Southern California Commercial Real Estate Market – Q3 2025 Outlook

Overview of Current Conditions

Southern California's commercial real estate (CRE) markets are showing signs of stabilization as we enter Q3 2025. After the turbulence of the past few years, **vacancies appear to have peaked and rents are nearing their troughs**, indicating a bottoming-out of market fundamentals. High interest rates through 2023 slowed investment activity and new development, but sentiment is improving. In fact, a recent CBRE investor survey finds **70% of investors plan to acquire more assets in 2025** than last year, eyeing today's repriced opportunities for a first-mover advantage. Multifamily and industrial properties remain top targets for capital, while interest in retail has ticked up and even office is seeing selective bargain-hunting.

Several macro challenges still overhang the market – **elevated interest rates, trade policy uncertainty, and high construction costs** are frequently cited by market participants. Nonetheless, **economic underpinnings in SoCal remain resilient**. The region's **job market has grown in key sectors** (e.g. transportation/warehousing employment up 3.4% year-over-year in Los Angeles County) even as office-using employment lags. **Demographics and migration trends** are reshaping demand: an affordability-driven migration from coastal counties to the Inland Empire is sustaining **strong occupancy in the Inland Empire's office market (vacancy ~8.9%, lowest in SoCal)**, while expensive housing keeps many residents renting, **fueling sustained apartment demand despite new supply**. In the retail sector, consumer spending in high-income enclaves and population-dense neighborhoods has kept storefront demand surprisingly robust in the face of e-commerce growth. Overall, SoCal's diverse economy (ports, entertainment, tech, logistics, etc.) provides a solid foundation, but **each property sector tells a different story in mid-2025**, detailed below.

Industrial: High Demand Meets Rising Supply

Southern California's industrial real estate was the hottest sector of the past decade, and **it remains fundamentally strong** – but the market is adjusting after a period of frenetic growth. **Vacancies have crept up from historic lows** as a wave of new warehouse construction hits the market and some tenants right-size their space. In Greater Los Angeles (LA County plus nearby submarkets), the industrial vacancy rate has climbed to about **4.9% in Q1 2025 – the highest in a decade** – after bottoming out below 2% in 2021. The Inland Empire (SoCal's logistics hub) saw vacancy jump from near 1% two years ago to **7.4% in early 2025**, though Q1 marked the first decline in vacancy since 2022 thanks to a hefty **net absorption of 3.2 million SF** that quarter. Orange County's industrial vacancy is around **4.2% and rising for the 9th consecutive quarter** as new speculative projects complete, some delivering vacant. Despite these increases, **industrial space is still relatively tight** by historical standards – "available" space (including sublease shadow space) is ~6–7% in LA/OC, and much of the vacancy is concentrated in the newest big-box facilities.

Leasing activity remains healthy. **Tenants leased ~13.5 million SF in Greater LA in Q1** (a 62% jump YoY), as many firms that delayed decisions in 2024 are now securing space. Port activity and trade dynamics also gave a temporary boost – late 2024 saw **importers rush shipments into West Coast ports ahead of potential tariffs**, lifting short-term warehouse demand. That said, **occupancy growth has not kept pace with deliveries**: Greater LA has logged five consecutive quarters of negative net absorption through early 2025. **New supply is finally catching up to demand**, especially in the Inland Empire where developers added tens of millions of square feet in the past few years. The stock of logistics buildings over 100,000 SF in SoCal grew 20% since 2019, and vacancy among these large facilities has surpassed 9%. **Give-backs of space by occupiers** (from downsizing or relocations) have contributed to pockets of softness – for example, **LA's South Bay submarket saw 1.2 MSF of move-outs in Q1** alone.

Average asking rents for Los Angeles County industrial space surged during the pandemic and have moderated since 2023. Rents (NNN, per sq. ft. per month) peaked in 2023 and have fallen for six consecutive quarters, but still remain ~50% above pre-pandemic levels.

Rental rates and pricing: The industrial rent boom is tapering. After double-digit % rent growth each year from 2019–2022, **asking rents have declined across SoCal for 4–6 quarters in a row**. In Los Angeles County, average industrial asking lease rates are about **$1.21 NNN per SF per month** (roughly $14.50 annual) as of Q1 2025, which is down ~11–14% from the 2022 peak. Landlords have become more flexible on terms; many are offering concessions or slight rent discounts to fill new vacancies. Nonetheless, current rents **remain over 50% higher than 2019 levels** on average, so the market is correcting from extreme highs but is far from crashing. On the **sales side**, investment activity slowed markedly in 2023 under higher financing costs – Q1 2025 industrial sales volume in Greater LA was down ~49% YoY (though that comparison is skewed by a huge portfolio sale in early 2024). Cap rates for prime logistics assets have expanded by roughly 100–150 bps from their 2021 lows; many **institutional-quality industrial deals now trade in the mid-5% to low-6% cap rate range**, up from sub-5% two years ago (reflecting the rise in the cost of capital). However, **investor appetite for industrial is still strong** – it remains a favored sector, and **Orange County industrial sales actually surged 49% YoY in Q1** as some investors sensed a buying opportunity amid softer pricing.

Supply and development: Construction of industrial facilities is finally decelerating. After a construction boom, **Greater LA's development pipeline stands at ~6.6 million SF under construction, down from 8.0 million a year ago**. In the Inland Empire, the pipeline has shrunk to ~11 million SF underway – **the lowest level since 2014** – as builders pause new projects. This pullback should help the market absorb the recent deliveries. Q1 2025 saw only **1.2 million SF of new industrial completions in Greater LA** (projects in South Bay and Ventura County), a relatively modest amount, and developers are being cautious. **Speculative projects that delivered empty are putting pressure on landlords** – across OC and IE there are several big new warehouses still seeking tenants (over **500,000 SF of new OC industrial space is vacant upon delivery**). Going forward, construction starts have slowed significantly due to high lending rates and construction costs, which is expected to *limit oversupply* beyond 2025. Industrial developers are refocusing on build-to-suit projects or smaller infill warehouses rather than massive speculative endeavors.

Demand drivers and outlook: SoCal's industrial demand is bolstered by its role as the nation's trade gateway and a huge consumer market. **E-commerce and third-party logistics (3PL) firms continue to expand**, albeit more selectively than during the 2020–21 surge. Occupiers now prioritize location (for quick delivery) and building efficiency. *Last-mile distribution* and *cross-dock facilities near population centers* are highly sought – e.g. **Otay Mesa in San Diego and West Phoenix are drawing 3PL interest for their strategic trade route proximity**, and infill LA/OC sites still see competition. Meanwhile, **manufacturing tenants are a growing component of demand** (San Diego reports manufacturing companies driving 22% of new leases, and LA saw a slight uptick in high-tech manufacturing occupancy). Over the next year, **industrial vacancy is expected to stabilize**. Market experts predict that as interest rates ease and economic growth continues, **absorption will catch up** – one forecast has **vacancy "healthy" at ~6%** after the market digests current availabilities. Notably, **industrial landlords are still confident long-term**: even after recent rent dips, current rents exceed pre-COVID levels by half, and CBRE expects **rent growth to resume by 2026** once the market equilibrium returns. In summary, SoCal's industrial sector in Q3 2025 is **cooler than the frenzy of 2021, but fundamentally solid** – slight oversupply in the near term, yet sustained by robust tenant demand and a resilient goods economy.

Office: Weak Fundamentals Amid a Flight to Quality

The office sector is **Southern California's most challenged asset class** in 2025, as it is nationally. **Vacancy and availability have surged to record highs** in many SoCal office markets due to *tepid tenant demand, downsizing, and new sublease additions*. Companies continue to re-evaluate their space needs in the wake of hybrid work, and **many large**

blocks of space remain on the market (both direct and sublease), creating a tenant-favorable environment.

Los Angeles County: The **LA office market vacancy hit 24.5% in Q1 2025**, a new high and the 11th consecutive quarter of net occupancy losses. Availability (which includes space offered for sublease or future availability) is even higher – roughly **28–29%** of LA office space is being marketed (meaning nearly a third of all space is either vacant or expected to be). The **downtown LA submarket is especially hard-hit**, with direct vacancy above 31% and total availability reportedly over 35%. Some industry insiders estimate *effective* vacancy (accounting for underutilized leased space) could approach 50% downtown. **Office leasing demand in LA has concentrated in smaller suites** – Q1 saw over **3.5 million SF leased** countywide, mostly deals under 10,000 SF, as larger corporations remain cautious. One bright spot: the **legal services sector** was active, with major law firm renewals and relocations (e.g. a 139,000 SF lease by Loeb & Loeb in Century City). **Asking rents in LA have stayed relatively flat** for now – averaging about **$3.60 per SF per month (FSG)** across the market – but this is due to landlords propping up face rates while offering hefty concessions (long free rent periods, bigger TI allowances). In coveted submarkets like West LA, asking rents are much higher (westside Class A rents ~$5+ FSG), yet even there, landlords have had to get more competitive to land tenants. **Sublease space** is a huge factor: nearly **10 million SF of sublease availability** clouds the LA market, putting downward pressure on effective rents. Tenants with expiring leases are capitalizing on this glut by "trading up" – moving into higher-quality offices at similar or lower net cost. As a result, older and Class B/C buildings are suffering most, with rising vacancy and falling rents, while premium Class A properties with great amenities still see demand (a classic flight-to-quality dynamic).

Snapshot of LA County's office market (Q1 2025): Overall availability ~28.4% (including ~9.8 million SF of sublease space), direct vacancy 24.5%, average asking rent $3.60 FSG, and year-to-date net absorption of –638,000 SF. Office fundamentals are weak, but note that unemployment (6.0%) remains modest, highlighting that job growth has not translated into office space demand.

Orange County: The OC office market is *somewhat healthier than LA* but has also deteriorated. **Vacancy reached 19.2% in Q1 2025**, up from around 17% a year prior and almost double the rate five years ago. Newer high-end office developments in OC are performing relatively well (some Irvine Spectrum and Newport Beach projects boast rents $4.50–$5.95 FSG and steady leasing). But older suburban office campuses are struggling with emptiness. Net absorption in OC remained negative through early 2025, and landlords are responding with increased concessions rather than cutting base rents – **face rents**

have stayed roughly flat YoY in OC, but effective rents are down once free rent and incentives are factored. **Life sciences and medical office tenants provide a bright spot** in OC, expanding footprints in specialized spaces (for example, leases by Tarsus Pharma and St. Joseph's Health for large blocks in Irvine). Still, **overall leasing volumes are lackluster**, and OC has its share of big vacancies to fill (including some corporate HQ campuses that went vacant in 2023).

Inland Empire and San Diego: These markets illustrate a bifurcation. The **Inland Empire office vacancy is only ~8.9%** – remarkably low in comparison. The IE benefits from having a smaller, more distributed office inventory (often low-rise buildings) and a tenant base of local businesses and healthcare firms that still require physical space. Its affordability relative to LA/OC also helps; some companies have migrated or expanded inland to save on rent. *San Diego*, on the other hand, has a sizeable office market and pockets of serious weakness. Countywide office vacancy in San Diego is **13.8% in Q1 2025 (slightly above year-ago levels)**, but that masks a stark divide: Downtown San Diego's vacancy has soared (availability 35%+ due to new campuses like the 2.4M SF Horton Plaza project coming online empty), while suburban submarkets (UTC, Del Mar Heights) fare better with sub-15% vacancy. San Diego did see **+331,000 SF of office absorption in Q1** (driven by Class A move-ins), a rare positive note, but older Class B/C buildings continued to lose tenants. Average SD office rents are ~$3.44 FSG, holding steady YoY, again propped up by top-end buildings.

Lease activity and absorption: Across SoCal, **office leasing remains well below pre-pandemic norms**, and tenants generally lease less space per employee now. Q1 2025 U.S. office leasing was ~50 MSF, up 15% YoY, but this is still far below historical levels. SoCal mirrors this: LA's ~3.5 MSF quarterly leasing is *down ~20%* from the quarterly average of 2018–19. *Net absorption* has been mostly negative each quarter since 2020. There are a few isolated gains (as noted, San Diego had a rare positive quarter, and *Colliers reported that Greater LA saw a slight positive net absorption in Q1* for the first time in 6 quarters – though other data contradict that, possibly due to differences in tracking). The big picture is one of **persistent occupancy losses**: tenants give back space at lease expiration, consolidate footprints, or sublease excess space. **Sublease availability is at record highs** – for instance, **22.4% of all available office space in the Inland Empire is sublease** space, and other markets have similar ratios, indicating many companies are trying to shed unused offices. This surplus will take years to work through.

Investment market and cap rates: Office property sales have been extremely sluggish. Many institutional investors have shied away, and bids for older offices are deeply discounted. A few notable trades have occurred (e.g. an Anaheim office tower sold for

$72M in a distressed scenario). **Cap rates for office have blown out** – Class A offices in prime areas might trade in the 6-7% cap range now (versus ~5% a couple years ago), and lesser quality office assets often penciling at 8%+ cap or no bids at all. Buyer and seller expectations are still mismatched, but there's a sense that pricing has adjusted downward enough that opportunistic investors are circling. Indeed, *some investors are tiptoeing back*: **CBRE notes an uptick in interest for office in 2025** as buyers see "favorable pricing" and more certainty on post-COVID occupancy trends. Still, **financing remains a challenge** – lenders are very conservative on office, often requiring substantial equity and interest reserves, which impedes volume.

Outlook: The office sector's recovery will likely be slow and uneven. Landlords are **repurposing and upgrading buildings** to attract tenants (e.g. adding amenities, converting offices to lab space or residential in some cases). **Public sector leasing** might become a concern – federal and local governments in SoCal are reassessing office needs to cut costs, which could further downsize demand. On the positive side, there are **early signs of stabilization**: JLL reported that **U.S. office absorption in late 2024 improved by 60%** from the worst levels a year prior, and **rent declines are slowing**. With a possible easing of interest rates and modest job growth, SoCal office vacancy might plateau in late 2025. Until then, expect **"flat is the new up"** – any quarter without major occupancy losses will be considered a win. The consensus is that **2025 will be a reset year for offices**, with limited new construction (controlled pipeline) and tenants gradually absorbing some high-quality space as they lock in good deals. However, older unrenovated offices will likely continue to see *value erosion* and could face redevelopment into other uses.

Retail: Resilient Neighborhood Centers Amid Selective Retail Growth

Southern California's retail real estate sector has proven **remarkably resilient through 2024–2025**, adapting to e-commerce pressures and pandemic aftermath better than many expected. **Vacancy rates for retail are in the low-to-mid single digits** in most SoCal submarkets, and **consumer demand for brick-and-mortar space remains solid**, especially in experiential and necessity retail.

Occupancy and leasing: Overall retail vacancy in SoCal has hovered around **4–7%**, depending on area and center type. For instance, Greater LA's retail vacancy was **6.5% in Q1 2025**, up modestly from a year ago. Orange County's retail vacancy is around 5%, and San Diego's is about **4.3%**, both very low. These rates have ticked up slightly over the past year as a few big-box store closures (e.g. some department stores or grocers) left holes, but there's *no glut* of retail space. In fact, **quality retail space is scarce in prime locations**. Landlords report that well-located neighborhood and community centers are near full occupancy, and any vacated storefronts are quickly backfilled. **Lease activity is**

dominated by smaller-format stores and service businesses: discount retailers, quick-service restaurants, medical clinics, fitness studios, and other internet-resistant uses are expanding. For example, dollar stores and ethnic grocers have been taking some vacated mid-size boxes, and fitness chains are back in expansion mode in SoCal. High streets and Class A malls have also regained foot traffic – luxury and experiential tenants (like dining, entertainment) are driving leasing in upscale areas. As one brokerage summarized, **"prime retail assets remain in high demand, whereas older, lower-quality properties see longer vacancies"**. This bifurcation means landlords of Class B retail centers may still struggle to fill space, but top-tier centers can even push rents up.

Rents and rent growth: Retail rents have been **slowly rising** in most of Southern California. High demand and limited new development have given landlords some pricing power, albeit tempered by retailer cost concerns. Across the region, **asking rents are achieving small annual gains (~1–3% YoY)**. For example, in San Diego retail asking rents rose ~1.9% YoY by early 2025. Greater LA's average retail rent (all center types) is around **$2.40–$2.50 per SF per month** triple-net, and while that is slightly **down** from 2022 levels (rents dipped a couple percent in 2023 amid inflation pressures), they have stabilized and edged back up in 2024. **Landlords are focusing on occupancy over aggressive rent hikes**, often opting to keep rents steady and fill space with a desirable tenant (especially if it's an anchor that drives traffic). Given low vacancy, many centers are able to maintain rent levels; any rent declines are usually in older strip centers in less affluent trade areas. Conversely, **premium retail corridors (like Rodeo Drive or South Coast Plaza area) saw strong rent growth** as luxury retailers and digitally-native brands opened stores to boost their presence. Overall, rent growth is positive but modest – roughly tracking inflation.

Sales volume and investor trends: The retail investment market in SoCal has picked up a bit, particularly for necessity-based centers. Investor sentiment toward retail improved notably from 2020's doldrums. **Marcus & Millichap's investor surveys show retail has climbed to the third-most favored property type in 2025**, behind multifamily and industrial. Cap rates for top-tier grocery-anchored centers and net-leased retail in SoCal compress to the 5–6% range, as these are seen as stable cash-flow assets. During 2023's rate spikes, retail cap rates did rise slightly (e.g. **retail cap rates rose ~7 bps to ~6.65% in Q1 2025 on average** according to one survey), but overall the repricing has been less severe than in office. Total retail property sales volumes are still below pre-pandemic, but there's active trading of single-tenant properties (restaurants, drugstores, etc.) and increased interest in open-air centers. Investors particularly like SoCal retail locations with high barriers to entry and dense populations. For example, a West Hollywood high-street retail property traded for $13M in 2025, reflecting confidence in urban retail rebounding.

Some opportunistic plays are also happening – investors buying vacant big boxes to reposition them (sometimes to alternative uses or to subdivide for multiple tenants).

Development and supply: New retail construction in Southern California is **extremely limited**. High construction costs and cautious lenders mean very few ground-up retail projects. Instead, the trend is **redevelopment of existing retail** – turning dead malls into mixed-use projects, renovating older centers, or adding drive-thrus and pad sites to existing centers. Because virtually no new shopping centers are being built, the **supply side is constrained**, which helps keep vacancy low and supports rent stability. In 2024, retail developers focused on finishing projects already underway (like a few grocery-anchored centers in the Inland Empire) and then largely paused. *One notable trend:* Major retailers like Target, Walmart, and others are rolling out **smaller format store concepts** in urban areas. These require landlords to reconfigure spaces, but also fill vacancies that large-format stores left. The lack of new supply is expected to continue through 2025, which should maintain a landlord-favorable equilibrium in most SoCal retail nodes.

Consumer and demographic influences: SoCal consumer spending has been a backbone of the retail real estate recovery. Despite inflation, consumers in mid-2024 increased spending at restaurants, apparel stores, and entertainment venues as the economy reopened. **Brick-and-mortar sales still comprise ~85% of total retail sales** (e-commerce is ~15%), and many retailers recognize they need physical stores for last-mile fulfillment and customer experience. SoCal's **population and tourism** also fuel retail – while overall population growth is flat, the region's sheer size (over 20 million people) and its attraction as a tourist destination (especially for LA and San Diego) means a steady flow of retail demand. *Site To Do Business* demographic data show that certain SoCal submarkets have very high median incomes (e.g. Orange County's coastal communities) which support high retail spend, whereas inland areas offer growing populations and cheaper retail rents. This mix has allowed discount retailers and luxury retailers *both* to succeed by targeting the right submarkets.

Outlook: The consensus is **cautiously optimistic** for retail real estate. Retail has adjusted to the "new normal" post-pandemic – store footprints are leaner and more productive, omnichannel strategies (like buy-online-pickup-in-store) are driving foot traffic, and vacancy rates should remain near current lows. Landlords will need to stay flexible and curate the right tenant mix, but most analysts expect **steady performance with low vacancy and modest rent growth** in 2025. *Risks* include any major pullback in consumer spending (if there's an economic downturn) or further retail bankruptcies (some national chains are still struggling). However, many problematic retailers already shed locations in 2020–2021, and what's left is a healthier cohort. In summary, SoCal retail is **stable and**

even expanding in places, with the biggest challenge being the limited new supply and the need to adapt older retail properties for modern uses. Neighborhood shopping centers in dense areas are projected to **continue thriving with high occupancy and steady rents** through 2025.

Multifamily: High Occupancy, Easing Rents, and Investment Recalibration

Southern California's multifamily sector remains **fundamentally strong**, though it has transitioned from the rapid rent growth and ultra-tight vacancy of 2021–2022 into a more balanced state in 2025. **Occupancy rates are still elevated (mid-90s%)** even after an influx of new units, and rents have plateaued, with **landlords using concessions to spur leasing** in some submarkets. Investors remain very interested in apartments, but higher interest rates have reshuffled underwriting and pricing.

Occupancy and vacancy: The apartment vacancy rate in SoCal crept up over the past 18 months due to record new deliveries, yet it stays low by national standards. The **Greater Los Angeles multifamily market ended Q1 2025 at 95.4% occupancy (4.6% vacancy)**, indicating only a slight softening from essentially full occupancy a couple years ago. In early 2022, LA's overall apartment vacancy hit a rock-bottom ~2.1%; since then it **rose by roughly 300 basis points** over eight quarters as thousands of new units came online. That puts LA County vacancy roughly in the 4.5–5.0% range now. Similar trends occurred in other counties: **Orange County's vacancy is around 3.9%** (up from ~3% a year prior), **Inland Empire ~6.0%** (which actually improved slightly YoY as absorption kept up with supply), and San Diego around 5.0% vacancy (stable in Q1 2025). Notably, the vacancy increases have been concentrated in certain submarkets – **Downtown LA and Hollywood, for example, saw vacancies approach 6–10% after a surge of luxury deliveries**, whereas many suburban neighborhoods still have very few available units. *Colliers data* show developers have shifted focus to build in areas of traditionally low vacancy: e.g. more new projects in San Fernando Valley and San Gabriel Valley (where vacancy has been ~3%), and fewer in already saturated areas. The slight easing of occupancy has actually been *healthy*: it prompted landlords to compete for tenants again, **preventing an overheated rent burden situation**. Importantly, despite localized higher vacancy, **overall multifamily absorption remains positive**. 2024 was the first year since 2020 that LA absorbed more units than it added, and 2025 is on track for a second straight year of positive net absorption, thanks to strong renter household formation.

Rent trends: After several years of blockbuster rent growth, SoCal rents have **flattened and even dipped in some submarkets**. As of mid-2025, **average effective rents are roughly flat year-over-year** regionwide, with variations by class and location. For instance, Greater LA's average effective rent is about **$2,272 per unit** per month (roughly a 0–1%

increase YoY). According to NAI Capital's data for Q4 2024, LA County's asking rent was $2,232, up only 0.8% YoY, and it even fell slightly quarter-to-quarter. Similar stagnation is noted in Orange County (avg. rent $2,070, up 1.1% YoY). Essentially, **rent growth has stalled out around 0–2% YoY** across SoCal as of early 2025. Some areas have seen outright rent declines: *Class A luxury apartments* in the most supplied markets have cut rents a bit (NAI San Diego reported the luxury segment's rents down ~1.0% YoY as of late 2024). Concessions (like one month free) are commonplace on new high-end leases. Conversely, *Class B and C apartments* – more affordable units – have held rents better since demand for affordable housing is insatiable. The **affordability crisis** (gap between renting and owning) underpins rent levels: with median home prices in California forecast to hit $909k in 2025, many households have no choice but to rent. This keeps occupancy of moderately-priced rentals extremely high and supports landlords' pricing. For 2025, most forecasts (e.g. Marcus & Millichap, Yardi Matrix) predict **very mild rent growth (~2-3%) in SoCal** overall, with some submarkets up and others down slightly – effectively a holding pattern after the post-pandemic rollercoaster.

New supply and construction pipeline: Southern California has seen a **wave of multifamily construction** in recent years, but that wave is cresting. Developers delivered large numbers of apartments in 2022–2024 (for example, LA added over 8,000 units in Downtown/Mid-Wilshire/Hollywood alone during 2022–2023). This heavy supply push raised vacancies locally, prompting a **pullback in permitting and starts**. Indeed, multifamily permits in LA have dropped significantly; Marcus & Millichap notes a **drop in deliveries by ~1,800 units per year compared to the recent average** due to fewer projects breaking ground. Builders are shifting to *smaller projects or delaying starts* in higher-vacancy areas. For 2025, the pipeline is more modest: e.g. *San Diego County expects ~2,900 new units in 2025* (focused in downtown and North County), which is a lot but not unprecedented. In LA, some high-profile projects are finishing in 2025 (such as large mixed-use towers downtown), but beyond those, many developers hit pause awaiting better financing costs or absorption of existing supply. The Inland Empire has a number of garden apartment projects under construction, but even there the pipeline is slowing as developers face high costs and materials delays. The **affordable housing segment** is one area still seeing development, backed by government incentives – though not nearly enough units to satisfy demand. The good news: the moderation in new supply should allow the market to tighten again in late 2025/2026. **Vacancy is projected to remain in the mid-4% range in LA through 2025** and could even tick down if job growth holds and new construction remains limited.

Investment market and cap rates: Apartments remain the **darling of investors**, but deals have been harder to pencil out due to high interest rates. **Sales volume for multifamily in**

SoCal dropped in 2023, as many owners weren't willing to sell at lower pricing and buyers faced higher debt costs. Cap rates moved upward – where prime LA multifamily traded at sub-4% caps in 2021, now **most multifamily assets trade around 5% cap or higher** (depending on location and asset class). For example, a recent Fontana apartment portfolio sale went for a mid-5% cap. **Values are off perhaps 15–25% from peak** in many cases, according to industry experts, which ironically is attracting some opportunistic buyers. **Private capital and 1031 exchange buyers** are very active when a well-priced multifamily asset comes to market, especially in growth areas. Institutional buyers are more selective but still view SoCal apartments as a long-term bet (e.g. some big acquisitions in 2024 by REITs focused on suburban multifamily). **Marcus & Millichap expects a resurgence of multifamily investment** once interest rates show clear signs of dipping. In fact, the anticipation of future rate declines has some buyers trying to "get in now" at a relative discount – **developers are reportedly locking down development sites at 20%+ discounts from peak land values** for future projects, and some apartment investors are scooping up properties below replacement cost. Overall, **investor sentiment for apartments is optimistic**: the combination of SoCal's perennial housing shortage and the prospect of cheaper debt ahead suggests *multifamily has strong upside*. Survey data shows **75% of investors rank multifamily as their top target in 2025**, far above other sectors, confirming that capital will continue to flow into apartments as conditions normalize.

Key influences and outlook: A few factors are shaping the multifamily outlook: (1) **Affordability gap** – as noted, with single-family homeownership out of reach for many, renting remains the only viable option, keeping apartment demand resilient. (2) **Urban vs. suburban preferences** – during the pandemic, many renters flocked to suburban locales; now there's a partial return to urban core living by young professionals, but high crime and remote work options still make some cautious about downtowns. This dynamic may continue to see *intra-metro migration*, benefiting suburban submarkets. (3) **Regulatory environment** – in LA City, Measure ULA (property transfer tax for funding housing) has cast a bit of a chill on transactions in the city proper; investors may favor assets in the county but outside city limits to avoid potential regulatory burdens. Statewide rent control (AB1482) is manageable (allowing ~8.8% rent increases currently), so it hasn't deterred investment much. (4) **Economic trends** – SoCal's job market growth (especially in leisure/hospitality, healthcare, and logistics) is creating new renter households, but high inflation and layoffs in tech/entertainment could pose headwinds.

On balance, **the trajectory for SoCal multifamily is positive**: vacancies should remain in the 4–5% range (very healthy), and rent growth likely modest but positive into 2026 as supply additions wane and demand persists. The sector is **stabilizing at a sustainable**

equilibrium – a far cry from the 15% rent hikes of a couple years ago, but steady performance with low volatility. As one expert put it, *"we're far from keeping pace with housing demand, so even with recent additions, the rental market should stay robust"*. Expect investors to return aggressively if/when interest rates dip, potentially compressing cap rates once again in late 2025. For now, multifamily in SoCal is **all about steady occupancy, slight rent gains, and positioning for the next growth cycle**.

Land: Development Sites Adjust to New Economics

The **land market in Southern California** – particularly land for commercial development – has undergone a noticeable correction. During the 2020–2022 boom, land values skyrocketed (especially for industrial and multifamily redevelopment sites) as developers raced to capitalize on low interest rates and surging space demand. Now in 2025, **land sales have slowed and prices have adjusted downward** from those peak levels, reflecting higher financing costs and more cautious development pipelines.

Sales volume & pricing: Land transaction volumes in 2024 were significantly down from prior years across SoCal. Many sellers of entitled land have held off bringing sites to market, waiting for a more favorable interest rate environment. The deals that are happening often involve price reductions. **Brokers report land values off 20–30% from their peak in some areas**, aligning with the decline in finished property values and increased construction costs. For example, anecdotally, industrial land in the Inland Empire that sold for $50 per SF in 2022 might trade closer to $35–$40 per SF now, making development pro formas pencil out at today's rents. Multifamily land in LA that hit over $200k per unit land cost has come down to perhaps $150k per unit in recent deals. There is, however, a wide **bid-ask spread** in many cases – sellers recall peak pricing while buyers underwrite conservatively. **Consensus is forming** as 2025 progresses: sellers are gradually accepting the new pricing reality (the "market has shifted – values are not what they were two years ago") and **investors are stepping in to lock down sites at more reasonable prices for future projects**.

Who is buying land now? Well-capitalized developers with longer time horizons are the main players. As mentioned, some **multifamily developers are acquiring land at 20%+ discounts** in anticipation that by the time the project is built (several years out), the market and financing will be more favorable. **Industrial developers** are also selectively active – SoCal still has a severe shortage of well-located modern logistics space in the long run, so firms like Prologis and Rexford Industrial have been keen on picking up infill sites or older properties for redevelopment (often off-market). The frenzy for warehouse land in the Inland Empire has cooled, but if a prime big-box site becomes available at a discount, it sees strong interest. In coastal Orange County and LA, redevelopment parcels (e.g. old strip malls or parking lots that could become mixed-use apartments) are also targets for investors who can navigate the entitlement process. **User-buyers** (owner-users) account for some land sales too – for instance, a manufacturing company or a school might buy a parcel for their own facility, taking advantage of the softer pricing.

Land for specific sectors:

- *Industrial land:* At the height of the market, industrial vacancy <2% and record rents led to **record land prices in the Inland Empire and South Bay**. Many of those deals penciled when warehouse rents were rising ~20% annually. Now, with industrial rents down ~10% from peak and vacancy up, **land prices have come down accordingly**. As one Inland Empire expert noted, the run-up to sub-1% vacancy drove "record rates for leasing, sales **and land sales** … resulting from an over-inflated market". Now that vacancy is normalizing toward ~6%, land values are normalizing too. Industrial land is still valuable – SoCal's long-term logistics demand ensures that – but developers are underwriting with expectations of more modest rent growth and maybe a year or two of lease-up, which lowers what they can pay for dirt.
- *Multifamily land:* Apartment developers are contending with higher cap rates on eventual stabilized yields, so they can't pay what they used to for land. Additionally, in Los Angeles City, measures like *Measure ULA* (the "mansion tax" that also hits large apartment sales) and strict tenant protections add a layer of uncertainty that has slightly *dampened land values in the city*. By contrast, suburban cities that actively want development (and perhaps offer faster approvals) have seen more interest. Overall, the need for housing is huge – so entitled multifamily land still sees multiple offers, just at lower price points. Some developers are also negotiating creative terms (joint ventures with land sellers, or longer escrow periods) to make deals work in this climate.
- *Office/hotel land:* Virtually no one is buying land to build speculative office right now. In fact, some land originally acquired for office or hotel is being repurposed or sold for apartments or life science use. We may see distressed sales of parcels that were slated for offices that no longer make sense post-COVID.
- *Retail land:* Retail development is minimal, but pad site demand (for fast food drive-thrus, gas station C-store combos, etc.) is still relatively solid. Those types of land parcels (often outparcels of shopping centers) continue to trade, often at high price per foot, because the uses are high-margin and backed by corporate tenants.

- *Land for alternative uses:* There's a growing interest in land for **data centers, film studios, and life science campuses** in certain SoCal markets. For example, some industrial-zoned land in LA/OC is being eyed for conversion to soundstages or R&D labs. These niche uses can sometimes outbid traditional developers, providing a floor under land prices in some pockets.

Construction pipeline impact: Because land acquisition slowed in 2023–2024, the pipeline for new projects a couple years from now will likely dip. Fewer land deals today means fewer groundbreakings in 2025–2026. *This is one reason market analysts foresee improvement in fundamentals ahead:* e.g., **"a controlled pipeline helps offset vacancy increases"**. Essentially, the land market cooldown acts as a natural brake on overbuilding, which in the long run keeps supply and demand in better balance.

Outlook: Land is inherently a long-term play, and the outlook in SoCal varies by location and zoning. **Well-located infill land remains scarce and valuable**, and as interest rates stabilize or fall, competition for these sites will heat up again. In the near term, expect **land prices to remain softer** – a boon for developers with capital. Many are land-banking now. For example, some reports cite *"developers locking in sites for future multifamily projects as prices have come down"*. By late 2025, if the Fed has cut rates, those who secured land at 2024's favorable prices could be poised to start new projects, potentially kicking off another development upcycle. So, the current land market can be summed up as **a period of recalibration**: values adjusting to new economic realities, fewer speculative buyers, but strategic acquisitions continuing. In the words of one investor, *"we're eagerly looking to re-enter and deploy capital"* as the market finds its footing. That sentiment suggests that Southern California land – while temporarily less frenzied – is *far from out of favor*; it's simply trading in a more disciplined manner aligned with fundamentals.

Conclusion and Key Takeaways

As Q3 2025 begins, **Southern California's commercial real estate market is in a period of transition**. The **industrial sector** is coming off a historic expansion and now finding a new equilibrium, with vacancy up but long-term drivers intact – a bit of short-term indigestion before renewed growth. The **office sector** faces the toughest challenges, grappling with structural changes in how we work; however, even here the seeds of stabilization (and selective opportunities for investors) are visible as the market reprices. **Retail real estate** in SoCal has shown impressive durability – expect continued steady performance from well-located centers that serve the region's huge consumer base. **Multifamily housing** remains a stalwart: high occupancy and an entrenched affordability gap should keep it a favored asset class, even as rent growth pauses and the market absorbs recent supply. **Land and development** have hit a pause and reset, which ironically bodes well for avoiding oversupply in the coming years.

In terms of the micro-level metrics:

- **Vacancies** are **elevated in office** (20%+ in many areas) but **low in industrial** (~4–7%), **retail** (~4–6%), and **multifamily** (~4–5%). Most sectors saw vacancy rise year-over-year (office +1–2% YoY, industrial +1–3%, retail +0.5%, multifamily roughly +0.5%) – a sign of the post-pandemic supply/demand rebalancing.

- **Leasing velocity** varies: industrial leasing is strong (but much is renewals or tenant reshuffling) while office leasing is subdued and skewed to small deals. **Net absorption** was negative YoY in office and industrial (though industrial leasing is high, move-outs still exceeded move-ins). Multifamily absorption has been positive as new units slowly lease up, and retail absorption is slightly positive (with local tenants backfilling spaces).

- **Rent and pricing trends:** rents are **down for industrial** (off peak by ~10%) and **flat for office** (landlords holding face rents, but effective rents down via concessions). **Retail rents** are inching up in prime spots, and **apartment rents** are flat to slightly up (~1% YoY), reflecting a soft landing from prior growth. Property values have broadly declined since 2022, but seem to be stabilizing at these lower levels as buyers and sellers adjust.

- **Construction pipeline:** new supply is **cooling across the board**. Fewer new offices or malls are on the horizon; industrial and apartment construction is moderating significantly after a big run – e.g. IE industrial projects under construction are down to a 10-year low. This restraint should help markets avoid prolonged oversupply.

- **Cap rates and investment sentiment:** Cap rates expanded in 2023 but **may have peaked in early 2025** – e.g. the RealtyRates composite cap index sits around 9.9%, roughly flat in recent quarters, indicating that property valuations have adjusted to higher interest rates. Investor sentiment is **markedly improving** – many investors see 2025 as the year to get back in, before the crowd. Particularly, **multifamily and industrial assets are expected to lead the recovery in investment volume**, with retail close behind. Even office, in a contrarian sense, is on some buyers' radar at its current deep discounts.

The **supply/demand imbalances** that characterized the past few years are gradually easing: *industrial* is moving from extreme undersupply toward balance (with a temporary glut in big boxes that's likely to be short-lived), *office* unfortunately remains oversupplied relative to reduced demand (a condition that could persist until either economic growth or conversions reduce the surplus), *retail* is in good equilibrium due to limited supply growth, and *housing* is perennially undersupplied in SoCal – recent construction barely dents the long-term housing shortfall, ensuring apartments should stay in demand.

Finally, **demographic and workforce factors** continue to influence each sector. Southern California's population is essentially stable (some net out-migration offset by natural growth and international immigration), but its composition is shifting – younger populations in the Inland Empire support retail and industrial labor, while coastal markets rely on knowledge workers and tourism. *Remote work* has structurally changed office use (with **office attendance still well below 5-day norms**), whereas *e-commerce* and *logistics employment growth* have bolstered industrial (LA County's warehouse jobs rose 3.4% YoY). The region's high incomes and spending power buttress retail and apartments in prime areas, while the *housing affordability crisis* locks many into renting, sustaining multifamily demand.

In summary, Southern California's CRE landscape in Q3 2025 is one of cautious optimism emerging from a reset. The economic underpinnings – a large, diverse economy and persistent need for space – suggest the market is *on the path to recovery*, even if some sectors (office) have more pain to work through. Investors and occupiers alike are adapting to the "new normal" of higher interest rates and post-pandemic trends. The coming quarters will likely see **gradual improvement in fundamentals** for most property types and increased transactional activity as confidence returns. SoCal remains a bellwether market to watch, and as one industry leader noted, **"we expect vacancy to stabilize and activity to increase in the first quarter [of 2025]" with growth picking up thereafter**. That inflection point appears to be arriving – setting the stage for a healthier, if more measured, CRE market trajectory into 2026.

Sources: CBRE, Colliers International, CoStar, Cushman & Wakefield, JLL, LoopNet, Marcus & Millichap, NAI Capital/NAI Global, RealtyRates.com, Moody's Analytics/Reis, Site To Do Business (CCIM), Transwestern research and various market reports. The analysis above incorporates the latest available data and trends from these sources to provide a comprehensive micro-level economic summary of Southern California's commercial real estate market as of Q3 2025.