STEVE DE PEW, MAL SERURE AND KEVIN SHER DESCRIBE THE WAY FORWARD FOR SOCAL COMMERCIAL REAL ESTATE

The **Southern California Commercial Real Estate Trends** Roundtable is produced by the LA Times Studios team in conjunction with Greenberg Glusker LLP; McDermott Will & Emery; and SMBC MANUBANK.

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Over the last few years, in the wake of a series of unanticipated challenges ranging from unprecedented wildfires, a global pandemic, supply chain issues and new workplace trends, commercial real estate companies have had to get creative. The lingering elements of change and management of new protocols have continued to force the industry companies to assess and, in many cases, make permanent changes to their operations and how they approach relationships with partners, customers and employees.

As we move into the second half of 2025 and as things return to a new form of normal, questions still linger. What changes and trends are here to stay for the long term? What legal, insurance and financial issues need to be addressed? What new roles is technology playing? What will the CRE industry look like a year from now?

We turned to three uniquely knowledgeable experts for their thoughts and insights about what's next for Southern California's resilient commercial real estate sector.

Q: HOW WOULD YOU DESCRIBE THE OVERALL OUTLOOK FOR SOUTHERN CALIFORNIA CRE AS WE HEAD DEEPER INTO 2025?

A: SERURE

It's not easy to pin down a short-term outlook these days. At the end of 2024, I felt optimistic that the commercial real estate market had hit its bottom and 2025 would start with a surge of transactions. Following the devastating wildfires in the Palisades and Altadena and continuing financial challenges and uncertainty surrounding tariffs and international trade, it feels like that momentum has slowed. While challenges persist this year, I'm always bullish on Southern California's longer-term outlook. Los Angeles remains an incredible place to live, work and visit. Entertainment, aerospace and logistics continue to drive growth. Plus, our city continues to find ways to reinvent itself. We'll see World Cup games at SoFi Stadium next year and the Olympics two years later – all exciting developments that will continue to fuel business, demand for housing and hotel rooms, and the commercial real estate market.

Q: WITH THE NEW ADMINISTRATION, DO YOU THINK MARKET CONDITIONS ARE LIKELY TO WORSEN, IMPROVE OR STAY THE SAME?

A: DE PEW

The new administration has moved quickly to implement some of its priorities – tariffs, immigration policies and DOGE – all at once, which has created uncertainties. In the near term, higher import tariffs could mean rising costs, which could add pressure for the Fed to consider rate cuts; this would be beneficial for construction. If the international negotiation is successful, U.S. manufacturers could benefit from lower export tariffs, while logistics and supply chains could remain unpredictable until we see more consistent rules. Changes to immigration enforcement could tighten the labor pool. I'm looking for things to become clearer in the next three to six months, as outcomes from the negotiations are known. Overall, in the immediate term, we can expect continued uncertainty, and a lot will hinge on how quickly policy details settle out.

A: SHER

I represent some commercial retailers who have had to retool 2025 budget forecasts, pause growth plans for new store locations and reassess existing vendor contracts rapidly this first quarter, all due to the uncertainty created by the tariffs under the current administration. A few are waiting to reassess strategic plans until this summer when President Trump's 90-day pause on higher-band tariffs for most countries, other than China, is set to expire. Even if tariffs are rolled back or trade deals are reached at the end of such 90-day period, 2025 may, at best, be a reset year for the retailers and, at worst, be a year of declining growth and decreased revenue, in a retail sector that around Los Angeles had been showing signs of life again after the challenges of the pandemic.

Q: WHAT EFFECTS HAVE THE RECENT DEVASTATING WILDFIRES HAD ON THE COMMERCIAL MARKET?

A: SERURE

The wildfires have further stressed an already undersupplied housing market. California sets regional housing allocations for each jurisdiction to meet housing and affordability needs over a set cycle. As of late 2023, about a third of the way through its current cycle, Los Angeles County had only met 10% of

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its required units. The loss of approximately 16,000 homes and structures in the Palisades and Altadena has made the housing shortage more dire. The hope is that the city will streamline and support the development process, so we can rebuild these communities and tackle the broader housing supply issue. The wildfires have also led to higher insurance premiums and reduced availability, impacting not only homeowners in fire-prone areas but also those in the broader region as insurers raise rates or consider exiting the market. I also expect stricter wildfire mitigation requirements for development in Los Angeles.

A: SHER

Commercial developers in Los Angeles County have already started experiencing extended delay periods for activating electricity in otherwise completed projects. With the rebuilding efforts in Palisades and Eaton still in nascent stages, the required future marshalling of resources in local planning and building departments and utility companies (such as LADWP and SoCal Edison) for rebuilding these areas will likely result in further project delays for new development across the County, in addition to possible construction labor shortages and rising construction costs based on increased demand. When you add tariff-related cost increases into the mix, it may soon be a very costly and lengthy process to build (or rebuild) anywhere in and around Los Angeles County.

Q: WHICH COMMERCIAL SECTORS (OFFICE, RETAIL, INDUSTRIAL, MULTIFAMILY, HOSPITALITY) ARE PERFORMING STRONGEST, AND WHICH ARE FACING THE BIGGEST CHALLENGES?

A: DE PEW

Retail still seems to be a gem hiding in plain sight and has become a bright spot, particularly in Southern California, with continuing healthy leasing demand and steady rent growth. Institutional office buildings in downtown markets continue to struggle. Hybrid and remote work are deeply rooted, and vacancy will remain stubborn without a broad return to in-person operations. However, suburban office space in close proximity to executive housing seems to be another bright spot. Industrial, once the standout, is feeling the impact of recent delivery spikes, policy changes and supply chain slowdowns. Thus, growth has noticeably slowed. Multifamily continues to perform as limited housing supply (at the local and national level) keeps demand and rents relatively strong, although delivery spikes have temporarily increased vacancy. Hospitality markets are mixed – my question is: how will international travel to the U.S. hold up in the current global climate?

Q: HOW ARE LANDLORDS AND DEVELOPERS ADAPTING OFFICE PROPERTIES TO ATTRACT TENANTS IN A POST-PANDEMIC LANDSCAPE?

A: SHER

When you combine Class A office buildings, amenities like gyms and dog-friendly spaces and dynamic walkable areas with high-end retail and residential in close proximity, then you have a great recipe for attracting office tenants. That is why places like Century City, Culver City and Playa Vista have extremely low office vacancy rates. Companies now understand, more than ever, the value of bringing employees back into the office for collaboration, training and morale. However, some are seeking co-working spaces or smaller office footprints in these activated office markets. One sign of the times in my practice has been my increasingly frequent negotiation of dog-friendly lease riders for my landlord clients as an incentive for office tenants and their employees.

A: SERURE

Office landlords are making spaces more adaptable (often with smaller floorplates) to attract tenants who are looking for flexible workspaces for their hybrid schedules. Tenants also want amenities that will draw their employees back to the office, and many landlords are building full amenity floors or common spaces with gyms, conference centers, tenant lounges, and food and beverage options. These shared spaces make the tenant's space more productive, moving these services to a common space and relieving pressure on the tenant's space. Owners of office properties are also looking to take advantage of the city's support for adaptive reuse of older properties by converting office buildings to residential use.

Q: ARE WE SEEING A CONTINUED SLOWDOWN OR SOME GROWTH IN INDUSTRIAL DEVELOPMENT, PARTICULARLY IN AREAS LIKE THE INLAND EMPIRE?

A: SHER

In 2024, the Inland Empire added over 20 million square feet of new industrial space, exceeding post-pandemic demand in the market and increasing vacancy rates. Development has therefore decreased, and there is presently a 10-year low in new industrial construction levels. Recent changes in state law may further decrease industrial development. On January 1, 2026, California Assembly Bill No. 98 goes into effect, regulating new warehouse construction and operations for industrial properties that are 250,000 square feet or larger. With the required buffer zones and setbacks from residential areas under the new law and the restrictions on truck routing, finding compliant locations for warehouse development in the Inland Empire and across many parts of California will become more challenging.

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A: DE PEW

A couple of years back, the Inland Empire industrial market was simply "white hot" with vacancies near zero in the strongest markets, which spurred new development. Now, vacancy rates are pushing into the higher single digits as a wave of new building deliveries has overtaken demand, compounded by uncertainty around tariffs and trade policy. Many developers are taking a wait-and-see approach; permit-ready sites are on pause until there's more clarity in the market. The pace has shifted from aggressive growth to a measured, cautious stance as capital sources and developers both look for clear signals before making new commitments.

Q: SOUTHERN CALIFORNIA HAS BEEN A HOTSPOT FOR INDUSTRIAL AND LOGISTICS REAL ESTATE. HOW ARE SUPPLY CHAIN SHIFTS AND E-COMMERCE TRENDS AFFECTING INDUSTRIAL DEMAND?

A: SERURE

The ongoing tariff dispute between the United States and China should have an immediate short-term effect on industrial demand. U.S. companies are already signaling that they will slow their importing to see how the global situation shakes out, which will likely reduce leasing and transactions in the industrial sector. Still, the fundamentals that have made our region a crucial industrial hub – proximity to Asia, key ports in Los Angeles and Long Beach, a large regional population, and its location as an export and distribution hub for the state's rich agriculture – continue to support its importance. Once China and the U.S. agree on a trade agreement or their trade policies otherwise stabilize, I expect industrial demand to continue to grow. The question is how long that will take.

Q: WHAT FINANCING CHALLENGES AND OPPORTUNITIES ARE DEVELOPERS FACING IN THE CURRENT MARKET?

A: DE PEW

Although project finance has become more selective, banks are actively competing over the strongest new construction deals in order to replace repayments from the recent construction cycle. In just the past two to three months, banks are now offering more favorable loan terms, thinner spreads and higher loan advance amounts, especially for well-located assets, while others are holding larger positions in syndicated credits. There's capital out there for the right projects, but deals with weaker fundamentals are still facing real challenges. To secure financing now, developers need a strong business plan, proven performance in the local market, readily validated underwriting assumptions, and a thoughtful exit strategy. Without these elements, securing debt or equity will be an uphill battle.

Q: WHAT IMPACT IS THE RISE OF ADAPTIVE REUSE AND LIVE-WORK-PLAY ENVIRONMENTS HAVING ON COMMERCIAL REAL ESTATE?

A: SERURE

The rise of adaptive reuse and live-work-play environments is impacting commercial real estate in Southern California, reshaping use, development and value. Adaptive reuse involves converting underutilized properties into residential and mixed-use spaces, often revitalizing neighborhoods. Many projects seek to create "live-work-play" spaces (i.e., mixed-use projects where people can live, work, dine, caffeinate and socialize, reducing commutes and providing convenience and a more balanced lifestyle), which also presents additional benefits when it comes to promoting sustainability. Los Angeles is updating its Adaptive Reuse Ordinance to support these projects, addressing the city's need for housing while repurposing existing spaces. With growing demand and city support, these projects present significant opportunities for real estate developers and owners in our region.

Q: WHAT ROLE IS PUBLIC POLICY, ZONING CHANGES AND LOCAL GOVERNMENT PLAYING IN SHAPING THE FUTURE OF COMMERCIAL REAL ESTATE IN LOS ANGELES?

A: SHER

Industrial real estate is being shaped by the affordable housing crisis in the City of Los Angeles and surrounding areas. The State of California, from a public policy standpoint, adopted quotas for locating additional residential units in each jurisdiction's Housing Element; however, in many cases, it is not practical to find additional suitable areas for affordable housing development within a city's limits. Since voters in single-family residential areas loathe to permit more density in their neighborhoods, cities have taken to re-zoning industrial areas through changes to their General Plan. Because rezoning an updated General Plan can be accomplished by publication without direct notice to affected industrial property owners, we have had clients discover after passage of a new General Plan that their properties have been rezoned for theoretical housing use. Their current uses are now, or will soon be, legally non-conforming.

Q: WHAT ARE THE BIGGEST HURDLES PREVENTING BUYERS AND SELLERS FROM CONSUMMATING DEALS?

A: SERURE

Uncertainty. We can't seem to get away from it. Over the last few years, we've grappled with questions about interest rates, property values and the future of office spaces and hybrid work schedules. As our industry adapts to these risks, we now face new uncertainty around international trade and its impact on the global and local economy, as well as the devastating aftermath of the wildfires. The industry mantra "stay alive 'til 2025" has shifted to "stay alive through 2025," with a touch of dark humor. Here's to getting busier with transactions and, hopefully, no more need for inspirational industry mantras!

Q: HOW DO WE SOLVE THE UNINTENDED CONSEQUENCES OF MEASURE ULA ON REAL ESTATE DEVELOPMENT IN THE CITY OF LOS ANGELES?

A: SHER

The UCLA Lewis Center for Regional Policy Studies recently published a report entitled the "*Unintended Consequences of Measure ULA*," providing evidence that Measure ULA, while billed as a "Mansion Tax" and raising tax revenue for affordable housing, is also frustrating commercial, industrial and multifamily development and drastically reducing transaction volumes in the city of Los Angeles. Less development and lower sales volume paradoxically mean that fewer new affordable housing units are likely to be constructed, and less money will be raised, frustrating the core purpose of Measure ULA. Because Measure ULA included limits on the City Council's power to amend it, we need either action by the State or a new City ballot measure to address needed reforms, such as exempting commercial properties or not applying the tax to properties that have been recently reassessed for property tax purposes (since such properties are already contributing to local coffers with taxes based on market value).

Q: IS ANY RELIEF ON THE HORIZON REGARDING MATERIAL AVAILABILITY AND LABOR SUPPLY CHALLENGES FACING THE CONSTRUCTION INDUSTRY?

A: DE PEW

There isn't much immediate relief on construction materials or labor. Tariffs could keep costs on imported materials high (for instance, appliances for apartment construction), and those pressures could remain for at least the next several calendar quarters. As the recent delivery spikes get absorbed and with fewer project starts kicking off, subcontractors on new projects may become more competitive, with labor pricing then becoming a bit more favorable. Further, we are seeing some of our institutional developers budgeting 2% to 3% tariff contingencies and locking in guaranteed maximum price contracts to hedge their risks. Still, there is ongoing concern that further tariff shocks could lead to subs trying to invoke force majeure clauses. The environment remains challenging, with careful planning needed to control costs and timelines.

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