Highs and Lows: Planning for Success in Q4 and Beyond

By KEVIN SHER

As we enter the last quarter of 2023, my colleagues and I in the Real Estate Group at Greenberg Glusker are looking back at the bright spots this year and helping clients chart a path to success in 2024.

What are some of those bright spots? Well, for starters, e-commerce growth has reshaped the commercial real estate landscape. While COVID-19 brought real estate activity to a halt in some sectors, many of which have since struggled to recover, expanding distribution networks for e-commerce companies drove a boom in industrial real estate development that has completely transformed areas like the Inland Empire. And now that some brick and mortar stores are being used to complete that last-mile stretch, we're seeing opportunities to cross-pollinate in industrial and retail and keep activity levels high.

Additionally, laws passed by the California legislature earlier this year have opened new opportunities in residential real estate that will hopefully help ease the affordable housing crisis and create new income-generating properties. Whereas the limitations of single-family residential zoning had been a major pain point in growing our housing stock, these new laws facilitate approvals for Accessory Dwelling Units (ADUs), duplexes, and lot splits in single-family zones. It is now possible to split a lot into two separate legal parcels (sold and taxed separately) and ultimately to construct a separate home with an ADU or duplex on each. Effectively quadrupling the housing opportunities per lot is an impactful change, and why you're likely to see many ADUs being constructed in your single-family residential neighborhoods as we speak.

But how are we tackling some of the more persistent problems in real estate today? Take, for example, how difficult it has become for non-institutional commercial real estate clients to finance commercial real property. In the past, this type of client often opted to finance with a regional bank, one with which they had a relationship. The failure of some regional lenders this year has left a hole in the market for these clients. Provided a lender is found, the loan underwriting process has also become much more arduous, with clients often paying extensive reserves. Clients are strategically attempting to wait out this high-interest, competitive lending market, with some opting to pay for short-term extensions on existing loans or even take a risk on costly bridge loans in the hope that interest rates will have dropped by the time they mature.

Trusted Advisors

Laws passed by the California legislature earlier this year have opened new opportunities in residential real estate that will hopefully help ease the affordable housing crisis and create new income-generating properties.

KEVIN SHER
Partner, Real Estate
ksher@ggfirm.com
GreenbergGlusker.com

And the million-dollar question on everyone's mind is still what's happening with office space. The return to work hasn't gone exactly as we could have predicted, but the general consensus is that employees feel more incentivized to come back to the office when the office has dynamic amenities in a great location, like those that offer nearby shops, restaurants, and gyms. Companies looking for new workspace now or early next year should consider that there are some great opportunities for subleasing in the office market, since many tenants locked into pre-pandemic rents are finding that they have substantially underutilized space. As a result, most of the office leasing I handled this year was subleasing, with a few clients opting for coworking spaces instead at the benefit of greater flexibility and shared amenities. A word of caution, however: the economic terms of a sublease may be appealing, but being a subtenant can present drawbacks from an absence of contractual rights against the actual building owner.

Times have been turbulent but California real estate is resilient, as we have seen. Proper planning, along with plenty of skill and a bit of luck, is what will help us close out 2023 and be ready to succeed as a new year looms ahead.

Kevin Sher is a partner in Greenberg Glusker's Real Estate Group. Learn more at GreenbergGlusker.com.