SPECIAL REPORT

Marcus & Millichap

LOS ANGELES COUNTY WILDFIRES

JANUARY 2025

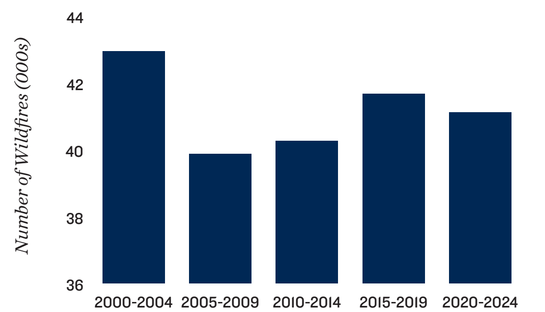
Historic Fires Have Near- and Long-Term Ramifications for Los Angeles Residents and Commercial Real Estate Sectors

Dual blazes rank as Los Angeles' most destructive on record. The Palisades and Eaton fires have burned at least 12,300 homes, commercial structures and outbuildings across parts of Pacific Palisades, Malibu, Altadena and Pasadena, while also taking at least 24 lives. Estimates suggest the fires caused $250 billion to $275 billion in damages — a total that would eclipse the destruction inflicted by Hurricane Helene. Fueled by a combination of extremely dry weather conditions and powerful offshore wind gusts, dubbed Santa Ana winds, the blazes also placed upward of 153,000 people under evacuation orders, forced the closure of many businesses and schools, and prompted the cancellation or rescheduling of major events. As of Jan. 13, the Palisades fire was contained by 14 percent and the Eaton fire by 27 percent. Both fires rank among the most destructive ever to hit California, suggesting the upcoming recovery will be large in scope and have a significant impact on the metro's economy.

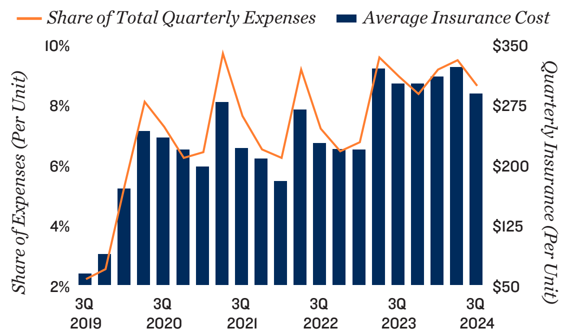
Impacts stretch across property types. Evacuation orders and the sizable count of structures destroyed will have an immediate impact on commercial real estate owners and tenants. Local hotel demand spiked during the week ended Jan. 11, with occupancy up as much as 1,200 basis points year over year in submarkets impacted by the fires. The increase in bookings may raise the county's monthly occupancy rate above the low 60 percent threshold, where it held during January 2024 and 2023. The significant number of homeowners and renters that have been displaced should also raise demand for apartments during what is likely to be a multi-year rebuilding process. Entering 2025, apartment vacancy rates in submarkets impacted by the fires ranged from 4.9 percent to 5.6 percent, suggesting some displaced households may have to look outside their communities for rentals. Retailers in fire zones whose storefronts and shopping centers were not damaged will also be in higher demand. Grocers and restaurants in and proximate to Pacific Palisades and Malibu may register an influx of customers following the destruction of a Gelson's and a Ralphs Fresh Fare in the area, along with some iconic dining establishments including Gladstone's and Moonshadows. The same applies to retailers along and near Lake Boulevard in Altadena, where numerous storefronts were lost.

Construction industry tested. The significant volume of site clearing required following the full containment of both fires will mark a momentous first step in the recovery process. Beyond this window, however, the large-scale rebuilding process expected to occur across both the impacted areas has the potential to divert construction resources. This will challenge local labor availability and drive building material costs higher. The anticipated influx of project proposals could also translate into a backlog of building permits awaiting approval, impacting prospective developments elsewhere in the metro. Construction-related complications are likely to extend well beyond 2025, as the timeline for rebuilding after a major natural disaster can be lengthy. Approximately 16 months after the Lahaina fires in Maui, the first residential property to be rebuilt is only in the framing phase.

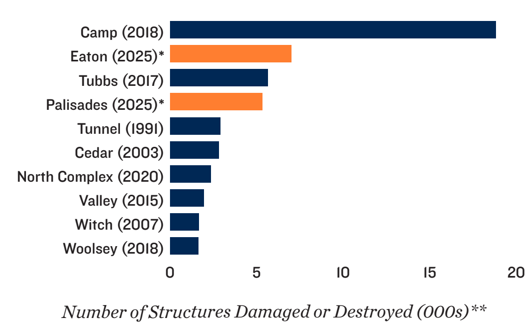
Wildfires a Constant Across California



Insurance Raises Los Angeles Apartment Costs



California's Most Destructive Fires

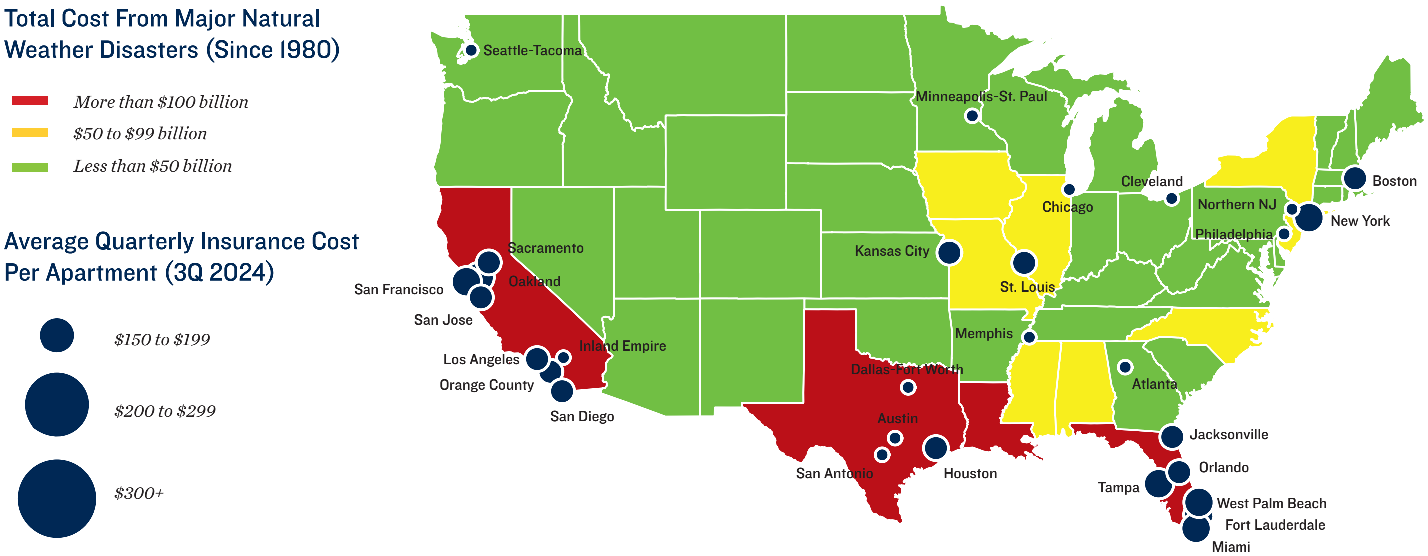


** Estimate as of January 11*

*** Structures include homes, commercial properties and outbuildings*

Sources: California Department of Forestry and Fire Protection; RealPage

STRETCH OF DESTRUCTIVE FIRES EXACERBATE CALIFORNIA'S INSURANCE CRISIS



Note: Defined as a natural weather disaster that caused at least $1 billion in damage. Map identifies the 30 highest-cost major markets.
Source: National Centers for Environmental Information

Investors' and Residents' Decision-Making Impacted by Insurance Availability

New insurance policies likely to become less available. According to analysts, combined insured losses from the two fires could reach $20 billion to $30 billion — a tally that will translate to higher rates for Los Angeles commercial property owners and homeowners. As of the third quarter of 2024, the average quarterly insurance premium per apartment in Los Angeles County stood at $288, more than four times the recording from the same period five years prior. Options for property coverage are also likely to continue to dwindle after seven of California's top 12 insurers cut coverage in the state over the past four years. California's insurance commissioner has issued a temporary ban on providers canceling or not renewing coverage for those impacted by the fires. Additionally, because a state of emergency was declared, providers are required to immediately pay for one-third of the estimated value of a policyholders' personal belongings and a minimum of four months rent. According to the California Department of Insurance, those payments are required whether an adjuster has inspected a home or not. These payments may place financial strain on certain providers.

Rising premiums and fewer providers may influence investment strategies and homebuying activity. Expectations for rising insurance costs across California will impact local costs of living and property ownership. With seven of California's 10 most destructive wildfires having occurred after 2014, some investors may be motivated to diversify their portfolios to include properties in regions not as susceptible to major natural weather disasters. Others that prefer to stay in-state may attempt to mitigate insurance cost risks by investing in asset classes where tenants are responsible for insurance expenses — a list that includes net-lease retail, office and industrial. Rising insurance costs may also influence some Los Angeles County households to relocate. This dynamic could increase the local rate of net out-migration already apparent. Since 2022, the metro has consistently noted net out-migration on an annual basis, with the average recording over the past three years standing at 33,000 residents.

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