LOS ANGELES BUSINESS JOURNAL

ECONOMIC TRENDS 2024

A Look Into What to Expect for the Year Ahead

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ECONOMIC TRENDS 2024

Los Angeles Business Journal Presents Economic Trends 2024

The Los Angeles Business Journal was excited to host the 2024 Economic Trends virtual discussion event on Thursday afternoon, February 1st.

The event featured two lively virtual panel discussions featuring leading experts on the hottest topics on the minds of LA area business leaders at the start of this year. The panels offered an insightful look back on the unprecedented challenges and silver linings of the past few years while providing a deep dive into the economic trends we are facing moving forward into 2024.

Our outstanding group of panelists and moderators examined the issues as they shared their experiences and predictions for the year to come. The panels this year focused on an overall outlook for 2024 and the latest perspectives on the direction the real estate market is going, with expert insights and analysis about the impact current trends are likely to have on the overall economic climate.

TRENDS TO EXPECT IN 2024

The Trends panel featured **Mike Amerio**, managing partner at Lucas Horsfall; **Chris Baron**, regional president for Banc of California; **Stephen Cheung**, president and chief executive officer for the Los Angeles County Economic Development Corporation (LAEDC); **Kerra Diener** of Withum; and **Kandee Lewis**, CEO/president of the Positive Results Center and civil and human rights commissioner for the City of Los Angeles.

Each of the experts weighed in on a variety of hot real estate issues and talking points, including:

- Potential new tax laws
- Potential sunsets in 2026 and how they will affect businesses
- The latest update on employee retention credit and potential IRS audits
- Why it is critical to involve Black Women in the conversation of economics, and finances to bridge disparity gaps
- The effects of artificial intelligence on diverse communities
- The impact nonprofits have on the future of economic trends
- Entrepreneurs' and business owners' outlook on the economy
- The biggest challenges facing LA businesses
- The impact of the State's deficit to the local region
- The sectors/industries that are trending to do well in 2024
- Global trends/situations to keep an eye on locally
- …and much more!

> The event featured two lively virtual panel discussions featuring leading experts on the hottest topics on the minds of LA area business leaders at the start of this year.

Immediately following the eye-opening outlook conversation, the Los Angeles Business Journal audience was treated to an equally in-depth and timely group roundtable on what real estate trends we can expect to see in the coming 12 months.

2024 REAL ESTATE OUTLOOK

The Real Estate Outlook panel featured **Sean Fulp**, vice chair, West Region Capital Markets for Colliers; **Jim Kruse**, the president of brokerage, greater LA, for Kidder Matthews (who also served as moderator); **Karri Novak**, vice president, project development for Suffolk; **Kevin Sher**, partner, real estate for Greenberg Glusker; and **Roger Yang**, partner and building, construction & real estate industry leader for KPMG.

Each of these professionals weighed in on a number of discussion topics, including:

- Where the vacancies are in the LA market
- The depth of the sublease market in LA
- How WeWork's bankruptcy is impacting Los Angeles
- How the government's space usage affects transaction activity
- Which indicators signal positive change/growth for the future of office in Los Angeles and beyond
- How the ULA in Los Angeles and other so-called "mansion taxes" have affected commercial real estate investment and development
- Whether the slowdown trend in Los Angeles in multifamily investment and development will continue during 2024
- The state of industrial development
- The effect EV mandates might have on commercial real estate
- How business leaders feel about the interest rate environment in 2024
- How businesses are adapting their policies to talent and return to office
- How are sustainability goals are affecting the built environment

Many thanks to our excellent panelists, who took the time to share their insights on the biggest headlines and where the market is going in 2024.

PANEL I TRENDS TO EXPECT IN 2024

MIKE AMERIO
Managing Partner
Lucas Horsfall

CHRIS BARON
Regional President
Banc of California

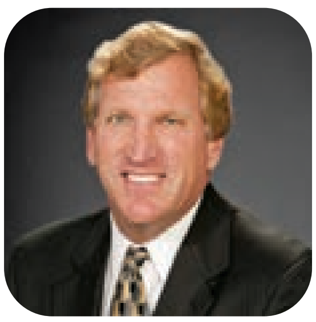
STEPHEN CHEUNG
President and Chief Executive Officer
Los Angeles County Economic Development Corporation (LAEDC)

KERRA DIENER
Withum

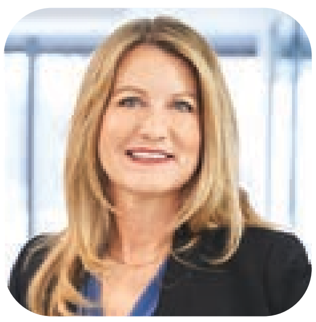
KANDEE LEWIS
CEO/President, Positive Results Center
Civil and Human Rights Commissioner, City of Los Angeles

PANEL II 2024 REAL ESTATE OUTLOOK

SEAN FULP
Vice Chair, West Region Capital Markets
Colliers



JIM KRUSE
President of Brokerage, Greater Los Angeles
Kidder Mathews

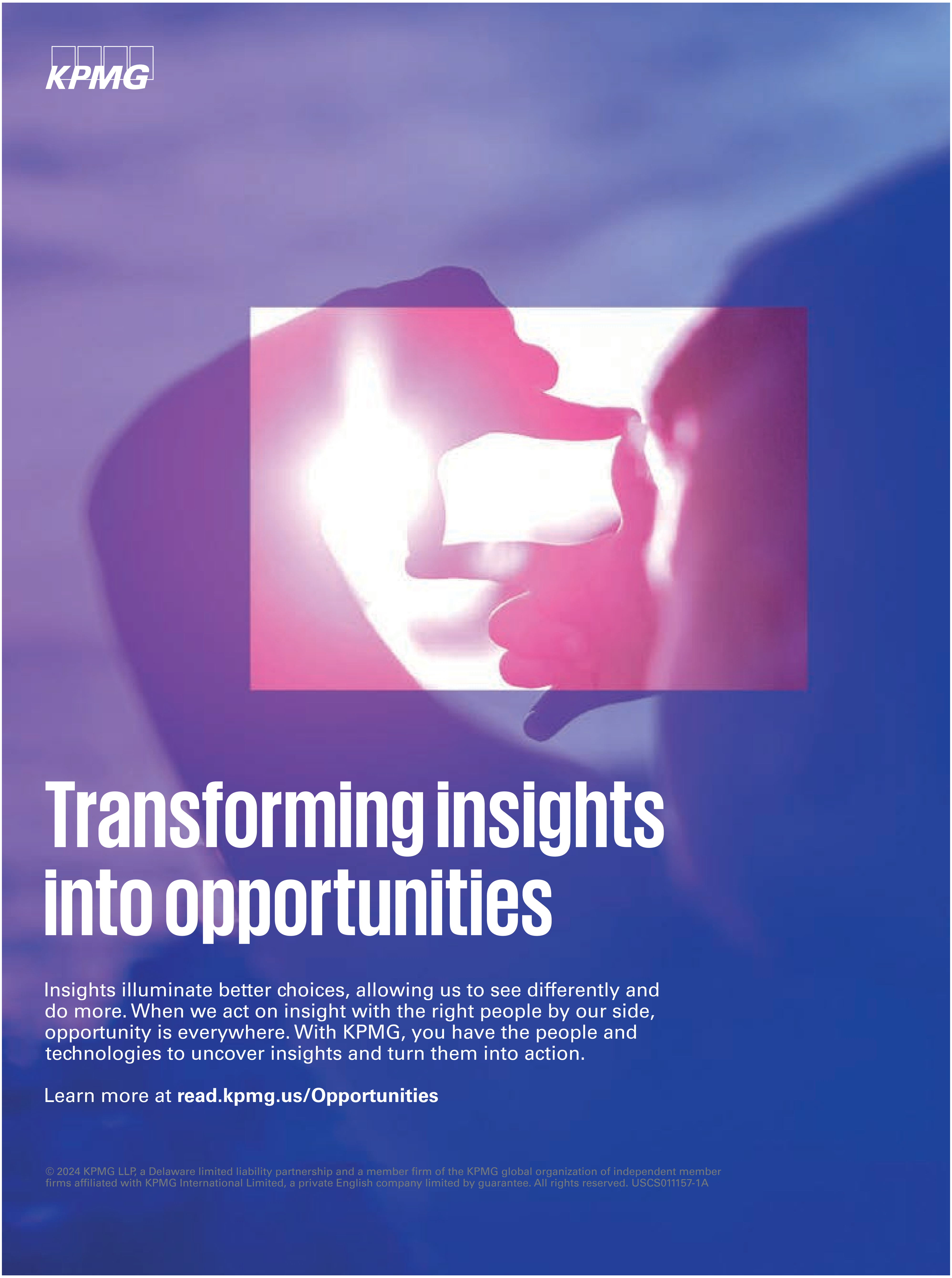


KARRI NOVAK
Vice President, Project Development
Suffolk

KEVIN SHER
Partner, Real Estate
Greenberg Glusker

ROGER YANG
Partner; Building, Construction & Real Estate Industry Leader
KPMG

View highlights from the panel discussions online: labusinessjournal.com/events/economictrends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ECONOMIC TRENDS 2024

Maximizing Tax Savings in Advance of TCJA Sunset

By MIKE AMERIO

The Tax Cuts and Jobs Act (TCJA) of 2017 is currently scheduled to sunset at the end of 2025, meaning significant changes are on the horizon for taxpayers. Businesses need to be aware of a number of changes to current tax laws and take advantage of ways that they can maximize tax savings and minimize future tax liabilities. Taxpayers should note changes to the qualified business income (QBI) 20% deduction (Sec. 199A), and plan to maximize bonus depreciation and estate and gift tax exclusion benefits.

WHAT THIS MEANS FOR YOUR BUSINESS

Currently, small business owners with pass-through income are eligible to deduct up to 20% of their QBI on their tax returns. In general terms, QBI can be defined as the business's net profit, excluding capital gains, dividends, interest, and foreign income.

Starting in 2026, the QBI deduction will no longer be available. It is in the best interest of eligible businesses to accelerate income from 2026 into 2025 and 2024. To the extent revenue can be accelerated in 2024 and 2025 or expenses can be deferred into 2026, the business will be able to benefit from the deduction provided by QBI.

Businesses are strongly encouraged to maximize bonus depreciation before the provision expires on December 31, 2026. Certain fixed assets, including computer equipment and software, office furniture, machinery, some vehicles, and qualified property, can be deductible expenses.

For tax year 2024, 60 percent of eligible purchases can benefit from bonus depreciation. For the years 2025 and 2026, the percentage of bonus depreciation declines to 40 percent and 20 percent, respectively. From an income tax perspective, it would be best to accelerate tax deductions as much as possible.

Finally, married business owners filing jointly should take estate and gift tax exclusions into thoughtful consideration. They will need to determine whether it makes sense to top off their lifetime gifts above the expected post-2025 exemption amount of approximately $7 million before they lose the excess exemption between $7 million and $12.92 million. Any difference between the current higher exemption amounts and the post-2025 reduced amounts will be lost if not used.

On the bright side, one of the few TCJA provisions that will not expire at the end of 2025 is the corporate tax rate, which is a flat 21% regardless of amount of corporate taxable income. The permanent change to the corporate provisions positively impacted economic growth by increasing jobs and business investment, and is expected to continue.

OTHER STRATEGIES TO CONSIDER

In addition to the above, there are several strategies that businesses can use to minimize future tax liabilities and offset the changes coming with the end of the TCJA.

For example, businesses can consider investing in research and development (R&D) activities. The R&D tax credit is a dollar-for-dollar reduction in income tax liability that is available to businesses that engage in qualified research activities. The credit can be used to offset regular tax liability or alternative minimum tax (AMT) liability.

Businesses can also consider investing in energy-efficient equipment and facilities. The Energy Policy Act of 2005 provides tax incentives for businesses that invest in energy-efficient equipment and facilities.

Another option is to look into state and local tax incentives. Many states and localities offer tax incentives to businesses that invest in their communities. These incentives can include tax credits, tax exemptions, and tax abatements.

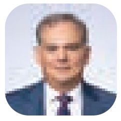
> By implementing strategies like accelerating income, maximizing bonus depreciation, and taking advantage of estate and gift tax exclusion benefits, you can put your business in a much more advantageous position ahead of the coming changes.

DON'T PUT OFF ASSESSING YOUR TAX STRATEGIES

Now is a critical time to assess your strategies for maximizing tax savings and minimizing future liabilities. By implementing strategies like accelerating income, maximizing bonus depreciation, and taking advantage of estate and gift tax exclusion benefits, you can put your business in a much more advantageous position ahead of the coming changes. If you choose to wait, you will find your options much more limited, and you run the risk of seeing your tax liability increase dramatically year over year.

CONSULT WITH YOUR TAX ADVISOR

The best course of action to offset the changes coming with the end of the TCJA will vary from business to business. The most important step you can take is to consult with your tax advisor as soon as possible, so that you can start implementing the strategies necessary to minimize the negative impact of the coming tax code changes.



Mike Amerio is managing partner for Lucas Horsfall. Learn more at LHMP.com.

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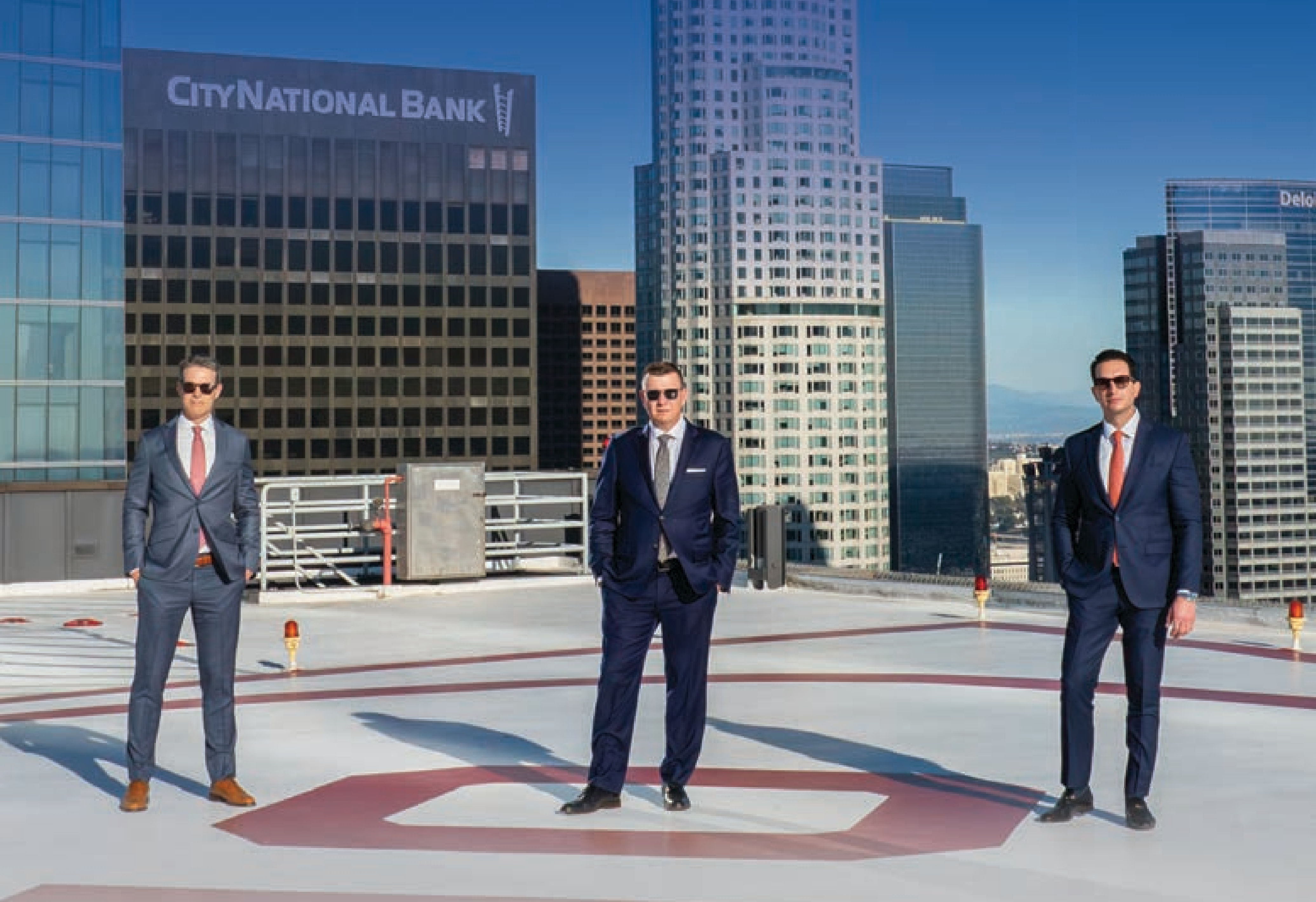

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ECONOMIC TRENDS 2024

Challenges and Opportunities: The Asset Management Sector in 2024

By ROGER YANG

The last several years have brought about change at a scale and pace once seemingly unimaginable across the US economy. For asset managers specifically, 2024 begins at an inflection point. From an evolving regulatory landscape to geopolitical turmoil, to the rise of generative AI (GenAI) and ongoing questions about the direction and duration of a possible "higher-for-longer" environment, asset managers are confronted with both challenges and opportunities. While there are a multitude of areas to keep a close eye on throughout the year, here are three of note:

POSSIBLE RATE CUTS

After operating for years in a low-rate environment, the rapid pace of rate hikes seen in 2022 and 2023 forced asset managers to quickly adapt. In recent months, the Federal Reserve has begun to signal that they will tap the breaks in 2024 as they seek to possibly cut rates later this year. According to a recent survey KPMG conducted of asset managers at the end of 2023, a majority of respondents anticipated rate cuts in the second half of 2024 or even earlier, in line with broader market expectations. The market needed a signal that rates would not increase for transactions and deal activity to pick up, and the possibility of interest rate cuts in 2024 creates a more favorable environment for asset managers.

The survey also revealed that a majority of respondents felt that their organization's ability to deploy capital or grow would not be impacted if the federal funds rate remained at 5.5% or higher in 2024. What we can take from all of this is that asset managers aren't so much concerned about the level of interest rates as they are about their varying trajectory and timing.

REALIZING BENEFITS OF GenAI, ADDRESSING LEARNING CURVE

Every industry is still in the opening stages of beginning to comprehend how emerging technologies such as GenAI are going to impact the ways in which we work. While there is uncertainty over the long-term implications, what is clear is that the technology is here to stay. In asset management, however, our survey revealed there is a discrepancy when it comes to expectations and comfort level with the technology. While 30 percent of asset managers anticipate GenAI being utilized for 5-20 percent of tasks by the end of 2024, only one in five feel adequately knowledgeable about its use. This divergence highlights a skill gap that needs to be addressed for asset managers to be able to utilize GenAI to its fullest potential and stay competitive in the industry.

In fact, adopting emerging technologies was identified as the highest strategic priority by 65 percent of respondents. As 2024 progresses, how asset managers continue to invest in, deploy and upskill their professionals in the use of GenAI will be one of the key areas worth watching.

From an evolving regulatory landscape to geopolitical turmoil, to the rise of generative AI (GenAI) and ongoing questions about the direction and duration of a possible "higher-for-longer" environment, asset managers are confronted with both challenges and opportunities.

TALENT RISK AND HYBRID HERE TO STAY

Attracting and retaining the right talent has always been critical for asset managers, but, in a hybrid environment, it's never been more challenging.

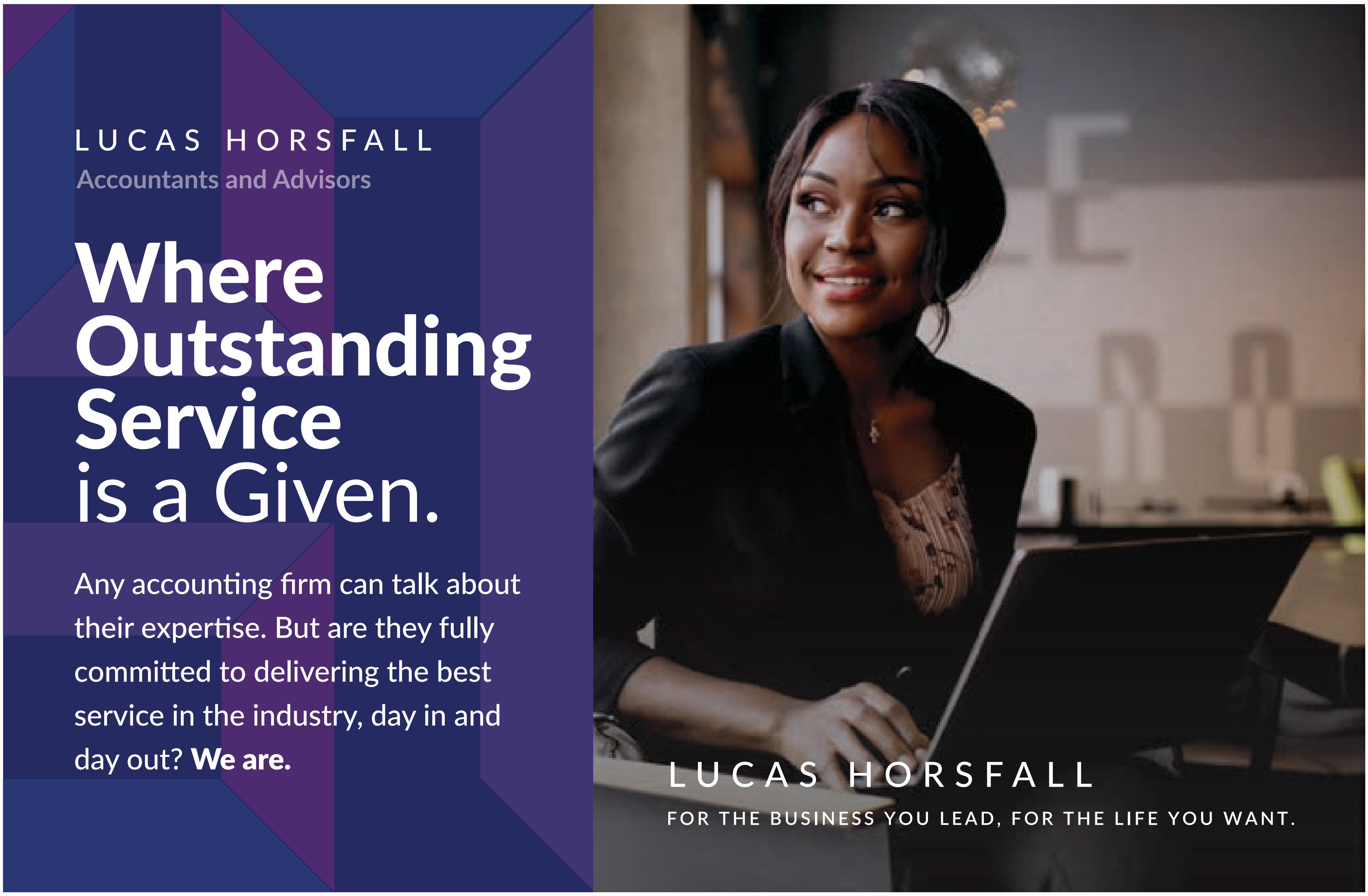
Our survey revealed that asset managers are concerned about talent risk, including leadership, recruitment, retention, and cultural issues. This concern was greatest among respondents from smaller organizations, highlighting the challenges they face in attracting and retaining top talent.

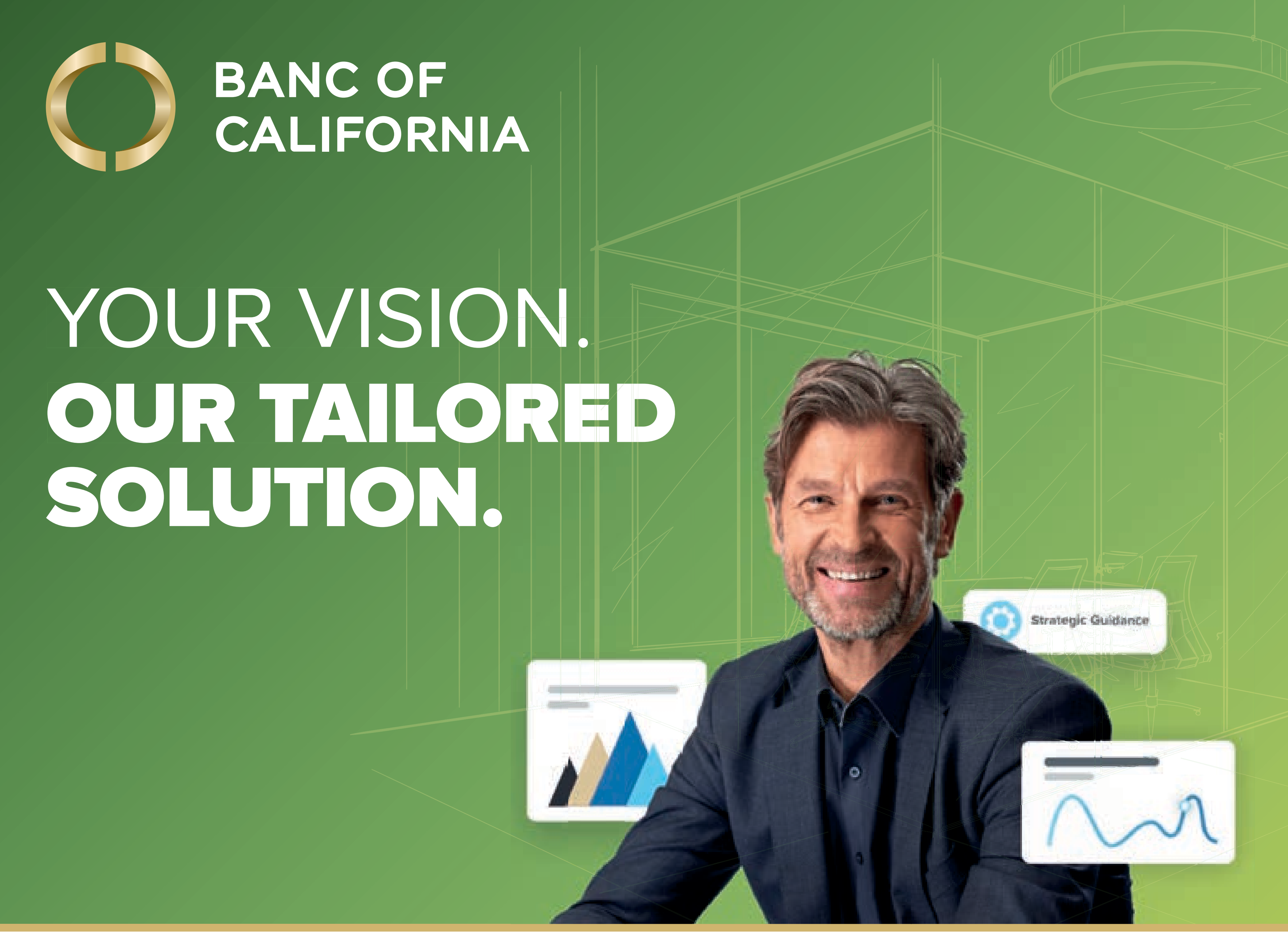
In addition to attracting and retaining talent, asset managers are continuing to reassess their strategy when it comes to their working environment. In short, it appears hybrid is here to stay, with 67 percent of respondents stating that their organization has implemented such arrangements, while only a quarter of respondents are back in office five days a week.

THE PATH AHEAD

If there is one lesson perhaps above all to glean from the last few years, it is just how unpredictable the road ahead can be. 2024 promises to bring about continued change across the asset management industry, notably regarding GenAI. The organizations that continue to evolve and adapt to the short-term challenges while maintaining focus on their longer-term objectives will be best positioned to succeed.

Roger Yang is KPMG's Asset Management Practice leader for Pacific Southwest markets. Learn more at kpmg.us.





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ECONOMIC TRENDS 2024

Economic Trends Communities of Color are Facing in 2024 and Beyond

By KANDEE LEWIS

If only I had a crystal ball to accurately predict the future. Unfortunately, I do not!

However, I can rely on my expertise and instinct, conduct research, and read and speak to people and organizations I believe are credible and knowledgeable (thank you, Cynthia M. Ruiz and Kellie Todd Griffin).

When I look at the economy, I always look at both the "Macro" and the "Micro."

Let us start with the big picture (Macro). The truth we know is uncertain! The global economy is fragile because of all the wars around the world. The lingering effects of COVID-19 will potentially devastate poor people and Communities of Color for years to come.

So, I will talk about the Micro as it relates to people of color and women in this country. Earnings and unemployment rates are indicators of the economy.

According to the US Department of Labor:

- Women only earn 75 cents for every dollar a white man makes, and People of Color statistically earn less.
- White weekly earnings: $1,046.52
- African American: $791.02
- Latino: $762.80
- Native American: $801.99
- Asian: $762.80

According to the ACLU, systemic inequities and barriers keep people of color from achieving economic security through employment, education, and homeownership, resulting in racial disparities in wealth and income. These incongruities are the direct result of discrimination, structural inequality, the War on Drugs, and biases across institutions, resulting in a persistent racial wealth gap.

The California Black Women's Collective in partnership with CA Black Media and Black Women Organized for Political Action released a report, the State of Black Women in CA in 2022. It stated that California has the fifth largest Black population in the nation with 2.1 million people. However, based on the 2020 census results, this only represents 5.7% of the overall state population.

Black females in California represent 51% of the Black population. According to the report, 80% of Black households in the state have Black women breadwinners, and over 70% are headed by single mothers.

Fourth quarter 2023 unemployment rates for African American men age 16 to 19 have a 14.6% unemployment rate. Latino men ages 16 to 19 have a 13.4% unemployment rate. Sixteen to nineteen are formative years when we should be investing in our young men, not getting them ready for prison. Since 2000, private prisons increased by 32% compared to the rise of the prison population of 3%. That is big business destroying communities and families.

According to the Washington Post, half of American renters spend more than 30 percent of their income on housing costs, which contributes to rising homelessness and loss of employment.

According to the ACLU, systemic inequities and barriers keep people of color from achieving economic security through employment, education, and homeownership, resulting in racial disparities in wealth and income.

These incongruities are the direct result of discrimination, structural inequality, the War on Drugs, and biases across institutions, resulting in a persistent racial wealth gap.

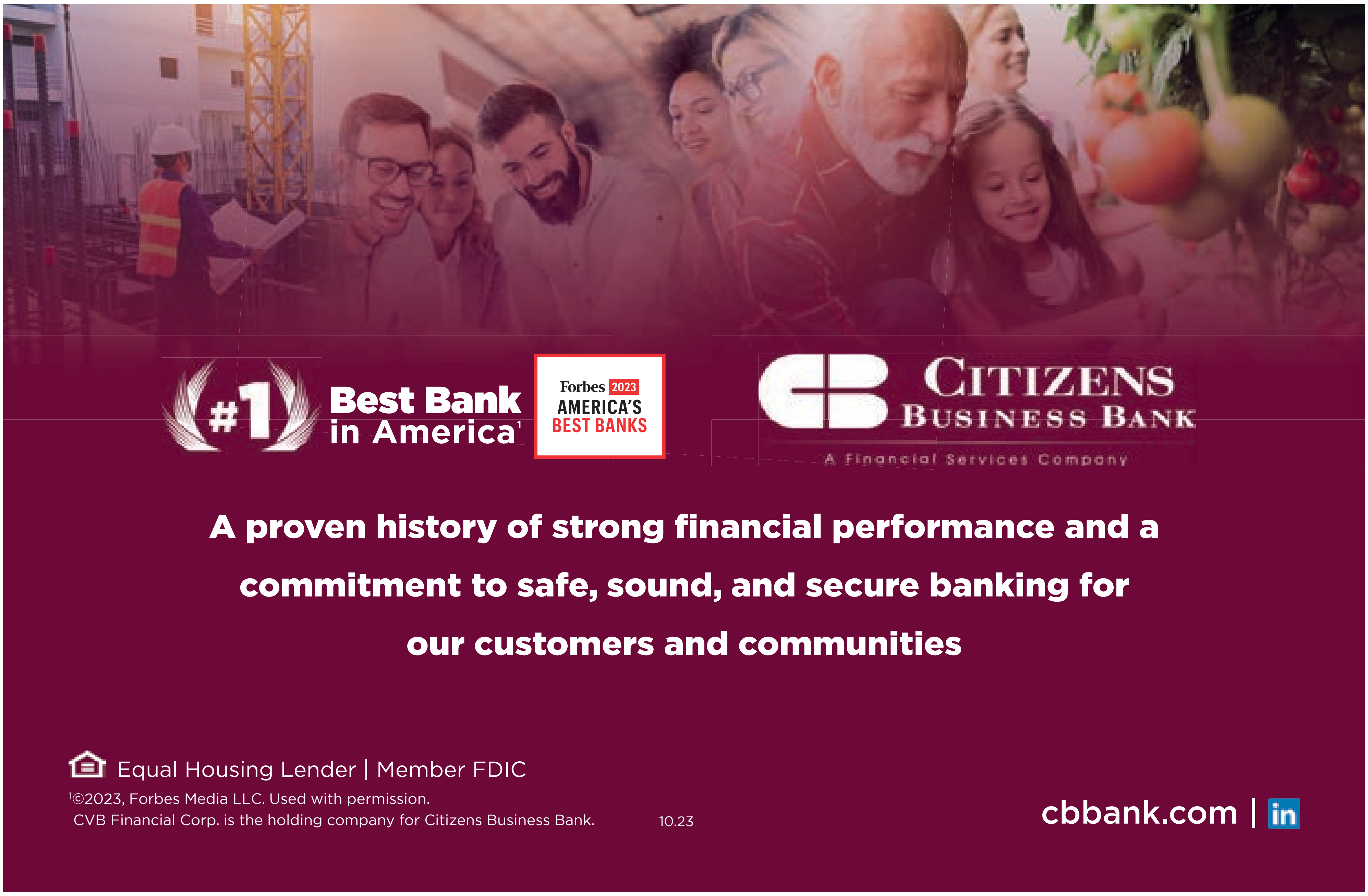
Businesses are developing new forms of technology daily, decreasing opportunities for resource-poor communities. Artificial intelligence and algorithmic risk assessment tools already influence who gets a job, rents an apartment, or qualifies for loans.

The outlook for communities of color is bleaker than the rest of the people in the United States. So, whatever you believe is the economic outlook over the next few years understand it is different for our communities.

This is why culturally specific (Black and Brown) nonprofits are investing in the people we serve and partnering with corporate partners committed to providing access to health equity, developing creative programs, such as STEM and STEAM, Ambassadorships, job training, and leadership workshops for people with Lived Experiences, to open doors of opportunities and build generational wealth.

What impact will you and your company make to increase equity for people and communities who have been victimized by people who changed their narrative to give them an equitable piece of the pie, not just a bigger slice?

Kandee Lewis is chief executive officer of the Positive Results Center, and is civil rights commissioner for the City of Los Angeles.



Navigating the Corporate Transparency Act and its Impact on LA Real Estate Entities

The majority of commercial real estate in the Los Angeles area is acquired, owned, financed, leased and operated through the use of an entity, such as a limited liability company, corporation or limited partnership.

There are many reasons for holding real estate assets this way, including commercial lender requirements, limitations on liability for interest owners, privacy concerns and tax advantages. However, the entity shield that may protect and obscure the beneficial owners of a real estate asset has created an opportunity for bad actors engaging in money laundering and other financial crimes.

The response from Congress has been a set of new reporting requirements in the form of the federal Corporate Transparency Act (CTA) that went into effect on January 1, 2024. The CTA affects countless existing real estate entities with holdings in the Los Angeles area, and compliance will require the attention of all of the real estate community.

REPORTS AND DEADLINES

Commencing on January 1, 2024, most entities formed by a filing with a secretary of state's office (including, corporations, limited partnerships, limited liability companies, limited liability limited partnerships, and statutory trusts) must file a report (the "CTA Report") with the Financial Crimes Enforcement Network ("FinCEN"), reporting certain information about the entity and the persons who own and control it. The initial filing deadlines are as follows:

- Entities in existence prior to January 1, 2024, must file the CTA Report by the end of 2024
- Entities formed during 2024 must file the CTA Report within 90 days of formation
- Entities formed on or after January 1, 2025, must file the CTA Report within 30 days of formation

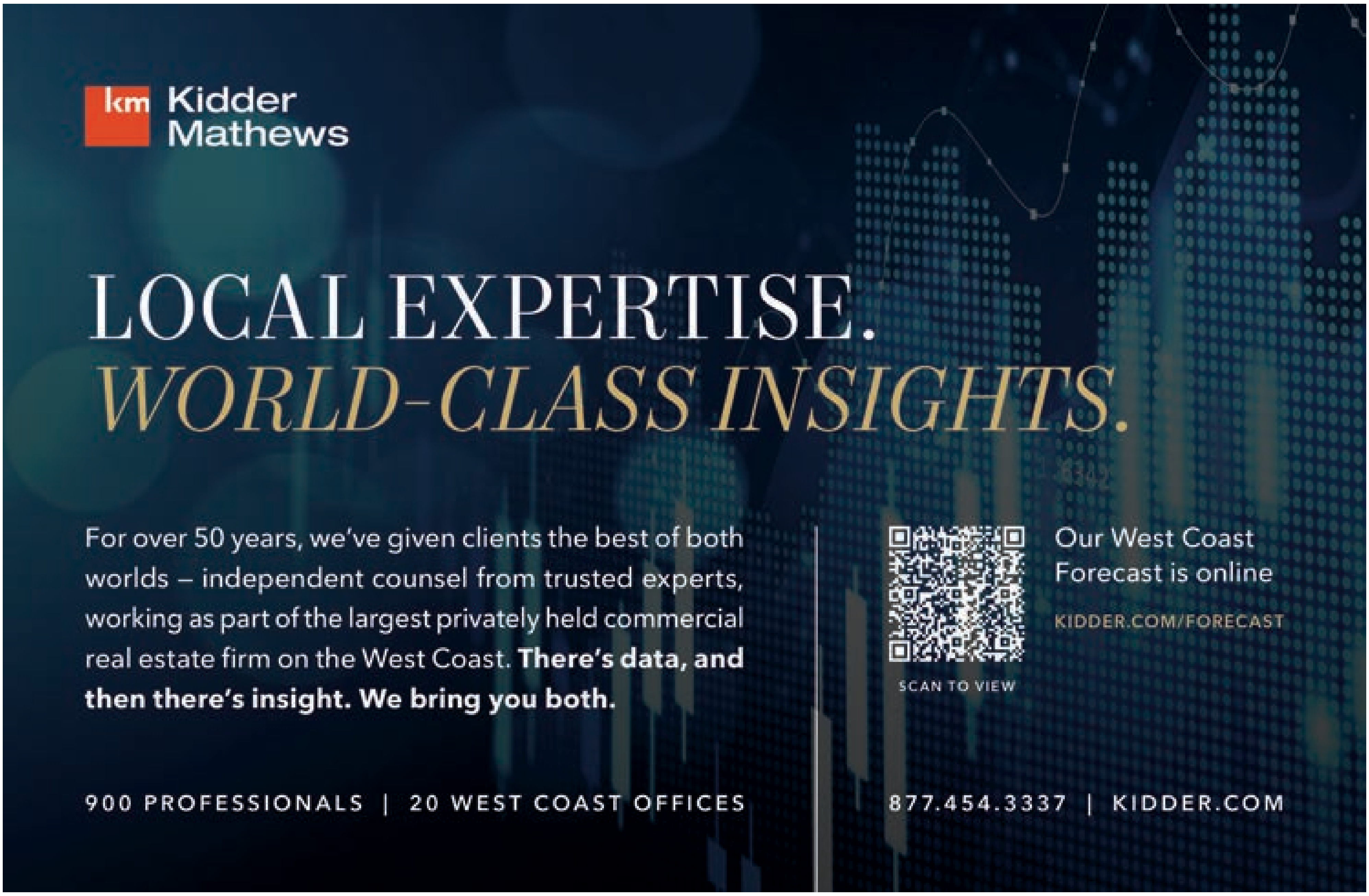
Once filed, a CTA Report must be updated within 30 days after a change to any information on the CTA Report. There are criminal and civil penalties for not complying with the new rules.

These reporting requirements are new and, in many cases, may be challenging to manage. Reporting companies will need to trace ownership and control in each entity to identify all "Beneficial Owners," which include interest holders of 25% or more as well as any party exercising control over the entity, like officers, managers, directors and trustees, among others.

WHAT CAN YOU DO NOW TO PREPARE?

- Local real estate owners and investors should have someone in their organization whose responsibility it is to learn about and manage the CTA requirements.
- Prepare organization charts for all existing entities.
- Revise all agreements between, among, or otherwise governing, owners and senior executives of companies, to require them to (1) obtain a FinCEN identifier, and (2) timely provide the information so companies can meet their reporting obligations.
- Identify the "Beneficial Owners."
- Have these "Beneficial Owners" obtain their FinCEN Identifiers now.
- Be patient as, according to FinCen, an estimated 32 million companies are required to report this year. There will definitely be some bumps in the road.

This article was prepared by the Corporate Transparency Act (CTA) Committee at Greenberg Glusker LLP. To learn more, visit greenbergglusker.com.



ECONOMIC TRENDS 2024

A Global View: GDP Growth of 2.3 Percent Forecasted for 2024

Weaker annual real GDP growth rates are forecast across the largest regions in 2024 compared to 2023, according to a new S&P Global Market Intelligence report released in January. The "Top 10 Economic Predictions for 2024" forecasts global real GDP will expand at 2.3 percent in 2024, down from an estimated 2.7 percent in 2023, with relative strength in some regions, including Asia-Pacific, helping avert a global hard landing. In the report, S&P Global Market Intelligence's economists outlined their predictions for global and regional economic performance, central bank monetary policy and highlighted key economic market trends and risks.

"The downward trend in inflation, which had stalled in mid-2023, has resumed and is expected to continue through 2024, consistent with rebalancing supply and demand," said Ken Wattret, global economist, S&P Global Market Intelligence.

As confidence builds that consumer price inflation rates will return to target, central bank policy rate cuts are forecast across advanced economies during 2024.

"Monetary policy pivots look increasingly likely during the first half of 2024," said Wattret, "although recent market expectations of around 150 basis points of rate cuts in the US and eurozone over the year as a whole look somewhat overdone."

Other Top 10 predictions include:

• Central bank easing cycles are already well under way in many emerging economies and rate cuts are forecast to become more widespread during the first half of 2024.

• Mainland China's economy will be supported by more accommodative policy, a gradual improvement of private-sector confidence and an expected bottoming out of the housing market downturn.

• The US dollar will depreciate, consistent with weaker US growth, narrowing interest rate differentials and the persistent large current-account deficit. The yen is expected to appreciate more against the US dollar than many of its peers as tightening Japanese monetary policy bucks the global trend.

• Some financial headwinds to growth will persist, including the adverse effect of rising non-performing loans on credit supply.

• Prospects for real estate prices will continue to vary across countries and sectors; supply constraints will support residential prices in some markets, although declines in Western Europe are forecast to continue.

• Geopolitical factors will remain an important source of risk and uncertainty, with approximately 80 major elections taking place across the world in 2024.

• Progress on global energy transition will remain uneven in 2024. Policy initiatives are supportive of investment growth in North America, leaning against recessions in the region.

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