

REAL ESTATE OUTLOOK ROUNDTABLE

The **Real Estate Outlook** panel is produced by the L.A. Times B2B Publishing team in conjunction with Allen Matkins; Kennedy-Wilson Properties, Ltd.; and Torrey Pines Bank.



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Thanks to the various unexpected events that have impacted virtually every kind of business over the last three years, commercial real estate companies have implemented new protocols, digitized many operations, adjusted workplace operational practices, and navigated through reopening, which has created shifts of focus...all while considering the financial health of tenants and end users.

As we move into the fourth quarter of 2022, many

questions still linger. What changes and trends are here to stay for the long-term? What legal and financial issues need to be addressed? What new roles is technology playing? What will the real estate industry look like a year from now?

Los Angeles Times B2B Publishing turned to three uniquely knowledgeable experts for their thoughts and insights about what's next for L.A. and the surrounding region's resilient real estate sector.

Q: SINCE YOU BEGAN YOUR CAREER, WHAT HAS BEEN THE MOST NOTABLE CHANGE IN REAL ESTATE, AND HOW HAS IT IMPACTED YOUR WORK?

A: Kallick

The biggest change has been a focus on transit-oriented development and locating housing in close proximity to where people eat, shop, and play. More than ever, our clients are looking at ways to integrate first-class design and planning in a manner that is in keeping with the fabric of the surrounding neighborhood while also taking advantage of existing infrastructure, and in particular, proximity to mass transit.

A: Sachse

Technology. When I started, we had a Thomas Guide and a reverse phone book based on addresses. We would cold call out of the yellow pages and used newspapers for research and advertising. So, clearly, the biggest advancement in real estate is technology. Today, we have property and market data at our fingertips which allows us to move faster and has made us far more efficient in our daily work. Technology has also improved our services to clients and our ability to respond to the market more quickly and accurately. In 2022, we use digital platforms to identify key demographics and psychographics, market data, consumer habits, void analyses, investment criteria, development regulations and restrictions, licensing, loan rollovers and defaults. The list goes on. In addition, many municipalities have moved to online systems so you can obtain permits and zoning information so much faster. The velocity of our business has increased exponentially thanks to these advances.

Q: HOW HAS THE PANDEMIC-SPURRED/WORK-FROM-HOME

PHENOMENON AFFECTED THE COMMERCIAL REAL ESTATE CLIMATE?

A: Peterson

When it comes to pandemic-spurred changes in the L.A. County office market, the short answer here is we just don't know yet. While current office delinquencies are only 2%, questions still remain as to how the CRE market ultimately will be affected because most firms are tied to 5- and 10-year leases. I believe we also have a fairly high "shadow vacancy" for office and it's unclear how this will play out. The pandemic-spurred leap to remote and hybrid work has shaped

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L.A.'s regional office sector in other remarkable ways. Office workers, who remain – at least at present and at least partially – in the driver's seat when it comes to their willingness to return to work, are causing many companies to step up their office "game." This means everything from better amenities to new must-haves including better air filtration. Plain vanilla boxes are less desirable among newly empowered office workers.

A: Kallick

This has been a complicated question for office developers and landlords ever since the "back-to-work" phenomenon started last year. Do we need more space for safety concerns and social distancing, or do we need less space if some employees

are still working from home? Most developers and investors are cautious given the space they will need for the unforeseen future.

Q: DO ANY TRADITIONAL PROPERTY STRATEGIES REQUIRE A RETHINK BECAUSE OF THE CURRENT MARKET?

A: Sachse

Traditionally, from an owner or manager's point of view, "no news is good news" from tenants, because if you don't hear anything from them and they're paying their rent on time, then all is good. And I believe we need to rethink that strategy. It's important as owners and managers that we reach out to our tenants on a regular basis to understand how their businesses are doing and to find out if there are ways that we can help them. I believe taking a proactive approach to creating a positive and cooperative relationship with our tenants is mutually beneficial.

A: Peterson

L.A.'s current CRE market, shaped in key ways because of the pandemic, is making it increasingly appealing for owners and investors to focus on adaptive reuse of existing office, industrial and retail properties. We are seeing many of these converting to creative office and even multifamily in certain markets. In many cases, these older buildings are not only well located and close to other key amenities, but they also offer unique architectural details and a character that end-users find highly desirable. Today, many building owners and investors in the Los Angeles area are making the most of their redevelopment opportunities to enhance ESG performance and reduce the carbon footprint of their buildings. Torrey Pines Bank offers attractive C-PACE financing to help commercial property owners to move ahead with energy efficiency, water conservation and renewable energy projects.

Q: HOW HAVE FEDERAL AND LOCAL GOVERNMENT ACTIONS IMPACTED THE MARKETPLACE?

A: Kallick

Sacramento has made housing a huge focus, and it has had and will continue to have a significant impact on the ability for new housing to be built across the state. Recent bills such as Assembly Bill 2011 would fast-track multi-family development in areas zoned for commercial, retail, and parking uses such that they would be exempt from CEQA. Evolutions like this show that Sacramento is serious about spurring significant increases in density to tackle California's housing crisis.

Q: IN WHAT WAYS IS THE COMMERCIAL REAL ESTATE INDUSTRY MARKETING ITS SERVICES DIFFERENTLY TODAY?

A: Sachse

The biggest change is clearly social media – TikTok, Instagram and LinkedIn for example. I think people are focused on images and bite-sized pieces of information, and agents have learned to leverage these platforms to share not only listings and availabilities but also expertise and thought leadership. We still promote our brand and services through traditional channels such as earned media, ads, and email, but all that content is ultimately shared through a social platform to reach a broader audience.

Q: WHAT ARE THE KEY OPPORTUNITIES AND RISKS FOR DEVELOPERS IN 2022?

A: Peterson

There are a number of clear opportunities for developers in and around Los Angeles right now and looking ahead. Developers are benefiting from strong demand for warehousing and industrial space – in Los Angeles and surrounding counties – led by companies' increased and ever-growing focus on logistics and distribution. Reinvestment in core downtown areas across the L.A. region also provides developers with value-creation opportunities in 2022 and beyond as markets continue to recover post-pandemic. As well, the regional multifamily market remains robust and continuing affordability issues related to home ownership could continue to push rents up.

A: Kallick

One key opportunity is converting office space to residential space. This is not a novel concept; however, office vacancies have spurred a new focus on the highest and best use for well-located office space. There are many locations where adaptive reuse of existing office space can be done in a way that is quicker and cheaper than building new ground-up residential units.

A: Sachse

I think urban infill development continues to be a great opportunity, particularly for mixed-use developers. The State of California and many cities are encouraging the construction of additional housing by creating opportunities for developers to maximize density through creative rezoning, affordable housing requirements and transit-oriented programs. Having said that, the hottest commercial product in real estate right now is industrial. Space is scarce and there is opportunity for developers if they can find

land with great freeway access or redevelopment in urban infill markets for last-mile delivery. For developers of any product type, the risks lie in rising construction costs and interest rates.

Q: WHAT PARTS OF L.A. COUNTY DO YOU SEE AS "HOT SPOTS" FOR COMMERCIAL DEVELOPMENT IN THE COMING MONTHS AND YEARS?

A: Peterson

L.A. County has a sizable number of hot spots for commercial development over the coming months and years. The Westside's Silicon Beach communities of Santa Monica, Culver City, Playa Vista, Manhattan Beach and Marina Del Rey continue to attract technology and entertainment companies seeking well-placed creative office space. Big name companies with a growing

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presence in this area include Apple, Google and Yahoo!, among others. In terms of other regional hot spots for commercial development, Torrey Pines Bank has a strong and growing presence in Orange County precisely because this area has 3.2 million people and is home to a range of major business sectors including tech and innovation, finance, healthcare, real estate and tourism. Growing businesses in Orange County translate to growing needs for commercial real estate in this region. As well, the Inland Empire is one of the fastest-growing markets in Southern California in both population and job growth, providing a lower cost of living compared to nearby markets. Here, multifamily vacancies are decreasing amid rising demand for warehouse workers in the current e-commerce and distribution boom.

Q: WHAT DO YOU CONSIDER TO BE THE MOST MEANINGFUL POSITIVE TREND IN COMMERCIAL REAL ESTATE LATELY?

A: Sachse

People in commercial real estate are ready to get back to work in person, not just in our offices, but in face-to-face meetings, live conventions, and networking events. I believe business takes place and decisions are made between individuals connecting, sharing the same in real-time conversations. Being in the room with someone creates a relationship, which in turn generates trust. That's how deals get done.

A: Kallick

The most meaningful trend has been a re-think of what it looks like to come to the office. It's not just enough to have an office that everyone is expected to come to on a daily basis. Now there have to be driving forces that are a catalyst for folks to come to the office. In our office, this is largely focused on camaraderie and training for our youngest associates that you cannot get via Zoom. COVID has placed many people into silos, and I think this provides a huge opportunity for forward-thinking firms to really reinvest in their youngest talent to help grow the next leaders in commercial real estate.

Q: ANY NEGATIVE TRENDS YOU HOPE WILL GO AWAY?

A: Sachse

Yes. The biggest negative trend currently is working from home. I think working from home is not only bad for the employer, where they don't have their team working together in a common space, I also think it's bad for employees. They don't build the social experience of working in a business environment and in team formats. Mentor-mentee relationships are gone, and teambuilding is a challenge. It also has a ripple effect on the community since local shop owners, restaurants and so many businesses that rely on the daytime traffic from our office population suffer. It's bad for morale and it's unhealthy for the growth of our economy. We build so many personal relationships at work that are valuable to us for our entire careers. And if you're off working alone at home, you miss the opportunity to build those relationships that can last a lifetime.

Q: WHAT NEW TRENDS ARE YOU SEEING IN RESIDENTIAL REAL ESTATE?

A: Kallick

One new trend is re-looking at existing residential properties. The overwhelming majority of existing residential properties are not built to their maximum potential. Zoning has changed. State laws have changed. Today these existing assets can be developed with greater density, which can help alleviate California's housing

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crisis. These hyper in-fill sites should be the first properties we look at when trying to tackle the need for housing across the socio-economic spectrum.

A: Peterson

Home values are expected to flatten in many L.A. sub-markets and could even decrease from their highs in some markets. Affordability issues also are causing some buyers to wait it out and continue to rent, which contributes to rising rents. Ultimately, however, our housing shortage in Southern California will continue for the foreseeable future as there still is not enough housing available.

Q: WHAT DO YOU SEE AS THE LARGEST ROADBLOCKS TO PROGRESS?

A: Kallick

As commercial and residential real estate developers and attorneys who represent them, we understand the struggles and challenges we face when building or redeveloping properties in others' backyards. We recognize the value of space but we also appreciate the necessity of needing more housing, both affordable housing and market-priced housing. As a law firm that is an advocate to provide more housing at all income levels, we're always working hard to provide opportunities for more housing.