Los Angeles & Orange Counties Business

COMMERCIAL REAL ESTATE

Trends. Updates. Visionaries.

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Leading The Future

Dear Readers:

Los Angeles Times B2B Publishing proudly presents our first issue of **Los Angeles & Orange Counties Commercial Real Estate: Trends, Updates and Visionaries**, a new magazine and digitally focused product that spotlights professionals within the commercial real estate sector and covers trends, profiles and overall business updates.

In this unprecedented business climate, companies must be agile and forward-looking to recognize opportunities and convert prospects while solidifying their core attributes. At the center of this mindset is an individual whose vision has propelled their companies into the future and influenced the trajectory of the industry.

Herein, we congratulate these noteworthy commercial real estate executives who were nominated by readers for their successes and accomplishments during the last 24 months, as well as their exemplary leadership within their organizations and communities across Southern California.

Los Angeles & Orange Counties Commercial Real Estate: Trends, Updates and Visionaries is produced by the B2B Publishing team and doesn't involve the editorial staff of the L.A. Times.

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COMMERCIAL REAL ESTATE INDUSTRY SENTIMENT ON THE RISE

Improving economic conditions have led to a significant increase in the NAIOP CRE Sentiment Index, indicating both overall optimism and several ongoing concerns. The NAIOP CRE Sentiment Index for April 2021 reached 54, significantly higher than the August/September 2020 reading of 45, which reflected a generally negative outlook for conditions.

This latest reading indicates that respondents expect conditions for commercial real estate to improve over the next 12 months. Respondents now expect improvement in occupancy rates, rents, the availability of equity and debt, and employment within their own firms. On average, survey-takers expect cap rates to remain unchanged.

Respondents are more pessimistic about construction costs, however. Most expect construction labor costs to increase, and sentiment about construction materials costs is now more pessimistic than in any prior survey. A worsening outlook for costs likely reflects current labor and material shortages but may also indicate a consensus that demand for construction will grow over the next year.

"We appear to be emerging from the pandemic, finally, with pent-up demand for goods and services and increasing reliance on delivery, which bodes well for the industrial and warehouse sector," said Thomas J. Bisacquino, president and CEO of NAIOP. "Some mixed signals, and dramatic shortages in construction materials, remain indicative of ongoing market insecurity."

Although respondents are broadly more optimistic, high standard deviations in survey results suggest continued uncertainty about the future. Varying degrees of optimism among respondents may also reflect a more challenging environment for some property types and geographic markets. As in the last survey, open-ended comments suggest a brighter outlook for industrial and multifamily properties and continued difficulty for retail properties.

"With [Federal Reserve] Chairman Jerome Powell committing to hold interest rates low for the next two years and with business beginning to open up the more people are vaccinated, I believe that Q4 of 2021 and all of 2022 will be filled with high consumption and more demand for logistics buildings," said one respondent.

A majority (57%) of respondents expect to be most active in projects or transactions related to industrial properties over the next year. Multifamily properties attracted the next largest share of interest (20.9%), followed by office properties (17.2%). Only 4.9% of respondents indicated that they expect to be most active in retail properties.

A total of 407 respondents from 342 distinct companies participated in this survey. When individuals were asked what property types they worked on, 75.4% indicated they work on industrial properties; 70.2% work on office properties; 48.3% work on retail properties; and 44.6% work on multifamily properties. A regional breakdown shows that 48.0% of respondents are active in the West, 45.3% are active in the East, 39.7% are active in the South, and 29.3% are active in the Midwest.

NAIOP, the Commercial Real Estate Development Association, is a non-profit organization for developers, owners, investors and related professionals in office, industrial, retail and mixed-use real estate. NAIOP provides industry networking and education and advocates for effective legislation on behalf of its members. For more information, visit *naiop.org*.

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COMMERCIAL DEVELOPMENT AND OPERATIONS A KEY CATALYST FOR U.S. ECONOMIC GROWTH

New development of commercial real estate and of the ongoing operations of existing commercial real estate buildings in the United States – office, industrial, warehouse and retail – supported eight million American jobs, contributed $1.01 trillion to the U.S. GDP in 2020, and generated $338.1 billion in personal earnings, according to "Economic Impacts of Commercial Real Estate, 2021 U.S. Edition," a study released earlier this year by the NAIOP Research Foundation.

The economic impact declined slightly from 2019, when the industry supported 9.2 million American jobs and contributed $1.14 trillion to U.S. GDP.

According to the report, the longest economic expansion in U.S. history – 128 months – unexpectedly ended in February 2020 with the onset of the COVID-19 pandemic. The rapid contraction of the economy beginning in March resulted in second-quarter GDP declining 9.0% from its first-quarter value, a decline of 31.7% on an annualized basis. This decline was accompanied by a sharp decrease in employment – 22.8 million jobs were lost in March and April, and unemployment rose from its lowest level in 50 years in February (3.5%) to 14.7% in April, the highest rate since the Great Depression.

The study broke out several key measures by commercial real estate industry sector:

Office construction expenditures totaled $38.8 billion in 2020, down 28.5% from 2019 after increasing 12.7% in 2019.

Retail construction expenditures totaled $11.7 billion in 2020, a decrease of 29.5% from 2019. This decrease marks the fifth straight year of decline; expenditures fell 2.3% in 2019; 9.5% in 2018; 0.8% in 2017; and 7.0% in 2016. The last time retail construction spending increased was in 2015.

Warehouse construction outlays only decreased marginally in 2020, down 0.3% from 2019. In 2019, construction spending had been up sharply (27.4%), continuing a positive trajectory that began in 2011.

Industrial (manufacturing) construction spending was hard hit by the contraction in 2020, declining 29.5%. During the past five years, industrial construction spending had declined sharply in 2015 and 2016 before increasing in 2017 and 2018 and declined 1% in 2019.

The report reveals that while 2020 was not the year that had been expected, 2021 will be a recovery year:

Job growth and unemployment rates will continue to improve but are not expected to regain pre-pandemic levels; full employment is not projected

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to be reached until mid-2022, and unemployment is projected to remain above 4% through 2025.

All GDP growth in 2021 will be make-up or replacement growth that was lost or foregone in 2020. So, while a seemingly robust 4% GDP growth is projected for 2021, all of this new GDP value will be needed to bring the value of total GDP near to the pre-pandemic level of February 2020.

"Many factors point to a commercial real estate rebound in 2021," said Thomas J. Bisacquino, president and CEO of NAIOP. "Obviously we dealt with several unknowns and an unexpected downturn in 2020; however, we believe that while the pandemic has accelerated trends already progressing in real estate, we have a bright future. Office workers will return to the offices with some regularity in 2021, the industrial and warehouse sectors will continue to expand as e-commerce demand intensifies, and the retail sector will be reshaped as the shopping experience evolves."

Top 10 States by Development Impacts in 2020

The following are the top 10 states by development impacts (ranked by total output), with California in fourth place.

State	Total Output (in Billions of Dollars)	Direct Spending (in Billions of Dollars)	Jobs Supported
Texas	$65.6	$25.7	428,007
New York	$33.3	$18.1	191,474
Florida	$27.7	$12.8	220,212
California	$26.0	$12.1	162,515
Illinois	$18.8	$7.9	111,433
Tennessee	$18.5	$7.9	116,612
Massachusetts	$13.2	$6.7	76,942
Virginia	$12.3	$6.1	82,065
Georgia	$11.2	$4.8	84,249
Ohio	$11.2	$4.8	75,137

The full report includes detailed data on commercial real estate development activity in all 50 states and the District of Columbia, including direct spending; total output; salaries and wages; and jobs supported.

The "Economic Impacts of Commercial Real Estate" report is authored annually by economist Stephen S. Fuller, Ph.D., with data provided by Dodge Data & Analytics.

Since 2008, NAIOP has conducted this study for purposes of estimating the annual economic contribution of commercial real estate development to the U.S. economy. This study is used by real estate professionals and municipal, state and federal officials and employees to understand and quantify the key economic benefits of commercial real estate development.

For more information, visit *naiop.org*.

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TECH INNOVATIONS WILL HELP SHAPE FUTURE CONSTRUCTION PROJECTS

An NAIOP Research Foundation report released earlier this year has identified how specific new technology is making an impact on construction, an industry that had been historically slow to embrace innovation.

The construction industry's complexity and its fragmentation among many small firms specializing in different elements of construction have slowed the adoption of new technologies, according to the report, "An Overview of Emerging Construction Technologies."

Most construction projects' unique requirements have also limited the opportunities to create economies of scale that support investment in technologies.

"However, recent advances are increasing the efficiency, flexibility and adaptability of many emerging construction technologies, making them more cost-effective for firms to adopt. A significant and protracted labor shortage in the construction trades is also increasing the costs of conventional construction methods, making labor- and time-saving technologies more attractive," according to the report.

Several technologies and advances will shape the construction industry. Technologies in use today include:

Modular construction: A subset of off-site construction, modular construction uses free-standing, integrated box-like modules (complete with finishes, wiring, fixtures and fittings) that are manufactured in a factory and transported to a site for installation.

Factory-built housing: Industrialized, manufactured, off-site or prefabricated housing are all terms that refer to housing units with some portion of their structural components built away from the permanent foundation and brought to the site.

Geospatial technologies: Any modern equipment used in the visualization, measurement and analysis of Earth's features. These technologies can be used to manipulate the built environment, including global positioning systems (GPS), geographical information systems (GIS) or satellite remote sensing (SRS).

Wearable technologies: These include head-mounted displays; exoskeletons; Radio Frequency Identification (RFID) such as I.D. wristbands; Inertia measurement units (IMU), consisting of accelerometers, gyroscopes and magnetometers.

Building information modeling: BIM digitally represents a building's physical and functional characteristics to guide decisions during its construction and operation.

Some emerging technologies in the industry include:

Additive manufacturing: A process of manufacturing objects using 3-D model data by printing each successive layer.

Mass timber: An engineered wood product that is manufactured by binding boards of wood together with adhesives to form composite panels that vary in size. Cross-laminated timber (CLT) combines wood construction benefits with those of steel and concrete construction, providing strength and reducing material use and labor costs.

Construction robotics: The design, construction, operation and application of robots at the component, building and infrastructure levels of construction.

Autonomous construction vehicles: Construction equipment that is navigated, maneuvered and operated without the need for human control or interventions under ordinary and planned conditions. Autonomous construction vehicles can perform repetitive, time-consuming tasks with increased productivity, efficiency and safety.

Unmanned aerial vehicles: UAVs, commonly known as drones, have been used and applied widely in agricultural, mining, construction, ecological and environmental domains due to their declining cost and advances in flight control software.

Digital transformations: The construction industry is at the threshold of large-scale transformation centered on the digitization of the industry which will include the Internet of Things (IoT), sensors, performance monitoring, digital twin modeling, artificial intelligence and machine learning.

"As companies prepare for accelerating technological trends, using technology to lower costs and increase efficiency will help them remain competitive," the report concludes. "Emerging technologies in construction will facilitate the planning and development of smart buildings and smart cities and provide the intelligence needed for the long-term efficient maintenance of these assets. Innovative technologies will also help the construction industry meet growing demand for new types of buildings that are more efficient, higher quality and can be delivered at a lower cost."

The report's authors are Andrew McCoy, Ph.D., Beliveau Professor at the Department of Building Construction at Virginia Tech, and Armin Yeganeh, Ph.D., Virginia Tech and a graduate research assistant at the Virginia Center for Housing Research (VCHR).

The NAIOP Research Foundation was established in 2000 as a non-profit organization to support the work of individuals and organizations engaged in real estate development, investment and operations. The Foundation's core purpose is to provide information about how real properties, especially office, industrial and mixed-use properties, impact and benefit communities throughout North America. The initial funding for the Research Foundation was underwritten by NAIOP and its founding governors with an endowment established to support future research.

COVID-19 IMPACT STUDY REVEALS NEW TRENDS AND PERSPECTIVES

At the end of last year, BOMA International, Yardi and Brightline Strategies announced the release of key findings from the first in a series of nationwide commercial real estate COVID-19 impact studies. With input from 3,010 influential office space decision makers nationwide, the "BOMA International COVID-19 Commercial Real Estate Impact Study" assessed the latest in tenant sentiments relating to the pandemic as well as its impacts on their businesses, attitudes towards the physical work environment and office space decisions going forward.

The findings not only provide a clear indication of the pandemic's broader transformational effects on the office sector, but they also enable owners and operators to model the financial and operational implications thereof and proactively implement measures to mitigate risk.

"While COVID-19 continues to be a large, disruptive force across the commercial real estate industry and its tenancy, the findings demonstrate the perceived value of office environments as a key ingredient for business success remains strong," said Henry H. Chamberlain, APR, FASAE, CAE, president and COO of BOMA International. "While study results indicate high probabilities around changes in size, use and design of office space going forward, we have also seen a significant rebound in the utility of physical work environments since the onset of the pandemic, with 74% of all study respondents affirming that in-person offices are operationally vital to their businesses, long-term growth and future success."

Key findings from the study include:

- 65% of commercial office decision makers continue to see significant value in on-site business operations, particularly as they relate to the three Cs: collaboration, coaching and culture.
- The economic headwinds on office tenants are far reaching, with 33% of respondents saying they have experienced at least a 25% revenue decline

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since the onset of the pandemic and an additional 27% saying they could experience a similar or greater decline by EOY 2020.

- 61% of all respondents report they will reassess their space needs with 43% seeking to reduce the size of their office square footage, 24% maintaining their current footprint, 9% increasing their size and the remainder being unsure.

- 78% approve of the response their current property owner or operator has implemented during COVID-19, and 77% are confident they understand how to reduce and manage risk in their physical office.

- 47% of all tenants say their landlord's coronavirus response exclusively has made them more likely to renew, the result of proactive communications and a renewed focus on safety and security. Almost half of tenant decision-makers (46%) are seeing more value in personal relationships with their property management teams.

Additional findings explore the implications of COVID-19 on rent payments, space needs and utilization, renewal and relocation likelihoods, confidence in the safety of office spaces, and return-to-work planning.

"Our collective charge was to help owners and operators better understand, and proactively address, emerging industry trends and shifts in workplace priorities resulting from COVID-19, as well as how market attitudes towards the physical work environment are changing and what issues, behaviors and perceptions are driving them," said Robert Teel, vice president of global solutions at Yardi. "Such insights are critical for owners and operators to get ahead of the COVID-19 impact curve."

Commissioned by BOMA International, the study was underwritten by a grant from Yardi, a global real estate software company, and developed by Brightline Strategies, a leading real estate research and advisory services firm. The study was fielded from September 1 through October 31, 2020, with 3,010 influential decision makers from across the country and respondent oversampling in the top 20 U.S. markets. The data were then segmented and analyzed by industry, company size and stage of growth, office square footage, rent rate, renewal date, asset class, location, tenant priorities, and workplace preferences, as well as other demographic and psychographic occupier characteristics.

"Understanding how tenant priorities and preferences have changed as a result of COVID-19, to what extent operational models and mindsets have shifted in response to the pandemic and what landlords can do to support the 'new normal' are key baselines for driving sector resilience," said Michael Broder, CEO of Brightline Strategies. "Isolating the factors which will drive office space decisions going forward not only provides owners and operators the data models to forecast future portfolio performance, but also the actionable insight to mitigate downstream risk."

The study's executive summary can be found on BOMA International's website at *boma.org/covidimpact*.

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PANDEMIC'S EFFECT ON CALIFORNIA CRE WILL LAST THROUGH 2023

An Allen Matkins/UCLA Anderson Forecast California Commercial Real Estate Survey, unveiled earlier this year, showed that the pandemic-related economic recession is having a mixed effect on California commercial real estate sectors, as this downturn is not due to slackening in housing markets or a stock market crash.

While office space markets are in a holding pattern and retail markets are on a downward trajectory, multi-family housing and industrial space continue to grow. The biannual survey polled a panel of California real estate professionals to project a three-year outlook for state commercial real estate and forecast the potential opportunities and challenges affecting the industry's sectors.

Office Developers Take a "Wait-and-See" Approach

With the pandemic shifting the use of traditional office space, there is much uncertainty as to what the future of this sector will look like. Though panelists are confident about the growth in demand between 2020 and 2023, they are pessimistic about the return on investment in new office space today. In both Northern and Southern California, panelists believe that newly built space, in addition to companies reducing their existing space, will outstrip any near-term increased demand for new construction. The conclusion is that the end of the latest office building boom is at hand, though there will be demand for office reconstruction and low-rise office building construction. Across the board, there is a wait-and-see sentiment, and that portends a downturn in the rate of new development.

Industrial Comes Roaring Back to Record-High Optimism

In the June 2020 survey, industrial space sentiment dropped slightly but was logical, given the pandemic. However, vacancy rates have remained extremely low across all regions surveyed and sentiment about the coming three years shows an optimism that has not been seen for many years. A dramatic shift in buying habits to online shopping during the pandemic has likely changed household purchasing for the future.

Although panelists are very optimistic about the next three years, their current building plans are only marginally greater than ambitious pre-pandemic plans. In both Northern and Southern California, approximately 30% of the panelists stated that the recession has made them to consider increasing developments they will undertake. Therefore, the expectation is for a new wave of warehouse building.

Recession Creates More Challenges for Retail

During the last economic expansion, retail faced an uphill battle. The current recession tripled down on that struggle. First, the loss of household income and the shelter-in-place policies reduced demand for brick-and-mortar retail. Second, the inability to physically frequent many retail establishments created a new set of online shoppers. Third, increases in the savings rate on the part of households in response to the recession suggests less spending. Marginal properties may not find tenants who can pay sufficient rent.

Panelists believe that retail properties will generate lower, if any, returns in 2023 compared to the end of 2020. New retail property construction is expected to significantly decline from 2020 through 2023.

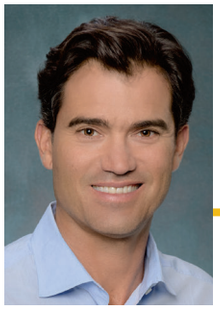
Multi-Family Market Sentiment Continues to Be Mixed

Panelists do not see 2023 as having higher multi-family occupancy compared to today. The markets that have not improved are either urban areas that have had dramatic declines in rental rates because of an exodus to more suburban areas (San Francisco and L.A.) or are generally lower income (like the East Bay and Sacramento). Overall, multi-family development is still expected to grow in California as the economy rebounds and housing demand grows again.

The Survey

The UCLA Anderson Forecast is one of the most widely watched and often-cited economic outlooks for California and the nation and was unique in predicting both the seriousness of the early-90s downturn in California and the strength of the state's rebound since 1993. The Forecast was credited as the first major U.S. economic forecasting group to predict the recession of 2001 and, in March 2020, it was the first to declare that the recession caused by the COVID-19 pandemic had already begun.

Learn more at *uclaforecast.com*.



Brett Dedeaux

President/Founding Principal
Dedeaux Properties
Commercial Developers

Brett Dedeaux is president of Dedeaux Properties, which has a long and successful history in logistics real estate in California. Dedeaux Properties has been an industry innovator through developing and purchasing transportation-orientated properties, cold storage and distribution facilities recognizing that e-commerce would significantly increase demand for last-mile logistics properties. He has helped grow the firm's portfolio to more than 6.5 million square feet of assets, making Dedeaux one of the largest local non-institutional owners of industrial real estate in Los Angeles. In addition, the firm currently has a project pipeline of approximately 2 million square feet in various stages of development and entitlement. Dedeaux has transformed the company from private developer/investor with no outside capital partners to an institutional quality platform with many large private equity and family office capital partners.

Christine Deschaine

Senior Vice President, Brokerage
Kennedy Wilson Brokerage
Commercial Brokers

With a prolific track record spanning nearly 30 years in commercial real estate brokerage, senior vice president of Kennedy Wilson Brokerage Christine Deschaine has distinguished herself as a leader who is passionate about enhancing communities and creating value in downtown urban areas of L.A., all while purposefully incorporating service to others as an integral part of her personal and professional life. Specializing in retail brokerage with a focus on urban redevelopment, Deschaine serves as an advisor to institutional and private capital owners, tenants and developers, earning her reputation as an authority in the industry. In the face of recent market uncertainty due to the pandemic, Deschaine has remained a steady force for her team, securing impressive deals for her clients, fostering a collaborative company culture at Kennedy Wilson Brokerage, and selflessly serving her local community while also supporting humanitarian causes abroad.

Jim Dillavou

Principal & Co-Founder
Paragon Commercial Group
Commercial Developers

Jim Dillavou is co-founder and principal of Paragon Commercial Group where he focuses on corporate strategy, acquisitions and capital structuring. Paragon was founded in 2009 in the depth of the GFC to capitalize on the massive repricing of retail assets. Now, in 2021, at the crossroads of the "retail apocalypse" narrative and the post-COVID expansion of e-commerce, a second retail re-pricing is occurring which will once again provide outsized risk-adjusted investment opportunities. His background in development, law and capital markets has contributed to Paragon's steady navigation of choppy retail waters and concurrent growth since its inception in 2009. Today Paragon enjoys a growing reputation as one of the preeminent retail development firms in California. Dillavou is formerly a real estate and finance attorney with Latham & Watkins LLP where he represented developers, equity providers and lenders in capital structuring, acquisitions, dispositions, leasing and entitlements.

R. Todd Doney

Vice Chairman
CBRE
Commercial Brokers

Over his 37-year career, R. Todd Doney, vice chairman at CBRE in Los Angeles, has completed commercial real estate transactions encompassing more than 100 million square feet of office space. Doney is one of the preeminent brokers in the Greater Los Angeles area. His success on behalf of tenants, investment clients, and landlords includes his work representing major institutional tenants such as Nestle, Wells Fargo Bank, Dentons US LLP, KPMG, GE/NBC, AT&T, Cedars-Sinai Medical Center, Southern California Edison, AECOM, Cigna, Northern Trust, BP, and The Walt Disney Company. For the past 20 years, Doney has consistently ranked in the top 3% of the company. In 2006 he was the most successful office broker for the company in the entire U.S. excluding the New York Metropolitan area. In 2020, he completed more than two million square feet of leasing transactions.

Anthony Eaton

President
Land Advisors Organization
Commercial Brokers

Tony Eaton has enjoyed a 30-year professional career, during which he served seven years in the Marine Corps flying F/A-18's in Southern California, spent six years working in finance with various technology companies, and then found his niche in the real estate industry some seventeen years ago. He has served as the President of Land Advisors Organization – California for the last two years where he has responsibility for an organization that includes eight offices across the state of California. During the temporary market lull caused by the COVID-19 outbreak in 2020, Eaton led the company in an aggressive growth and repositioning effort which saw the firm launch three new business practices – multifamily services, government land services, and agricultural land services. Land Advisors also took full advantage of the unexpected availability of top-end talent recruiting a number of new advisors and increasing total personnel by nearly 20%.