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Features

Market Shift Provides California CRE ‘Rare’ Opportunity for Investment

Regardless of interest rates, many observers applaud the current climate.

By **Richard Berger** | August 12, 2025 at 09:00 AM

California’s current economic climate is making it an ideal time to invest in the Golden State, according to some industry observers and investors, who suggest fundamentals are improving. However, none expect interest rates to return to 2021’s peak and ideal situation.

Gray Capital Group last week pointed out that these past few years of cooling multifamily valuations and lower rent growth have "reset" pricing and opened up opportunities.

Some can find investments that could achieve out-sized returns as the multifamily market and commercial real estate as a whole shift into accelerated growth in the year, Gray Capital wrote in its newsletter.

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While interest rate movement has been top of mind for many, the multifamily real estate firm found little indication that interest rates will drop quickly enough to reach the levels seen in 2021, when the apartment investment market peaked.

Interest rates have added further pressure to sellers from a carry and refinance perspective, Joe Iacono, CEO of Crescit Capital Strategies, told GlobeSt.com. “Those who cannot continue to carry and/or recapitalize may be forced to sell, thus creating an opportunity for new investors at a proper basis.”

Vince Norris, Northmarq regional managing director based in Los Angeles, told GlobeSt.com that values are at a lower basis (from 2021 highs), and revenue growth has been neutral to negative over the past two years.

“While interest rates appear to be stabilizing, they remain elevated compared to 2021, and it's unlikely we'll return to those levels,” he said.

“Buyer sentiment and transaction volume are neutral relative to that peak period, with most buyers now focused more on basis than on peak period, with most buyers now focused more on basis than on cap rates. Some California markets are seeing modest rent growth, and buyers are anticipating stronger forward-looking performance.”

Norris added that with in-place revenue metrics having been depressed for several years, both basis and income are relatively low.

“Buyer sentiment is optimistic about future growth across multiple California markets,” he said.

“Employment levels are stabilizing, and new construction has remained modest in most areas, so overbuilding is not a concern. Occupancy levels are steady, and lease trade-out figures are beginning to trend positively. There are definitely opportunities in the market.”

Not About Perfect Timing

Everett Wong, senior director, Greysteel, told GlobeSt.com that he’s starting to see smart capital step back into the California apartment market, chasing real value with long-term upside.

“The market has shifted from a momentum-driven environment to one that rewards discipline and strategic vision, leading to different strategies,” he said.

“The multifamily deals getting done today in California aren’t about timing the market perfectly but about recognizing where the fundamentals are heading, identifying inefficiencies, and getting ahead of the next wave of growth. For investors who understand the long-term drivers of multifamily demand, this is a rare moment to invest with conviction.”

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According to Jay Pedde, senior vice president of operations for Veritas Investments, leasing velocity has strengthened notably over the last six months, supported by tech-driven job growth and renewed in-migration.

"As West Coast fundamentals improve in markets like San Francisco, Los Angeles, and Seattle, we're seeing more LPs entering these markets for the first time, often seeking to partner with best-in-class operators who can navigate local nuances and position assets to capture the next phase of growth," Pedde told GlobeSt.com.

Debt markets are awash in liquidity — from banks and agencies to debt funds and insurance companies — and the pool of capital feels as deep as in 2021, according to Zachary Streit, founder and president, Priority Capital Advisory.

"With banks back in the game offering attractively priced debt, and a supply cliff coming as new deliveries drop sharply in the next few years, sponsors who move now can secure strong deals and position new supply to hit the market at an ideal time," Streit told GlobeSt.com.

"For equity to start flowing, the debt capital market must be functioning properly," Ben Jackson, managing director of Leste Group, said.

"Lenders have been getting more active, and we're seeing spread compression and even a competitive dynamic taking shape, which is encouraging," he added. "This is a good sign, and we expect the equity market dynamic to continue to normalize as more and more investors come back to the market."

Don't Head for the Hills

Nick Stein, managing director, Sentinel Real Estate Corporation, noted that he believes properties located in desirable suburban areas, supported by strong demographic tailwinds and economic fundamentals, will continue to provide compelling risk-adjusted returns for investors.

"These submarkets – which benefit from sustained population growth, diverse employment bases, and limited residential supply – are well positioned to experience consistent growth and investment activity over the next several years," he said.

Agreeing on that location is Michael Nourmand, president at Nourmand & Associates/LeadingRE.

"The cost of property insurance has skyrocketed," he emphasized. "Therefore, there is more demand for homes in the city rather than homes in the hills, especially if you need property insurance that's more than $3,000,000."

California Fair Plan is a reasonable property insurance policy, he said. Still, it peaks at $3 million, he said, and most lenders require a Difference in Conditions (DIC) policy to cover things not included, such as water damage, theft, and liability.

Growing Regulatory Intervention

However, there is one caveat for California, according to Warren Berzack, national director of the Lee & Associates Multifamily Advisory Group.

"Many believe that falling interest rates will prompt a restart to the multifamily market, but there is much more at play that's affecting the transaction volume," Berzack said.

"First, there has been a structural shift in Hollywood and with tech companies that will continue to affect specific areas of Los Angeles where jobs were plentiful before 2022. Still, less so today, and those jobs are unlikely to return. Those areas include Santa Monica, Venice, Playa Vista, Burbank, Glendale, Culver City, Hollywood, and nearby cities. All have softer-than-normal rental markets."

California, particularly Los Angeles, has seen growing regulatory intervention in the housing sector. Policy decisions around rent control, eviction moratoriums and tenant protections have become more frequent and, in some cases, reactive, he said.

Examples include emergency measures implemented during natural disasters or immigration-related events. While the intent to protect vulnerable residents is understandable, this unpredictability introduces a level of risk that many investors find difficult to navigate. For property owners, the ability to operate with stability is critical, and sudden policy shifts can create operational and financial challenges.

Additionally, Berzack said expenses have escalated way more than they have in the past.

"Today, thanks to a $20 minimum wage, escalating costs for supplies, every escalating utility and insurance costs (insurance is 3 to 4x what it was in 2020/2021), not to mention the trash monopolies that tripled trash prices over the past few years, operating buildings is becoming more and more difficult," he explained.

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Pierre E. Debbas, Esq., co-founder of Romer Debbas, LLP, told GlobeSt.com that multifamily investments in states like California will decline due to the regulatory environment of the local governments in their desire to create socialized housing, pass good cause eviction and other progressive policies that will be prohibitive for driving investment into those areas.

Touchpoint Markets

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