Los Angeles Business Journal
Inside The Valley

Valley Economic Trends 2024

The Valley has always been a vibrant economic hub with a business landscape that is as diverse as its communities. Fueled by industries ranging from entertainment and technology to manufacturing and health care, the Valley's economic trajectory reflects a blend of resilience and innovation. As the region navigates challenges like housing affordability and transportation, opportunities for growth and investment emerge, promising a dynamic future. The Valley stands poised for continued economic evolution, and this section looks at what to expect.

Valley Economic Trends 2024

The Los Angeles Business Journal: Inside The Valley team was excited to host the 2024 Economic Trends discussion event on Wednesday morning, March 6th at the Orchard Conference Center at CSUN.

The event featured two lively panel discussions featuring leading experts on the hottest topics on the minds of Valley area business leaders this year. The panels offered an insightful look back on the unprecedented challenges and silver linings of the past few years while providing a deep dive into the economic trends we are facing moving forward into 2024.

Our outstanding group of panelists and moderators examined the issues as they shared their experiences and predictions for the year to come. The panels this year focused on an overall outlook for 2024 and the latest perspectives on commercial real estate and financing best practices.

The Outlook panel was moderated by Sonya Kay Blake of the Valley Economic Alliance and featured Scott Alderton, Stubbs Alderton & Markiles, LLP; Jonathan Fraser Light of Light Gabler LLP; and Danone Simpson of Montage Insurance Solutions.

Each of the experts weighed in on a variety of hot issues and talking points, including:

- Securing funding in 2024
- Best ways for businesses to weather economic challenges
- The pros and cons of remote work
- The current insurance policy landscape for businesses
- The cost of absenteeism
- The role of AI in business today
- The current status of the startup world and venture capital financing
- Which benefits are most important to employees in today's climate
- Best ways to boost employee engagement …and much more.

Immediately following the eye-opening outlook conversation, the audience was treated to an equally in-depth and timely group roundtable on real estate and financing best practices.

The panel featured Tamara Gurney of Mission Valley Bank; Lee Kleinman of Business Finance Capital CDC; Edward Kung of CSUN; and Scott Silverstein of Kidder Mathews. The conversation was moderated by Jim Kruse of Kidder Mathews.

Each of these professionals weighed in on a number of discussion topics, including:

- The future of commercial property in the Valley
- How banking will change in the coming years
- The importance of relationship banking
- Housing development in the region
- SBA 504 CDC opportunities
- Financing best practices for businesses in today's climate
- What banks can do to support economic recovery and resilience
- How the credit culture has changed within the SBA 504 program
- Best real estate financing options for small businesses …and much more.

Many thanks to our excellent panelists, who took the time to share their insights on the biggest headlines and where the market is going in 2024.

Learn more about the panelists and event at sfvbj.com/events/2024econtrends.

PANELISTS

SONYA KAY BLAKE
PRESIDENT & CEO
VALLEY ECONOMIC ALLIANCE
MODERATOR

SCOTT ALDERTON
MANAGING PARTNER
STUBBS ALDERTON & MARKILES, LLP

JONATHAN FRASER LIGHT
MANAGING PARTNER
LIGHT GABLER LLP

DANONE SIMPSON
CEO
MONTAGE INSURANCE SOLUTIONS

JIM KRUSE
PRESIDENT OF BROKERAGE FOR GREATER LOS ANGELES
KIDDER MATHEWS
MODERATOR

TAMARA GURNEY
PRESIDENT & CEO
MISSION VALLEY BANK

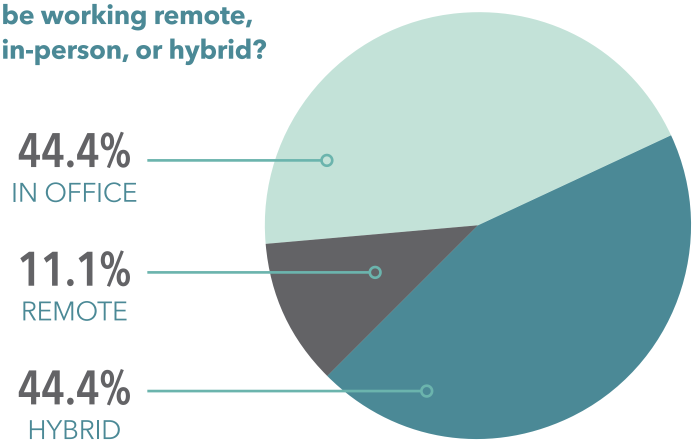
LEE KLEINMAN
SENIOR VICE PRESIDENT
BUSINESS FINANCE CAPITAL CDC

EDWARD KUNG
ASSISTANT PROFESSOR
DAVID NAZARIAN COLLEGE OF BUSINESS AND ECONOMICS AT CSUN

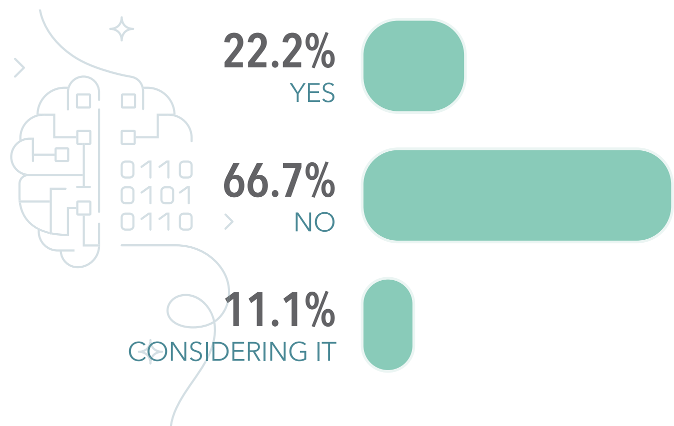
SCOTT SILVERSTEIN
SENIOR VICE PRESIDENT
KIDDER MATHEWS

Looking Ahead...

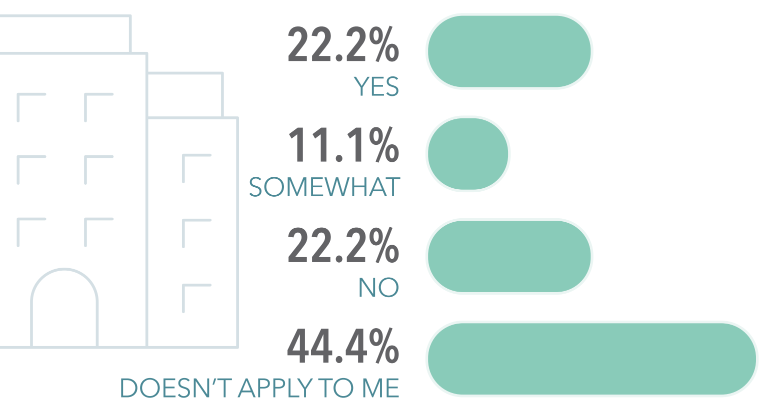
In 2024, will your company be working remote, in-person, or hybrid?



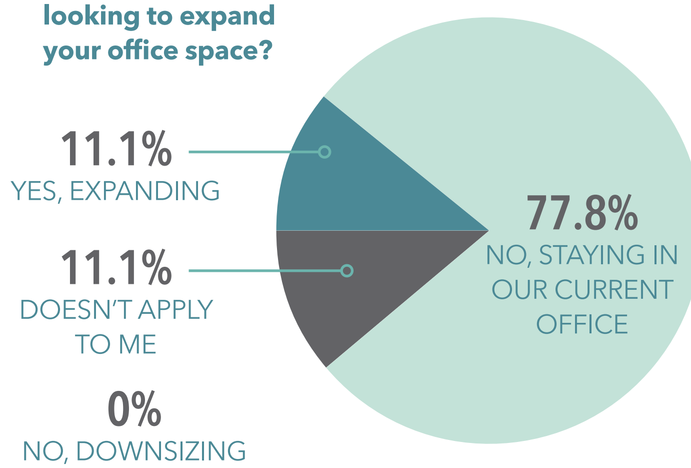
Is your company using AI?



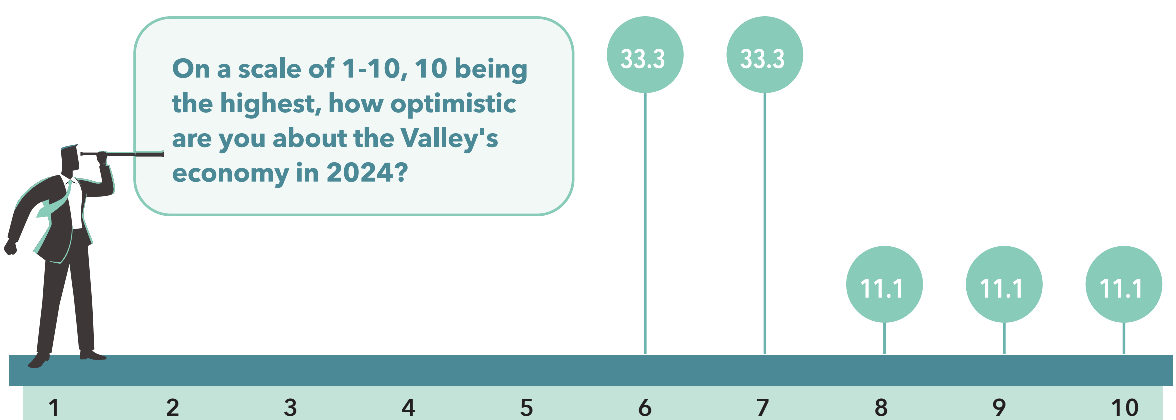
Are commercial project delays impacting your business?



Is your company looking to expand your office space?



On a scale of 1-10, 10 being the highest, how optimistic are you about the Valley's economy in 2024?



Results compiled from an online survey of Business Journal readers.

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VALLEY ECONOMIC TRENDS2024

1. Valley Economic Trends audience gaining insights from esteemed panelists. **2. Scott Silverstein** (Kidder Mathews, Sponsor) and **Lee Kleinman** (Business Finance Capital CDC, Sponsor) networking before their panel. **3. Valerie Chandler** (Montage Insurance Solutions, Sponsor) and **Jennie Kriz** (Renaissance Marriott). **4.** Attendees, **Ross Pendergraft** (Gallagher) and **Natalia Molera** (Hilton Woodland Hills, Sponsor) networking at breakfast. **5. Sonya Kay Blake** (Valley Economic Alliance); **Scott Alderton** (Stubbs Alderton & Markiles, LLP, Sponsor); **Jonathan Fraser Light** (Light Gabler LLP, Sponsor); **Danone Simpson** (Montage Insurance Solutions, Sponsor). **6.** Attendees engaged in the conversation. **7.** Audience engaged in the conversation. **8. Jim Kruse** (Kidder Mathews, Sponsor) moderates a discussion with Sponsors: **Tamara Gurney** (Mission Valley Bank); **Lee Kleinman** (Business Finance Capital CDC); **Edward Kung** (David Nazarian College of Business & Economics at CSUN); **Scott Silverstein** (Kidder Mathews). **9. Edward Kung** (David Nazarian College of Business & Economics at CSUN, Sponsor) discussing housing development in the Valley.

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Remote Work Is Here To Stay

By JONATHAN FRASER LIGHT

Most employers have reconciled themselves to the fact that at least some of their workers will only come on board or continue with them if they are allowed work remotely. I have had to accept this with some of my new attorney hires. Given this new reality, employers continue to face issues that can be divided into the "subjective" and the "objective."

On the subjective side, employers are grappling with issues of remote employee morale, lack of integration into the "group" that works in the office, and other interpersonal issues that are inherent in a working environment in which people do not see each other face-to-face on a regular basis. There is a substantial amount of collaboration, synergy and relationship-building that occurs in office hallways. It can be argued, however, that the existence of email (and now Zoom) ameliorates those issues to a substantial degree. Nevertheless, employers should try to build connections with "fun" online group activities, lunches, or brainstorming sessions to keep everyone more engaged. Employers certainly did it during COVID and those positive traditions should continue.

On the objective side, it likely boils down to one word: productivity. Are workers "getting the work done" timely and are they responsive when needed? Some employers have had employees essentially "ghost" their coworkers and customers/clients at times because they weren't held as accountable while working remotely. To get the work done, it doesn't matter if they are lounging on a beach, sitting at their kitchen counter, or in a cubicle. Nevertheless, one study suggests that remote workers are overall less productive. That seems logical, especially if children are present.

Employers are within their rights to require periodic check-ins, cameras on during meetings, and other methods for ensuring that employees are putting in the time required and are engaged when dealing with others. Remote hourly workers must still track their time and clock in/out for meals and take paid rest breaks, just like they would at work. Employers may want to consider more structured work productivity metrics, such as handling a specific number of charts or accounts receivable in a day. Employers can also track the email traffic generated to and from the remote employee to see if it suggests a steady flow of productive work. If the employer observes a lower-than-expected rate of completion or lower email activity, the employer has the right to step in and require adherence to any standards it sets or to question the apparently low production. The employer could also require the employee to work in the office for a period of time until they are productive; obviously not practical for someone who is geographically remote, however.

For salaried exempt workers, the problem may be less acute, but perhaps less easily measurable than for someone who tracks their time. The metrics will be the quality and quantity of work they are putting out, rather than the time put in. In my law practice, that's easily quantifiable based on the timekeeping required of attorneys. In other industries, in which time spent on a particular client or customer is not tracked, it may be more difficult to measure productivity. Thus, employers should consider what metrics they have available to measure productivity of both exempt and non-exempt remote workers. Then set standards, train on them, track them, and enforce them.

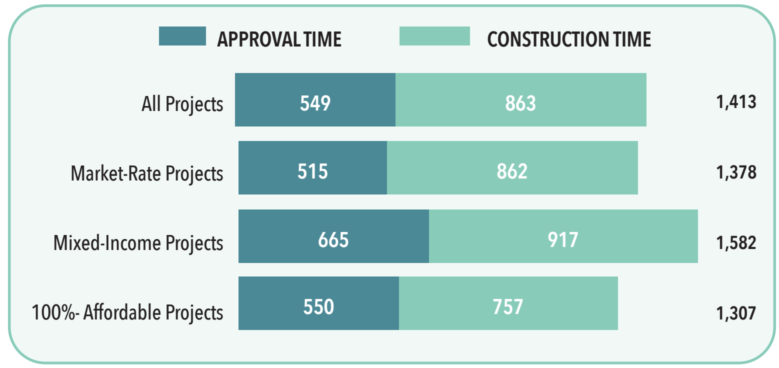
Lastly, in the objective category is remote worker expense reimbursement. If the worker is required to be remote, the employer must reimburse for use of personal equipment on behalf of the employer. Our clients received claims during COVID for things like the dent in the living room couch, air-conditioning, heating and, of course, the more traditional claims for Internet usage, personal computer, personal phone, etc. There is no set amount required by law. The amount is whatever is deemed "reasonable" as determined between employer and employee. If remote work is voluntary, make that clear in writing so that the employer isn't necessarily required to reimburse for all such expenses.

COVID created a new world of remote work and it's not going away any time soon, if ever. Employers need to adjust their expectations in hiring workers and then deal with the realities of remote work and the attendant complexities. I write this from my early morning "office" at my local Starbucks, despite having 6,000 square feet of office space two blocks east of me. I've sat here for so long that a very elderly man walked up to me a few months ago and said, emphatically, "I've been watching you sit here for 25 years and before I die, I want to know what you do!" I pointed to my rather formal-looking briefcase, and he responded, "Lawyer!"

Jonathan Fraser Light is the managing partner at Light-Gabler LLP, with 19 attorneys serving 5,000 employers throughout California almost exclusively on employment law issues and related litigation. He may be reached at jlight@lightgablerlaw.com.

Can LA Meet Its Ambitious Housing Goals?

By EDWARD KUNG



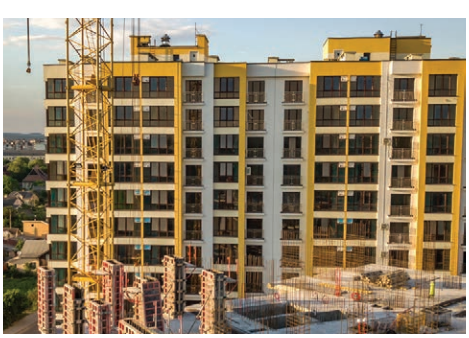
Development Time of Multifamily Projects Permitted in L.A. from 2010 to 2022 (Days)

The City of Los Angeles is experiencing a severe and ongoing housing shortage. Between 2010 and 2019, the city grew by over 190,000 residents but added only 83,865 dwelling units to the housing stock. The lack of affordable housing has caused Los Angeles to perennially rank as one of the nation's most unaffordable cities to live in and has exacerbated a humanitarian crisis in homelessness. This in turn discourages businesses from locating in the city and inhibits the economic competitiveness of the region.

What can the city do to accelerate its housing production? The answer to this question will be crucial in determining whether the city can meet its ambitious goal of adding 456,643 dwelling units by 2029, a goal set forth by California's latest Regional Housing Needs Assessment.

My recent work with Dr. Stuart Gabriel, director of the Ziman Center for Real Estate Research at UCLA, examines this question. In our study, we compiled a dataset from multiple city sources to better understand multifamily housing development in Los Angeles. Our dataset contained information about all multifamily housing development projects permitted in Los Angeles from 2010 to 2022 and includes crucial information about entitlements, approval times and project completion times.

We found that multifamily housing development in Los Angeles is a slow and uncertain process. The average development time was 3.9 years. Approval time accounted for 1.5 years, or 39 percent, of the total development time. Construction time accounted for 2.4 years, or 61 percent, of the total development time. We also found that there is a significant amount of uncertainty in development time. Over a quarter of the projects took more than 4.8 years to complete. In conversations with industry professionals, developers noted that the long approval items and the uncertainty both contribute to a reluctance of investors to commit to housing development projects in Los Angeles.



What factors contribute the most to these long development times? The two most salient factors were the lengthy entitlements process and delays associated with installing underground electrical infrastructure. The importance of these factors is consistent with what many industry professionals have identified as common bottlenecks driving long development times. Using a simulation model, we found that if all projects were approved "by-right" (not requiring entitlements), then an additional 15,872 dwelling units would have been produced between 2010 and 2022, a 21.7% increase. If the impact of requiring a new circuit installation was cut in half, then an additional 4,443 dwelling units would have been produced between 2010 and 2022, a 6.2% increase. Other notable factors contributing to long development times included whether a project required approval from the City Planning Commission and whether the project had to undergo a site plan review.

The results of the study indicate that housing production in Los Angeles can be accelerated if steps are taken to: 1) reduce the amount of red tape in approvals; 2) improve the management of projects at the city level, especially across departments; and 3) ensure adequate resources and staffing for housing development. Points 1 and 2 are related: our data shows the impact of red tape, but according to developers, much of the delay associated with red tape is due to poor coordination between city departments. Point 3 is required if the city is to scale up its support for housing production in a meaningful way. In our study, we make concrete recommendations as to how the city can achieve these goals, such as by leveraging technology to create a centralized clearinghouse for real-time project information and approvals.

A positive sign is that Los Angeles's leaders have recognized the challenge and have the political will to face it. Mayor Karen Bass has passed a number of executive orders designed to streamline housing production. These orders include capping approval times for affordable housing projects to 60 days, directing city departments to investigate and report on key bottlenecks, and convening a working group to develop procedural improvements. Actions have also been taken by the LA City Council, including motions directing LADWP to allocate additional resources to housing development services.

The housing situation in Los Angeles can properly be described as a crisis and the quantity of housing is a long way from where it needs to be. But there has been progress and the city's housing policy appears to be moving in the right direction. Angelenos who want to see a greater availability of high quality and affordable housing should continue to support policies aimed at streamlining housing production.

Housed on a beautiful 365-acre campus, CSUN is the fourth-largest university in California. Its 340,000 alumni include prominent business leaders, such as the man for whom the business college was named, David Nazarian. The university is home to the award-winning Younes and Soraya Nazarian Center for the Performing Arts and the LEED Gold-certified Student Recreation Center. CSUN is a place where students rise and take their region with them.

Professor Edward Kung is assistant professor of economics at the David Nazarian College of Business and Economics. Learn more at csun.edu/nazarian.

How the Economy Drives Insurance Cost and its Impact on Employers

By DANONE SIMPSON

The consumption of insurance through claims and fraud has increased to such an amount that is hemorrhaging our industry, along with the costs we've been dealt by the pandemic, acts of God, and fire. The impact is increasing costs for employers and individuals.

According to Coalition Against Insurance Fraud (CAIF), the estimated totals in insurance fraud are $308 billion. CAIF has concluded that workers' compensation fraud is $34 billion. California has the highest in workers' comp premiums written in the United States.

There are different types of fraud, categorized as:

• **Claimant fraud –** which is the 1-2% of the types of fraud. This is when a claimant makes a false claim, usually a non-work injury claimed to have happened on the job.

• **Employer premium fraud –** makes up most of the fraud at $25 billion per year. This fraud comes into one of three categories.

· Underreporting payroll to the carrier

· Intentionally misclassified employees/workers

· Experience modification evasion to a lower X-Mod, lower premiums by switching insurance or changing the company's name or ownership.

• **Provider fraud –** involves misbilling claims, goods and services, upcoding or double billing.

•**Agent/broker fraud –** harms clients and industry from dishonest brokers through premium diversion, discovered after an uninsured loss from a policy never put into place, leaving the client holding the bag.

Regardless the type, the cost of fraud is extensive.

The worker's compensation system never saw the impact of expected COVID-19 claims. The average cost of claims was $7,800 per the National Council on Compensation Injury (NCCI). The healthcare industry workers had the largest impact of COVID, handling 6.2 million hospital admissions reported by the Centers for Disease and Control and Prevention.

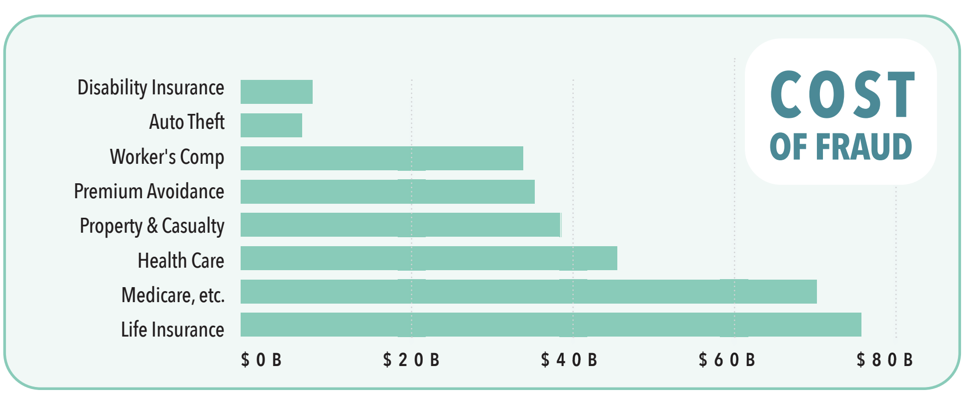
The economic toll of the COVID-19 pandemic in the US was expected to reach $14 trillion by the end of 2023.

The pandemic took the country by surprise and swiftly moved through city by city and state by state, lasting three years to today. Employees are calling in siwck daily and have higher copays and deductibles due to employers' healthcare costs that are increasing to pre–Affordable Care Act percentages. We have seen the middle market claims that are outpacing their premiums paid in for the year, and they are suffering up to 10-40% renewals, as carriers underwrite to break even. Claims for mental health, diabetes, heart, cancer, and RX have been rising over the years. This is causing a search for gap plans and high deductibles as brokers are panting for relief, searching under every stone for unique options through MERPs, HRAs and self-funded arrangements so employers can see the claims and put in wellness programs to target prevention and mitigate claims.

Employers have been impacted by employees working hybrid schedules and have faced great challenges with missed days at work due to the typical flu season, and now COVID- 19. The Centers for Disease Control and Prevention states the mental healthcare system in the U.S. is floundering. While mental health was in decline before the pandemic, COVID-19 has brought the system (Medicare, Medicaid and health insurance carriers) to its knees. The 18–29-year-olds are suffering the most and have faced more challenges to adapting to the workforce. Just recently on our H.I.T. Podcast, Tobias Kennedy met with a client, Bill Rosenthal from Midnight Oil, who spoke about the challenges and successes he has gone through in these past years. All employers have been faced with changing the way they do business, changing processes to include this extremely important generation. He spoke about his daughter who was getting out of college and his wise counsel to her. He stated that for those of the younger generation, to get ahead in their careers, need mentors and to be present at work to learn from seasoned workers.

With rising premiums and various challenges, including a shortage of workers, low employee engagement and the challenge to appeal to younger workers, employers are faced with using creative measures to balance the work-life fit, as diversity, equity, and inclusion adds in the belonging category. Our carrier underwriters are sharpening their pencils to keep loss ratios down. And then there is the unspoken elements we face with the election year ahead. Yet economists remain positive, despite stated risks, and headlines of recession looming. The US dominated in its ability to innovate, deploy vaccines, shift to online transactions and increase entrepreneurship, which California rules. In these unpredictable times, insurance carriers are looking to reduce financial uncertainty and make accidental and unforeseen losses manageable through risk mitigation and efforts to minimize the degree of impact on individuals, businesses, and communities.

Danone Simpson, EMBA, GDBS, is CEO of Montage Insurance Solutions.



Navigating California's New Legal Landscape: Noncompete Agreements Rendered Void

On January 1, 2024, California adopted a sweeping amendment regarding employment noncompete agreements. Under this new legislation, almost all employment noncompete agreements are considered void. The non-compete agreements, or non-compete clauses that can be found in a wide array of employment agreements, such as employment contracts, employee handbooks, or other contracts, created to restrict the solicitation of an employer's employees, clientele, or suppliers will have no chance of being deemed actionable.

Further, another significant provision requires employers to furnish notice to both current and former employees, hired post-January 1, 2022, regarding the nullification of any non-compete clauses present in their contracts or agreements. The deadline for compliance with this mandate was February 14, 2024. Businesses found in noncompliance risk can face civil monetary penalties (up to $2,500) for each violation, coupled with the potential imposition of injunctive relief. Furthermore, attempting to enforce nullified non-compete provisions could result in heightened civil liability, encompassing injunctive relief, actual damages, as well as attorneys' fees and costs.

Given the urgency of this matter, businesses must take swift action if they have not already taken the requisite measures to comply. Ensuring compliance with these important legal changes is imperative to shield businesses from legal entanglements.

For those seeking guidance or assistance in navigating this complex legal terrain, Stubbs Alderton & Markiles, LLP stands ready to provide support. Whether clarification is needed on the implications of the new law, or assistance in drafting and disseminating employee notices, we are equipped to assist you in reviewing your applicable agreements and disseminating proper notices.

> *Ensuring compliance with these important legal changes is imperative to shield businesses from legal entanglements.*

This article was provided by Stubbs Alderton & Markiles, LLP. Businesses aiming to safeguard their interests and uphold legal compliance standards can read more at stubbsalderton.com/blog.

Think Big: The SBA 504 Lending Program

By LEE KLEINMAN

I've been providing banking/lending services to small businesses in the San Fernando Valley and surrounding areas for more than 35 years. I'm currently a senior vice president/business development officer for Business Finance Capital (BFC) CDC headquartered in downtown Los Angeles, operating from a satellite office right here in the San Fernando Valley. BFC is an SBA-licensed Certified Development Company dedicated to administering the Small Business Administration's 504 loan program, which is a highly desirable and value-added loan option for the small business owner.

Let's look at some of the features and benefits of the SBA 504 program, and how it might help your business think big:

• **The SBA 504 has lower down payment options:** One of the primary benefits of SBA 504 financing is that it typically requires a lower down payment of 10% compared to conventional loans at 25%. This can be advantageous for small businesses with limited capital.

• **It comes with long-term, fixed-rate financing:** SBA 504 loans often provide long-term fixed-rate financing up to 25 years, which can provide stability and predictability to small businesses, especially in times of economic uncertainty.

• **It can be used to access capital for large purchases:** SBA 504 financing can be used for large purchases such as real estate or long term machinery and equipment, enabling small businesses to expand their operations or upgrade their facilities.

• **It allows for preservation of working capital:** By requiring a lower down payment and offering favorable terms, SBA 504 financing allows small businesses to preserve their working capital for day-to-day operations, emergencies, or other investments.

• **Easier Qualification:** While SBA loans do have certain eligibility requirements, they may be easier to qualify for compared to conventional loans, especially for businesses that might not meet the stringent requirements of traditional lenders.

Overall, SBA 504 financing can be a valuable tool for small businesses looking to finance growth, expansion, or major purchases while benefiting from favorable terms and support from the Small Business Administration and Certified Development Companies.

Feel free to contact me with any questions about the SBA 504 program.

Lee Kleinman's lifetime commercial fundings total more than $1 billion and he routinely provides SBA 504 training to his industry partners. He can be reached at (818) 438-0828 or lee@bfcfunding.com.

Redefining Banking Through Relationships

The banking industry has undergone a significant transformation. With the rise of online banking and the emergence of fintech companies, traditional banks have shifted their focus towards digitization and automation. However, amidst this digital revolution, high-touch, personalized service still holds immense importance to clients.

Personalization is at the core of building strong relationships. When clients feel heard and understood, they are more likely to remain loyal to a bank and trust it with their financial needs, resulting in a more satisfying banking experience.

One way Mission Valley Bank stands out is by offering dedicated relationship managers. These relationship managers function as trusted advisors, taking the time to understand each client's financial goals and circumstances. They provide individualized guidance and recommendations, ensuring that clients make informed decisions and achieve their desired outcomes.

Moreover, Mission Valley Bank understands the importance of face-to-face interactions in building trust and rapport with clients. It has maintained a strong physical presence in the local communities, with multiple branches where clients can visit and meet with their relationship managers. This physical presence allows for personal connections and ensures that clients feel valued.

> *Personalization is at the core of building strong relationships.*

Mission Valley Bank also takes a hands-on approach to client service. It regularly reaches out to provide updates, help and to address any concerns. This proactive communication helps to strengthen the relationship between the bank and its clients, making them feel supported and cared for.

Furthermore, Mission Valley Bank understands that banking goes beyond just financial transactions. The bank actively participates in community events and sponsorship initiatives, demonstrating a commitment to the communities it serves. This involvement helps build trust and loyalty among its clients, as they see the bank's dedication to making a positive impact.

Mission Valley Bank is redefining relationship banking by combining personalized attention with the convenience of digital banking. It prioritizes building strong connections, providing tailored advice, and going the extra mile to ensure client satisfaction.

Mission Valley Bank branch locations include: Sun Valley, 9116 Sunland Boulevard, (818) 394-2300; and Santa Clarita, 26701 McBean Parkway, Suite 100, Valencia, (661) 753-5693.

2024 Tax Planning Considerations

As macroeconomic trends upend long-term planning, business cycles are turning over faster than ever. Recent tax changes coupled with the potential for an economic slowdown have made it even more critical for companies and individuals to make smart decisions on investments and financing.

To help companies understand their planning options, Grant Thornton LLP, one of America's largest professional services firms, has released 2024 tax-planning guides.

"Whether it's a new stricter limit on the ability to deduct interest expenses, increasingly aggressive state tax law initiatives, or companies dealing with new foreign tax credit rules, taxpayers and businesses must contend with a lot of challenges in the upcoming year," said Dustin Stamper, managing director in Grant Thornton's Washington National Tax Office. "As 2023 comes to a close and the new year begins, it's an ideal time for companies and individuals to assess their plans and identify key tax-planning opportunities."

Here are some of the most important tax-planning considerations for businesses and individuals heading into 2024:

• **Document and substantiate.** The IRS has $60 billion in new funding, much of it earmarked for enforcement. The IRS is also already launching compliance initiatives aimed at many common taxpayer issues. Taxpayers should expect increased scrutiny, so it's critical to document and substantiate important positions, including R&D credit claims, transfer pricing positions, partner capital accounts, M&A transaction costs and many others.

• **Prepare for public stock buyback tax.** Public companies should be preparing to report and pay a new 1% tax on stock buybacks. The tax became effective for redemptions in 2023, and the form and payments are expected to be due by April 30, 2024. There are several exceptions to the rules, and mergers and acquisitions can be treated differently depending on the structure. As the end of the year approaches, public companies should consider the timing of stock transactions, particularly because new stock issuances in any given year can offset redemption activity in that same year but not in future years.

• **Fixed assets.** Taxpayers can no longer fully deduct the cost of new equipment in the year it's placed in service. Bonus depreciation is only 80% for property placed in service in 2023 and will only be 60% in 2024 without legislation. Businesses facing increased tax because of shrinking deductions can consider a repairs analysis to identify costs that are not considered improvements and can be deducted as repairs. A cost segregation study can also identify property that can be depreciated more quickly.

Learn more at grantthornton.com.