

Rising from the Ashes

Assessments on the Impacts to CRE Post the LA Wildfires

February 2025

JLL Research

Summary



Statistics

1,803,015,728

Affected areas (ha)

\$250 billion

Economic Impact

\$30-45 billion

Estimated insurance payouts

10,972

Single Family
damaged/destroyed

97

Schools destroyed

15

Churches destroyed

24,000

Displaced families

1 The LA fire is the most damaging fire in US history

- In addition to the lost lives and 24,000 displaced families, the financial cost is expected to be the costliest in US history, with a low-end estimate of \$250bn, above Katrina's \$201bn (CPI-adjusted).
- Insurance payout is estimated at \$30-45bn.

4 Impact to office, retail, and industrial are indirect

- 2023 saw peak supply with nearly 50mn sf delivered throughout SoCal.
- However, delivery this year will drop more than 40%, and the supply-demand balance already turned for the big boxes.
- Legislative headwinds remind us that SoCal is a supply-constraint market long-term.

2 Few commercial real estate was directly damaged

- Commercial buildings were not spared by the fires, but they made up just around 2% of destroyed structures.
- Just over 200 buildings were destroyed and consisted mostly of retail and food and beverage (F&B) establishments.

5 Higher construction and insurance cost expected

- As the state's FAIR Plan is set to impose \$1bn assessment on private insurers, they will seek to raise premia on their customers.
- Demand for labor and materials during rebuilding will add cost pressure in the medium term.
- The cost pressure results in higher replacement cost for CRE across the board, making existing buildings potentially more attractive for investors.

3 Residential is the most directly impacted segment

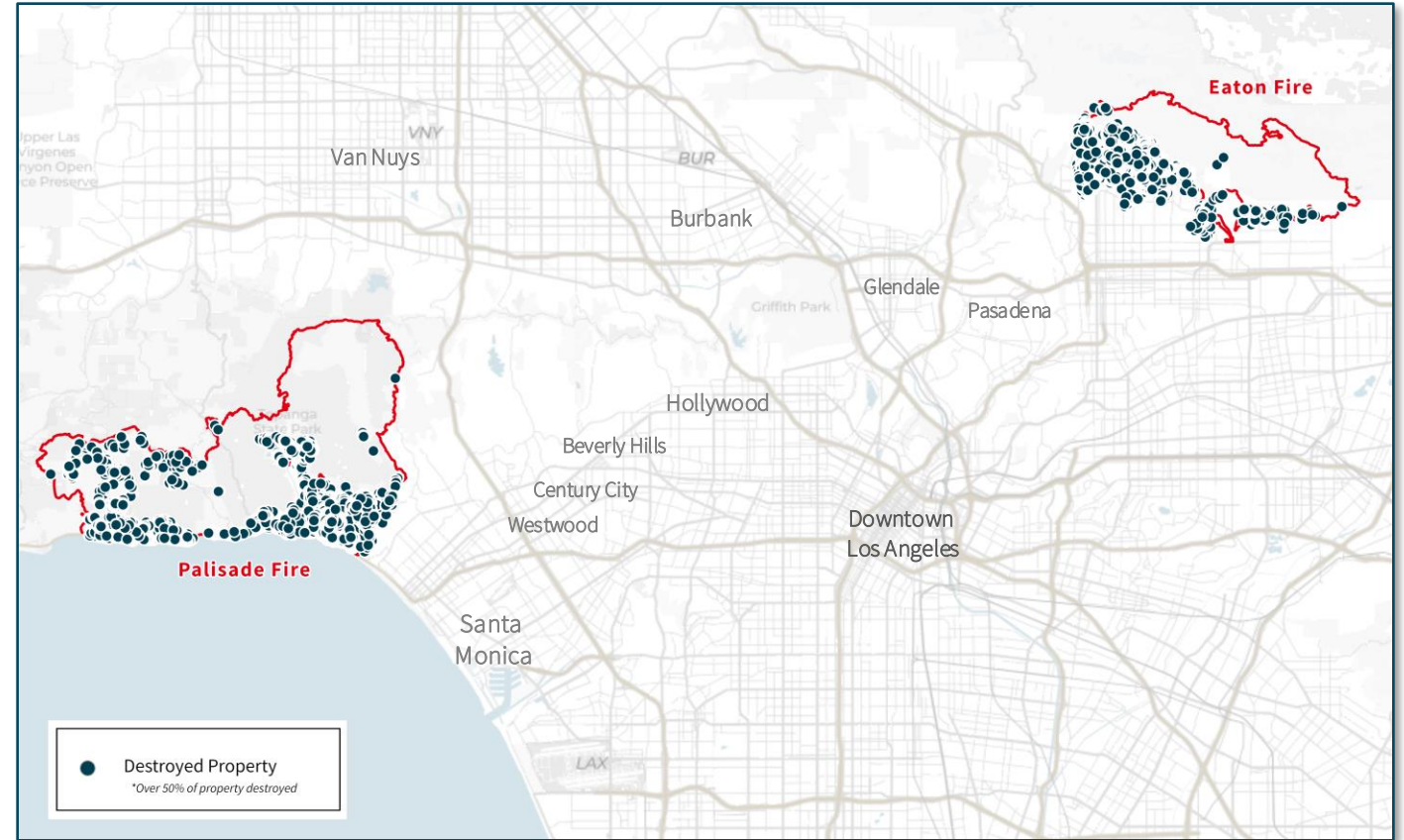
- Over 10,000 of single-family homes across the Palisades and Eaton were destroyed, representing more than 50% of the stock. SFR will see additional demand during rebuilding.
- While less than 400 multi-housing structures were destroyed, more than 40,000 units were in the evacuation zone at the peak. We also expect to see additional impact trickled down.

A survey of damage

The costliest wildfire disaster in U.S. history

- On January 7, 2025, two separate fires emerged, one in the Pacific Palisades and another in Eaton Canyon. Together, these fires destroyed over 16,000 structures, impacting 2,000 businesses and 43,000 residents within the fire perimeter.
- The Palisade Fire scorched approximately 23,000-acres, destroying 80% of homes within the area, including single-family, multi-family, and mobile homes.
- The Eaton Fire, while smaller, was more destructive, damaging over 9,400 property structures, most of which were single-family homes. The Palisades Fire, by comparison, destroyed 6,660 property structures. These losses only add to Southern California's housing shortage and in turn, local rents are anticipated to rise in the near short-term.
- Further demand for construction jobs over the next three years is expected, leading to increased labor costs in a market already experiencing a construction labor shortage.
- Looking at previous California wildfire recoveries, rebuilding efforts could take at least three years.

Palisades and Eaton fires



Impact to residential

Single family homes have taken the majority of damages

- Across Eaton and Palisades, its estimated more than 10,000 (53%) of single-family homes were either destroyed or sustained major damage. Multi-housing properties sustained lesser damage in comparison, 32% of multi housing units were destroyed or sustained major damage. For context, the destroyed and majorly damaged housing accounts for 0.4% of Los Angeles’ total housing inventory.
- As a result, Los Angeles’ multi-housing market will experience more of an impact from spillover demand from smaller displaced households and single-family renters.

Housing units	Destroyed & major damage	Burn zones	Los Angeles
Single family	10,972	20,426	1,700,000
Multi housing	329	1,025	1,263,655
Total	11,301	21,451	2,963,655

Demand Spillover to Multi-Housing

- Los Angeles county is the second largest single-family market in the country, and the largest single family rental market. The county has 1.7 million single family homes, 22% of which are renter occupied (376,372).
- Income levels and household size of displaced residents will likely result in a trickle-down demand dynamic where households with the highest incomes will absorb the single-family rentals first, pushing others to multi-housing.
- The market is also showing increased demand in ultra-lux space following the fires. JLL sampled 5 major high-luxury multi housing buildings in West Los Angeles and found that on average, properties saw occupancy increase 10.3 percentage points directly following the onset of the fires.
- The renter pool will expand in the medium term as displaced residents rebuild or rent while home searching. The market will likely see a particular demand surge for 2+ bedroom units to accommodate displaced families.
- Already the exacerbation of Los Angeles’ multi-housing supply shortage will result in elevated rent growth in the medium term.

Impact to retail

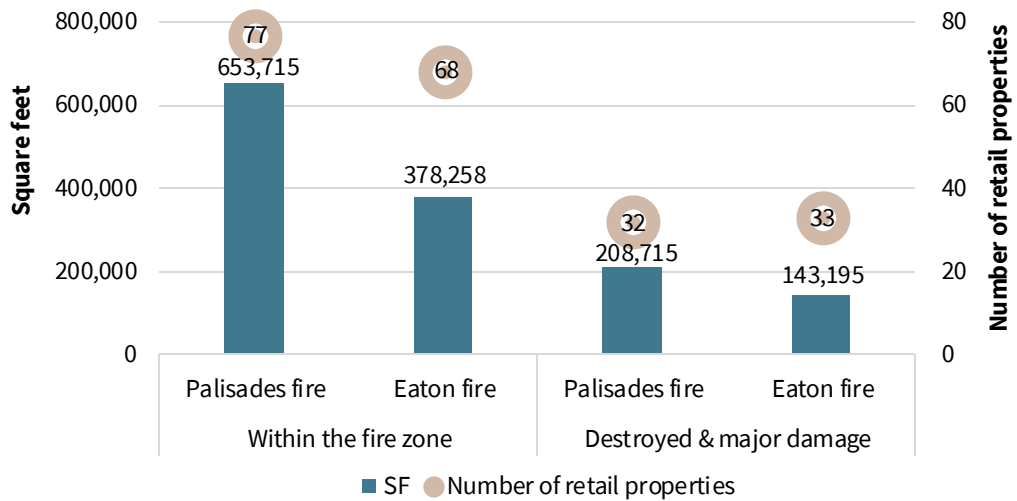
Retail serving the Pacific Palisades and Altadena communities impacted:

- Over one m.s.f. of retail inventory was located within the Palisades and Eaton fires area and nearly half of the establishments were destroyed, which accounted for 34% of retail space.
- Within the Palisades fire area, the affected retail was located around the upscale Pacific Palisades Village and along Sunset Blvd. F&B tenants and grocers such as Gelson's and Ralphs were lost.
- The Eaton fire scorched Altadena, with most of the retail concentrated along two streets: Lake Avenue and Fair Oaks . Community-based services and F&B were destroyed.

Considerations for the future:

- In the near-term, certain categories may see a boost as households rebuild and replace lost items, benefiting home-centers, hardware, and other consumer durables such as appliances at the expense of discretionary items and possibly food and beverages and entertainment.
- Longer term, mixed-use developments may be a way to address both the housing shortage exacerbated by the fire as well as replace the lost retail space, which has not been growing for a long time.
- Notable developments underway are blending residential and retail use, including the Costco-anchored residential project – 5035 West Coliseum St. – which plans to add 800 apartment units to the market.

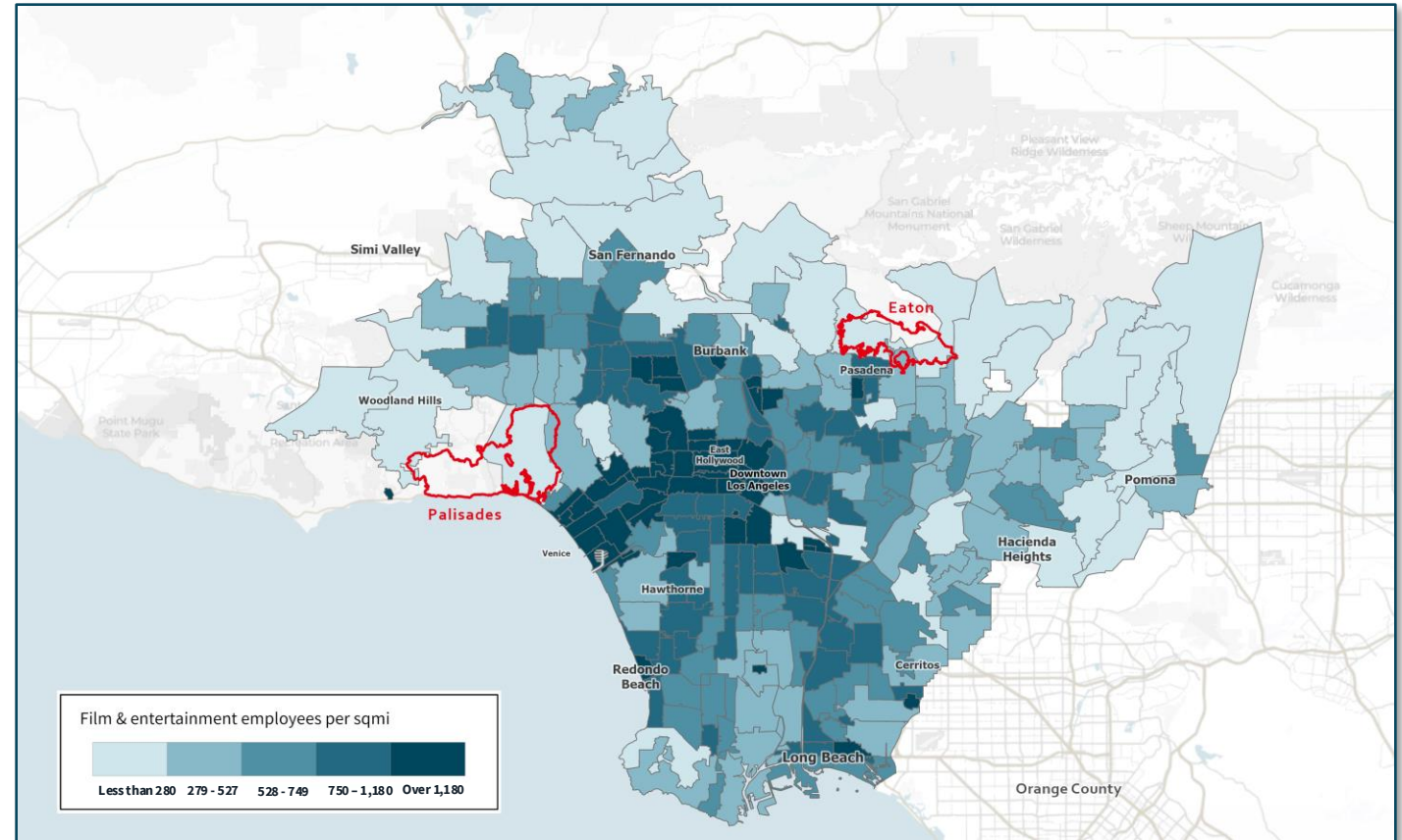
Impact of wildfires on Los Angeles retail



Indirect impact to office

- With minimal damage to LA's office inventory, the fires' impact is less consequential. Within the zip codes affected by the Palisades and Eaton fires, the top industries where people are employed include professional and technology services with 13,000 workers and entertainment with only 5,000 employees, accounting for 3% each of LA County's total jobs in those two industries. With a hypothetical 150sf/person, total office footprint at 2.7mn represents only 3.4% of total office stock in the Westside plus Tri-Cities.
- The darker areas on the map to the right indicate the concentration of media and entertainment workers in LA. Burbank has the greatest number of studio-related jobs and many workers cluster nearby.
- Although the fires will cause additional drag on the entertainment sector, which is still recovering from the 2023 writers and actors strikes, the overall headwinds created by the fires will be minimal.
- Potential return to office gains from displaced hybrid workers will remain marginal. It will be a while before we see where impacted workers will migrate to.

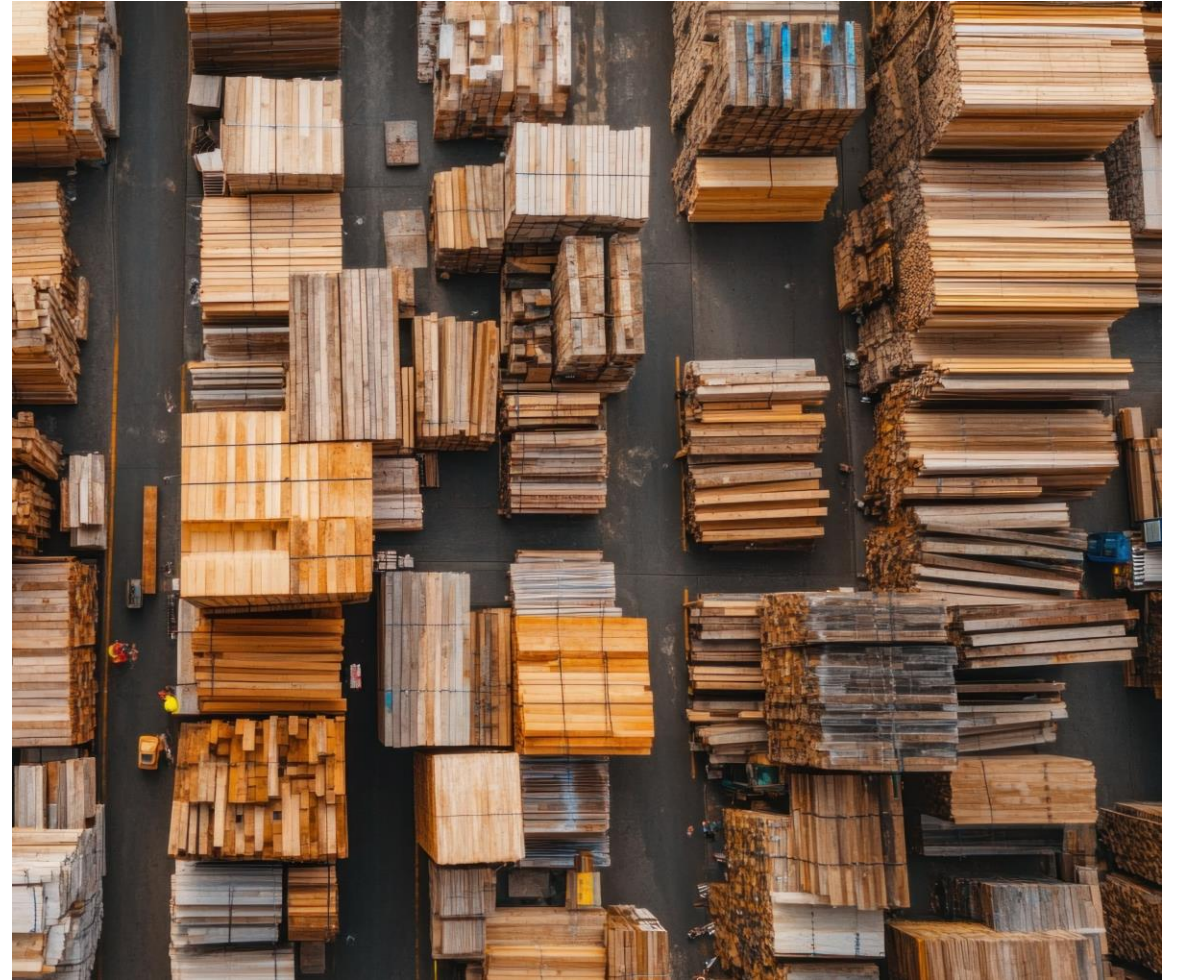
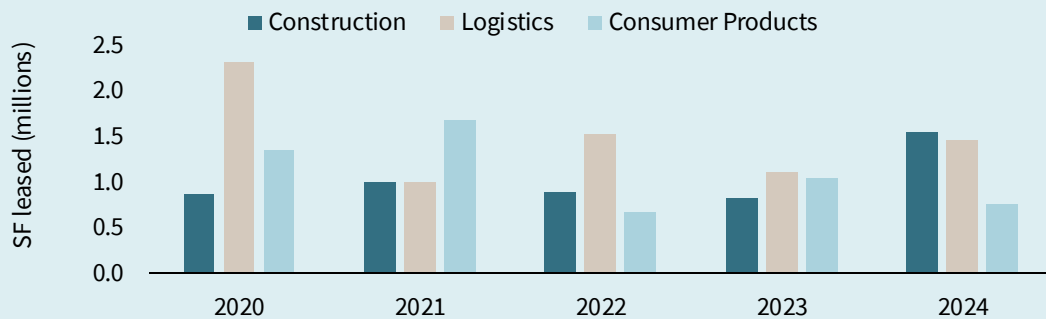
Entertainment employee concentration



Impact to industrial

- Rebuilding the affected areas will drive industrial space demand. Based on the weighted-average size of 2,200 s.f., rebuilding the 11,000 single-family houses alone would require just over 200 million board feet of lumber, depending on construction method. Even though all of this will not be stored and used at the same time, demand for IOS space and warehouses will be meaningful.
- Additionally, home appliances, furnishing and day-to-day necessities must be replaced, further bolstering the need for warehousing. This will help lower industrial vacancies in and around the affected areas, particularly in the San Fernando Valley and San Gabriel Valley markets where total vacancy currently stands at 4.2% and 5.8%, respectively.

Industry leasing in SFV & SGV under 150,000 s.f.



Path to recovery

Los Angeles wildfires are expected to result in economic damages akin to that of Hurricane Katrina to the southeast in 2004.

Recovery from other disasters

- The LA wildfires are projected to cause up to \$250 billion in economic damage¹, rivaling Hurricane Katrina’s impact when adjusted for inflation, roughly 4% of California's GDP. Insurers are expected to face costs between \$35-45 billion², highlighting the critical role insurance will play in recovery. Following Hurricane Katrina, 75% of adequately insured households recovered within five years compared to only 48% of under or uninsured households.
- Looking at other fire disasters in California over the last 10 years, the Santa Rosa Coffrey Park fire (Tubbs) which occurred in October of 2017 in Northern California, resulted in over 5,636 homes destroyed. Nearly 80% of the area was rebuilt within three years³. Efficient permitting and quick actions by local government helped accelerate the rebuilding process in Santa Rosa.
- Clean-up efforts encumbered by hazardous debris will take up the bulk of the time needed to rebuild. Los Angeles Mayor Karen Bass has ordered expedited permitting and the streamlining of debris removal. California Gov. Gavin Newsom has suspended permitting and review requirements under the California Environmental Quality Act and the California Coastal Act, all of which will aid rebuilding efforts.

Costliest California fires

Fire name	County	Cost	Structures destroyed	Date
LA Fires	Los Angeles	\$30 - \$45 billion	18,080	January 2025
Camp Fire	Butte	\$12.5 billion	18,804	November 2018
Tubbs	Napa and Sonoma	\$3.3 billion	5,636	October 2017
Tunnel Oakland Hills	Alameda	\$2.9 billion	2,900	October 1991

Source: Cal Fire, LA Times, AP, sfmuseum.org, JLL Research
Note: Structures: includes residential and commercial structures

¹ AccuWeather, News, January 13, 2025
² Insurance Newsnet, LA wildfires may generate \$35 billion to \$45 billion in insured loss, January 13, 2025
³ Reuters, Earlier California fire shows how Los Angeles could rebuild, January 13, 2025.

Path to recovery

While challenges remain ahead, the recovery offers opportunities to re-think the future

Other considerations



Insurance payouts present as one of the first major hurdles for rebuilding. Beyond the volume of claims following the fires, the size of payouts will likely be insufficient to rebuild similar homes. Following major West Coast wildfires in 2016-2018, many insurers upgraded wildfires to a primary “peril” event, with some major companies like State Farm and Allstate ceasing to issue new policies in California. This has led to increased reliance on the Fair Access to Insurance Requirements (FAIR) plan, California’s insurer of last resort, which saw its enrollment more than double in the last few years and covering 22% of structures in the Palisades fire zone and 12% in the Eaton fire area. On February 10th, FAIR received approval to assess its member insurers \$1bn to help pay for its expected losses of \$4bn; these private insurers can surcharge customers for half of what they are assessed with the approval of the insurance commissioner.

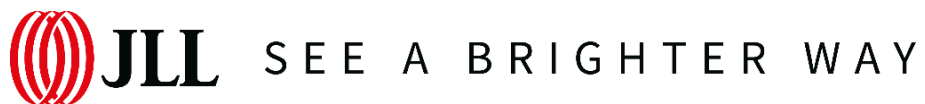


Construction will be costly and time-consuming for those who decide to rebuild. Governor Newsom sign an executive order on January 12th that eases CEQA and Coastal Commission requirements for wildfire victims, but the real challenges lie in physical construction. Due to significant demand, labor and materials will be expensive, further complicating rebuilding efforts.

There are some concerns about the competing demand on labor and materials from major events on the horizon, such as the Olympics. However, the LA 28 focus has been the “no build” Olympics. Existing stadiums and sports facilities will be used. Instead, much of resource allocation towards LA 28 are dedicated to transit with numerous infrastructure projects targeted for completion before LA 28. Also, the current commercial LA construction pipeline remains light and has not strained building resources need for natural disasters. Office construction is historically light at only 2.7 million s.f. Los Angeles industrial building activity has consistently hovered at around 5-7 million s.f. for the last couple of years.



Noting the positives, the city has come together in tremendous ways in donations and volunteerism. In the short to medium term, reconstruction will provide economic tailwind. Longer-term, more expedited approval process may ultimately contribute to the provision of more housing throughout LA.



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