



**Valbridge**  
PROPERTY ADVISORS



# QUARTERLY MARKET UPDATE

## LOS ANGELES - INLAND EMPIRE 2Q21

**The economic story in Southern California for the second quarter of 2021 was very different across sectors: many areas that were once projected to thrive are experiencing extreme tension, while other areas regularly on the bottom of their competitive markets are climbing to the top for the first time. Office space continues to struggle, while industrial and multifamily sectors are performing well. Retail is variable, and highly dependent on location.**

The metro Los Angeles economy continues to feel the effects of the pandemic: unemployment rates, which improved in late 2020, largely held steady in the first half of 2021, keeping unemployment in L.A. County at nearly double the national average. The Inland Empire, as one of the largest logistics hubs in the United States, has seen plenty of success for online retailers, but smaller traditional sectors suffered, with many businesses yielding to a full year of pandemic stresses and shutting down during 20Q2. The recovery has been intermittent, but a sharp decline in new coronavirus cases has allowed the state to ease restrictions in 2021. Inconsistent guidance, public health standards, and variable vaccination rates will continue to spell volatility for the region.

In the following pages, we outline the major market trends in the Los Angeles and Inland Empire market sectors, along with key indicators. In today's quickly changing environment, we remain ready to assist you with your commercial real estate valuation needs at any time.

### VALBRIDGE PROPERTY ADVISORS | LOS ANGELES-INLAND EMPIRE

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## INDUSTRIAL

## LOS ANGELES

- **The Los Angeles industrial sector continues to have one of the lowest vacancy rates nationally**, and rental rates, which have been increasing for over a decade, continue to reach new highs.
- It is likely that industrial conditions in L.A. will remain favorable to landlords, as **vacancies are anticipated to trend downward** for at least the near term.
- Asking rents for industrial spaces in L.A. continue to rise, but less sharply than in prior years. **Annual rent growth presently stands at 5.7%**, compared to 5.4% nationally.
- **High construction costs and limited land keep most new builds in the Inland Empire**; however, there is a large mixed-use project underway next to the Hollywood Burbank Airport.

## INLAND EMPIRE

- **The vacancy rate of the Inland Empire Industrial sector remains at a solid 2.9%**.
- Since the beginning of the year **rent rates have quickly increased to 9.1%**, yet are still regionally very competitive, at one-third the rates in surrounding markets.
- Since 4Q20, **capital flow in this sector has been on the rise**: while institutional, public REIT, and private equity investors have pulled back from acquiring new properties, a \$1.5 billion recapitalization deal between Blackstone REIT and LBA Realty (closed in January 2021) involves many major IE industrial properties.
- **Leasing continues to rise**, with the help of e-commerce and logistics companies contributing over a quarter of volume - most industrial spaces continue to be best suited to large-scale enterprises.

## OFFICE

## LOS ANGELES

- The Los Angeles office sector continues to see hard times: asking rates are continuing to decline at the fastest rate seen since 2010 when **rent growth was steadily increasing as high as 8.5% year over year**.
- **Los Angeles office sales are well under the market average** of \$7.1 billion annually, but there is hope for growth with recent evidence showing some investors are willing to pay normal rates.
- **Rates are continuing to decrease** since the last increase seen at the beginning of 2020. The market vacancy remains at 13.6%, the highest rate since 1996.
- **The market has not seen such a negative net absorption in over a decade**.

## INLAND EMPIRE

- Most leases in the Inland Empire market are small and medium sized office spaces: **leasing activity is low but has remained low since two years before the pandemic began**.
- Because the tenancy base in the IE is driven by firms and government establishments, it has **seen less pandemic-related impact and fewer swings over the past year**.
- **Medical office facilities represent one of the fastest-growing submarkets in the IE**: in May of 2021, a private investor acquired the 56,800 sq. ft. Inland Medical Center in Wildomar for \$18 million (\$317/SF). The property is occupied by Kaiser Permanente and City of Hope and traded at a 7.4% cap rate. Riverside University Health System, the Corona Regional Medical Campus, City of Hope, and Kaiser Permanente have all leased substantial spaces scheduled for 2021 deliveries.

## RETAIL

## LOS ANGELES

- **Normalcy is on the horizon for the Los Angeles retail sector** in many ways as businesses begin to re-open and operate under regular capacity.
- A regular trend before the pandemic of **retail closures was only heightened by the pandemic** and is currently the highest it has been in 7 years at 5.5%.
- **Los Angeles retail asking rates remain -1.8% below 2Q20**, with strip and neighborhood centers experiencing the slowest decline.
- **Property sales through the past year are near pre-pandemic numbers** at \$4.0 billion, most of the dollars coming from the first half of 2020.

## INLAND EMPIRE

- The Inland Empire retail sector is experiencing one of the **highest vacancy rates in the nation** as compared to other metro areas with populations over one million.
- As consumer trends continue to move toward e-commerce, **rents grew 3.1% over the past year** because of many store closures.
- The Inland Empire is experiencing the benefits of offering lower-risk investment options as **investors have continued to show interest in low-cap rate deals** even through the pandemic.
- **Price appreciation has been positive** despite the limited rent gains and high vacancies with the market price growing 3% since 2Q20.

## MULTIFAMILY HOUSING

## LOS ANGELES

- **The Los Angeles multifamily sector is recovering from the pandemic at a slower pace than the national average** by four months.
- **Market vacancies remain 1.0% higher than the metro average**, but have seen a decrease of 0.8% from last year's record high of 6.2%.
- **The multifamily sector experienced a significant impact from the pandemic**, with asking rates continuing to suffer at 2.4% below the national 7.3% average.
- **Sales volumes are slowly returning to pre-pandemic numbers** as there was a surge of activity during 4Q20. After prices flatlined at the end of 2020, they are slowly yet consistently appreciating since the beginning of 2021.

## INLAND EMPIRE

- **The Inland Empire multifamily sector has experienced rent gains** during the past twelve months as HCOL area residents move to the IE to save money.
- **Vacancies are lower than the Inland Empire has experienced in years** and are projected to remain 2.5% below the national average for the next five years.
- Over the past year, **rent gains have exceeded projected growth by growing 14.1%**. With job growth increasing, workers are moving from surrounding areas into the Inland Empire boosting the rent gains 14.1%, a level far beyond the projected rate.
- **Many outsized sales closed in the second half of 2020**, but sales activity remains negatively impacted by the pandemic.

## LOS ANGELES INDUSTRIAL TRENDS

### Overview

LOS ANGELES INDUSTRIAL

12 Mo Deliveries in SF **4.1M**    12 Mo Net Absorption in SF **10.6M**    Vacancy Rate **2.3%**    12 Mo Rent Growth **5.7%**

#### KEY INDICATORS

Current Quarter	RBA	Vacancy Rate	Market Rent	Availability Rate	Net Absorption SF	Deliveries SF	Under Construction
Logistics	630,841,578	2.2%	\$13.97	3.5%	(215,607)	174,863	3,277,744
Specialized Industrial	254,489,273	1.8%	\$13.99	2.5%	(24,503)	0	239,541
Flex	56,992,583	5.7%	\$21.82	7.5%	25,654	0	85,500
<b>Market</b>	<b>942,323,434</b>	<b>2.3%</b>	<b>\$14.45</b>	<b>3.4%</b>	<b>(214,456)</b>	<b>174,863</b>	<b>3,602,785</b>

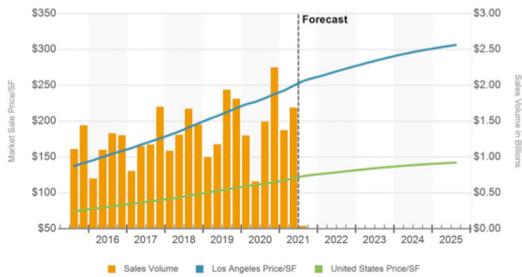
  

Annual Trends	12 Month	Historical Average	Forecast Average	Peak	When	Trough	When
Vacancy Change (YOY)	-0.8%	3.8%	2.0%	5.7%	2010 Q1	2.1%	2019 Q1
Net Absorption SF	10.6M	2,437,745	3,252,175	13,591,029	2005 Q2	(13,809,913)	2009 Q2
Deliveries SF	4.1M	5,447,953	4,683,205	13,556,461	2002 Q1	685,815	2011 Q1
Rent Growth	5.7%	3.9%	4.7%	8.7%	2016 Q1	-4.8%	2009 Q4
Sales Volume	\$6.6B	\$3.4B	N/A	\$6.8B	2021 Q2	\$860.3M	2009 Q3

### Sales

LOS ANGELES INDUSTRIAL

#### SALES VOLUME & MARKET SALE PRICE PER SF



## INLAND EMPIRE INDUSTRIAL TRENDS

### Overview

INLAND EMPIRE INDUSTRIAL

12 Mo Deliveries in SF **19.9M**    12 Mo Net Absorption in SF **25M**    Vacancy Rate **2.9%**    12 Mo Rent Growth **9.1%**

#### KEY INDICATORS

Current Quarter	RBA	Vacancy Rate	Market Rent	Availability Rate	Net Absorption SF	Deliveries SF	Under Construction
Logistics	674,560,522	3.0%	\$9.65	6.0%	418,830	289,407	25,643,176
Specialized Industrial	101,467,578	2.2%	\$11.47	3.4%	13,233	0	774,142
Flex	15,120,629	3.8%	\$14.79	5.0%	(20,209)	0	0
<b>Market</b>	<b>691,148,729</b>	<b>2.9%</b>	<b>\$10.62</b>	<b>5.6%</b>	<b>411,854</b>	<b>289,407</b>	<b>26,417,318</b>

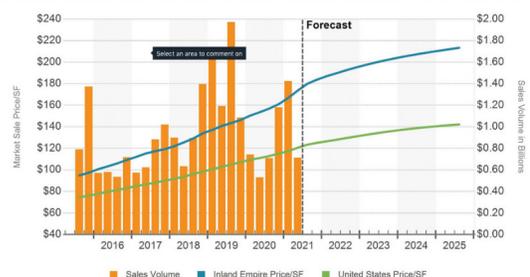
  

Annual Trends	12 Month	Historical Average	Forecast Average	Peak	When	Trough	When
Vacancy Change (YOY)	-0.9%	6.5%	3.2%	12.4%	2009 Q3	2.9%	2021 Q3
Net Absorption SF	25M	17,780,856	20,962,173	29,201,402	2007 Q3	(953,791)	2009 Q1
Deliveries SF	19.9M	18,534,787	22,325,756	33,397,524	2008 Q4	1,345,120	2011 Q3
Rent Growth	9.1%	4.0%	5.0%	10.1%	2018 Q4	-8.9%	2009 Q4
Sales Volume	\$4B	\$2B	N/A	\$6.2B	2019 Q3	\$488.8M	2001 Q2

### Sales

INLAND EMPIRE INDUSTRIAL

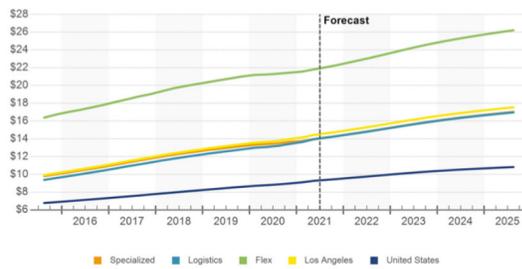
#### SALES VOLUME & MARKET SALE PRICE PER SF



### Rent

LOS ANGELES INDUSTRIAL

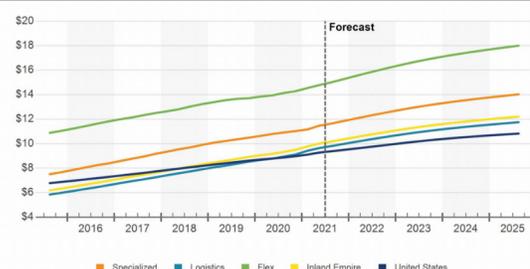
#### MARKET RENT PER SQUARE FEET



### Rent

INLAND EMPIRE INDUSTRIAL

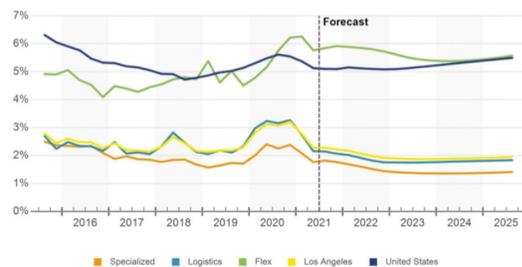
#### MARKET RENT PER SQUARE FEET



### Vacancy

LOS ANGELES INDUSTRIAL

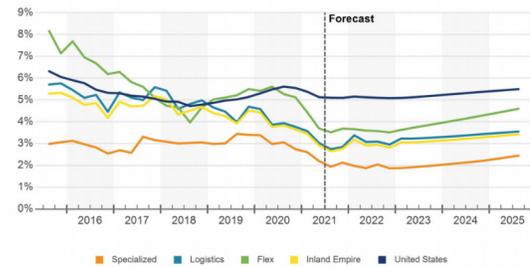
#### VACANCY RATE



### Vacancy

INLAND EMPIRE INDUSTRIAL

#### VACANCY RATE



## LOS ANGELES OFFICE TRENDS

### Overview

LOS ANGELES OFFICE

12 Mo Deliveries in SF	12 Mo Net Absorption in SF	Vacancy Rate	12 Mo Rent Growth
<b>3.1M</b>	<b>(10M)</b>	<b>13.6%</b>	<b>-1.5%</b>

#### KEY INDICATORS

Current Quarter	RBA	Vacancy Rate	Market Rent	Availability Rate	Net Absorption SF	Deliveries SF	Under Construction
4 & 5 Star	168,137,881	16.4%	\$47.43	23.2%	(123,951)	0	6,017,812
3 Star	154,855,447	12.0%	\$38.03	15.3%	(227,230)	0	406,104
1 & 2 Star	106,315,006	8.2%	\$33.57	10.2%	(84,976)	0	0
<b>Market</b>	<b>429,308,334</b>	<b>13.6%</b>	<b>\$41.02</b>	<b>17.2%</b>	<b>(436,157)</b>	<b>0</b>	<b>6,427,006</b>

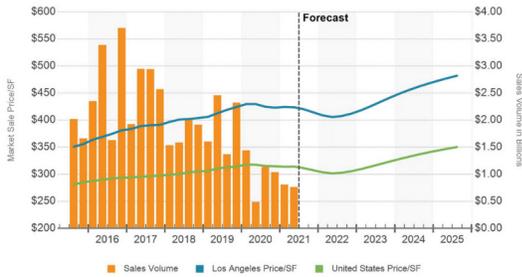
  

Annual Trends	12 Month	Historical Average	Forecast Average	Peak	When	Trough	When
Vacancy Change (YOY)	2.9%	10.7%	12.6%	13.6%	2021 Q3	6.8%	2007 Q3
Net Absorption SF	(10M)	999,855	2,186,919	12,957,018	2020 Q1	(9,898,817)	2021 Q2
Deliveries SF	3.1M	2,355,469	2,141,530	4,462,869	2002 Q3	644,583	1997 Q3
Rent Growth	-1.5%	3.3%	2.4%	14.9%	2007 Q3	-11.0%	2009 Q3
Sales Volume	\$3.8B	\$5.2B	N/A	\$11.5B	2017 Q3	\$805.6M	2009 Q4

### Sales

LOS ANGELES OFFICE

#### SALES VOLUME & MARKET SALE PRICE PER SF



## INLAND EMPIRE OFFICE TRENDS

### Overview

INLAND EMPIRE OFFICE

12 Mo Deliveries in SF	12 Mo Net Absorption in SF	Vacancy Rate	12 Mo Rent Growth
<b>195K</b>	<b>76K</b>	<b>7.1%</b>	<b>2.7%</b>

#### KEY INDICATORS

Current Quarter	RBA	Vacancy Rate	Market Rent	Availability Rate	Net Absorption SF	Deliveries SF	Under Construction
4 & 5 Star	8,610,915	7.4%	\$31.41	10.7%	(16,988)	0	74,902
3 Star	36,463,467	7.7%	\$24.75	9.5%	(22,170)	0	185,220
1 & 2 Star	31,786,412	6.3%	\$19.09	7.7%	(33,924)	0	0
<b>Market</b>	<b>76,860,794</b>	<b>7.1%</b>	<b>\$23.17</b>	<b>8.9%</b>	<b>(73,082)</b>	<b>0</b>	<b>260,122</b>

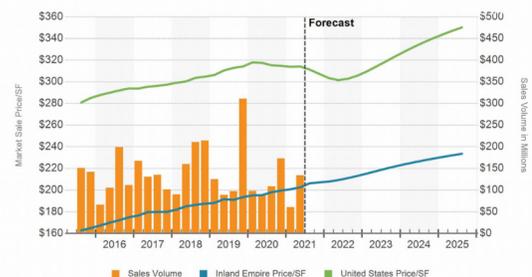
  

Annual Trends	12 Month	Historical Average	Forecast Average	Peak	When	Trough	When
Vacancy Change (YOY)	0.1%	9.7%	6.9%	16.0%	2009 Q3	6.4%	2000 Q2
Net Absorption SF	76K	1,028,104	404,776	2,887,578	2005 Q4	79,263	2008 Q4
Deliveries SF	195K	1,168,956	419,814	4,352,445	2007 Q4	113,333	2019 Q3
Rent Growth	2.7%	2.3%	3.3%	10.6%	2001 Q2	-12.2%	2009 Q4
Sales Volume	\$474M	\$395.3M	N/A	\$717.8M	2015 Q4	\$105.8M	2009 Q4

### Sales

INLAND EMPIRE OFFICE

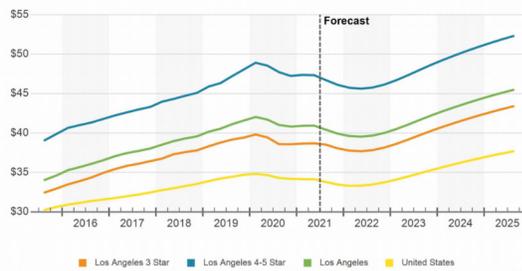
#### SALES VOLUME & MARKET SALE PRICE PER SF



### Rent

LOS ANGELES OFFICE

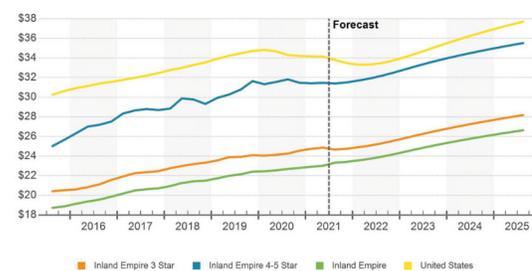
#### MARKET RENT PER SQUARE FEET



### Rent

INLAND EMPIRE OFFICE

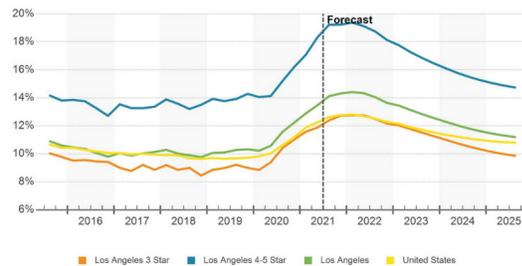
#### MARKET RENT PER SQUARE FEET



### Vacancy

LOS ANGELES OFFICE

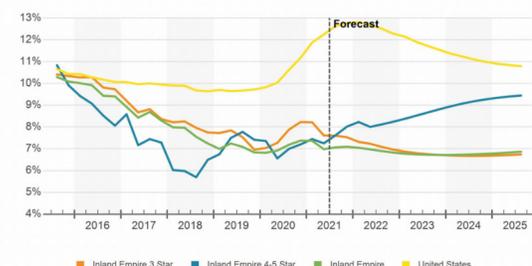
#### VACANCY RATE



### Vacancy

INLAND EMPIRE OFFICE

#### VACANCY RATE



## LOS ANGELES RETAIL TRENDS

### Overview

LOS ANGELES RETAIL

12 Mo Deliveries in SF: **1.2M**  
 12 Mo Net Absorption in SF: **(1.8M)**  
 Vacancy Rate: **5.5%**  
 12 Mo Rent Growth: **-1.8%**

#### KEY INDICATORS

Current Quarter	RBA	Vacancy Rate	Market Rent	Availability Rate	Net Absorption SF	Deliveries SF	Under Construction
Malls	42,427,584	8.5%	\$42.64	7.0%	(9,900)	0	143,814
Power Center	23,791,823	4.4%	\$31.78	5.1%	34,241	0	4,200
Neighborhood Center	102,748,832	7.1%	\$30.53	8.6%	(19,322)	0	261,287
Strip Center	36,092,110	5.8%	\$28.67	6.5%	15,644	0	31,701
General Retail	238,778,041	4.3%	\$32.36	5.2%	(39,185)	0	1,100,053
Other	2,775,934	7.8%	\$38.07	9.1%	0	0	0
<b>Market</b>	<b>446,614,324</b>	<b>5.5%</b>	<b>\$32.62</b>	<b>6.3%</b>	<b>(18,822)</b>	<b>0</b>	<b>1,541,055</b>

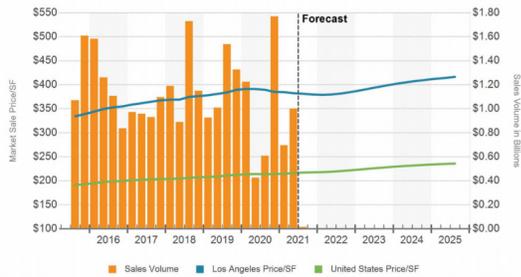
  

Annual Trends	12 Month	Historical Average	Forecast Average	Peak	When	Trough	When
Vacancy Change (YOY)	0.6%	4.7%	5.2%	5.7%	2010 Q1	3.0%	2007 Q3
Net Absorption SF	(1.8M)	918,030	693,770	6,889,978	2007 Q3	(4,170,489)	2009 Q3
Deliveries SF	1.2M	2,323,503	1,267,790	6,520,664	2008 Q4	1,108,889	2018 Q4
Rent Growth	-1.8%	1.1%	1.6%	5.2%	2007 Q2	-5.2%	2009 Q4
Sales Volume	\$4.1B	\$3.8B	N/A	\$5.7B	2015 Q2	\$978.5M	2009 Q4

### Sales

LOS ANGELES RETAIL

#### SALES VOLUME & MARKET SALE PRICE PER SF



## INLAND EMPIRE RETAIL TRENDS

### Overview

INLAND EMPIRE RETAIL

12 Mo Deliveries in SF: **957K**  
 12 Mo Net Absorption in SF: **1.5M**  
 Vacancy Rate: **7.5%**  
 12 Mo Rent Growth: **3.1%**

#### KEY INDICATORS

Current Quarter	RBA	Vacancy Rate	Market Rent	Availability Rate	Net Absorption SF	Deliveries SF	Under Construction
Malls	15,123,439	15.4%	\$28.26	6.8%	(13,317)	0	0
Power Center	20,116,726	8.8%	\$38.63	7.4%	(15,184)	0	17,000
Neighborhood Center	78,511,551	9.6%	\$23.02	10.8%	62,875	0	328,786
Strip Center	15,371,193	6.2%	\$20.01	7.4%	2,324	0	41,880
General Retail	66,428,004	3.5%	\$20.49	4.7%	28,499	0	398,706
Other	2,445,642	16.8%	\$23.43	18.8%	(19,412)	0	0
<b>Market</b>	<b>197,996,555</b>	<b>7.5%</b>	<b>\$22.71</b>	<b>7.9%</b>	<b>43,585</b>	<b>0</b>	<b>786,172</b>

Annual Trends	12 Month	Historical Average	Forecast Average	Peak	When	Trough	When
Vacancy Change (YOY)	-0.4%	7.8%	7.3%	9.8%	2011 Q2	5.0%	2007 Q3
Net Absorption SF	1.5M	1,427,257	1,091,407	8,249,741	2007 Q1	(2,137,597)	2009 Q4
Deliveries SF	957K	2,143,335	1,211,100	7,245,933	2007 Q1	406,264	2011 Q1
Rent Growth	3.1%	-0.1%	3.3%	6.2%	2007 Q1	-10.2%	2010 Q1
Sales Volume	\$1.1B	\$1.1B	N/A	\$1.6B	2015 Q4	\$397.2M	2010 Q1

### Sales

INLAND EMPIRE RETAIL

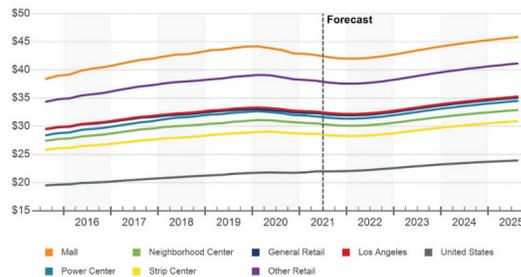
#### SALES VOLUME & MARKET SALE PRICE PER SF



### Rent

LOS ANGELES RETAIL

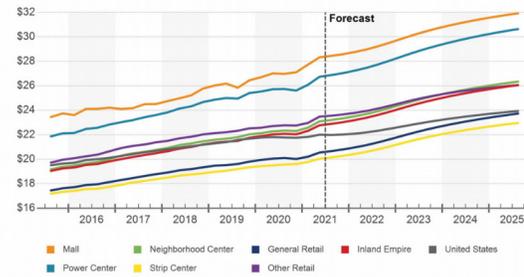
#### MARKET RENT PER SQUARE FEET



### Rent

INLAND EMPIRE RETAIL

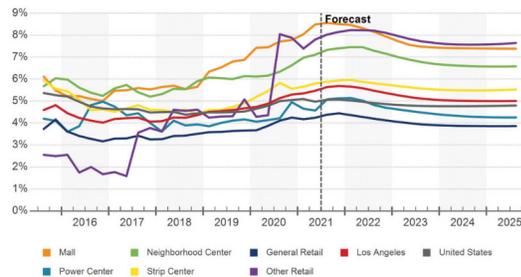
#### MARKET RENT PER SQUARE FEET



### Vacancy

LOS ANGELES RETAIL

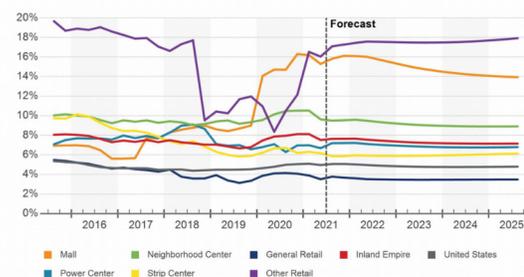
#### VACANCY RATE



### Vacancy

INLAND EMPIRE RETAIL

#### VACANCY RATE



## LOS ANGELES MULTIFAMILY TRENDS

## INLAND EMPIRE MULTIFAMILY TRENDS

### Overview

LOS ANGELES MULTIFAMILY

12 Mo. Delivered Units	12 Mo. Absorption Units	Vacancy Rate	12 Mo. Asking Rent Growth
<b>11,347</b>	<b>15,585</b>	<b>5.4%</b>	<b>2.4%</b>

**KEY INDICATORS**

Current Quarter	Units	Vacancy Rate	Asking Rent	Effective Rent	Absorption Units	Delivered Units	Under Constr Units
4 & 5 Star	120,475	11.0%	\$3,030	\$2,580	470	0	23,536
3 Star	216,742	5.0%	\$2,145	\$2,130	33	0	2,418
1 & 2 Star	641,022	4.5%	\$1,559	\$1,550	1	0	6
<b>Market</b>	<b>978,239</b>	<b>5.4%</b>	<b>\$2,006</b>	<b>\$1,988</b>	<b>504</b>	<b>0</b>	<b>25,960</b>

Annual Trends	12 Month	Historical Average	Forecast Average	Peak	When	Trough	When
Vacancy Change (YOY)	-0.5%	4.4%	5.1%	6.2%	2020 Q4	3.1%	2000 Q3
Absorption Units	15,585	3,792	9,811	15,114	2021 Q2	(5,433)	2002 Q1
Delivered Units	11,347	5,717	7,796	12,373	2021 Q1	888	2011 Q4
Demolished Units	160	577	569	1,564	2010 Q3	49	2002 Q2
Asking Rent Growth (YOY)	2.4%	2.4%	2.9%	8.1%	2001 Q1	-0.7%	2009 Q4
Effective Rent Growth (YOY)	2.9%	2.3%	2.9%	8.1%	2001 Q1	-0.7%	2009 Q4
Sales Volume	\$8.4B	\$6.1B	N/A	\$11.2B	2020 Q1	\$1.7B	2010 Q1

### Overview

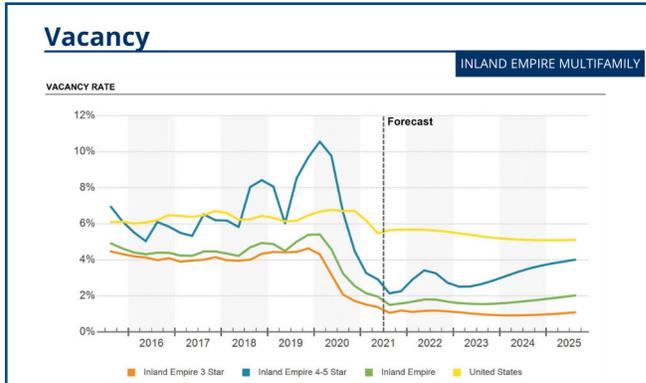
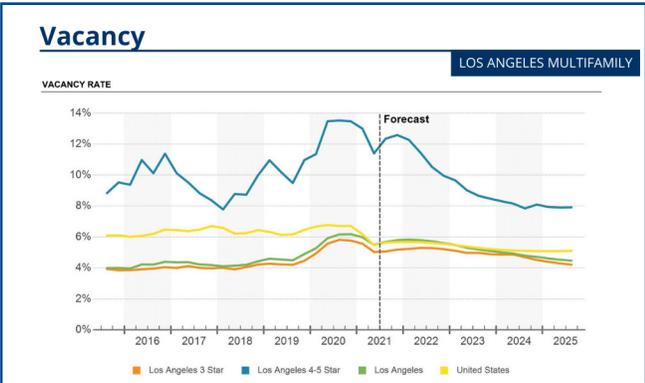
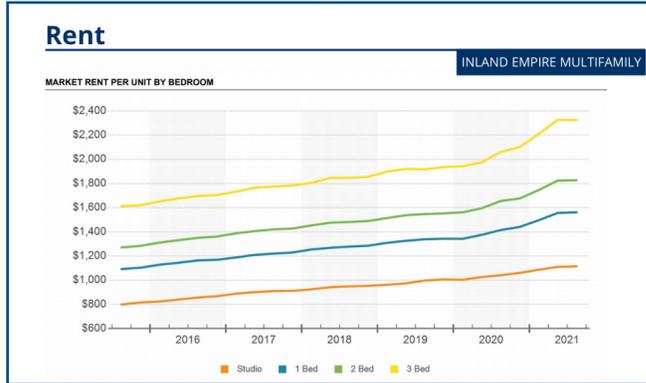
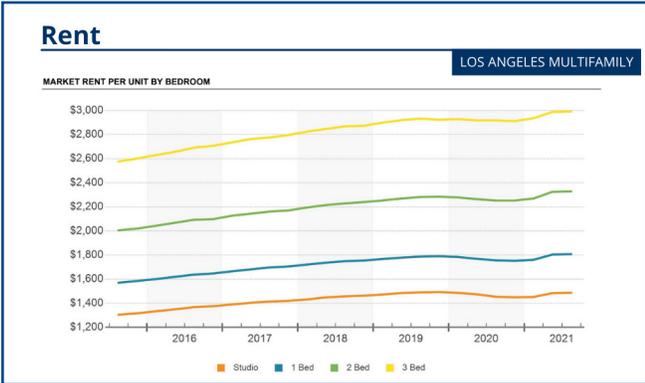
INLAND EMPIRE MULTIFAMILY

12 Mo. Delivered Units	12 Mo. Absorption Units	Vacancy Rate	12 Mo. Asking Rent Growth
<b>518</b>	<b>4,682</b>	<b>2.0%</b>	<b>14.2%</b>

**KEY INDICATORS**

Current Quarter	Units	Vacancy Rate	Asking Rent	Effective Rent	Absorption Units	Delivered Units	Under Constr Units
4 & 5 Star	34,427	2.9%	\$2,321	\$2,313	3	0	1,564
3 Star	71,631	1.4%	\$1,793	\$1,788	(1)	0	561
1 & 2 Star	60,387	2.1%	\$1,195	\$1,190	1	0	0
<b>Market</b>	<b>166,445</b>	<b>2.0%</b>	<b>\$1,755</b>	<b>\$1,749</b>	<b>3</b>	<b>0</b>	<b>2,115</b>

Annual Trends	12 Month	Historical Average	Forecast Average	Peak	When	Trough	When
Vacancy Change (YOY)	-2.5%	5.5%	1.8%	8.0%	2009 Q1	2.0%	2021 Q2
Absorption Units	4,682	1,803	1,416	6,286	2021 Q1	(147)	2011 Q4
Delivered Units	518	1,774	1,414	3,924	2009 Q2	16	2011 Q4
Demolished Units	0	70	70	296	2013 Q4	0	2021 Q2
Asking Rent Growth (YOY)	14.2%	3.7%	6.5%	14.2%	2021 Q2	-4.7%	2009 Q2
Effective Rent Growth (YOY)	14.7%	3.7%	6.5%	14.8%	2021 Q2	-4.6%	2009 Q2
Sales Volume	\$1.5B	\$1.1B	N/A	\$2.5B	2019 Q3	\$71.8M	2009 Q3



# DEEP DIVE | SUPPLY & DEMAND

By Valbridge Property Advisors | Los Angeles-Inland Empire

**If we've learned one economics lesson from the past eighteen months, it's how quickly global supply chains can experience disruption - and how dramatically that can impact markets. From a surge in home buying and renovations to front-page stories of lumber prices and cargo ships stuck in canals, the "new normal" is proving much more difficult to predict and navigate than before. In today's deep dive, we focus on two big trends: the lumber bubble, and the conversation around office-to-housing conversion.**

## LUMBER

One of the most high-impact shortages over the past year has been the supply of lumber, which has caused the supply to contract, even as demand for building materials has skyrocketed. The first unexpected delay began as the lumber industry was forced to slow down production to a snail's pace in order to protect their workers from the coronavirus outbreak (as did most industries).

Supply wasn't the only driver of prices for lumber: pre-pandemic import tariffs had already sent prices climbing, but the pandemic shutdown led to slower supply, which drove bulk buys, hoarding, and speculation. Other building materials have seen similar trends: gypsum (used in drywall), steel, copper, and - most importantly - land have all seen steep rises.

These higher costs are not the result of more expensive raw materials: the price of raw timber, for example, has hardly shifted at all since the beginning of the pandemic. Instead, they're the result of supply chain interruptions - like closed sawmills - and huge swings in consumer behaviors driven by changing COVID conditions.

But at the very end of 2Q21, the lumber bubble popped: after a peak on May 7, lumber futures plummeted more than 40% in June alone, their worst month since 1978 (via [CNBC](#)).

The story of lumber and commodity volatility has an important lesson to teach: in this new market, price bubbles and big swings in behavior will be with us for some time to come.

## NOT ENOUGH HOUSING, TOO MANY EMPTY OFFICE BUILDINGS

Commodity volatility has impacted residential real-estate more directly than commercial real estate, but supply chain issues are felt everywhere, as builders and developers hedge their bets. As people left expensive urban areas, remote work became the new normal, and the demand for more space skyrocketed, some have questioned the obvious market imbalances between residential and commercial real estate.

Thousands of office spaces continue to sit vacant while at the same time, demand for affordable housing reaches a fever pitch. So it's not surprising that a conversation about the plausibility of converting office spaces into multifamily housing has begun to gain more serious traction.

Retired architect and professor Roger K. Lewis wrote for [The Washington Post](#) about many of the questions circulating about the possible office-to-housing conversion, or potential mixed-use scenarios. One of the major benefits, said Lewis, lies in the dimensions of most office buildings. The "floor-to-floor dimensions typically exceed apartment building floor-to-floor dimensions," meaning living spaces would naturally be more open and would allow more natural light.

As nice as the idea sounds, there are major red flags for investors and lenders. With most of the burden falling on office space owners, lenders, and investors, the complex structural surgery needed to fit apartment guidelines for zoning regulations, fire and smoke protection, paths of travel, ventilation, and occupancy often financially outweigh the benefits of converting to housing.

The takeaway? As with the pandemic, there are no quick fixes. Sales of new U.S. single-family homes hit a 14-month low in June and sales in May were weaker than initially estimated, the latest signs that expensive lumber and shortages of other building materials were hurting the housing market.

Supply and demand issues will continue to play a significant role in defining the what the "new normal" will be, and that demand will be driven by unpredictable, changing circumstances. Big swings, price bubbles, and even dramatic reinvention will mean huge profits for some, but it will also mean major losses for other. For now, many investors and developers continue to watch and wait, hoping that the second half of 2021 spells more stability. ■



# Valbridge

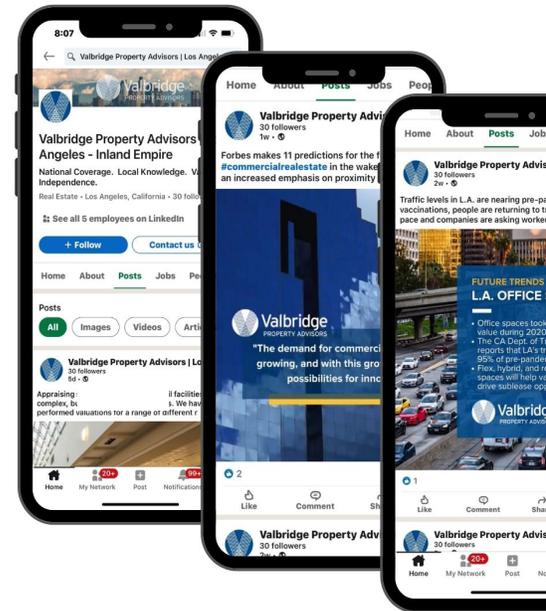
PROPERTY ADVISORS

Sometimes you need info on the most up to date market trends, within your network. You've seen the quarterly trends, but stay up to the minute on weekly shifts, major market news, and the latest analysis of commercial real estate developments in the LA and Inland Empire areas. Get the updates you need when you need them, by connecting with us on LinkedIn.

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