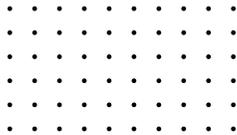
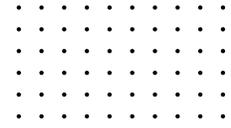


Commercial Brokers Report 2025

Analyzing Key Trends and
Insights From Local Brokers



Background



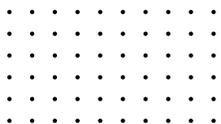
Now in its third edition, the City of Palm Desert’s Commercial Brokers Report continues to serve as an essential resource for engaging the commercial real estate community. Building on the success of previous editions, the City has committed to publishing this report on a bi-annual basis.

Feedback from past reports has directly shaped several important updates, including:

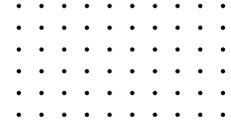
- A re-evaluation of the Downtown Edge Transition Overlay, enabling multi-use businesses in areas previously subject to more restrictive zoning.
- Updates to land use definitions, particularly to accommodate flexible auto retail and medical uses, addressing current market needs.
- The introduction of The Business Bulletin, a quarterly communication tool launched in 2024 to strengthen the City’s dialogue with the business community.

Commercial brokers have responded positively to these changes. The expanded flexibility within the Downtown Edge Transition Overlay and updated land use definitions have been particularly well received, resulting in increased leasing activity across the city. Additionally, The Business Bulletin has enhanced communication and transparency, reinforcing the City’s commitment to responsive economic development.

This latest report reflects what we’ve learned from our 2024 broker discussions and includes broader economic insights gathered from a range of sources.



Executive Summary



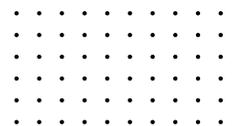
Developed through direct conversations with leading brokers across the Coachella Valley, the 2025 report captures timely insights into leasing trends, market demands, and structural challenges affecting the city's commercial landscape.

Key takeaways reflect a tight industrial market, rising lease rates, shifting space demands, and regulatory barriers affecting development. Feedback gathered in late 2024 also reinforces the value of recent City-led initiatives and highlights further opportunities for strategic adjustments to support small businesses.

Recommendations from brokers have shaped several actionable strategies aimed at aligning City policy with current market realities.

Key Takeaways:

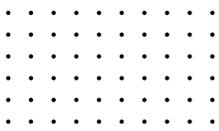
- Severe Industrial inventory shortage
- Demand for smaller, flexible spaces
- Rising lease rates
- El Paseo and Highway 111 occupancy remain strong
- City policy and initiative opportunities
- Broker engagement and communication are working



Industrial Sector Performance

The Coachella Valley is experiencing an industrial boom, particularly along the I-10 corridor, with the development of large warehouses and logistics centers.

Industrial buildings in the area are concentrated in and around the popular resort cities of Palm Springs and Palm Desert. Tenant demand softened from mid-2022 into 2024, but several large tenant move-ins boosted net absorption into positive territory and lowered availability at the end of 2024.



Industrial in Palm Desert

Broker Feedback



- Industrial inventory vacancy is less than 1%.
- No new industrial spaces are under development in Palm Desert due to high construction costs.



- Lease rates for industrial space are comparable to office rents, averaging \$1.30 per square foot.
- Storage space is highly sought after, but there is limited development capacity due to space constraints.

Statistical Information



- The vacancy rate as of May 2025 is 2.7%, with a total of 52, 800 vacant square feet.



Retail Sector Performance

Retail space availability in the Coachella Valley has inched up recently but remains near all-time lows, trending at 7.6% as of the third quarter of 2024. Leasing has been a bit subdued recently, but demand remains strong enough to keep vacancies in the market low.

Retail in Palm Desert

Broker Feedback



- Retail turnover remains low, with El Paseo continuing to have steady lease opportunities and limited availability.
- There is increasing demand for smaller locations, 2,000 to 5,000 square feet.
- The City's restrictions on drive-thrus along Highway 111 have made it more challenging for brokers to pursue certain fast-food and casual dining opportunities.



Statistical Information



- The vacancy rate as of May 2025 is 7.2%, with only 450,000 vacant square feet.
- The market asking rent per square foot is currently at \$28.87.
- The vacancy rate on El Paseo is 6%, with a market asking rent of \$36.65 per square foot.
- The vacancy rate on Highway 111 is 6.6%.

Office Sector Performance

Businesses serving local consumers, such as healthcare providers and government agencies, account for most office users. Demand for medical space has helped suppress vacancies, although net absorption in the market was negative in 2023-24. Vacancy measures 5.9% as of the first quarter of 2025, near all-time lows.

Office in Palm Desert

Broker Feedback



- Office rents are at an all-time high, averaging around \$1.25 - \$1.50 per square foot.
- Smaller office spaces of 950-1,250 square feet are in high demand.
- Office requests near the freeway are on the rise.



Statistical information



- Office vacancy as of May 2025 is 9.9% overall, a total of 212,000 per square foot.
- Vacancy Rate by Class
 - Class A 16%
 - Class B 8.5%
 - Class C 10.90%

Challenges and Risks

- Leasing rates continue to rise steadily, making it increasingly difficult for small businesses to secure space in high-demand, prime locations.
- Low turnover in property ownership is contributing to a lack of redevelopment activity, as long-term owners are less likely to initiate significant improvements or changes.

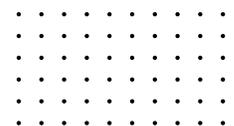


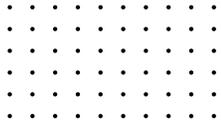
- The City’s Façade Enhancement Program remains underutilized, primarily because improvements to older buildings often trigger costly requirements, such as ADA compliance upgrades and prevailing wage obligations, which can discourage participation.



- The local commercial real estate market continues to face a mismatch between supply and demand. While demand for small commercial spaces remains high, the inventory of these spaces is limited. At the same time, large-format or “big box” spaces are

readily available, but demand for them is low. With no new development occurring—largely due to high construction costs—this imbalance is expected to persist in the near term.





Key Takeaways

Strategic Location Remains a Key Strength:

- Palm Desert’s central location continues to be a major draw for businesses; however, the limited availability of small commercial space presents an ongoing challenge.

Addressing Rising Lease Rates and Limited Space:

- Increasing lease rates, coupled with constrained inventory, may be an opportunity for the City to create additional programs to help support small businesses.

Maintain Proactive Communication with Stakeholders:

- Continued outreach to tenants and brokers is essential to keep them informed about City programs, zoning regulations, and available support resources.

Streamline Façade Update Processes:

- Positive feedback on improvements to discretionary processes for building façade updates suggests this effort is working well and should be expanded.

Enhance the Approval Process:

- A streamlined, transparent, and business-friendly approval process will remain critical in attracting and retaining businesses in Palm Desert.

Support Development of Smaller-Scale Commercial Projects:

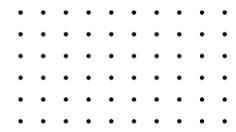
- With increased demand for smaller commercial and retail spaces, the City should consider encouraging projects that align with market needs—such as mixed-use developments and flexible leasing formats that accommodate small businesses.

Revitalize Underutilized Areas:

- Encourage new retail development in underused areas and explore adaptive reuse strategies to repurpose vacant spaces, particularly for small square footage retail units in high-demand zones.



Forward-Looking Strategies



1. Support Small Business Access to Space

- Launch a Small Commercial Space Incentive Program
 - Provide financial or permitting incentives to property owners who subdivide larger vacant spaces into smaller, leasable units suitable for small businesses.
- Create a Small Business Rent Support Grant
 - Help offset rising lease rates for qualifying small businesses, particularly in prime locations, to keep them competitive and prevent displacement.

2. Streamline and Promote Development Processes

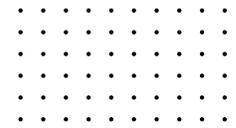
- Expand Streamlined Façade Improvement Program
 - Continue refining discretionary processes and provide clear, simplified guidelines for façade improvements, with focused outreach to increase participation.
- Develop a Business-Friendly Development Toolkit
 - Provide a centralized, easy-to-navigate online resource that outlines the entire approval process, available programs, and support services for prospective tenants and developers.

3. Revitalize and Repurpose Underutilized Areas

- Implement Adaptive Reuse Incentives
 - Offer financial or zoning incentives for the conversion of vacant big-box or underutilized buildings into multi-tenant spaces or small business hubs.
- Target Redevelopment Zones
 - Identify key corridors or districts for revitalization efforts and partner with developers to create smaller-scale, flexible retail and office projects.

4. Strengthen Communication and Stakeholder Engagement

- Enhance Broker and Tenant Outreach
 - Continue regular outreach through The Business Bulletin, stakeholder roundtables, and targeted briefings to ensure businesses and brokers stay informed.
- Establish a Commercial Real Estate Advisory Group
 - Form a working group of local brokers, property owners, and business owners to provide real-time feedback and collaborate on solutions.



Thank you to the following

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