amid the economic slowdown in 2023."

Altogether, commercial, residential, institutional and infrastructure development and operations of existing commercial buildings contributed $6.5 trillion to the U.S. economy and supported 37.7 million jobs in 2022.

"The data in the report are strong economic indicators of commercial real estate development investment, job growth, and subsequential contributions to the U.S. economy," said Marc Selvitelli, CAE, president and CEO of NAIOP. "Our success could be met with headwinds as inflation, workforce constraints and higher interest rates create uncertainty. Our Research Foundation, legislative team and education will keep our members and industry professionals informed on these issues and offer resources as the industry navigates potentially choppy waters."

The report notes that "slow growth in real (inflation-adjusted) GDP (0.2%) is expected, as well as in nonresidential fixed business investment (0.6%) – both evidence of potential declines in demand for construction and real estate. While expected slowdowns in economic growth in 2023 could dampen demand, the total value of construction is anticipated to increase modestly."

The full report is online: www.naiop.org/contributions23

The "Economic Impacts of Commercial Real Estate" report is authored by Brian Lewandowski, Adam Illig, Michael P. Kercheval, Ph.D., and Richard Wobbekind, Ph.D., at the University of Colorado Boulder Leeds School of Business.

Since 2008, NAIOP has conducted this study for purposes of estimating the annual economic contribution of commercial real estate development to the U.S. economy. This study is used by real estate professionals and municipal, state, and federal officials and employees, to understand and quantify the key economic benefits of commercial real estate development.

NAIOP, the Commercial Real Estate Development Association, is the leading organization for developers, owners and related professionals in office, industrial, retail and mixed-use real estate. NAIOP comprises 20,000 members in North America. NAIOP advances responsible commercial real estate development and advocates for effective public policy.

The NAIOP Research Foundation was established in 2000 as a 501(c)(3) organization to support the work of individuals and organizations engaged in real estate development, investment and operations. The Foundation's core purpose is to provide information about how real properties, impact and benefit communities throughout North America.

For more information, visit naiop.org.

ROOM TO GROW IN THE SANTA CLARITA VALLEY

Located just 30 miles north of downtown Los Angeles, the Santa Clarita Valley offers you the space to think big. Consistently ranked as LA County's most business-friendly city, Santa Clarita is also highly ranked among the **safest**, **healthiest** cities in the US, and one of the **best places** to start a family.

"This is the biggest small town in America. You can do everything, right here."

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Office Absorption will Turn Positive in 2024

The latest NAIOP Office Space Demand Forecast predicts that net absorption of office space – the amount that is leased or occupied less the amount that is vacated– will remain negative through 2023, but will turn positive in 2024. The forecast accounts for the possibility of a recession in 2023, with economic growth in 2024 expected to support a recovery in the office market.

Nationally, net office space absorption in the remaining three quarters of 2023 is expected to be negative 24.4 million square feet. The forecast projects that positive net absorption will total approximately 30.6 million square feet in 2024.

The national office market experienced total negative net absorption of 21.3 million square feet through the fourth quarter of 2022 and the first quarter of 2023, bringing the vacancy rate to 17.8%, the highest level since the second quarter of 1993.

The report is authored by Hany Guirguis, Ph.D., Manhattan College, and Michael J. Seiler, DBA, College of William & Mary.

Among the report's additional key findings:

• The COVID-19 public health emergency officially ended in the United States on May 11, 2023, but remote and hybrid work arrangements remain largely in place and continue to negatively affect demand for office space.

• A currently strong labor market is combining with fears of a looming recession to limit occupiers' interest in signing new leases. With the unemployment rate at 3.4%, the lowest since 1969, the competition for talent is supporting the continuation of hybrid and remote work policies.

Few firms are interested in expanding the amount of space they lease as they prepare for a potential recession later this year. As a result, while office-using employment has risen to 5.4% above pre-pandemic levels, occupied office space is 3.5% below pre-pandemic levels, and the average amount of office space per employee has fallen to a 22-year low of 152 square feet, according to CBRE.

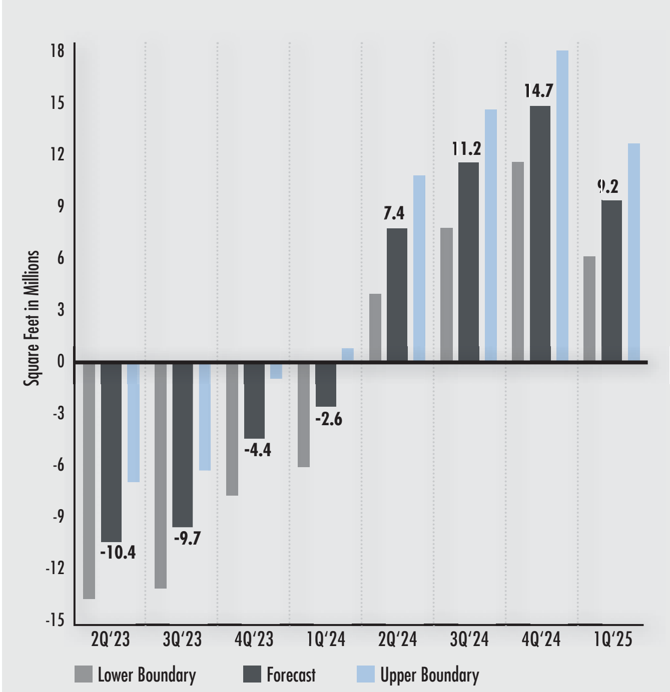
"Few have been able to predict the rates of workers returning to work in offices, and each company is creating its own culture and policies as we emerge from the pandemic," said Marc Selvitelli, president and CEO of NAIOP. "Post-pandemic patterns are the key driver, and we expect to see positive absorption starting to take root in 2024."

The NAIOP Research Foundation was established in 2000 as a 501(c)(3) organization to support the work of individuals and organizations engaged in real estate development, investment and operations. The Foundation's core purpose is to provide information about how real properties, impact and benefit communities throughout North America.

NAIOP, the Commercial Real Estate Development Association, is the leading organization for developers, owners and related professionals in office, industrial, retail and mixed-use real estate. NAIOP comprises 20,000 members in North America.

NAIOP advances responsible commercial real estate development and advocates for effective public policy. For more information, visit naiop.org.

THE NAIOP OFFICE SPACE DEMAND FORECAST
US Markets, Quarterly Net Absorption



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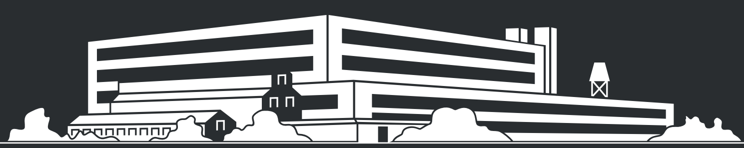

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Los Angeles Business Journal
REAL ESTATE TRENDS 2023

Central Business Districts are Ripe for Reinvention

Cities globally are at an inflection point, navigating structural changes to how people live and work due to the pandemic. JLL's new "The Future of the Central Business District" report explores how cities are adapting to these changes and how the public and private sector can collaborate to help central districts remain relevant for residents, visitors, businesses and investment.

Traditional central business districts (CBDs) have the opportunity to reinvent themselves in an environment of shifting demand for office space, more variable commuting and travel patterns, and a desire for "experience-based" spaces. While these have been global challenges, North America has faced the most intense adjustment, as return-to-office levels typically range between 45% and 65%, lower than the 65%-85% in Europe and 70%-100% in Asia-Pacific. Looking ahead, there is great capacity for value creation in these city centers, due to comparative advantages in infrastructure, accessibility, stock of underused real estate and the ability to scale growth, all of which underscore their resilience.

Traditional CBDs also face competition from new, vibrant mixed-use neighborhoods that are emerging across the world's largest cities and attracting a growing share of businesses, residents and investment. Forward-thinking cities can futureproof themselves by reimagining city cores and replicating and building upon the framework that makes new neighborhoods successful in attracting occupier and investor interest.

To take advantage of long-term real-estate opportunities, future CBDs can also leverage existing buildings to create a balanced mix of uses, improve amenities, and invest in the public realm and sustainable design. For example, refurbishing buildings comes at a lower environmental cost than new developments, as renovations can come with carbon impacts of less than 500kg of CO_2 per square meter, well below what is seen in new development (as much as 1,500kg). This will be significant in helping cities move toward carbon neutrality, especially given more than 1 billion square meters of office space will need to be retrofitted on a global level by 2050. Looking beyond sustainability goals, JLL estimates that converting only 10% of a city's older office product could yield thousands of needed residential units to tackle housing affordability challenges.

Los Angeles is one of the projected top five cities in the world (alongside New York, Tokyo, Chicago and Washington DC) for such conversions, in terms of projected units converted.

Collectively, these changes will help CBDs adjust to hybrid working patterns, an increasing focus on real estate decarbonization, competition from emerging neighborhoods and fluctuating real estate demand.

"After three years of dramatic shifts to how we live and work within CBDs, significant opportunity exists to reimagine how we use and interact with city centers," said Phil Ryan, Director of Global Research, City Futures at JLL. "JLL is looking ahead to the 2030s and beyond to help identify solutions for real estate investors, developers, occupiers and city governments to keep these important economic, cultural, educational and innovation hubs energized and competitive in the post-pandemic world."

An ecosystem of partnerships will form between the private sector, governments and academic institutions and will be essential to maximizing growth opportunities and accelerating the transformation of CBDs:

- **Investors** can employ a strategic, long-term mindset toward repositioning and diversifying acquisition mix to best cater to shifting preferences and reduce exposure to external shocks.
- **Developers** should proactively consider locations based on potential for future growth and proximity to demand pools, the quality and age of buildings, and ability to meet regulatory requirements regarding energy efficiency and sustainability. They should embed ESG considerations to future-proof assets and focus on creating destinations that are resilient to the changes in how people live and work.
- **Governments** must anticipate demand changes and provide greater flexibility to developers and investors, including through expanding tax credits to offset the cost of conversion and streamlining the planning process to reduce the lead time for delivery of new product.

Also, critical to making CBDs attractive for living and leisure is improving the public realm and environment for pedestrians, complemented by broadening the options for a variety of retail and community businesses. Additions to green space and tree cover improve the street-level amenity while also helping to mitigate adverse effects of climate change, such as excess stormwater and heat stress. Expansions of on-street dining, closure of streets to cars and other measures to reduce traffic and improve public transit reliability will become more common moving forward.

For further information, visit jll.com.

LOS ANGELES BUSINESS JOURNAL
REAL ESTATE TRENDS 2023

The Evolving and Critical Role of Data in Commercial Real Estate Development

Industries are rapidly evolving as business processes grow more interconnected and automated. Data and analytics play an important role in information technologies and their interaction with the physical world, including emerging fields such as artificial intelligence, the Internet of Things (IoT), and virtual and augmented reality.

Advanced data analytics gained from these tools can be analyzed and deployed to help users make smarter choices and is increasingly guiding forces across the commercial real estate industry. Beyond property management and building operations, these types of analytics can also inform important development decisions, including site selection, design and valuation for commercial buildings.

To gain a sense of how CRE firms are using this data, the NAIOP Research Foundation commissioned a report, authored by Clifford A. Lipscomb, Ph.D., MRICS.

The report notes that while the CRE industry has been slower than other industries to adopt data analytics, some firms have identified several ways that data analytics can support land and building development and contribute to better project outcomes.

> 'While the commercial real estate industry has historically been slow to adopt and incorporate new technologies, there is no question that data analytics management will be a key part of the success of developers.'

Through research and interviews with brokers, data providers, investors, developers and other professionals at CRE technology firms, the report outlines key takeaways on how data analytics have the potential to add substantial value to new development projects, including:

- Most firms continue to rely primarily on traditional forms of market research when making investment and development decisions, but data analytics have the potential to improve siting decisions and building design.
- Several CRE technology companies have developed software that draws from data analytics to enhance highest and best use analysis, land packaging, construction planning and project management.
- High costs associated with developing in-house data analytics capabilities lead most commercial real estate firms to outsource analytics tasks. More companies will develop their own analytics resources as they become more useful.
- Advancements in artificial intelligence and further investments in CRE data collection and structuring will expand applications for data analytics in commercial real estate development.

"While the commercial real estate industry has historically been slow to adopt and incorporate new technologies, there is no question that data analytics management will be a key part of the success of developers. It will be exciting to see how the use of data transforms the industry," said Marc Selvitelli, CAE, NAIOP president and CEO.

NAIOP, the Commercial Real Estate Development Association is the leading organization for developers, owners, investors and related professionals in office, industrial, retail, and mixed-use real estate. NAIOP provides unparalleled industry networking and education and advocates for effective legislation on behalf of our members. NAIOP advances responsible, sustainable development that creates jobs and benefits the communities in which our members work and live.

For more information, visit naiop.org.

ESG Goals Increasingly Drive Brownfield Redevelopment

"Brownfield" is the technical name for an underused or abandoned industrial or commercial property. Brownfields can range from old factories to vacant warehouses; from defunct gas stations to former dry cleaning establishments.

Many brownfields are contaminated with potentially dangerous waste. Solvents and waste oil, for example, might be found at the site of an old automotive repair shop; the chemical perchloroethylene could be identified at a site previously occupied by a dry cleaner.

Appearances, however, can be deceiving. Despite the way they look, not all brownfields are actually contaminated. (Unfortunately, even those properties that are not truly contaminated are widely believed to be.)

The General Accounting Office has estimated that there are over 450,000 brownfield properties in the United States. And, according to the California Environmental Protection Agency, California is home to almost 90,000 them.

As the availability of readily developable land decreases, brownfields are attracting more attention from developers.

These sites, typically located in urban areas with well-developed transportation infrastructure, are potentially attractive targets for redevelopment to new uses, but often require regulatory support or public subsidies to overcome the additional costs and risks associated with environmental remediation.

Public support for brownfield projects – such as the $1.5 billion that The Bipartisan Infrastructure Law recently committed to the Environmental Protection Agency's Brownfields Program – is increasingly conditioned on meeting environmental, social and economic (ESG) sustainability targets.

"Realizing significantly more sustainable brownfield redevelopment projects on the ground will require even more decisive leadership at all levels, effective policies and programs, robust stakeholder collaboration and buy-in, support from ESG (Environment, Social and Governance) investors, and investment from the commercial real estate industry," according to a new report from the NAIOP Research Foundation.

"Sustainable Brownfield Development" was authored by Christopher De Sousa, Ph.D., MCIP, RPP, professor, School of Urban and Regional Planning, Toronto Metropolitan University. The report is an analysis of two dozen brownfield projects that include best practices for developers and their public and non-profit partners. The brief also considers the construction methods and design features that developers most commonly adopt to meet sustainability objectives.

"As global and national concerns about the environment accelerate, so too will environmentally sustainable actions aimed at generating renewable energy, eliminating waste, electrifying transportation, producing local agriculture, cleaning the air, offsetting carbon emissions, mixing land uses, and moving to net-zero and climate-positive actions," the report said. "Making these changes in strong markets will be challenging enough from a feasibility perspective; they will be even more challenging in weaker markets that must also prioritize robust social and economic outcomes."

"We are going to see more brownfield redevelopment," said Marc Selvitelli, CAE, president and CEO of NAIOP. "The speed at which these projects reach completion will depend on the commitment of the commercial real estate industry, local community support that is based on two-way communication, funding, and other cooperation from local, state and federal governments. Our hope is that this report provides a road map and accelerates the process."

For more information, visit naiop.org, or download the full brownfield report at naiop.org/brownfieldsresearch.

Los Angeles Business Journal
REAL ESTATE TRENDS 2023

Elevated Interest Rates and Limited Listings Suppress California Home Sales

Elevated interest rates and a shortage of homes for sale continued to dictate the market in June, as California home sales remained below the 300,000 annualized pace for the ninth consecutive month, according to a recent report from the California Association of Realtors (C.A.R.).

Closed escrow sales of existing, single-family detached homes in California totaled a seasonally adjusted annualized rate of 277,490 in June, according to information collected by C.A.R. from more than 90 local realtor associations and MLSs statewide. The statewide annualized sales figure represents what would be the total number of homes sold during 2023 if sales maintained the June pace throughout the year. It is adjusted to account for seasonal factors that typically influence home sales.

June's sales pace was down 4.1 percent on a monthly basis from 289,460 in May and down 19.7 percent from a year ago, when a revised 345,760 homes were sold on an annualized basis. Sales of existing single-family homes in California remained below the 300,000-unit pace for the ninth consecutive month. The yearly drop was the smallest since May 2022 and marked the first time in a year that sales dropped by less than 20 percent from a year ago. However, the smaller decline was due primarily to weaker sales last June, when sales dropped below 350,000 for the first time in two years.

"California's housing market has improved since the winter and appears to have found its footing as sales declined at the slowest pace in over a year," said C.A.R. president Jennifer Branchini, a Bay Area realtor. "Despite elevated interest rates, the demand for housing continues to outpace the availability of homes for sale, as buyers slowly adapt to the new normal under the current housing market conditions."

California's median home price exceeded $800,000 in June for the third straight month, edging up 0.3 percent from May's $836,110 to $838,260 in June. The statewide median price continued to rise and reached the highest level in ten months. Tight housing supply and more high-end homes being sold relative to prior months continued to put upward pressure on prices. Despite the improvement from early 2023, the median home price in California dipped 2.4% on a year-over-year basis for the eighth consecutive month from $858,800 in June 2022. The downward movement in home prices appears to be stabilizing, but more dips in the median price are expected in the coming months as rates will likely remain elevated for most, if not the entire third quarter, of 2023.

"Buyer demand appears to have stabilized after rates doubled last year, though rates could still move higher in the coming months," said C.A.R. senior vice president and chief economist Jordan Levine. "As inflation finally subsides later this year, the market could see some improvement as rates and supply conditions start turning around."

> 'Despite elevated interest rates, the demand for housing continues to outpace the availability of homes for sale, as buyers slowly adapt to the new normal under the current housing market conditions.'

Other key points from C.A.R.'s June 2023 resale housing report include:

- Nearly half of all counties registered in their median price in June, with prices in five counties surging more than 10 percent month-over-month. The price improvement from earlier this year in a high number of counties is an encouraging sign that housing values are stabilizing, but also a warning signal that housing affordability could remain low in the second half of the year.
- Housing inventory in California inched up in June from the prior month but dipped again from last year, as tight housing supply continues to be the norm. The statewide unsold inventory index in June 2023 dropped 8.3 percent from a year ago and increased 4.8 percent on a month-over-month basis. Active listings at the state level fell sharply by 34 percent from last year and registered the largest year-over-year decline since May 2021. With mortgage rates expected to be high in the next couple of months, California may not see any meaningful improvement in its housing inventory for the rest of the third quarter.

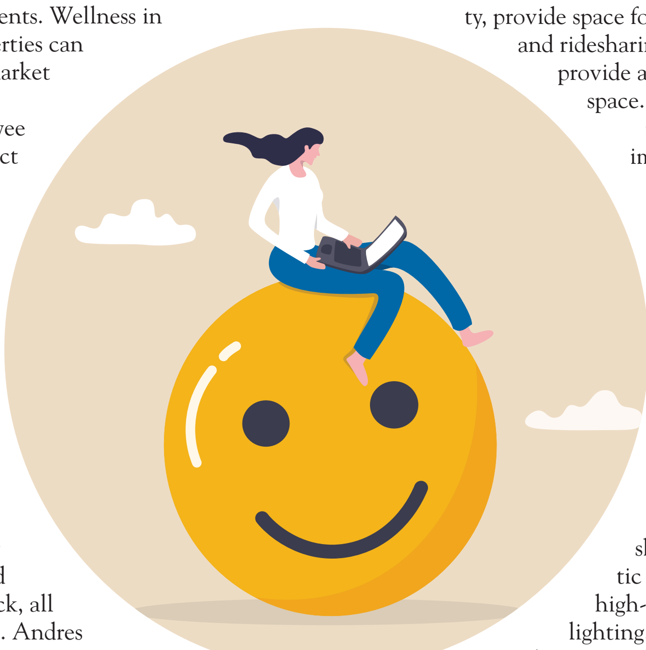
C.A.R. is headquartered in Los Angeles. Learn more at car.org.

Employee Wellness Among Hottest Trends in Industrial Real Estate

The NAIOP Research Foundation and KSS Architects have issued a new report recognizing the benefit of widespread adoption of wellness features in industrial real estate buildings.

Wellness elements that contribute to improved occupant health and well-being became a key part of the design of office buildings several years ago, and the trend accelerated during the pandemic. Now, with the meteoric rise of industrial real estate and growing numbers of employees working in high-tech warehouses, a growing number of companies are interested in adding wellness features to distribution centers to improve employee recruitment and retention.

"The rapid expansion of e-commerce over the past decade has reshaped industrial real estate and the nature of work within warehouses and distribution centers," according to the report, which also notes that, "growing competition for workers and increased awareness about workplace wellness have generated interest in design interventions that can make these centers healthier and more attractive work environments. Wellness in industrial properties can contribute to market differentiation, increase employee retention, impact productivity, and help meet environmental, social and governance (ESG) goals."



The report was authored by Ed Klimek, Jennie Himler, Bri Dazio, Tyler Park, and David von Stappenbeck, all KSS Architects. Andres Rodriguez-Burns, Nate Maniktala and Marcel Harmon at Branch Pattern also contributed to the report.

Several features that may enhance the work experience for warehouse workers are identified in the report:

- Site layouts that improve pedestrian safety, provide space for public transit and ridesharing services, and provide access to green space.
- Shell improvements that improve thermal conditions, acoustic environments, air quality and lighting such as improved ventilation, destratification fans, skylights, acoustic treatments, high-performance lighting, and radiant heating and cooling elements.
- Workstations that provide ergonomic support, local conditioning, and task-oriented lighting.
- Break spaces for distribution center employees and commercial truck drivers that facilitate restoration; provide access to nutrition, hydration, and fresh air; protect workers from vehicles; and provide relief from the acoustic and thermal conditions of the distribution center interior.
- Space to host amenities that are not located in the surrounding area, such as day care and food services.

These features would address some of the more common challenges for workers in industrial buildings: noise, uniformity of environments, isolation, and physical strain. They can also contribute to workers' sense of individual identity, dignity, and community.

"Workers in distribution centers face conditions that are different from those in office buildings or retail centers," according to the report. "[These recommendations] set the stage for the evolution of distribution centers as they become more embedded in local communities and more attentive to the needs of the people working within them. Achieving the goal of a wellness-focused distribution center will require effort from developers, designers, and occupiers and — most importantly — input from workers themselves. Establishing a meaningful dialog between all these parties will be critical to paving the way to a more sustainable, equitable and successful supply chain."

For more information, visit naiop.org.