2026 SAN GABRIEL VALLEY ECONOMIC FORECAST REPORT

REGIONAL RESILIENCE IN A SHIFTING GLOBAL LANDSCAPE

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THE SAN GABRIEL VALLEY ECONOMIC PARTNERSHIP &

CALIFORNIA STATE POLYTECHNIC UNIVERSITY, POMONA

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San Gabriel Valley, Los Angeles County, California

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The San Gabriel Valley Economic Partnership is a regional economic development corporation committed to growing the local economy and improving the quality of life in the San Gabriel Valley.

A consortium of businesses, local government, higher education institutions and non-profits, the Partnership pursues this commitment by promoting a business-friendly climate, engaging in political advocacy, marketing the strengths of the region, facilitating workforce development, and connecting cities, companies, and organizations in the San Gabriel Valley.

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A Message from Cal Poly Pomona

The March 2026 SGV Economic Forecast Summit marks yet another year in a long-running collaboration between Cal Poly Pomona and the San Gabriel Valley Economic Partnership. In an uncertain year for international relations, our region's central role as a hub for business, logistics, and culture feels more crucial than ever.

The San Gabriel Valley is a gateway for goods entering and leaving the United States, and where everyday commodities are distributed nationwide. Citizens of all nations come to the San Gabriel Valley every year for trade, education, healthcare, investment, or simply to enjoy our local sites and culture. Many have stayed and become a part of the San Gabriel Valley's rich tapestry, a place where people from anywhere on earth can find community and a space to call home. In changing times such as these, we feel more than ever the need to provide a moment for our community to stop and consider where our history has brought us, and what current trends and challenges mean for our future together.

Cal Poly Pomona is proud to offer an updated examination of our 31 cities' economies via our unique San Gabriel Valley Leading Economic Index. We hope that the enclosed report provides insight into how to navigate uncharted waters. I have no doubt that our region will rise to yet another occasion and work together towards local, national, and global cooperation and prosperity.

Frances Teves

Vice President for University Advancement, Cal Poly Pomona

Chair, San Gabriel Valley Economic Partnership Board of Directors, 2025-2026

A Message From the San Gabriel Valley Economic Partnership

The 2026 San Gabriel Valley Economic Forecast offers a timely and insightful look at the forces shaping our regional economy in the year ahead. From the global impacts of foreign conflicts to the rapid rise of data centers and the growing implications of excess debt, the trends outlined in this year's forecast underscore both the complexity of the moment and the opportunities before us.

The San Gabriel Valley has long demonstrated resilience and adaptability. With strong regional collaboration and a commitment to sustainable growth, we are well positioned to navigate uncertainty and continue building a vibrant economic future. I encourage you to explore this report and use its insights to help guide your work in the year ahead.

Luis Portillo

President & CEO, San Gabriel Valley Economic Partnership

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2026 Economic Forecast Report

Regional Resilience in a Shifting Global Landscape

San Gabriel Valley, Los Angeles County, California

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Section One
Overview

The world is changing. Trade barriers are rising. Immigration is receding. Great power politics is returning to the forefront of a newly multipolar world. Military interventions are destabilizing the global flow of vital resources. Economic policy uncertainty is at the highest levels in recorded history.

Yet, amid all these turbulent forces, the San Gabriel Valley has been remarkably resilient. Yes, economic growth and stock market appreciation have slowed, as we predicted in last year's forecast. Yes, some industries have lost jobs, as we also anticipated. Overall, though, the economy has avoided a recession, trade has continued flowing at typical levels through the Port of Los Angeles, interest rates have continued declining, and inflation has not resurged.

The San Gabriel Valley has proved remarkably resilient, despite major national and international shifts.

2026 will not be an easy year for the San Gabriel Valley economy. We forecast that economic policy uncertainty will remain at historically elevated levels, which will make it difficult for firms and investors to plan for the future. Small businesses, in particular, are straining under the weight of this uncertainty, as well as the cost of tariffs, immigration raids, and volatile energy prices. We expect more hardship for small businesses in this environment, even if the economy keeps growing, as we forecast that it will.

Unfortunately, growth is unlikely to return to the high levels that it reached a few years ago. In many ways, the economy seems "stuck in neutral." We see evidence in the labor market, where job growth is slow in many industries, as well as the housing market, where home sales, home prices, commercial rents, and vacancy rates are mostly stagnant. In this year's report, we show very local differences between the East SGV, Lower SGV, and Upper SGV markets. In the East SGV, demand is rebounding for industrial properties but declining for multifamily, office, and retail. In the Lower SGV, industrial demand is also rebounding, but multifamily might be on the verge of a rebound too. In the Upper SGV, industrial demand is still weak, while office and retail properties are being converted to other uses. The good news in 2025 was that capital started flowing back into commercial real estate, as we forecasted, setting the stage for more improvements in 2026. Banks are easing back into construction loans, making us cautiously optimistic that real estate development has finally reached a trough. This is especially true in the Eaton Fire zone, where rebuilding is likely to increase significantly in 2026, creating construction jobs that will make up for some of the weak growth in other industries.

Long-term challenges include wartime productivity losses, the difficulty of supporting the sudden growth of the tech sector, and potentially risky attempts to lower the price of debt for investors.

Our biggest economic concerns, however, are long-term. In the final section of this year's report, we identify three risks that households, firms, investors, and policymakers should keep an eye on: (1) the productivity losses that come from shifting to a wartime economy, where military spending siphons capital and resources that could be used more profitably elsewhere; (2) the great difficulty and costs associated with building enough data centers to power the growth of the tech sector; and (3) the investors and policymakers all over the economy who are trying to lower the price of debt and increase the volume of lending to borrowers who may not be able to repay in the years beyond 2026.

In other words, despite garnering most of the headlines, tariffs *per se* are not the biggest problem that the San Gabriel Valley faces. They are a cost, to be sure, but the SGV has been adjusting to them without major economic disruption. What matters in 2026 is whether we can build the things that the region needs — like housing, infrastructure, and health care — and whether we can find a way to plan for and invest in the future, despite the strained resources and unprecedented uncertainty that confront us at this inflection point in global relations.


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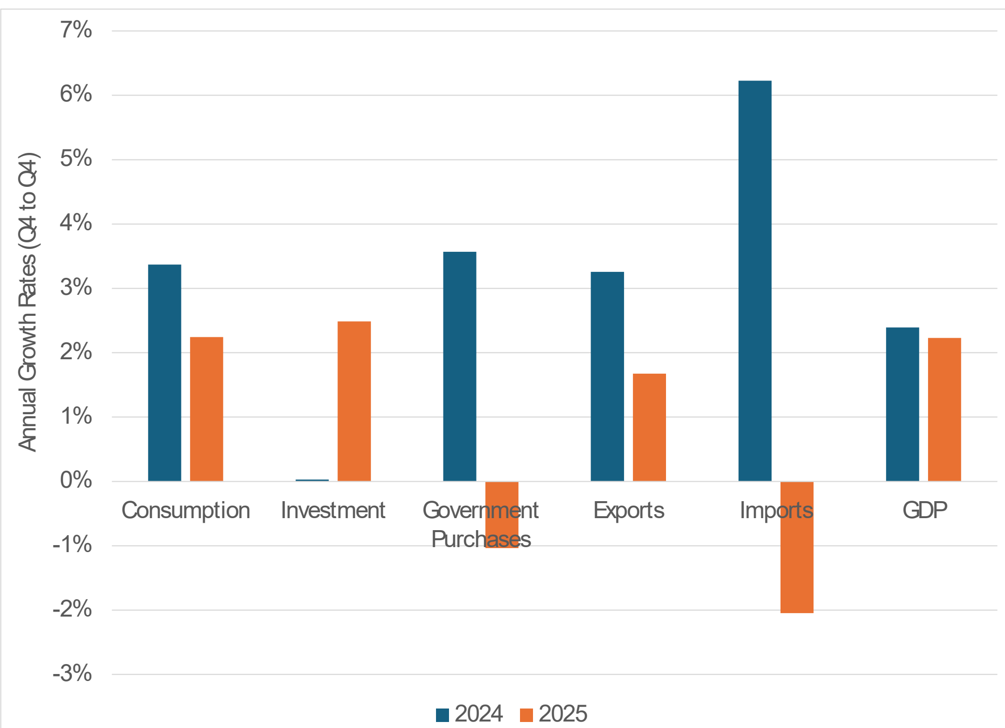
Section Two
National Divisions: Is It a K-Shaped Economy?

In 2025, the national economy grew at a slightly slower pace than 2024, as we forecasted last year. Real (inflation-adjusted) gross domestic product (GDP) grew at an annual rate of 2.2% in 2025, compared to 2.4% in 2024, as shown in Figure 2.1. We also forecasted that the feverish growth of the stock market would slow down, which it did. In 2025, the S&P 500 went up by 16%, compared to 24% in 2023 and 25% in 2024.

FIGURE 2.1
GDP Growth by Component, 2024 vs. 2025



Data source: Bureau of Economic Analysis. Authors' calculations.

Imports unexpectedly helped sustain 2025 growth: after rising over 6% in 2024, they fell 2%, reducing their drag on GDP and offsetting weaker consumption, exports, and government spending.

However, the sources of growth changed significantly. In 2024, the economy was driven by strong growth in consumption, government purchases, and exports. In 2025, consumption and export growth weakened slightly, and government purchases flipped to negative growth, while investment growth improved significantly.

The biggest change was imports, which are subtracted in calculating GDP. They grew over 6% in 2024, and they declined 2% in 2025. Thus, they were a smaller drag on GDP growth, making up for some of the decline in consumption growth, government purchases, and export growth. This was a natural adjustment to the new tariff regime, but much of it was likely a one-time adjustment. We do not expect another 8 percentage point swing in 2026. GDP growth will have to rely more on the other components to remain strong.

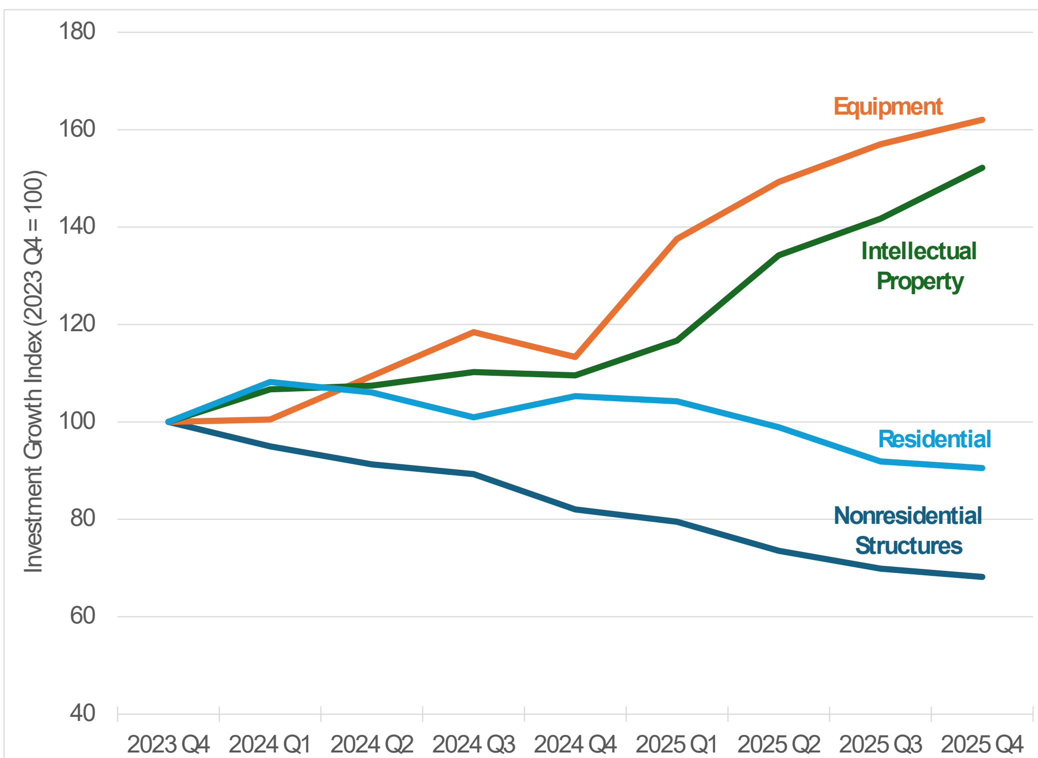
Throughout 2025, many experts warned about a "K-shaped economy," growing for some households and contracting for others.[1] It is important to understand, though, that the economy is always somewhat K-shaped. Even in booms, some industries struggle, some workers are unemployed, and many families live in poverty. Even in recessions, some firms find success, some workers get pay raises, and some people find exciting new jobs. These differences tell a nuanced story about the US economy — a story worth telling to unravel the forces that are likely to influence 2026.

Growing vs. Contracting Industries

Not all firms are benefitting from growing GDP. Figure 2.2 shows a stark divergence between investment dollars flowing into different businesses. Beginning in 2024, investment in equipment and intellectual property grew at very high rates: over the past seven quarters, 62% and 52%, respectively. In contrast, investment in residential and nonresidential structures declined by 9% and 32%, respectively. Thus, while firms have been eager to invest in short- to medium-lived capital, they have backed away from more long-term commitments in real estate.

Investment trends diverged sharply: firms boosted spending on equipment and intellectual property while cutting real estate investment, restrained by high interest rates and economic uncertainty despite gradually improving conditions.

FIGURE 2.2
Investment Growth Rates, 2024-2025



Data source: Bureau of Economic Analysis. Authors' calculations.

[1] "Here's Why Everyone's Talking About a 'K-Shaped' Economy" by Christopher Rugaber (2024, AP News, https://apnews.com/article/kshaped-economy-spending-income-inequality-dfa59144ecb2e1b674242666e28ff556).

Two forces have been holding back investment in these sectors. The first is interest rates, which rose in 2022 and 2023 at the fastest clip since the early 1980s. Now, they are slowly coming down, which will encourage more investment in 2026. Against this emerging tailwind, however, we need to consider the second headwind: uncertainty.

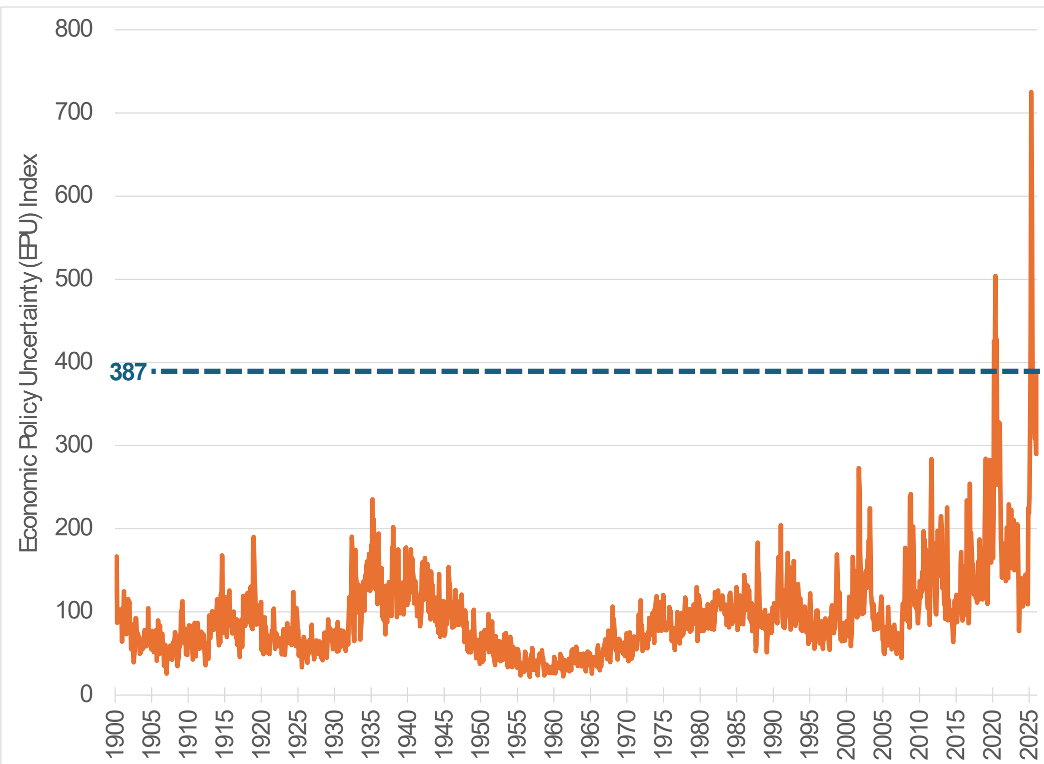
There is always uncertainty in the economy. As forecasters, we see the word "unprecedented" thrown around perennially. In a way, there is always *something* that is unprecedented. The Global Financial Crisis was unprecedented. Quantitative easing was unprecedented. The COVID-19 pandemic was unprecedented. But economists have come up with sophisticated ways to measure uncertainty, and the levels we experienced in 2025 were truly *unprecedented*.

The economists Scott R. Baker, Nicholas Bloom, and Steven J. Davis have developed the leading index of "economic policy uncertainty" (EPU), using the articles mentioning EPU in the leading US newspapers, expiring federal tax provisions, and disagreement among forecasters, dating back to 1900.[2] Historically, this index has hovered around a normalized value of 100, as shown in Figure 2.3. In the 21st century, it has spiked up over 200 during policy debates like the Great Financial Crisis bailout and debt ceiling votes. In the early months of the pandemic, it briefly spiked up to 500, after which it settled back down to the 100-200 range until 2025.

Economists have come up with sophisticated ways to measure uncertainty, yet the uncertainty levels experienced in 2025 were truly *unprecedented*.

The tariff uncertainty and fiscal debate of early 2025 set a new record for economic policy uncertainty, with the EPU index peaking at 725 in March. Even after Liberation Day and the One Big Beautiful Bill Act settled some of those debates, the index remained persistently above 300 for most of 2025. The latest reading, in January 2026, was 387, nearly four times the historical norm.

FIGURE 2.3
Economic Policy Uncertainty, 1900-2026



Data source: Scott R. Baker, Nicholas Bloom, & Steven J. Davis.

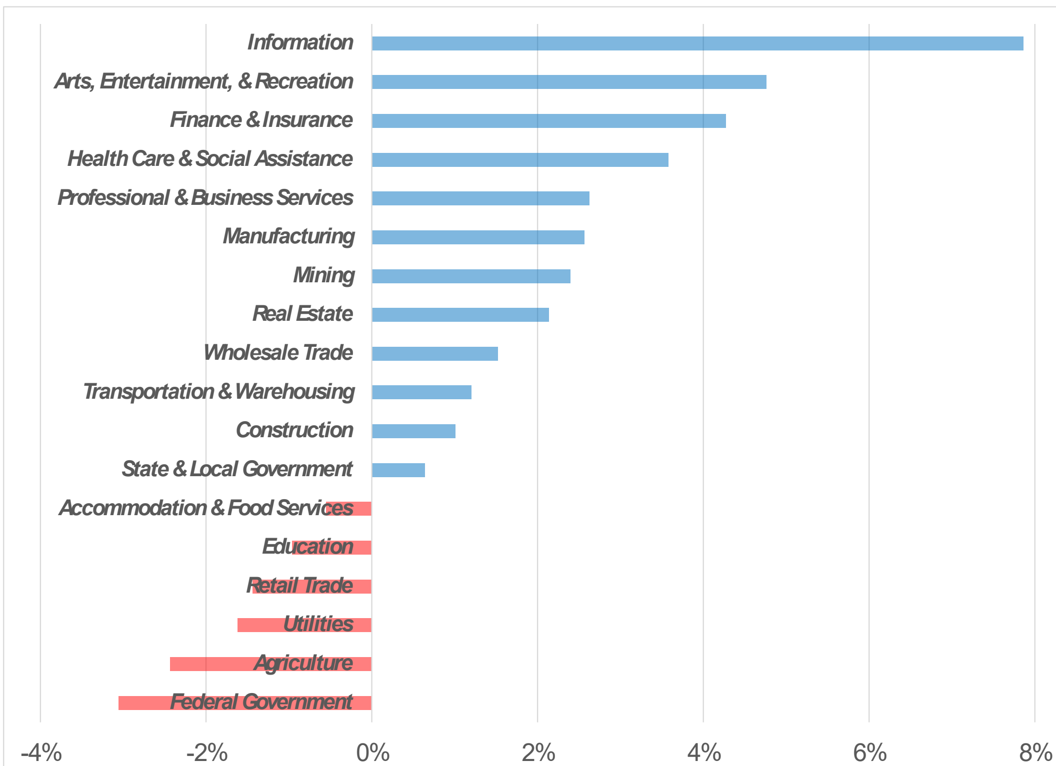
[2] Their original publication was "Measuring Economic Policy Uncertainty" by Scott R. Baker, Nicholas Bloom, and Steven J. Davis (2016, *Quarterly Journal of Economics*). A newer, updated version is available at http://www.policyuncertainty.com/media/EPU_BBD_Mar2016.pdf. The data can be downloaded at https://www.policyuncertainty.com/.

Baker, Bloom, and Davis have found that these spikes in EPU typically precede significant declines in investment across the economy. When firms are uncertain about the future, they cannot forecast cash flows accurately, and they become significantly more risk averse. In finance parlance, they require a higher "risk premium" to compensate them for the unpredictable times ahead, and fewer investments earn a high enough profit to clear that threshold. As a result, managers make fewer investments. They wait for the skies to clear before they take off again. Unfortunately, we forecast that EPU will remain elevated through 2026, as political forces seem persistently volatile and divided, more so than in previous eras.

Short-term investments perform better than long-term investments in this high "cost of capital" environment. For the first three quarters of 2025 when we have data, the industry breakdown in Figure 2.4 shows the highest GDP growth from firms that tend to invest in equipment and intellectual property rather than residential and nonresidential structures. The fastest-growing industry was "information," driven by many technology firms including data processing, telecommunications, and web search. The other high performers were arts, entertainment, and recreation; finance and insurance; and health care and social assistance.

Real GDP growth or contraction differed radically from sector to sector, industry to industry.

FIGURE 2.4
Real GDP Growth by Industry, Q1 to Q3 2025



Data source: Bureau of Economic Analysis. Authors' calculations.

The K-shaped economy appears clearly in the blue versus red bars in Figure 2.4. While real GDP was growing upwards of 4% to 8% in some industries, it was contracting by over 2% in others. The federal government tops the list for negative GDP growth, followed by agriculture, utilities, retail trade, education, and accommodation and food services.

The contracting federal government was a stated goal of the Trump administration from day one, and it was achieved. In 2025, federal spending declined from 23.4% to 23.1% of GDP.[3] These spending cuts can have a multiplier effect on the economy, so it is not surprising to see a 3.1% reduction in this sector's GDP overall.[4]

[3] "Donald Trump vs. the Federal Budget Deficit" by Anthony W. Orlando (January 23, 2026, https://anthonyworlando.substack.com/p/donald-trump-vs-the-federal-budget).

[4] For an overview of evidence for the multiplier effect, see "Can Government Purchases Stimulate the Economy?" by Valerie A. Ramey (2011, *Journal of Economic Literature*).

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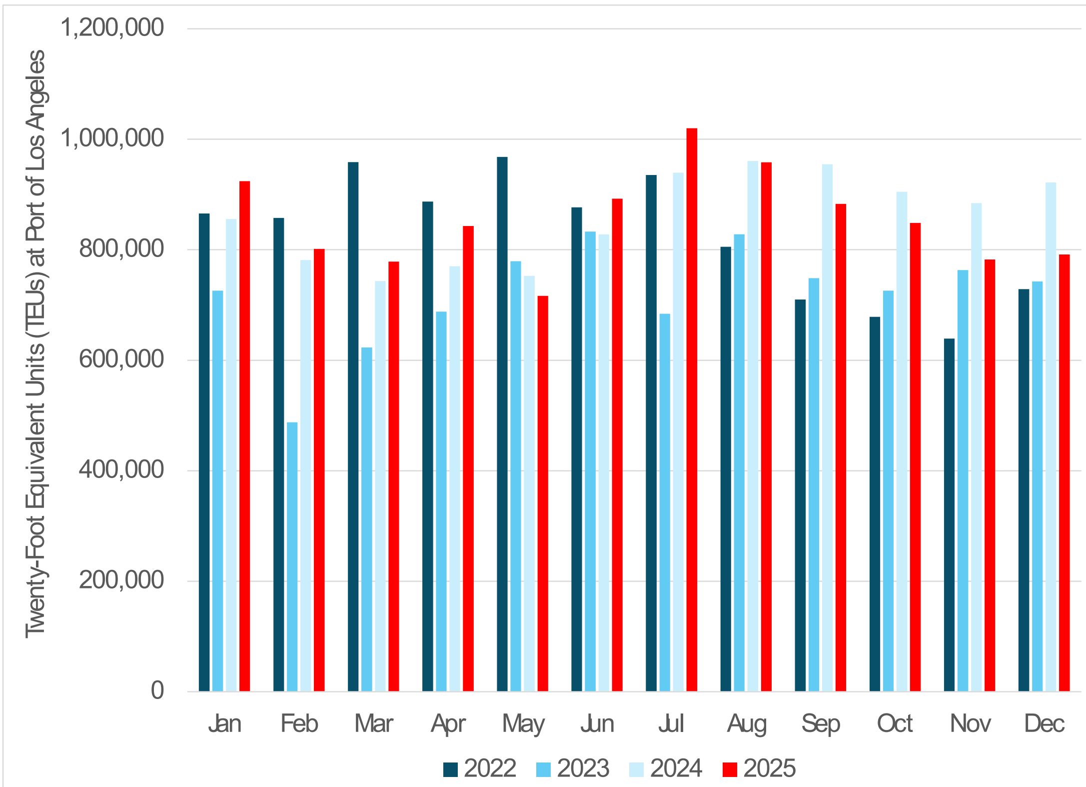
The other contracting sectors have borne the brunt of policy changes as well. Agriculture, retail trade, and food services all rely heavily on foreign-born labor, which has experienced a shortage of workers as a result of immigration raids across the country.[5] They are also industries that are highly exposed to the negative impacts of tariffs. Meanwhile, the education sector is suffering from declining enrollment due to demographic shifts, as well as significant budget cuts from and legal battles with the federal government.[6]

Not all industries were forced into "recession" (i.e. contracting GDP) by these policy changes. Manufacturing, wholesale trade, and transportation and warehousing have continued growing despite the increased cost of tariffs. Figure 2.5 shows the monthly trade volume at the Port of Los Angeles — with the blue bars representing 2022-2024 and the red bars representing 2025. While trade activity underperformed in some months and overperformed in others, there does not appear to be any evidence that the red bars are significantly lower than the blue bars across the year on average. Despite the national 2.5% decline in imports, trade flows have been resilient in Southern California, which is good news for the logistics, manufacturing, transportation, and warehouses in the San Gabriel Valley.

Manufacturing and logistics remained resilient, despite some policy shifts which hurt agriculture, retail, food services, and education through labor shortages, tariffs, and budget cuts.

FIGURE 2.5
Monthly Trade Volume at the Port of Los Angeles, 2022-2025



Data source: Port of Los Angeles.

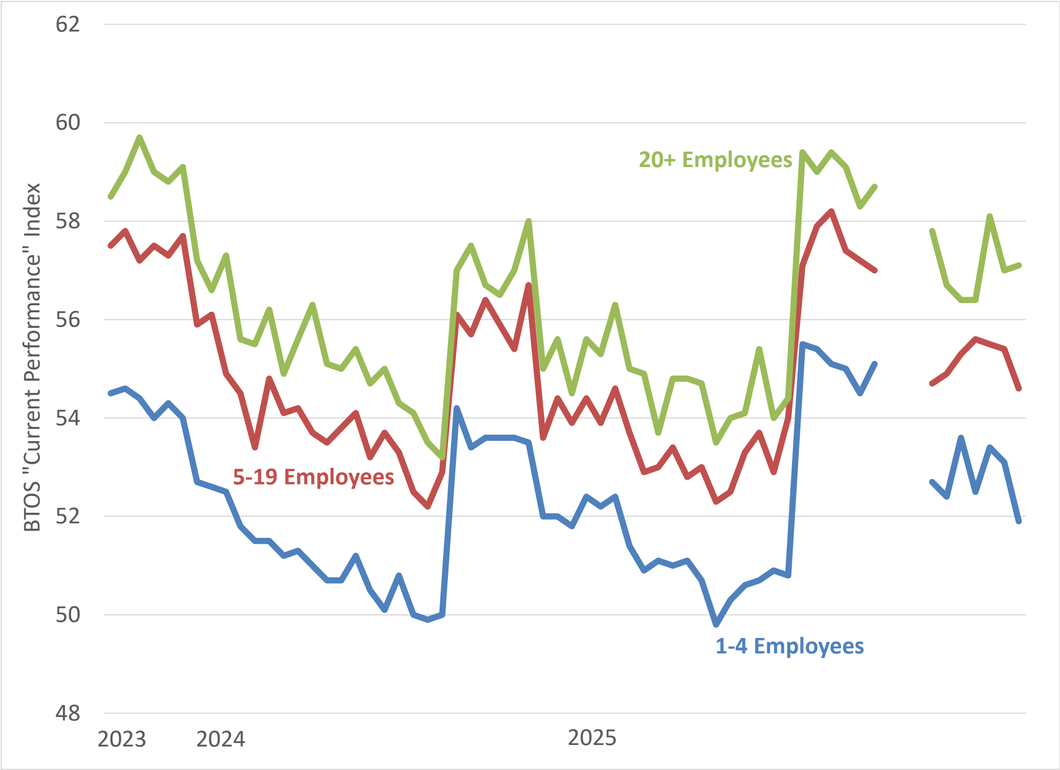
Large vs. Small Businesses

The K-shaped economy also appears among firms of different sizes. Starting in late 2023, the US Census Bureau has surveyed businesses biweekly to measure their financial performance. Figure 2.6 shows the resulting "current performance" index. Despite the fluctuations, the index has not changed significantly. Businesses are describing their performance in late 2025 at approximately the same levels as late 2023 and 2024.

[5] "The Role of Immigrants in the US Labor Market" by the Congressional Budget Office (2005, https://www.aila.org/files/o-files/view-file/E76F43F4-D83B-45B6-961F-D5C75B119F47).

[6] "Knocking at the College Door: Projections of High School Graduates" by Patrick Lane, Colleen Falkenstern, and Peace Bransberger (2024, Western Interstate Commission for Higher Education, https://www.wiche.edu/wp-content/uploads/2024/12/2024-Knocking-at-the-College-Door-final.pdf).

FIGURE 2.6
"Current Performance" in Business Trends & Outlook Survey, by Firm Size



Data source: US Census Bureau.

Small businesses are feeling the economy's pressures most acutely, reporting weaker performance than larger firms as thin margins and limited access to capital make rising costs and uncertainty harder to absorb.

Not all firms report the same "current performance," though: Small businesses, with 1 to 4 employees, report significantly lower performance than medium businesses, with 5 to 19 employees, and both of these groups report worse performance than large businesses, with 20 or more employees. The headwinds in this economy are more difficult for small businesses to withstand. They tend to operate on lower profit margins with less access to borrowing and other capital to smooth the bumps in the road. High interest rates, high tariff rates, high uncertainty, and a shrinking foreign-born workforce impose costs on all businesses, but small businesses are less prepared to absorb these costs without experiencing severe losses.

Photo courtesy of the City of Azusa.

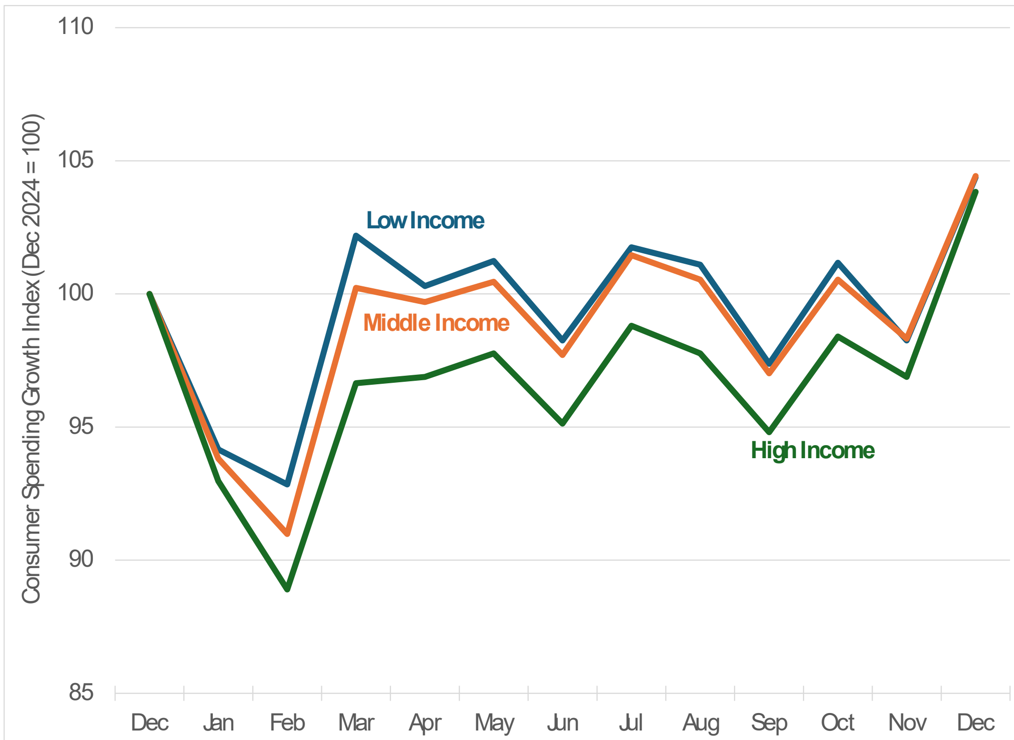
High- vs. Low-Income Households

This K-shaped economy does not appear as clearly in consumer behavior as it does in firm performance. Opportunity Insights, a group of Harvard and Brown University economists, tracks monthly consumer spending growth across the United States, and they can identify the average income of the neighborhood where the consumers live. Figure 2.7 shows the difference in consumer spending growth throughout 2025 for low-, middle-, and high-income neighborhoods. Overall, there is no significant difference. In the early months of 2025, consumer spending was growing faster in low- and middle-income neighborhoods, but the high-income neighborhoods caught up in the last few months of the year. All groups were spending 4% more in December 2025 than they were in December 2024.

Despite talk of a K-shaped economy, consumer spending grew similarly across income levels in 2025, with low-, middle-, and high-income neighborhoods all spending about 4% more than a year earlier.

FIGURE 2.7

Monthly Consumer Spending Growth by Neighborhood Income



Data source: Opportunity Insights. Authors' calculations.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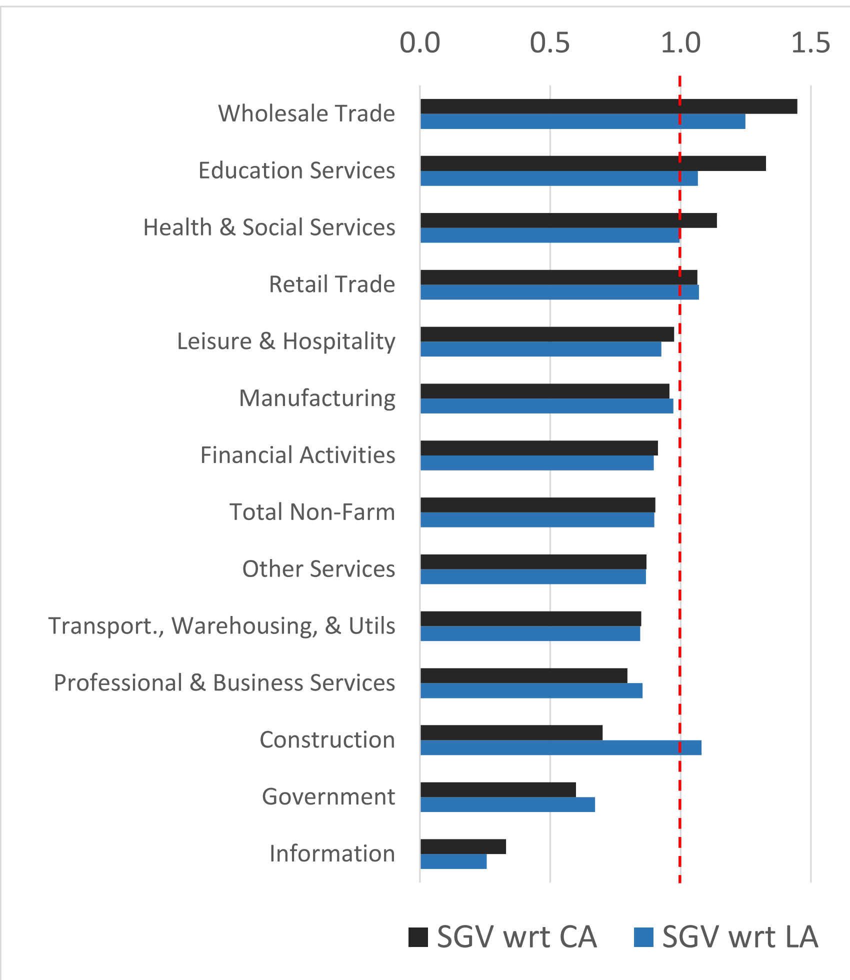
Section Three
San Gabriel Valley Labor Force

The San Gabriel Valley consists of four Census County Divisions (CCD) within the county of Los Angeles: East San Gabriel Valley CCD, Pasadena CCD, Southwest San Gabriel Valley CCD, and Upper San Gabriel Valley CCD. These areas comprise 31 incorporated cities and 13 Census Designated Places (see Appendix A), with a 2016-26 average annual population growth rate of negative 0.13%. Relative to California, its major employment industries include wholesale trade, education, health care, and retail trade. Figure 3.1 shows the estimated location quotients[1] by industry within the San Gabriel Valley with respect to California and Los Angeles County for 2025.

In 2024 the SGV population reached 1.8 million, about 18.4% of Los Angeles County. Growth recently stabilized but long-term projections suggest gradual decline due to aging populations and domestic outmigration.

Figure 3.1
Location Quotients for the San Gabriel Valley, 2025



Source: Census, CA EDD.

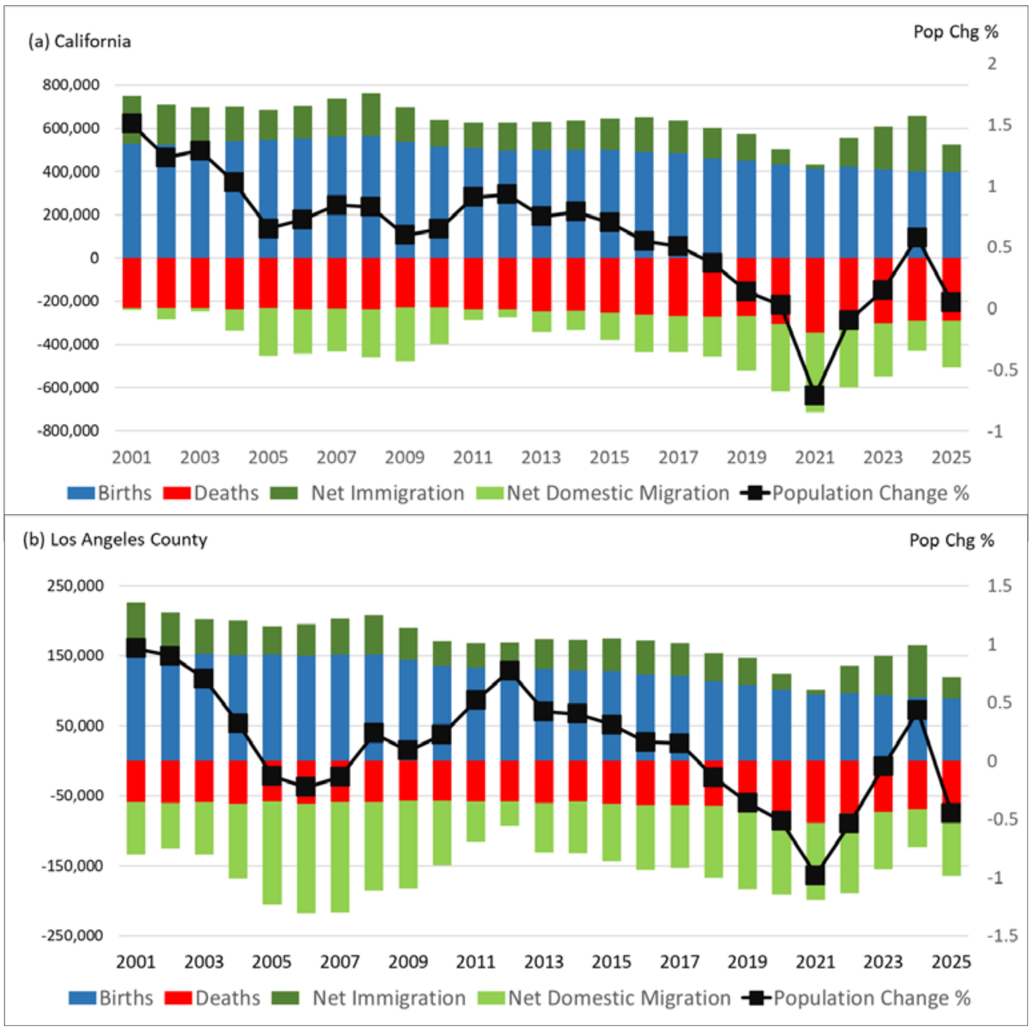
[1] Location quotients are the ratio of SGV to Los Angeles County (or California) per capita employment by industry.

Population

In 2024, the total population of the San Gabriel Valley, including Census Designated Places, was 1.809 million,[2] or 18.4% of Los Angeles County's population (Appendix A). The racial and ethnic composition in the SGV is similar to that of Los Angeles County but has a significantly higher proportion of Hispanic or Latino and Asian populations when compared to the US The California Department of Finance uses this census data to estimate population by city through January 2025,[3] along with projections for the future.[4] As of 2025, cities in the SGV had a total population of 1.50 million (Appendix B). After declines in 2021-23, 2024 and 2025[5] saw increases in the SGV population.

For the next two years, the SGV population growth rate is projected to be around zero. Longer term, the CA Department of Finance expects both Los Angeles County and SGV populations to decline at an average annual rate of -0.13%. The components of this change are illustrated in Figure 3.2: natural growth is declining because birth rates are dropping, while death rates are rising as the population ages. Net domestic migration (inter-state, plus intra-state in the case of LA county), while fluctuating significantly, is decidedly negative for both California and LA county. The high cost of living is often cited as the reason for this net domestic outmigration, and outmigration is only partly mitigated by net positive immigration (persons entering from abroad minus those leaving for abroad).

Figure 3.2
Component of Population Change, 2001-2025, in California (Panel a) and Los Angeles County (Panel b)



Sources: US Census, CA DoF.

[2] United State Census Bureau, 2026. American Community Survey Demographic and Housing Estimates, DP-05. data.census.gov.

[3] California Department of Finance, 2026. E-4 Population Estimates for Cities, Counties, and the State, 2021–2025, with 2020 Census Benchmark. dof.ca.gov.

[4] California Department of Finance, 2026. E-2 California County Population Estimates and Components of Change by Year. dof.ca.gov.

[5] 2025 is an estimate. We return to the issue of immigration later.

Impact of the 2025 Wildfires

The January 7, 2025, Eaton Fire destroyed about half of all structures in Altadena, a Census Designated Place in the San Gabriel Valley. 9,418 residential and commercial structures were destroyed and another 1,078 severely damaged. As of early March 2026, only 3,013 rebuilding applications had been received, 1,748 building permits had been issued, and only 17 new residential constructions were completed.[6] Progress is expected to be slow initially because infrastructure repair (which makes development physically possible) can take 12-18 months to complete. Low filing numbers suggest that many households and businesses may have chosen to relocate in the face of significant hurdles. Some (un- or under-insured) homeowners are unlikely to have the financial wherewithal to rebuild, and the regulatory process is complex. This is backed up by past wildfire experience: an estimate from California revealed that after two years only 8% of homeowners had pulled rebuilding permits.

In early 2025, we had estimated the fire impact on SGV construction to be a loss of 340 jobs over the baseline employment prediction.[7] This decline is reversed in 2026 and 2027, for which we predict rebuilding to add 1,640 and 2,870 construction jobs, respectively, over baseline forecasts. For other industry sectors, we rely on a large-scale 2024 study[8] which used difference-in-differences on western US wildfires sites to isolate the labor market impact at a county level. These results allow us to estimate (non-construction) job losses (relative to baseline) in the San Gariel Valley of 2,600 and 1,500 for 2026 and 2027, respectively.

The January 2025 Eaton Fire devastated Altadena, destroying over 9,000 structures. Rebuilding progress remains slow, though reconstruction activity is expected to significantly boost construction employment during 2026 and 2027.

Tariffs

After rising from 2% to 6% in January to March, 2025, the average statutory tariff rate spiked to 16% in April and May (due to 125% tariffs on imports from China) and settled at 12-15% for the remainder of the year.[9] The effective (duty) rate rose from 2% to 10% through July and leveled off at 11% for the remainder of the year. The latter rate is lower than the statutory rate because of numerous exemptions under, for example, the US-Mexico-Canada Agreement. Customs and Border Protection data indicates that $142 billion[10] in revenue was collected in 2025, the overwhelming bulk of which relied on authority under the International Emergency Economic Powers Act (IEEPA, 1970).

On February 20, 2026, the Supreme Court vacated the authority of IEEPA-tariffs as used in 2025. Four days later, the President signed a new global tariff of 10% under Section 122 of the Trade Act of 1974. Without exemptions, this new tax would roughly replicate the average duty rate in place during the second half of 2025. While the specific authority of Section 122 is limited to 150 days, it is generally believed that other Sections and the Smoot-Hawley Act could be used, in principle, to replicate the IEEPA tariff regime indefinitely.

A recent study[11] finds that the ruling vacating IEEPA tariffs would halve the US unemployment-rate increase due to tariffs from 0.6% to 0.3% by the end of 2026, *provided* no other authorities are invoked. Since the pre-ruling information will have been assimilated into baseline

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[6] LA County Recovers, March 2026. Permitting Progress Dashboard. https://recovery.lacounty.gov/rebuilding/permitting-progress-dashboard/.

[7] Partly mitigated by civil engineering construction gains and some worker rotation to other sites in the San Gabriel Valley.

[8] Max Nielsen-Pincus, Cassandra Moseley, and Krista Gebert, 2014. Job growth and loss across sectors and time in the western US: The impact of large wildfires. *Forest Policy and Economics, 38*, pp 199-206. http://dx.doi.org/10.1016/j.forpol.2013.08.010.

[9] Liberty Street Economics, February 2026. Who is Paying for the 2025 Tariffs? New York Federal Reserve. https://libertystreeteconomics.newyorkfed.org.

[10] US Customs and Border Protection, February 2025. Trade Statistics, https://www.cbp.gov/newsroom/stats/trade.

[11] The Budget Lab at Yale, February 2026. State of US Tariffs: SCOTUS Ruling Update. https://budgetlab.yale.edu/research/state-us-tariffs-scotus-ruling-update.

projections, the unemployment rate should be adjusted *downward* by 0 to 0.3%, depending on the political will to maintain the IEEPA regime, and the timing and outcome of further legal challenges to new tariffs. Given that replicating Section 122 tariffs are already in place for the next 5 months, and final resolution of legal avenues will take time, we are inclined not to adjust baseline projections for changes to the tariff regime.

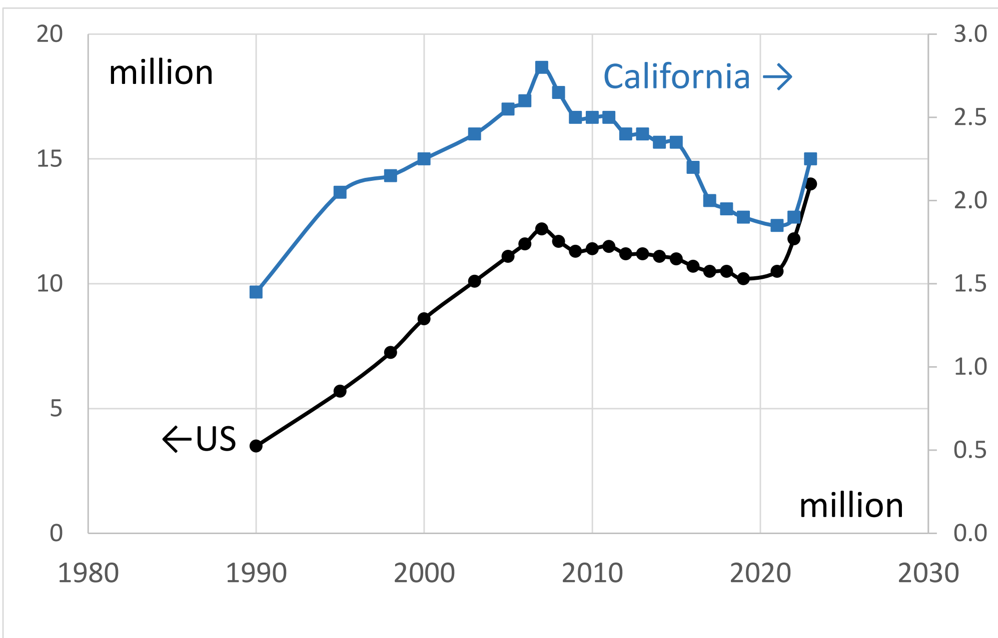
Immigration

Changes in Federal removal policy for unauthorized immigrants may have measurable local impact on SGV employment that differs from wider geographies, but this is difficult to measure.

Changes in Federal removal policy for unauthorized immigrants[12] may well have material local impact on San Gabriel Valley employment that differs from wider geographies. Note that the term "unauthorized immigrants" is not perfect since it covers persons with both limited and no protection from deportation but is commonly used in migration research. According to the Library of Congress,[13] the term encompasses individuals that "… are noncitizens […] who generally have entered the United States without inspection, overstayed a period of lawful admission, or violated the terms of their admission." However, it also includes temporary, revocable, or pending statuses, such as those with temporary protected status (TPS), asylum applicants awaiting a decision, and humanitarian parolees. "Unauthorized immigrant" does not include lawful permanent residents, admitted refugees, those granted asylum, formerly unauthorized immigrants granted legal residence under the Immigration and Reform Act of 1986, nor temporary residents with a visa. Given the nature of the data, the estimates that follow in this section will be prone to larger errors, as we rely on extrapolations.

A 2025 Pew Research Center report[14] estimates that unauthorized immigrants in the US numbered 14 million in 2023, of which 2.25 million resided in California (Figure 3.3). Of the US population, roughly three-quarters (10.4 million) were born in the western hemisphere ex-Canada (Appendix C). About 43% (~ 6 million) had some form of protected status.

Figure 3.3
Unauthorized Immigrant Population (millions)



Data source: Pew Research Center.

[12] This term is not perfect since it covers persons with both limited or no protection from deportation but is commonly used in migration research. It does not include lawful permanent residents, admitted refugees, those granted asylum, formerly unauthorized immigrants granted legal residence under the Immigration and Reform Act of 1986, nor temporary legal residents with a visa.

[13] Library of Congress, 2022. Unauthorized Immigrants: Frequently Asked Questions. Congress.gov. CRS Product Number R47218.

[14] Pew Research Center, 2026. US Unauthorized Immigrant Population Reached a Record 14 million in 2023. www.pewresearch.org.

For changes in the unauthorized population since 2023, the data is much less clear. The Census Bureau estimates that a net US migration of 2.8 million occurred between 2023 and 2024.[15] Since authorized new arrivals amounted to about 0.6 million persons,[16] an estimated 2.2 million unauthorized immigrants were added in 2024 - if none of the new arrivals left the country during this time. This, however, does not represent the increase in the unauthorized population for 2024, because status adjustments and deaths are not included. For 2025, DHS has reported[17] removals and self-deportation of around 0.6 and 1.9 million people, respectively. The latter number is estimated[18] from an analysis of the Census Bureau's CPS on the foreign-born population. Other authors[19] have argued that the self-deportation estimates might be as much as a factor of 10 lower: self-selection bias is likely significant in interactions with any government-linked programs. Given this, the 2025 reduction in the unauthorized immigrant population could be anywhere between 0.8 and 2.5 million, but on the balance of probability lies at the lower end of this range.

The 2025 reduction in the unauthorized immigrant population could be anywhere between 0.8 and 2.5 million, probability suggesting that the actual figure lies at the lower end of this range.

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[15] US Census, 2024. Census Bureau Improves Methodology to Better Estimate Increase in Net International Migration. https://www.census.gov/newsroom/blogs/random-samplings/2024/12/international-migration-population-estimates.html.

[16] US Department of Homeland Security, 2026. Legal Immigration and Adjustment of Status Report. Office of Homeland Security Statistics, https://ohss.dhs.gov/topics/immigration/legal-immigration-and-adjustment-status-report.

[17] Department of Homeland Security, 2025. Thanks to President Trump and Secretary Noem, more than 2.5 million illegal aliens left the US Press Release. https://www.dhs.gov/news/2025/12/10/thanks-president-trump-and-secretary-noem-more-25-million-illegal-aliens-left-us.

[18] Center for Immigration Studies, August 2025. Overall Foreign-Born Population Down 2.2 Million January to July. www.cis.org.

[19] Center for Migration Studies, January 2026. The Two Million Deportation Myth: How Aggressive ICE Enforcement Distorts Immigration Data. www.cmsny.org.

For 2023, the unauthorized immigrant US labor force is estimated around 8.4 million[20] (5% of the total labor force). The industry breakdown is given in Table 3.1. These workers are predominantly found in construction, professional and business services, leisure and hospitality, and manufacturing.

In Table 3.1, we speculatively estimate the 2025 employment of unauthorized immigrants by industry in the San Gabriel Valley. This is a base case projection, because we shall assume that the proportion of the unauthorized population by race and ethnicity is fixed across geographies. This assumption might well be violated given the relative stability of unauthorized populations in California versus the US (recall Figure 3.3). Further, we assume that the industry concentrations of unauthorized immigrant employment are fixed across geographies. The result is a labor force of about 82,000 unauthorized immigrants in the SGV, or 9.3% of the total. The highest percentages occur in professional and business services (25%), leisure and hospitality (19%), and health care and social assistance (14%), followed closely by construction, manufacturing, and retail (all 9%).

To estimate removals and self-deportation in the SGV, we assume that its incidence by group is like that in the US, that workers are equally likely as non-workers to leave the population, and that the industry incidence matches its unauthorized employment. None of these assumptions need be true, but in the absence of evidence to the contrary, they are natural priors. We conclude that 6,300 unauthorized workers in the SGV left the labor force during 2025, and that this number has not been accounted for in the 2025 baseline projections.

Estimates give a labor force of about 82,000 unauthorized immigrants in the SGV, or 9.3% of the total workforce.

Table 3.1
Estimates of Unauthorized Immigrant (UI) Employment by Industry

	US 2023		SGV 2025 Estimate		
Industry	**UI Emp**	**% of UI Lab. Frc.**	**UI Emp**	**% of UI Lab. Frc.**	**% UIE in Industry**
Construction	1,729,000	20%	7,520	9%	28%
Professional & Business Services	1,355,200	16%	20,480	25%	22%
Leisure & Hospitality	1,129,400	13%	15,280	19%	18%
Manufacturing	909,700	11%	7,420	9%	15%
Retail Trade	642,800	8%	7,410	9%	11%
Other Services	542,900	6%	1,970	2%	9%
Transportation, Warehouse & Utilities	500,500	6%	2,440	3%	8%
Health Care & Social Assistance	495,100	6%	11,540	14%	8%
Natural Resources & Mining	321,000	4%	40	0%	6%
Financial Activities	276,500	3%	1,370	2%	5%
Wholesale Trade	182,400	2%	1,170	1%	3%
Educational Services	148,000	2%	550	1%	2%
Information	87,800	1%	110	0%	1%
Unemployed	114,500	1%		4,330	5%
UI Labor Force	**8,434,800**	**100%**	**81,630**	**100%**	
% of Total Labor Force	**5.0%**		**9.3%**		

Data source: Source: Census Bureau, Center for Migration Studies.

[20] Center for Migration Studies, 2025. The Role of Undocumented Workers in High-Growth Occupations and Industries Across the United States. cmsny.org.

SGV Employment Forecasts

Table 3.2 shows baseline estimate of 2025 SGV employment by major industry sectors, along with predictions for 2026 and forecasts for 2027 and 2030. These forecasts combine SGV location quotients with state employment[21] and population[22] projections by the Department of Finance. The location quotients were derived by aggregating NAICS-2 classifications of QCEW[23] into major industry employment for places in the SGV[24] and California (Appendix D). It is important to note that the baseline forecasts do not include local exogenous events, such as the Eaton Fire in January 2025, nor distortionary effects from local demographics, immigration, and tariffs.

Over the next year, non-farm employment growth is expected to slow considerably - from a robust 1.7% in 2025 to 0.3% in 2026. Worryingly, 2026 gains stem primarily from healthcare (2.6%) and public administration (1.4%). Sectors that were robust in 2025 now marginally contribute to, or even detract from, growth. Educational services fell from 5.2% to 0.6%, transportation, warehousing, and utilities fell from 4.2% to 0.3%, retail trade from 1.4% to -0.6%, and leisure and hospitality fell from 3.2% to -0.4%. Employment growth may well be at a tipping point as industry breadth narrows.

Table 3.2
Baseline SGV Employment Forecasts

		Estimated	Predicted	Forecast	Forecast	% Change	% Change	Annual % Change
Industry	**2024**	**2025**	**2026**	**2027**	**2030**	**2024-25**	**2025-26**	**2025-30**
Total Non-Farm	673,040	684,340	686,550	687,410	696,060	1.7	0.3	0.3
Natural Resources & Mining	700	690	680	670	670	(1.4)	(1.4)	(0.6)
Construction	27,080	26,580	26,450	26,450	27,050	(1.8)	(0.5)	0.4
Manufacturing	49,710	49,830	49,060	48,720	48,420	0.2	(1.5)	(0.6)
Wholesale Trade	39,660	39,160	39,020	38,870	38,960	(1.3)	(0.4)	(0.1)
Retail Trade	69,500	70,490	70,050	69,430	68,360	1.4	(0.6)	(0.6)
Transportation, Warehouse & Utilities	28,520	29,750	29,850	29,970	30,610	4.3	0.3	0.6
Information	7,310	7,350	7,360	7,390	7,660	0.5	0.1	0.8
Financial Activities	31,520	30,290	30,210	30,250	30,760	(3.9)	(0.3)	0.3
Professional & Business Services	92,590	92,370	91,910	91,840	93,600	(0.2)	(0.5)	0.3
Educational Services	21,600	22,750	22,890	22,920	23,120	5.3	0.6	0.3
Health Care & Social Assistance	138,010	142,390	146,120	147,900	152,850	3.2	2.6	1.5
Leisure & Hospitality	80,130	82,670	82,310	81,680	81,840	3.2	(0.4)	(0.2)
Other Services	22,390	22,170	22,070	22,030	22,260	(1.0)	(0.5)	0.1
Government	**64,470**	**68,410**	**69,360**	**69,900**	**70,330**	**6.1**	**1.4**	**0.6**

Source: Census Bureau, CA Department of Finance, EDD.

[21] California Department of Finance, February 2026. Economic Forecast, US, California, and Counties. https://dof.ca.gov/forecasting/economics/.

[22] California Department of Finance, February 2026. Demographic Projections. https://dof.ca.gov/forecasting/demographics/.

[23] United States Bureau of Labor Statistics, February 2026. Quarterly Census of Employment and Wages. https://www.bls.gov/cew/. As of February 2026, CQEW data through Q2 of 2025 is available.

[24] California Employment Development Department, February 2026. QCEW data for local places such as cities and census designated places in the SGV can be obtained by contacting their Labor Market Information Custom Data Services (https://labormarketinfo.edd.ca.gov/resources/lmi-custom-data-services.html).

Employment growth in the SGV is expected to slow sharply from 1.7% in 2025 to 0.3% in 2026, with healthcare and public administration driving most gains.

Healthcare growth is still fueled by an aging population in the SGV and surrounding areas, while quality school districts and a high concentration of tertiary educational institutions with an emphasis on social mobility contribute to enrollment growth. Strong government (public administration) employment growth is likely driven by high-demand public services, infrastructure investment, state-mandated housing requirements, and ongoing efforts to boost economic resilience following pandemic related declines.

High inflation and interest rates over the past few years, with attendant lower consumer and business spending, are contributing to negative employment growth in rate sensitive industries such as financial activities (-0.3%), professional and business services (-0.5%), retail (-0.6%), and leisure and hospitality (-0.4%). Construction (down 1.8% in 2025) is recovering into 2026 and beyond as Eaton wildfire rebuilding gathers momentum. Longer term, manufacturing (offshoring) and trade (brick-and-mortar substitution effects) sector employment has been in a slow secular decline for many years. Information growth (+0.58% annualized through 2030) is unsurprising as artificial intelligence data requirements expand. Healthcare (annualized +1.5% through 2030) experiences the strongest growth of all sectors, driven by an aging population.

Adding our scenarios for the January 2025 wildfire (to 2026 baseline projections) and unauthorized immigrant exits (to 2025 baseline projection), we arrive at Table 3.3, employment predictions for 2026 in the SGV by industry. Given that immigration is particularly exogenous, we do not feel confident in forecasting employment beyond the current year. Much will depend on realized net exits in 2026, and our assumption is that, as in late 2024, there will be far less net international migration.

Since 2025 employment drops due to immigration adjustments, the 2026 employment growth rate rises from 0.3% (baseline) to 0.9% (with adjustments). We foresee total non-farm employment increasing by 5,900 in 2026, versus only 2,200 in the baseline estimate. Construction (a 7.6% increase versus a baseline decline of 0.5%), hit both by a large immigration adjustment for 2025 and growing fire recovery in 2026, is a particularly large contributor.

Table 3.3
SGV Employment Forecasts: Adding Wildfire, Tariffs, and Immigration

Industry	2024	Estimate 2025	% Change Rel. Base 2025	Predicted 2026	% Change Rel. Base 2026	% Change 2025-26	Baseline % Change 2025-26
Total Non-Farm	673,040	678,030	(0.9)	683,970	(0.4)	0.9	0.3
Construction	27,080	25,970	(2.3)	27,940	5.6	7.6	(0.5)
Manufacturing	49,710	49,220	(1.2)	48,660	(0.8)	(1.1)	(1.5)
Wholesale Trade	39,660	39,060	(0.3)	38,750	(0.7)	(0.8)	(0.4)
Retail Trade	69,500	69,880	(0.9)	69,450	(0.9)	(0.6)	(0.6)
Transportation, Warehouse & Utilities	28,520	29,550	(0.7)	29,600	(0.8)	0.2	0.3
Information	7,310	7,340	(0.1)	7,340	(0.3)	-	0.1
Financial Activities	31,520	30,180	(0.4)	30,100	(0.4)	(0.3)	(0.3)
Professional & Business Services	92,590	90,700	(1.8)	91,160	(0.8)	0.5	(0.5)
Educational Services	21,600	22,710	(0.2)	22,800	(0.4)	0.4	0.6
Health Care & Social Assistance	138,010	141,450	(0.7)	145,350	(0.5)	2.8	2.6
Leisure & Hospitality	80,130	81,420	(1.5)	81,700	(0.7)	0.3	(0.4)
Other Services	22,390	22,010	(0.7)	21,920	(0.7)	(0.4)	(0.5)

Source: Census Bureau, CA Department of Finance, EDD, Center for Immigration Studies, PEW Research.

Other sectors with large migrant populations - professional and business services, leisure and hospitality, manufacturing, and health care – exhibit similar upward revisions in employment growth.

Further uncertainty for the labor markets stems from the recent spike in oil prices, not considered here. While supply shocks immediately show up in headline inflation, historically they tend not to filter through to core inflation – rather, they hurt GDP growth and could even result in a recession if $100 oil persists. Gas price hikes act like a tax because people cannot avoid them and consequently spend less elsewhere, which eventually filters down to employment. A protracted war would certainly bolster the case for more rate cuts in 2026.

Inflation and insurance rates, immigration adjustments, and spikes in oil prices all make employment rates in the near future unusually difficult to predict.

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Section Four
San Gabriel Valley Real Estate

The theme of the 2025 real estate market was "stuck in neutral." Across the San Gabriel Valley, there was little growth in prices or rents, though some cities and sectors performed better than others. This year, we provide more local analysis than ever before. Instead of delivering averages across the entire region, we are able to break down the SGV into three subregions, telling a more nuanced story about which sectors are strong in which local markets.

Nationally, capital flowed into real estate at a slightly healthier pace in 2025, compared to 2024, as we predicted last year. The total dollar volume of property transactions increased 12%, reaching the highest level since 2022.[1] The total dollar volume of commercial mortgage-backed security (CMBS) issuance also increased — *to the highest level since 2007*.[2] The office sector especially showed welcome signs of life, as we projected it would. Net absorption — move-ins minus move-outs — was positive for the first time since 2019, and 35 million square feet of obsolete space were removed through demolition or conversion, getting the total stock down to a level appropriate for the new demand of workers and businesses.[3]

Nationally, the office sector showed renewed life, with positive net absorption for the first time since 2019, although real estate development slowed due to regulatory barriers and higher interest rates.

[1] "US Commercial Real Estate Investment and Transactions Quarterly: Q4 2025" by Altus Group (https://www.altusgroup.com/featured-insights/cre-transactions/).

[2] "Private-Label CMBS Market Issuance Increased 21% in 2025, Reaching $125.6 Billion" by Orest Mandzy (January 20, 2026, Trepp, https://www.trepp.com/trepptalk/cmbs-issuance-2025).

[3] "US Office Tenant Demand Is Back in Positive Territory" by Katie Burke (February 9, 2026, CoStar, https://www.costar.com/article/666087873/us-office-tenant-demand-is-officially-back-in-positive-territory); "US Office Forecast Brightens as Demand Steadies, Obsolete Space Removed" by Phil Mobley (February 4, 2026, CoStar, https://www.costar.com/article/536283530/us-office-forecast-brightens-as-demand-steadies-obsolete-space-removed).

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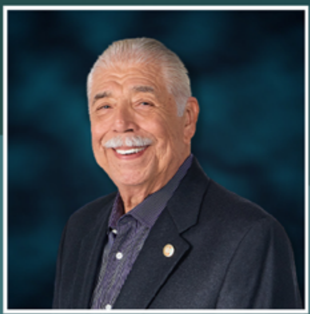

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At the same time, real estate development remained in the doldrums, as the GDP numbers showed. We saw this coming too. Both public policy and market trends have made it increasingly difficult for cities across the United States to build new real estate.[4] Southern California is famous for being one of the worst offenders in preventing development, but new evidence shows that the rest of the country is catching up.[5] Developers found ways to overcome these obstacles when interest rates were sitting at all-time lows, but it did not take much for those costs to exceed the projected cash flows.

In late 2025, though, we started to see green shoots, especially in lending. More banks began reporting to the Federal Reserve that there was growing demand for construction loans, and fewer construction lenders were tightening their lending standards. Both numbers started to look like they did in 2022 again.[6] Adding the boost of declining interest rates and more liquidity promised in the secondary mortgage market by Fannie Mae and Freddie Mac under new leadership, we forecast that 2026 is the year when development activity will start to pick up at long last.

Late-2025 improvements in lending demand, easing standards, and falling rates suggest development activity could strengthen in 2026.

Residential Real Estate: Single-Family Housing Prices

Housing prices came to a standstill in 2025. Coming into the year, they had been struggling to keep up with high inflation across the rest of the economy. High interest rates made it prohibitively expensive for most would-be homebuyers to afford a new mortgage, and would-be homesellers were "locked in" to low rates from years gone by. Demand and supply both declined, and very few sales took place, compared to historical norms.[7]

Those interest rates finally came down in 2025, as we forecasted they would. But home sales did not pick up. In fact, they declined to an even lower annual rate.[8] Why?

The timing of the rate cuts in Figure 4.1 is a clue (see following page). Monetary policy did not budge for the first eight months of 2025, and housing prices across Los Angeles County declined every one of those months under the weight of the tight lending market. August was the turning point. Over the next four months, the Federal Reserve cut the federal funds rate by 0.5 percentage points, and the 30-year fixed mortgage rate came down by nearly the same amount. Almost immediately, housing price growth flipped from negative to positive. Similarly, monthly home sales started outperforming their 2024 levels only in the final months of 2025.[9]

[4] "Housing Supply Elasticities: A Structural Vector Autoregression Approach" by Wesley A. Miller, Anthony W. Orlando, and Christian L. Redfearn (2026, *Journal of Applied Econometrics*).

[5] "Houston, You Have a Problem: How Large Cities Accommodate More Housing" by Anthony W. Orlando and Christian L. Redfearn (2024, *Real Estate Economics*).

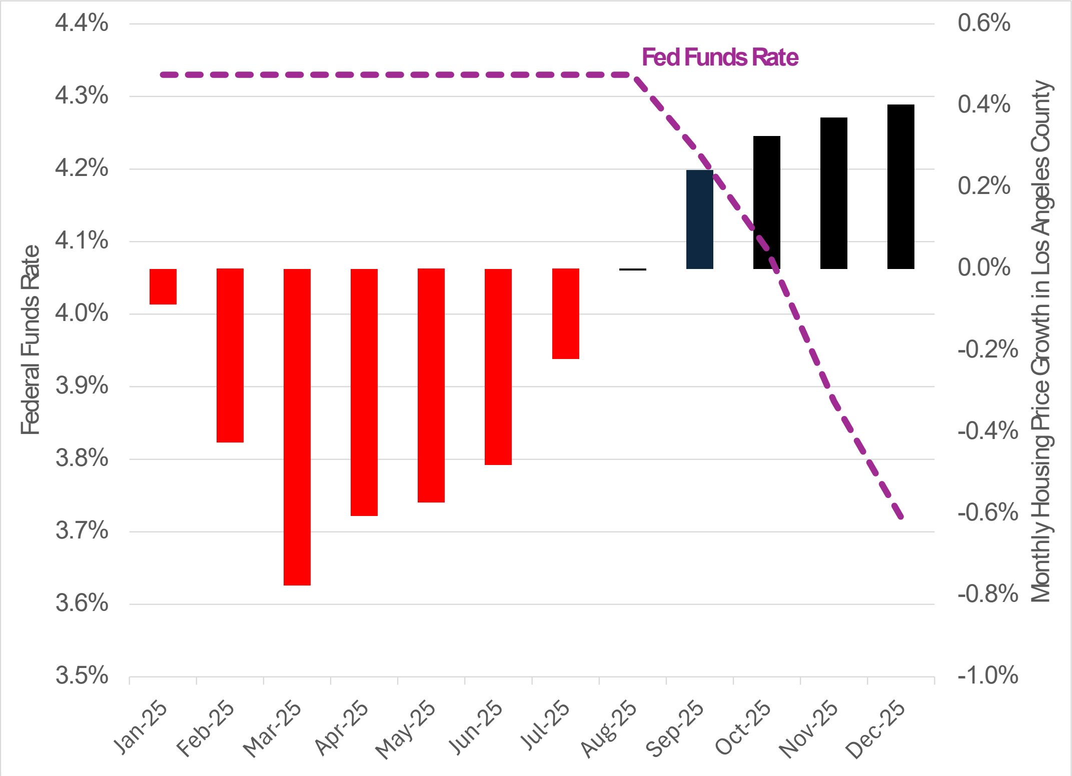
[6] "SLOOS Signals Improvement for Construction Lending as Demand Turns Positive & Spreads Tighten" by Stephen Buschbom (February 11, 2026, Trepp, https://www.trepp.com/trepptalk/construction-lending-sloos).

[7] "New Home Sales at 745,000 Annual Rate in December" by Bill McBride (February 20, 2026, https://calculatedrisk.substack.com/p/new-home-sales-at-745000-annual-rate); "NAR: Existing-Home Sales Decreased to 3.91 Million SAAR in January" by Bill McBride (February 12, 2026, https://calculatedrisk.substack.com/p/nar-existing-home-sales-decreased-5f1).

[8] "New Home Sales at 745,000 Annual Rate in December" by Bill McBride (February 20, 2026, https://calculatedrisk.substack.com/p/new-home-sales-at-745000-annual-rate); "NAR: Existing-Home Sales Decreased to 3.91 Million SAAR in January" by Bill McBride (February 12, 2026, https://calculatedrisk.substack.com/p/nar-existing-home-sales-decreased-5f1).

[9] "New Home Sales at 745,000 Annual Rate in December" by Bill McBride (February 20, 2026, https://calculatedrisk.substack.com/p/new-home-sales-at-745000-annual-rate); "NAR: Existing-Home Sales Decreased to 3.91 Million SAAR in January" by Bill McBride (February 12, 2026, https://calculatedrisk.substack.com/p/nar-existing-home-sales-decreased-5f1).

FIGURE 4.1
Monthly Housing Price Appreciation vs. Interest Rates, 2025



Data sources: Federal Reserve Bank of St. Louis; Zillow. Authors' calculations.

San Gabriel Valley housing has proven resilient: while prices across L.A. County fell 1.8% in 2025, SGV home values were nearly flat, outperforming the broader regional market.

On average, the SGV housing prices fared better than the rest of L.A. County. The equally weighted average housing price growth, across 29 SGV cities in Table 4.1, was only –0.1%, compared to –1.8% for the entire county. This outperformance has been consistent for the past four years, with the SGV's housing values growing faster than the rest of the county's.

Within the SGV, the locus of price growth shifted westward in 2025. The fastest price growth occurred in San Marino (5.4%), South Pasadena (2.8%), San Gabriel (2.5%), and Arcadia (2.3%). Price declines were scattered pretty evenly throughout the region, with the biggest declines in Sierra Madre (–3.2%), La Puente (–2.1%), and Pomona (–0.9%).

Slow or declining price growth has combined with lower interest rates to make housing slightly more affordable than it was a year ago. In January 2025, the median household had to spend 85% of their income to afford the median-priced home in the Los Angeles metropolitan area. By December, they "only" had to spend 80% of their income. This is still a crushing level of expense compared to the 52-54% required as recently as 2020. Unfortunately for homebuyers, those days of 3% interest rates or lower are unlikely to return anytime soon.

Photo courtesy of National CORE.

THREE VALLEYS MUNICIPAL WATER DISTRICT

More than 75 Years of Reliable Water

Three Valleys Municipal Water District is a wholesale water agency and treatment facility that was established by a vote of the people in 1950. Originally, called the Pomona Valley Municipal Water District, the name was changed in 1981 to better reflect the areas served including the Pomona, Walnut and eastern San Gabriel Valleys. Recently Three Valleys celebrated its 75th anniversary honoring the district for its achievements throughout the decades.

Three Valleys provides water to 13 customers covering a service area of 133 square miles. Three Valleys Municipal Water District is one of the 26 water agencies that makes up the Metropolitan Water District of Southern California.

The District helps educate the public and our communities about our water resources through water conservation messaging and educational tours of our treatment facility. We host additional educational events during the year through our tri-annual Leadership Breakfast meetings where we address topics that impact the water industry and important updates and decisions regarding water.

Our mission is to supplement and enhance local water supplies to meet our region's needs in a reliable and cost - effective manner. By focusing on water conservation and preserving our water resources we are ensuring that future generations can enjoy the benefits of a more sustainable world.

THREE VALLEYS
MUNICIPAL WATER DISTRICT

Website
threevalleys.com

Events
threevalleysmwd.eventbrite.com

Table 4.1
Annual Housing Price Appreciation by City, 2020-2025

	2020	2021	2022	2023	2024	2025	2020-2025 Cumulative
Alhambra	7.3%	9.3%	8.8%	4.2%	3.1%	0.1%	37%
Arcadia	6.0%	9.4%	5.9%	5.6%	3.5%	2.3%	37%
Azusa	8.9%	14.2%	7.4%	4.6%	4.6%	-1.5%	44%
Baldwin Park	9.5%	12.6%	9.9%	3.1%	4.8%	-1.3%	44%
Bradbury	6.3%	10.8%	-0.7%	1.5%	0.5%	0.7%	20%
Claremont	8.5%	13.0%	6.9%	4.6%	4.5%	0.4%	44%
Covina	10.0%	14.4%	6.2%	4.0%	4.3%	-0.6%	44%
Diamond Bar	7.5%	14.3%	7.9%	4.8%	5.9%	-0.9%	46%
Duarte	8.8%	13.3%	6.4%	3.5%	3.7%	-0.7%	40%
El Monte	8.0%	12.7%	7.4%	4.0%	3.1%	-0.2%	40%
Glendora	9.0%	13.9%	5.6%	4.2%	3.0%	-0.4%	40%
Irwindale	10.5%	13.8%	8.1%	-0.1%	5.5%	-1.9%	40%
La Cañada Flintridge	8.8%	13.5%	3.6%	10.5%	4.8%	-0.3%	48%
La Puente	9.6%	13.2%	8.9%	3.7%	4.9%	-2.1%	44%
La Verne	9.9%	13.6%	6.7%	4.8%	4.8%	-0.2%	46%
Monrovia	8.6%	11.8%	6.4%	3.2%	1.3%	-0.1%	35%
Montebello	9.9%	9.4%	7.0%	4.1%	4.1%	-0.2%	39%
Monterey Park	7.6%	10.2%	7.8%	4.9%	4.0%	-0.3%	39%
Pasadena	8.1%	12.6%	6.3%	4.9%	4.1%	-1.5%	39%
Pomona	9.7%	16.1%	7.0%	4.3%	4.7%	-1.9%	46%
Rosemead	8.4%	10.8%	7.0%	4.5%	4.7%	0.5%	41%
San Dimas	8.6%	14.9%	7.2%	4.5%	3.8%	0.7%	46%
San Gabriel	7.8%	10.3%	7.2%	4.7%	3.6%	2.5%	42%
San Marino	4.3%	5.1%	0.3%	5.5%	1.5%	5.4%	24%
Sierra Madre	8.8%	13.9%	7.7%	4.1%	4.1%	-3.2%	40%
South El Monte	9.1%	12.6%	10.5%	7.1%	3.6%	-1.4%	49%
South Pasadena	7.7%	12.9%	4.8%	9.2%	3.0%	2.8%	47%
Temple City	7.6%	10.3%	6.0%	3.8%	3.3%	1.1%	36%
Walnut	6.0%	12.6%	8.9%	5.7%	5.1%	-0.3%	44%
West Covina	9.3%	14.4%	6.8%	4.9%	4.5%	-0.8%	45%
29-City Average	**8.3%**	**12.3%**	**6.7%**	**4.6%**	**3.9%**	**-0.1%**	**41%**
Los Angeles County	**9.3%**	**13.1%**	**5.4%**	**4.1%**	**2.8%**	**-1.8%**	**37%**

Data source: Zillow. Authors' calculations.

Congratulations

To the San Gabriel Valley Economic Partnership on their 2026 SGV Economic Forecast Summit a tradition which stretches back to 1991.

May we continue to thrive together!

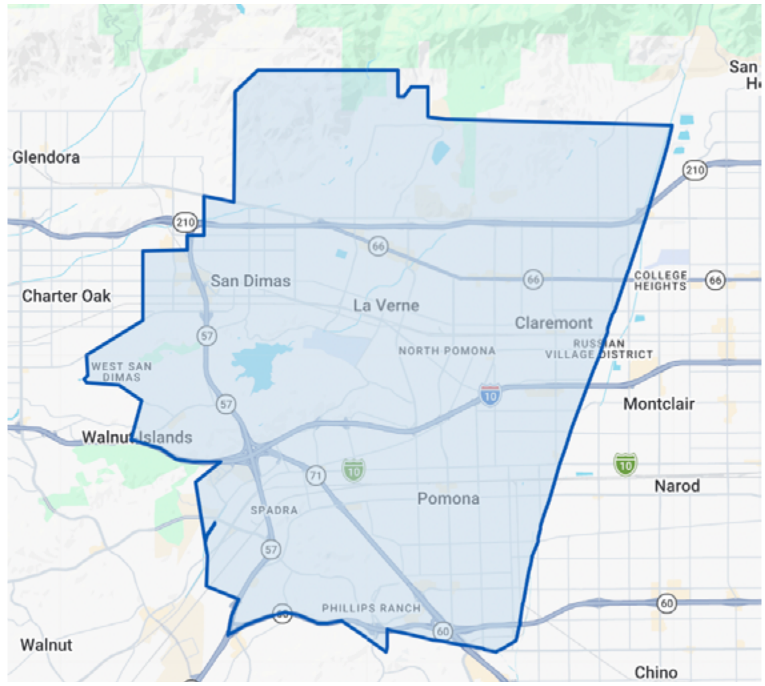
CITRUS VALLEY
REALTOR®
ASSOCIATION OF REALTORS®

Commercial Real Estate: East San Gabriel Valley

The East San Gabriel Valley market includes cities like San Dimas, La Verne, Claremont, and Pomona, as shown in Figure 4.2. It is the most distant from the core of Los Angeles County and overlaps with the regional economies of Riverside County and San Bernardino County. It has significantly lower average rents for industrial, office, and retail properties than the other SGV submarkets, and its multifamily rents are similar to the Lower SGV multifamily market. The East SGV therefore provides significant value for tenants who prioritize affordability over proximity to the core of the metropolitan area.

In the East San Gabriel Valley market, rents have begun rebounding in the industrial sector after the previous year of severe decline, with 2.4% rental growth from 2024 Q4 to 2025 Q4. The office and retail sectors, in contrast, have fallen farther, with –3.4% and –2.8% rental growth, respectively. This subregion did not experience the sharp decline in office rents that we saw in the core of Los Angeles, but it is also slower to recover than other subregions of the SGV. The multifamily sector also did not experience a significant drop-off in rents after the construction boom of the pandemic years. In 2025, it stagnated with very little change in rents.

Figure 4.2
The East San Gabriel Valley Market



Source: CoStar.

Combining these pricing indicators with construction activity, we can draw conclusions about supply and demand shifts in Figure 4.3. The industrial sector is still not experiencing much construction activity, but the positive rental growth signals a shift from decreasing to increasing demand. The other three sectors experienced declining demand in 2025, with greater rent declines in office and retail versus less construction activity in multifamily. In general, 2025 was a weak year for commercial real estate in the East San Gabriel Valley, with the exception of a burgeoning rebound in the industrial sector.

Mostly, this economic weakness has appeared to landlords as a market "stuck in neutral," with vacancy rates not budging much in all four sectors, as shown in Figure 4.5. Since 2021, vacancy rates have come down in office and retail properties, while they have gone up in industrial and multifamily properties, reflecting the reversal of fortunes that we have seen across the national economy. In 2025, there was little significant movement toward better or worse occupancy.

Figure 4.3
Supply and Demand Trends in the East SGV

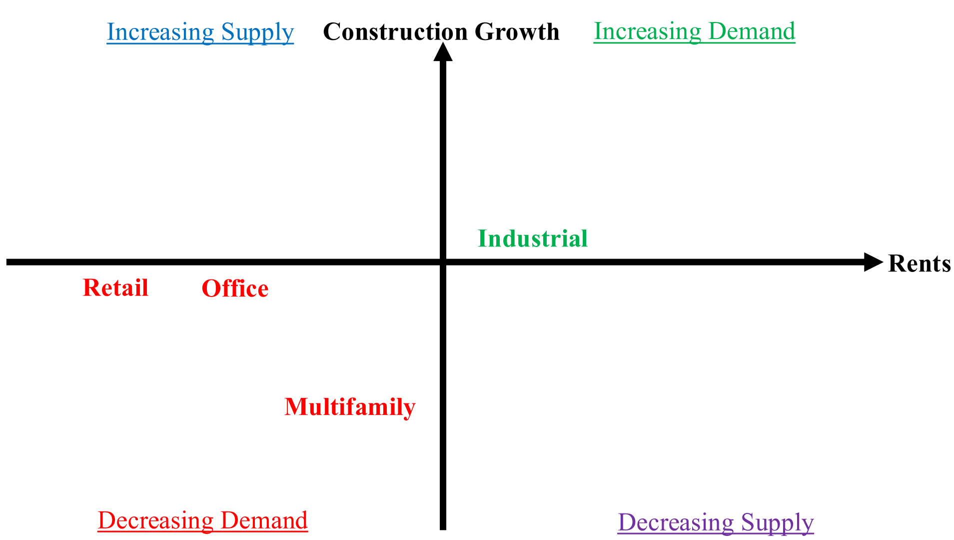
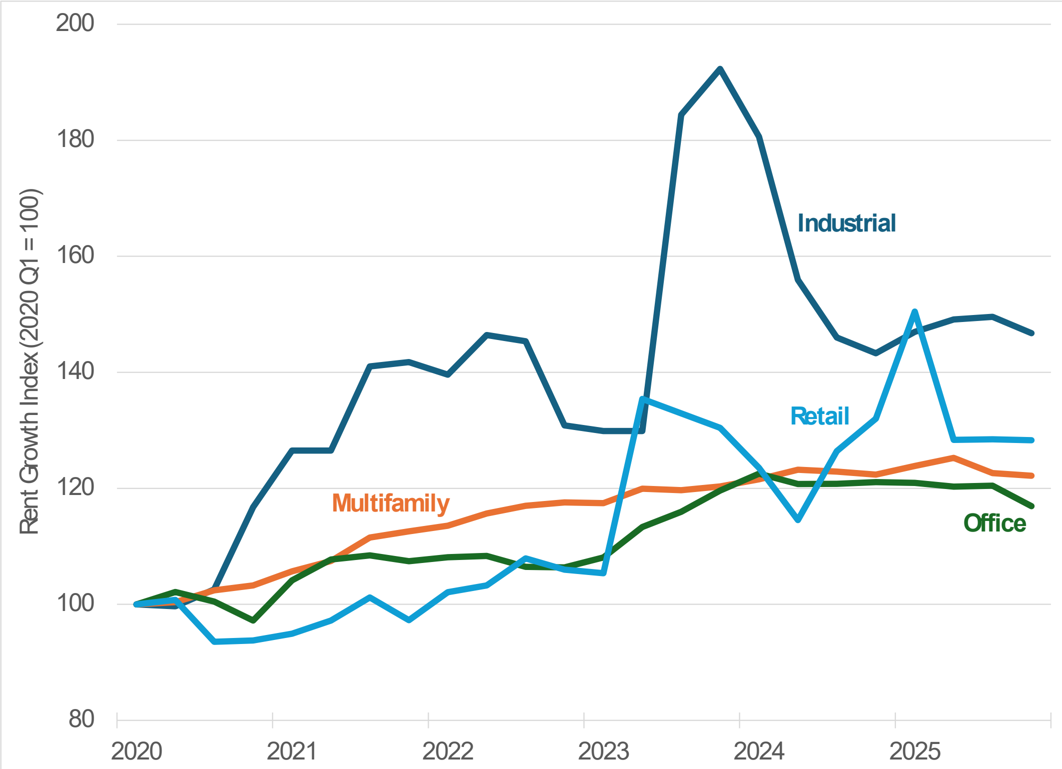


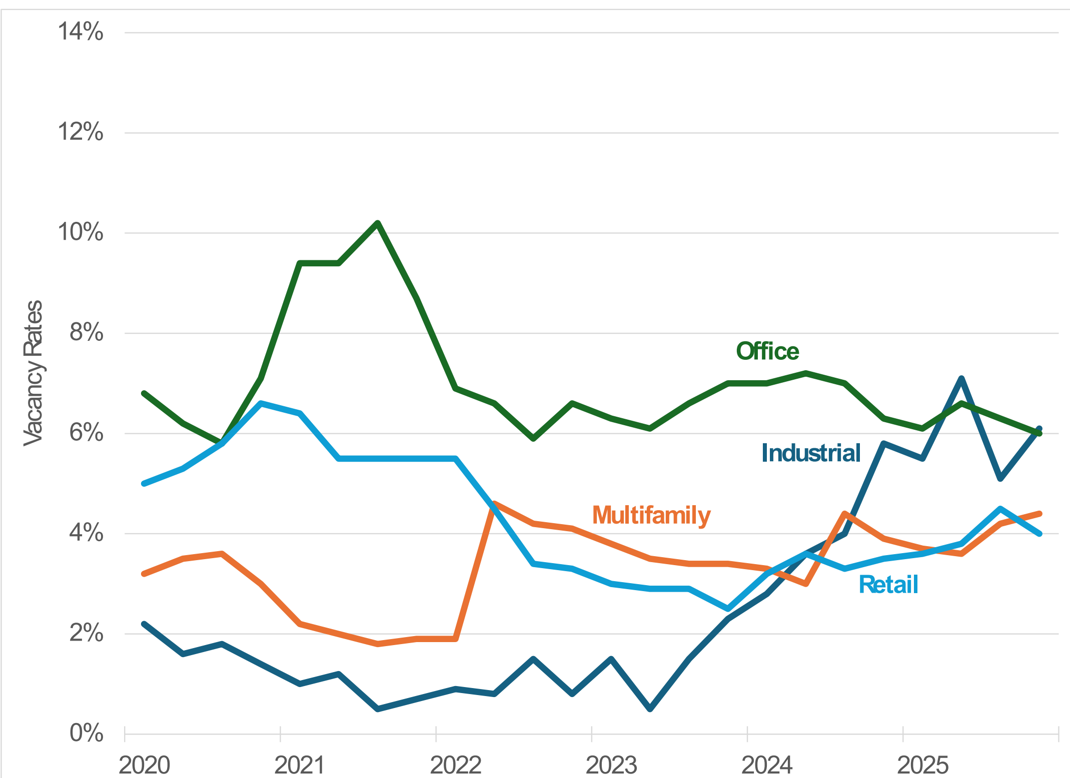
Figure 4.4
Rent Growth in the East SGV, 2020-2025



Data source: CoStar. Authors' calculations.

East San Gabriel Valley real estate offered lower rents and mixed performance in 2025: industrial rents rebounded modestly while office and retail declined, leaving most sectors with stable vacancy and limited growth.

Figure 4.5
Vacancy Rates in the East SGV, 2020-2025



Source: Costar.

In the East San Gabriel Valley, the industrial sector is quietly rebounding with 2.4% rent growth, even as office and retail rents continue to decline and the broader market remains "stuck in neutral."

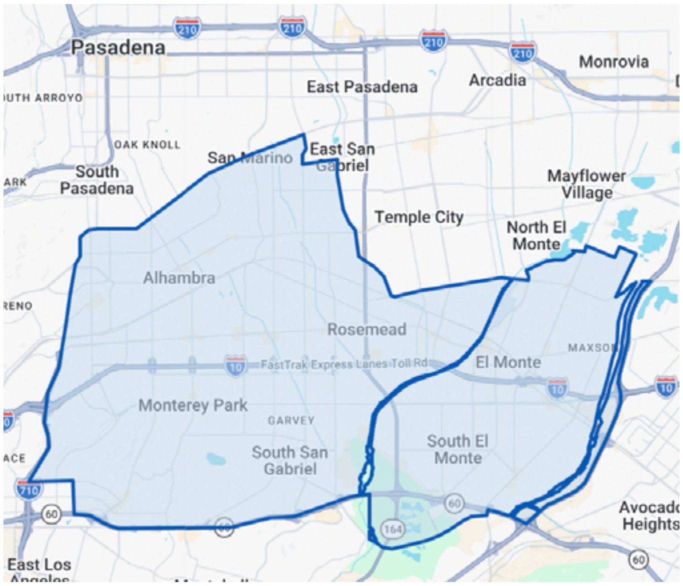
Commercial Real Estate: Lower San Gabriel Valley

The Lower San Gabriel Valley includes cities like Monterey Park, South El Monte, and San Gabriel, as shown in Figure 4.6. It is very close to the core of Los Angeles County, and it also borders on the regional economy of East Los Angeles. On average, its industrial and retail rents are similar to the Upper SGV market, well above the East SGV market, while its multifamily and office rents are similar to the East SGV market, well below the Upper SGV market. Thus, it appears that the region has more economic strength in industrial and retail sectors, compared to multifamily and office sectors, based on consumers' willingness to pay for these properties.

The industrial sector in the Lower San Gabriel Valley rebounded to the tune of 7.0% rent growth in 2025 after a severe decline in the previous two years, as shown in Figure 4.7. In contrast, rents declined 1.8% in the office sector and 5.6% in the retail sector. The multifamily sector stagnated, with almost no change in the average rents across the market.

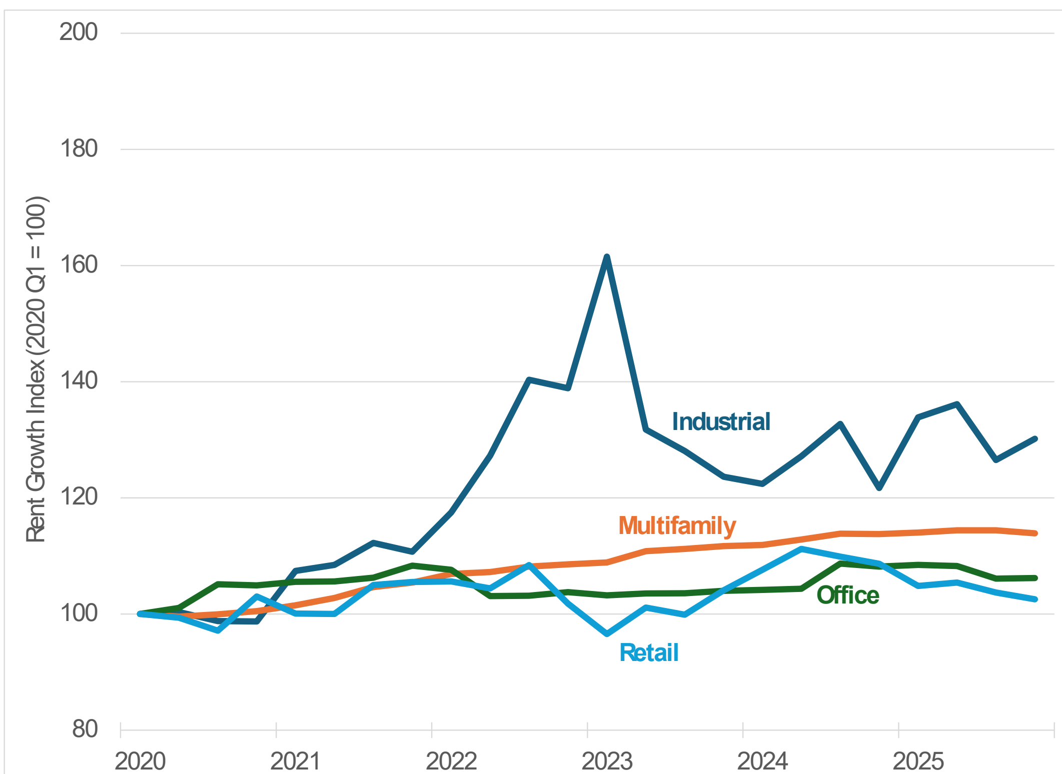
Following this strong pricing indicator, construction activity was very positive in the industrial sector, indicating an increase in demand for these properties, as shown in Figure 4.8. The weakness that followed the overbuilding of the pandemic years was clearly temporary. The San Gabriel Valley is still a hotbed for future industrial demand, and the Lower SGV is a prime location. Office construction has also increased, indicating a rebound despite the lingering weakness in rents. Developers clearly see the office market turning a corner and are betting on the future needs of the workforce. In contrast, construction activity declined

Figure 4.6
The Lower San Gabriel Valley Market



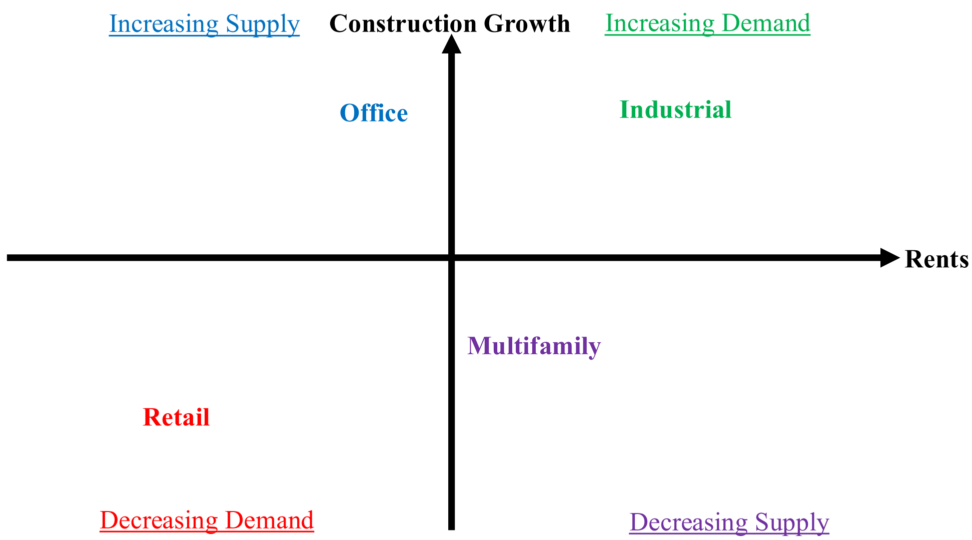
Source: CoStar.

Figure 4.7
Rent Growth in the Lower SGV, 2020-2025



Data source: CoStar. Authors' calculations.

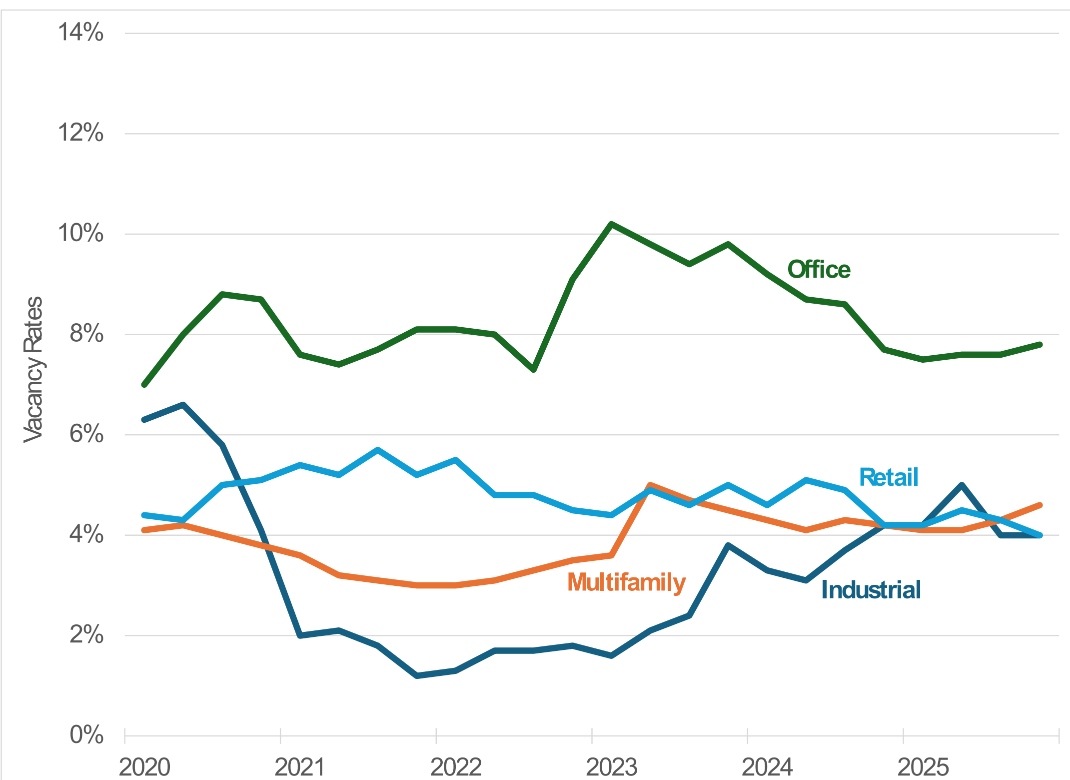
Figure 4.8
Supply and Demand Trends in the Lower SGV



in the multifamily and retail sectors. In retail, we are clearly witnessing low demand in the Lower SGV. The multifamily sector is more likely on the verge of a rebound, with rents refusing to fall and construction just lingering in limbo after the pandemic building boom.

In most sectors, landlords are not experiencing a significant change in vacancy rates, as shown in Figure 4.9. After a couple years of rising vacancy rates in industrial and multifamily properties and falling vacancy rates in office properties, they mostly stagnated in 2025. Like the landlords in the East SGV, landlords in the Lower SGV have also been “stuck in neutral.”

Figure 4.9
Vacancy Rates in the Lower SGV, 2020-2025



The Lower San Gabriel Valley shows strong industrial demand and construction growth, while office, retail, and multifamily sectors remain weaker or stagnant, leaving overall vacancy rates largely unchanged.

Data source: Costar.

621 S. Westmoreland Ave.
Los Angeles, CA 90005

APARTMENT ASSOCIATION OF GREATER LOS ANGELES

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The Apartment Association of Greater Los Angeles is a trade association and participation in government advocacy serving rental housing providers throughout Southern California since 1917. Today, our association's members are over 10,000 strong and provide 350,000 homes.. Our diverse group of members consist of both rental housing providers and residential property management professionals, developers and other real estate professionals, and vendors that serve rental housing businesses.

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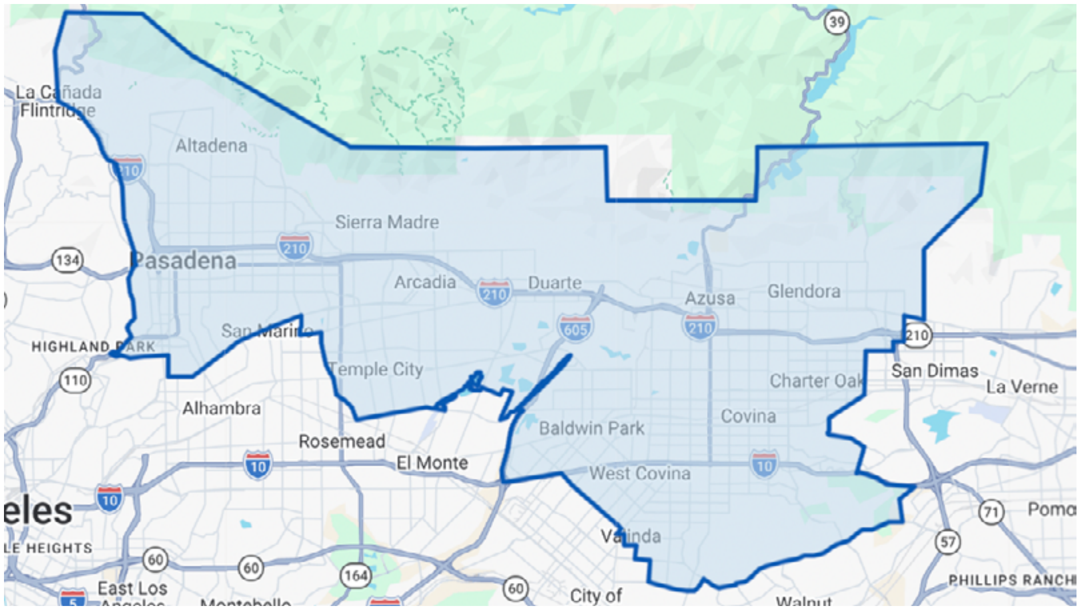
Commercial Real Estate: Upper San Gabriel Valley

The Upper San Gabriel Valley includes cities like Arcadia, Azusa, and Pasadena, as shown in Figure 4.10. It is very close to the core of Los Angeles County, and it is also a gateway to the San Fernando Valley to the northwest. On average, its rents are the highest in the San Gabriel Valley, but it outperforms the most in the multifamily and office sectors.

Figure 4.10
The Upper San Gabriel Valley Market

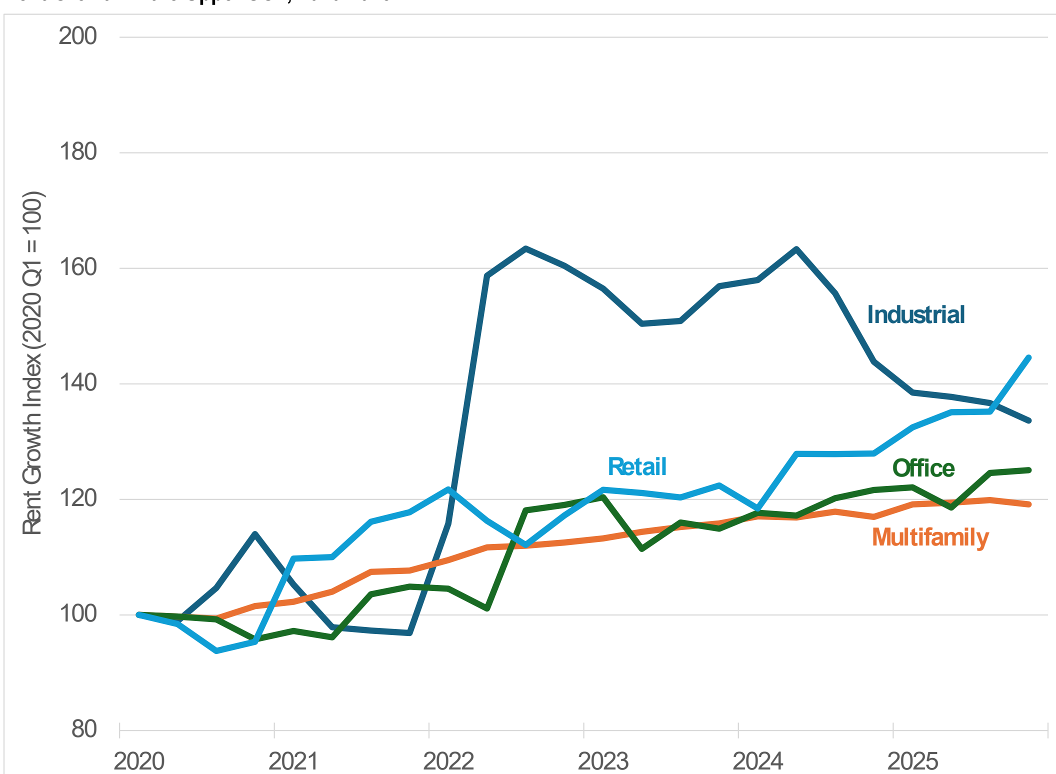


Source: Costar.

The Upper San Gabriel Valley has the region's highest rents and stronger demand for multifamily, office, and retail properties, while industrial demand declines and construction activity remains minimal across sectors.

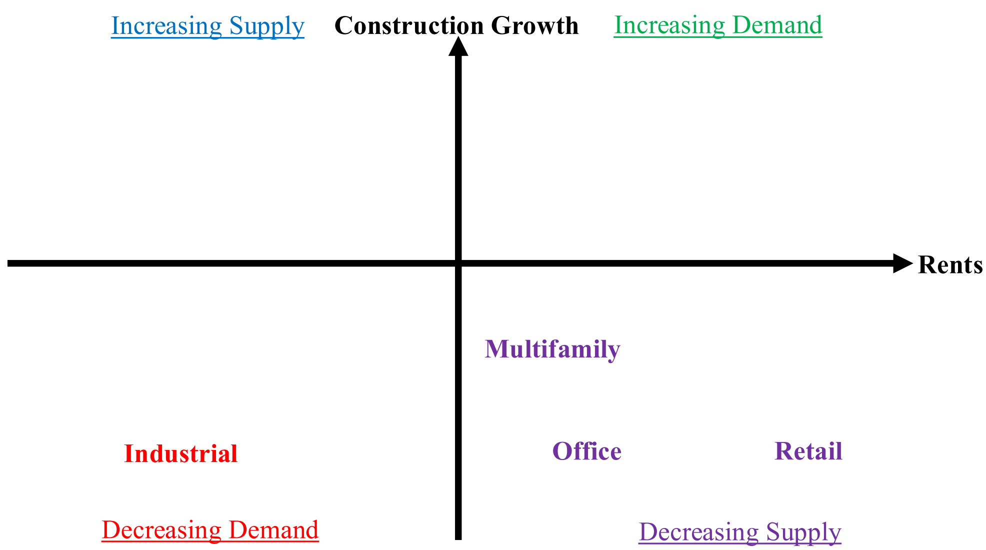
Over the past six years, the Upper San Gabriel Valley has followed the same general trends as the rest of the region: a boom-and-bust in industrial rents, as well as a rise-and-stagnation in multifamily and office rents. However, in 2025, the subregions diverged. Whereas the East

Figure 4.11
Rent Growth in the Upper SGV, 2020-2025



Data source: CoStar. Authors' calculations.

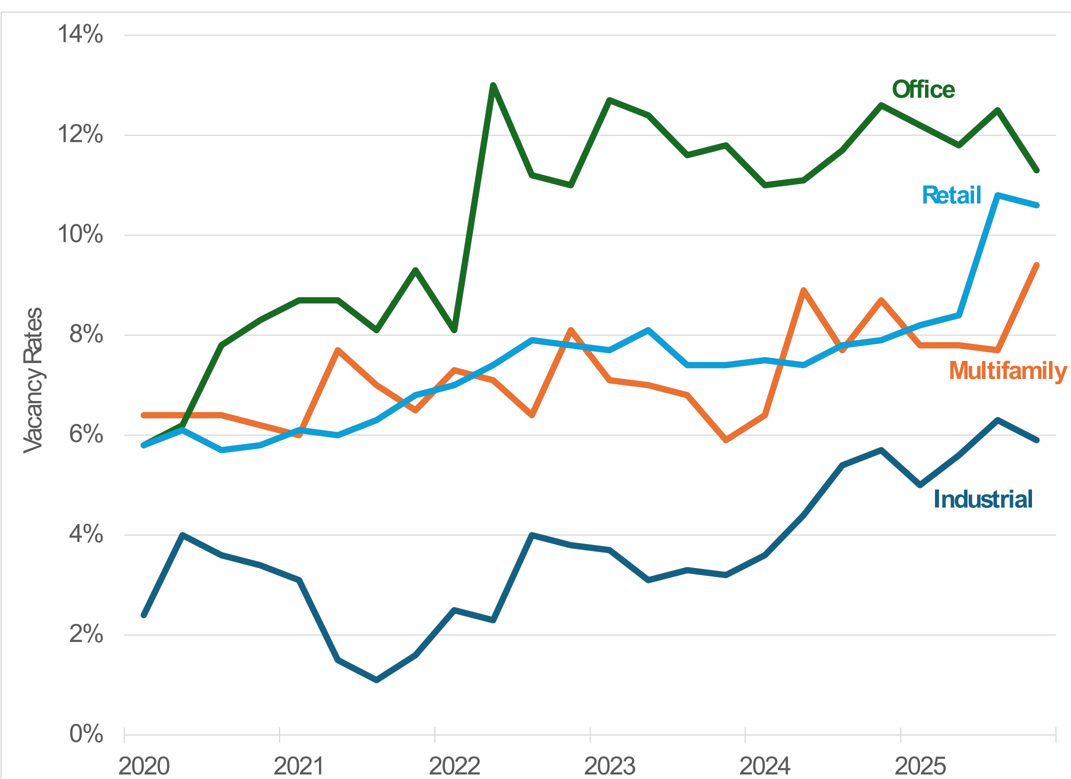
Figure 4.12
Supply and Demand Trends in the Upper SGV



and Lower SGV markets experienced a rise in industrial rents and a decline in retail rents, the Upper SGV market experienced the opposite, as shown in Figure 4.11. These changes were sizable. Rents declined 7.1%, on average, in industrial properties, while they rose 13.0% in retail properties. Meanwhile, multifamily and office rents rose too, with 1.9% and 2.8% appreciation, respectively. This market is demonstrating very different consumer demand, likely due to its proximity to the core of the metropolitan area, favoring multifamily, office, and retail over industrial uses.

As a result, the supply and demand trends look very different in the Upper San Gabriel Valley. As Figure 4.12 shows, there is very little construction activity in this submarket. Demand for industrial properties is still declining here, while the other sectors are likely experiencing a

Figure 4.13
Vacancy Rates in the Upper SGV, 2020-2025

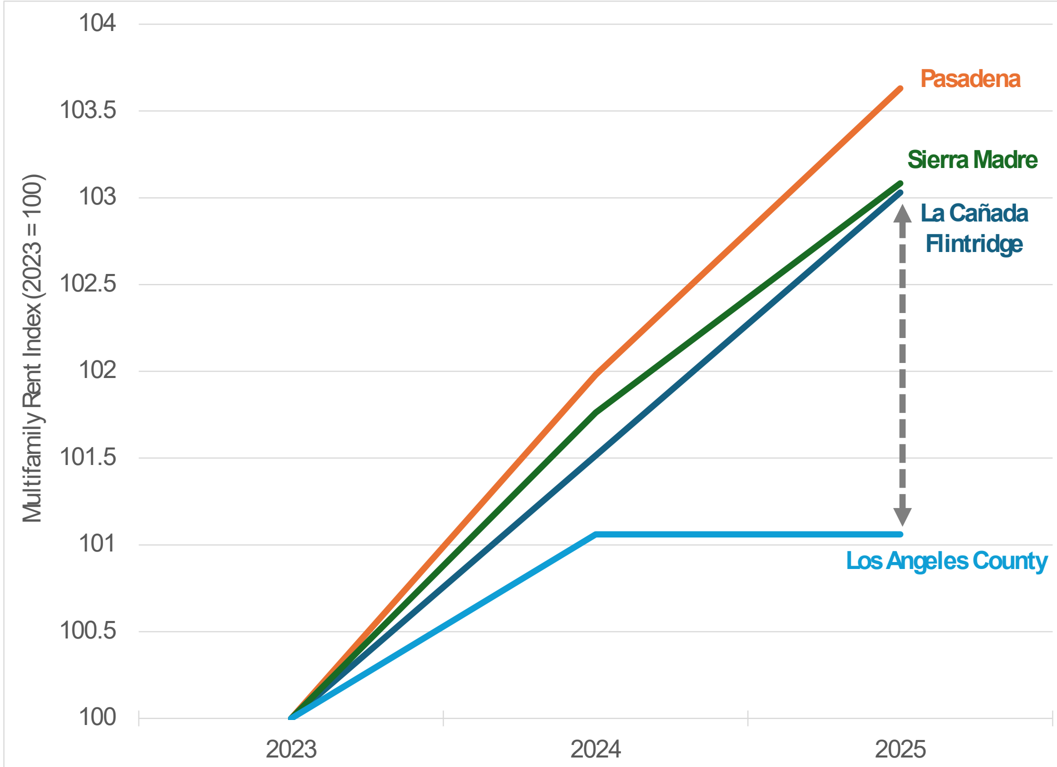


Data source: CoStar. Authors' calculations.

Despite recent rent declines in retail and office spaces, industrial rents in the Lower San Gabriel Valley rebounded strongly in 2025, growing 7.0% after two years of significant decline.

One year after the Eaton Fire, nearby cities like Pasadena and Sierra Madre saw multifamily rents rise 2.0–2.6 percentage points faster than the overall Los Angeles County average.

Figure 4.14
Multifamily Rent Growth Adjacent to Eaton Fire Zone, 2023-2025



Data source: CoStar. Authors' calculations.

rebalancing of supply, with office and retail properties being converted to other uses while multifamily properties are sitting vacant until demand rebounds sufficiently to fill the newly built spaces.

In 2025, the Upper San Gabriel Valley diverged from other subregions: industrial rents fell 7.1% while retail rents surged 13.0%, reflecting stronger demand for retail, office, and multifamily uses.

In industrial and multifamily properties, landlords are experiencing the same "stuck in neutral" dynamic that we see in other SGV subregions. The vacancy rates in Figure 4.13 (see previous page) show very little movement in these two sectors. In the office properties, however, the vacancy rate has come down, giving hope that this sector has finally reached a bottom and will begin rebounding. In the retail properties, in contrast, the vacancy rate has gone up, indicating an oversupply problem that may take time to unwind in the months and years ahead.

Wildfire Impacts

Last year's SGV Economic Forecast tried to envision the multifamily housing market in the wake of the tragic and devastating Eaton Fire. Using previous California wildfires to learn the lessons of history, we projected a significant increase of multifamily rental growth by a few percentage points in the neighborhoods adjacent to the fire zone, compared to the rest of the region, and we cautioned that very, very little construction would take place in 2025 because the obstacles to rebuilding are so time-consuming, expensive, and difficult to navigate. Unfortunately, both of those forecasts were accurate. Figure 4.14 shows the multifamily rent growth in three cities that surround the Eaton Fire zone: La Cañada Flintridge, Pasadena, and Sierra Madre. All three cities were on similar rental appreciation trajectories as the rest of Los Angeles County in 2024, and all three diverged sharply in 2025. A year after the fires, our two-year rent index shows appreciation of 2.0 to 2.6 percentage points higher than LA County as a whole.

The slightly comforting news is that this appreciation is a little lower than the average California community's experience after wildfires. The bad news is that historical evidence suggests that these added rent hikes are unlikely to be temporary. In fact, the fire-impacted communities typically experience even more rental appreciation due to the fires after the one-year mark because insurance rates increase permanently; older, more affordable structures are replaced by newer, more expensive units; and homeownership rates decline, increasing rental demand for the future. Thus, we believe that the wildfire impacts are not over. As the community of Altadena rebuilds, it will be reshaped in many ways — by new owners, new influxes of capital, new construction, and new businesses. Already, we are seeing many homeowners selling their properties rather than suffer through the challenges of rebuilding.[11]

Historically, the construction boom does not begin until the third year after a California wildfire.[12] However, federal, state, and local policymakers have pushed for an accelerated timeline in the wake of the Eaton Fire. Homeowners are pulling permits to rebuild at a faster rate than we have seen in the wake of other wildfires.[13] We are hopeful that construction will increase in 2026, but even with this slightly higher urgency, we do not expect a large addition of new units to the housing stock until 2027. Thus, vacancy rates in existing buildings are likely to remain low throughout the subregion this year.

Although rebuilding permits are increasing in the area of the Eaton Fire, significant new housing supply is unlikely until 2027, keeping vacancy rates low.

[11] "'Unfortunately, Altadena Is for Sale': Developers Are Buying Up Burned Lots" by Jack Flemming (June 5, 2025, *Los Angeles Times*, https://www.latimes.com/california/story/2025-06-05/unfortunately-altadena-is-for-sale-developers-are-buying-up-burned-lots).

[12] See our *2025 San Gabriel Valley Economic Forecast* for the empirical evidence (https://sangabrielvalleyeconomicpartnership.growthzoneapp.com/ap/CloudFile/Download/pVQXX9lr).

[13] For a real-time tracker of permitting and construction activity, see https://catalystca.maps.arcgis.com/apps/dashboards/5aac849a3ada4c79b1ac1677964530e8.

We're Here for You

We have created a streamlined application process when you're ready to reconnect natural gas service. SoCalGas is prioritizing applications and natural gas service reconnections for customers impacted by the fires.

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SoCalGas offers savings programs such as energy efficiency rebates. Additionally, we offer assistance programs to help customers with limited income and/or medical needs manage their utility bills.

For more information visit **socalgas.com/Rebuild**

SoCalGas has been supporting the communities affected by the 2025 Southern California wildfires. We are here to help you build back as quickly, efficiently, and cost effectively as possible.

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Before starting any construction digging or excavation work, follow California law requirements regarding calling 811 to have utility lines safely marked. 811 is a free service available to everyone. For more information, or to schedule an appointment, visit **socalgas.com/811**.

CONTACT 811 BEFORE YOU DIG 811® SAFE DIGGING PARTNER

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 S068-25-A1 374OCC-2025

Section Five
San Gabriel Valley Leading Economic Index

The theme of this year's San Gabriel Valley Leading Economic Index is "stuck in neutral." We have retooled the index to identify twists and turns in the regional economy much closer to real-time — and at the moment, there are not many twists and turns forecasted by these leading indicators. The manufacturing, labor, and housing markets all continue growing slowly, and therefore the index is weakly positive, indicating regional economic growth in the months ahead. We have reason to believe, however, that these indicators may pick up slightly as we move further into 2026.

Manufacturing, employment, and housing indicators suggest modest expansion without strong momentum entering 2026.

How We Construct the New-and-Improved Index

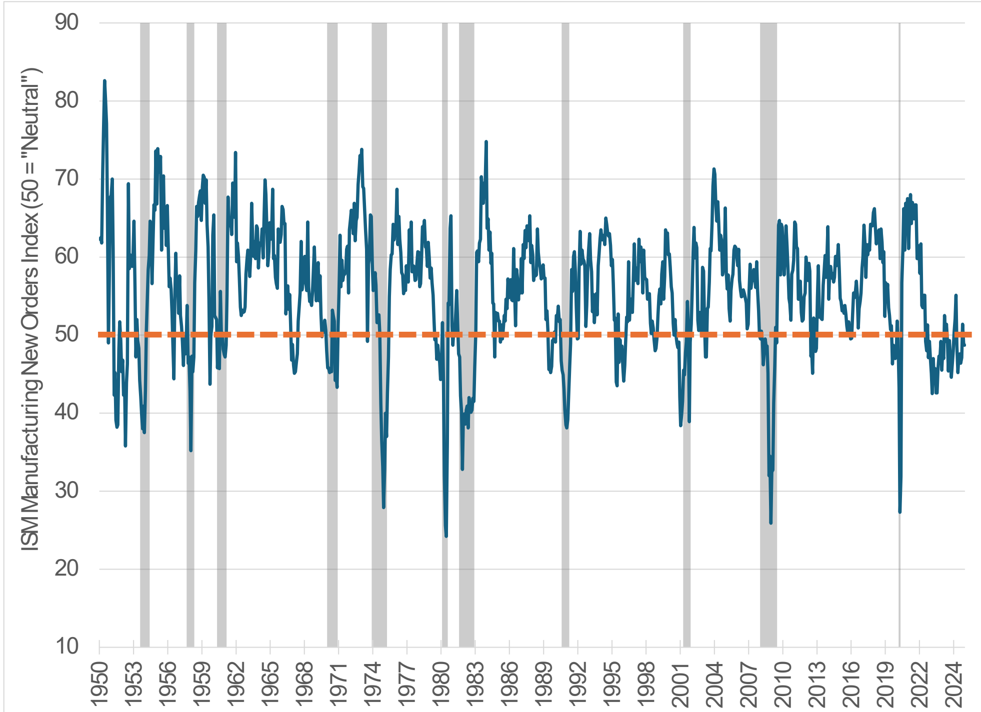
This year, we improved the calculation of the Cal Poly Pomona SGV Leading Economic Index in two ways. First, we created a monthly dataset that enables us to identify changing economic conditions at a higher time frequency. The new LEI shows more short-term economic fluctuations, as well as more precise turning points in the trajectory of the economy. Second, we identified a more parsimonious set of variables, which makes interpretation easier and avoids recent problems associated with the Treasury term spread.[1]

The first variable is a national leading indicator: the Institute for Supply Management's "manufacturing new orders" index. This index has indicated a contraction of manufacturing activity for most of the last three years. At the end of 2025, it appeared neutral. Manufacturing was neither a strong driver of economic growth nor a major detractor, though its performance in the job market has been relatively weak, as noted in the labor force section above.

The second variable is a state-level leading indicator: initial unemployment claims in California.

[1] Many economists have surmised that the yield curve is not as predictive nowadays as it was in the 1980s and 1990s due to a "regime change" in which long-term interest rates are directly influenced by monetary policy. As a result, statistical models from the previous "regime" may not forecast out-of-sample accurately in today's world.

Figure 5.1
National Leading Indicator — Manufacturing New Orders, 1950-2025

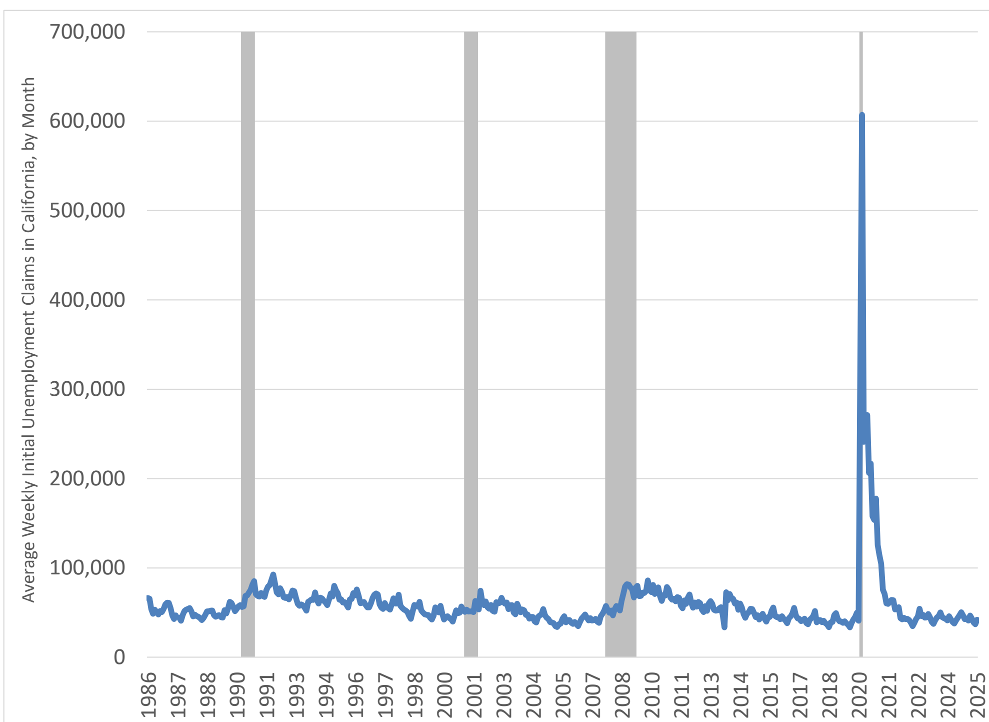


Data source: Institute for Supply Management.

In a typical month in 2025, approximately 40,000 to 50,000 Californians filed newly for unemployment insurance, continuing the same pace as 2024. Despite evidence of low job growth, there is no surge in unemployment, confirming the national story of a stagnant job market with both low hiring and low firing. Like the manufacturing indicator, the unemployment data suggest a neutral economy, growing but not at a rapid pace.

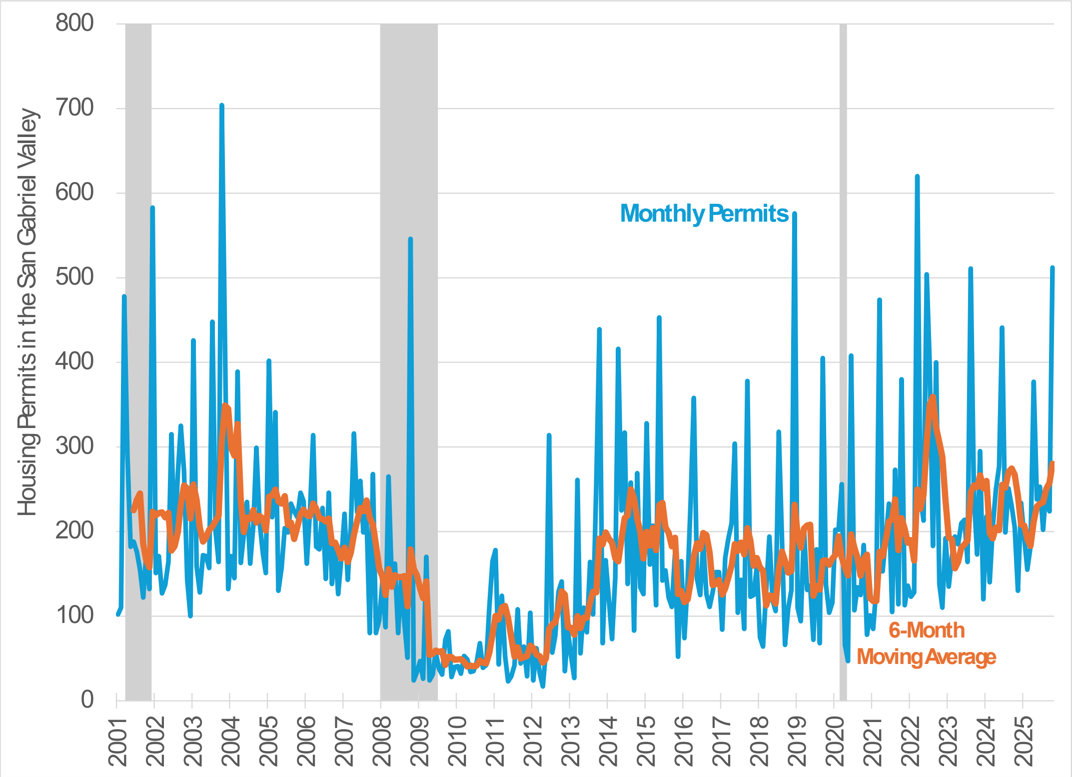
The revamped Cal Poly Pomona San Gabriel Valley Leading Economic Index now updates monthly, using manufacturing orders, unemployment claims, and housing permits to track regional economic shifts almost in real time.

Figure 5.2
State Leading Indicator — California Unemployment Claims



Data source: Federal Reserve Bank of St. Louis.

Figure 5.3
Regional Leading Indicator — SGV Housing Permits



Data Source: US Census Bureau.

In 2026, we present a "new and improved" SGV Leading Economic Index, illustrated here.

The third variable is a region-specific leading indicator: housing permits only for the municipalities within the San Gabriel Valley. Because the data are very seasonal, we include a six-month moving average to show trends that persist above the noisy fluctuations. On average, housing production has tracked the same levels in 2025 as it did in 2023 and 2024. It has remained lower than the historical peaks of the early 2000s bubble and the early pandemic boom, and it has not collapsed to the trough levels we saw in the wake of the Great Recession. As with the manufacturing and unemployment data, this indicator points toward continued growth at steady but not high levels.

Photo courtesy of the City of Duarte.

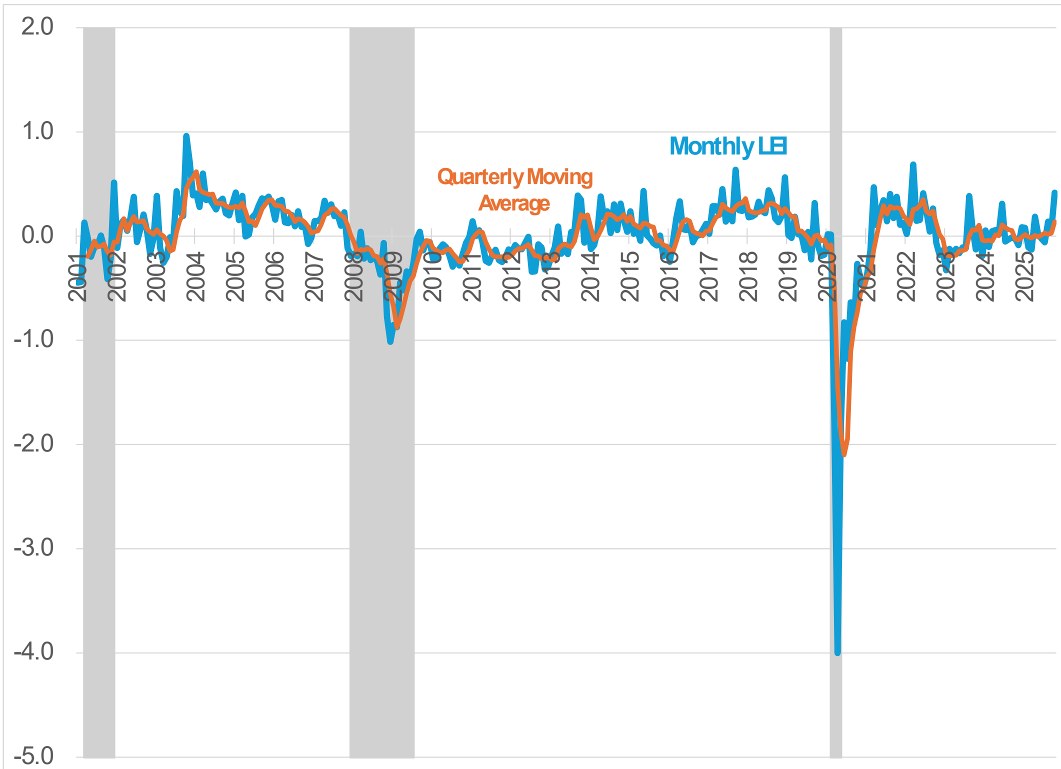
The Cal Poly Pomona SGV Leading Economic Index

The new-and-improved SGV Leading Economic Index, indicated by the solid blue line in Figure 5.4, is currently positive. In combination, these three leading indicators suggest that the regional economy is likely to continue growing in the months ahead. There were some weak months in 2025 — notably, February and March, when the index turned negative alongside GDP growth — but most months registered low positive numbers, indicating an economy that is staying out of recession but not likely to register very strong growth in early 2026.

Because this index can be updated every month, we will continue reporting it year-round to highlight changes in the regional economy as they occur. It will be available on the website being developed for Cal Poly Pomona's new Tarkington Business Futures Institute, housed in the College of Business Administration. With easing tariffs and declining interest rates, we forecast that the index will continue improving in the first half of 2026.

Updated versions of the Index will be available online at Cal Poly Pomona's new Tarkington Business Futures Institute website, housed in the College of Business Administration.

Figure 5.4
CPP's New Monthly SGV Leading Economic Index



Data sources: Federal Reserve Bank of St. Louis; Institute for Supply Management; US Census Bureau. Authors' calculations.

Section Six
Long-Term Considerations

Forecasting more than a year or two into the future is nearly impossible with any precision, but we all must try to think about the long term in order to plan our lives, our careers, and our businesses. If we cannot predict the distant future, at least we can try to be prepared for it — to position ourselves to adapt to it. Some of the biggest changes we will see in our lifetimes are too slow-moving to belong in a one-year forecast. The shifts we discuss below are not going to be felt primarily in 2026, but we all can spend 2026 beginning to imagine how they will impact us — and how we can take advantage of them, rather than letting them take advantage of us.

Winners and Losers in a Wartime Economy

Wartime spending can boost GDP, but history shows it often reduces productivity by diverting workers, scientists, and factories away from more efficient civilian production.

In 1941, the United States officially entered World War II, and economic growth surged to meet the needs of the war effort. When students learn about this period in our country's economic history, they often see the unprecedented burst of government spending as the final death knell to the Great Depression that had lingered for over a decade up to that point. But this rapid transition from recession to expansion obscures a more nuanced transformation that was happening beneath the surface — a reallocation of resources that was not quite so beneficial.

Wartime economies fundamentally disrupt the workings of most markets. They require that labor and capital shift away from their peacetime occupations in order to fulfill the more urgent demands of the troops at the front. They may increase economic output in the short run, but they also change the *type* of output. In his definitive study of this transformation, the economic historian Alexander J. Field has shown that the *productivity* of the American economy declined dramatically as a result of World War II. Workers moved to jobs that did not match their skills, production accelerated before the workers were trained to do the jobs efficiently, scientists shifted away from developing products that consumers wanted in order to conduct military research instead, companies tried to ramp up production too fast for supply chains to keep up, and factories produced new products that they were not designed to produce.[1] This war mobilization had negative long-term effects on economic growth by diverting everyone away from the more productive types of output they would have been generating in the absence of war.

[1] *The Economic Consequences of US Mobilization for the Second World War* by Alexander J. Field (2022, Yale University Press).

As this report was going to print, the United States was once again at war, this time in the Middle East. Oil prices were rising, and stock markets were declining. At the same time, however, government spending was beginning to surge. Even before the war began, the Trump administration was proposing a whopping 66% increase in the Pentagon budget.[2] An early estimate suggested that Operation Epic Fury — beginning on February 28, 2026, with aerial bombardment of Iran — was costing the US government $891 million per day.[3] The US military was depleting portions of its weapons stockpiles, prompting defense contractors to promise the White House that they would quadruple production of their most advanced class of weaponry.[4] These production orders will offset some of the economic weakness caused by high gas prices and suspended shipping and airline flights.[5] Many studies have concluded that these defense-related expenses boost GDP growth.[6] However, they also divert workers, factories, and dollars away from investments that would have a better long-term return for the economy.

This diversion is unlikely to be temporary. Regardless of the outcome of this particular war, the United States appears headed in the direction of a more wartime-like economy. In the past year, the US government has expanded military operations in Iran, Iraq, Nigeria, Somalia, Venezuela, and the Caribbean Sea. It has also threatened military intervention in a variety of other countries, including Colombia, Cuba, and Greenland.[7] We do not believe this was a one-year experiment. This is a new interventionist approach that will require a significant increase in defense spending — with winners and losers scattered across the economy. While this boost in government spending can help many industries sustain growth despite high oil prices, it also may rob future generations of the inventions and productive capacity that could have been developed by investing our resources in more peaceful activities.

Early estimates suggested Operation Epic Fury was costing the United States about $891 million per day, rapidly expanding defense spending and reshaping economic priorities.

New Land Uses: Data Centers & Battery Energy Storage Systems

Two new building typologies are beginning to change the landscape of industrial real estate: data centers and battery energy storage systems (BESS). Both land uses present new opportunities and challenges for developers, investors, policymakers, and nearby residents. We forecast significant investment in both types of developments in 2026 and beyond — but we caution that the long-term downside risks have not been fully understood or appreciated yet.

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[2] "Trump's $1.5 Trillion Defense Budget Should Come as No Surprise" by Erin D. Dumbacher and Michael C. Horowitz (January 9, 2026, Council on Foreign Relations, https://www.cfr.org/articles/trumps-15-trillion-defense-budget-should-not-come-surprise).

[3] "$3.7 Billion: Estimated Cost of Epic Fury's First 100 Hours" by Mark F. Cancian and Chris H. Park (March 5, 2026, Center for Strategic & International Studies, https://www.csis.org/analysis/37-billion-estimated-cost-epic-furys-first-100-hours).

[4] "Trump's Iran Timeline Spurs Concern Over US Weapons Stockpiles" by Ellen Mitchell (March 4, 2026, *The Hill*, https://thehill.com/policy/defense/5765875-us-munitions-stockpile-iran-trump/); "Trump Says Defense Contractors Agree to Quadruple Production of 'Exquisite Class' Weapons" by Filip Timotija (March 6, 2026, *The Hill*, https://thehill.com/policy/defense/5772125-quadruple-weaponry-production-trump/).

[5] Iran has significant control over the Straits of Hormuz, where shipping has plummeted since the start of the war, and airlines have restricted a large portion of their flights through the Middle East due to safety risks. See, e.g., "Oil Prices Soar Amid Worries of Sustained War in Iran" by Evan Halper and Rachel Siegel (March 2, 2026, *Washington Post*, https://www.washingtonpost.com/business/2026/03/02/oil-prices-strait-hormuz/), and "Iran War Threatens $11.7 Trillion Global Travel Industry as Passengers Get Caught in Crossfire" by Leslie Josephs and Contessa Brewer (March 5, 2026, CNBC, https://www.cnbc.com/2026/03/05/iran-war-travel-flights-cruise-hotels.html).

[6] See, e.g., "Local Fiscal Multipliers and Fiscal Spillovers in the USA" by Alan Auerbach, Yuriy Gorodnichenko, and Daniel Murphy (2020, IMF Economic Review), and "Fiscal Multipliers in Advanced and Developing Countries: Evidence from Military Spending" by Viacheslav Sheremirov and Sandra Spirovska (2022, *Journal of Public Economics*).

[7] "A Guide to Trump's Second-Term Military Strikes and Actions" by Abi McGowan, Molly Carlough, and Natalie Caloca (March 3, 2026, Council on Foreign Relations, https://www.cfr.org/articles/guide-trumps-second-term-military-strikes-and-actions).

More than 200 data centers are currently under construction across the United States—five times the historical rate—driven largely by soaring demand for artificial intelligence infrastructure.

The data center boom has gotten plenty of attention in the news. The proliferation of AI technologies requires significant infrastructure to support it. There is an old saying in tech: "There is no cloud. It's just someone else's computer." In other words, the data has to be stored and processed somewhere. All that hardware needs a place to reside. "The cloud" lives in data centers.[8]

Data center construction is lucrative for companies building and supporting these high-demand facilities. Wages are rising for the skilled workers, prices are rising for the concrete, and tech companies are raising unprecedented sums of capital to invest even more in the years to come. Across the United States, there are currently over 200 data centers under construction — a 27% increase over last year and five times the historical rate. This boom has also been good to computer and electronics manufacturers, especially the semiconductor industry, as they race to supply these data centers with the equipment they need to operate. However, these industries are not overwhelmingly located in Southern California. Most data centers are being built in the Mountain states and the South, especially Texas and Arizona.[9]

To date, the San Gabriel Valley has not yet benefitted from this gold rush. In fact, our survey of the data suggests that the SGV is a laggard in data center construction compared to the rest of Los Angeles County.[10] Most data centers are located closer to high-density population nodes. The two newest, state-of-the-art facilities are being built in South Central, where land and electricity are less expensive than Downtown Los Angeles but proximity allows these data centers to serve DTLA easier than more far-flung locations with similar prices. Developers have purchased sites in Monterey Park with the intent to build similar facilities due to its similar proximity.[11] Thus, we forecast new data center construction will be concentrated mostly on the west end of the SGV.

Despite the nationwide boom, the San Gabriel Valley currently lags in data center development, with most new facilities built in states like Texas and Arizona.

While this may seem like a trend that communities want to take advantage of, remember that data centers have several significant drawbacks.

1. They are not as easy to build as many other types of industrial buildings, such as warehouses. They require power transformers that are not being manufactured fast enough, high-demand grid hookups that are not easy or available everywhere, and large quantities of water for liquid cooling. The time from site acquisition to operation can be long and challenging for the local jurisdiction to support.[12]

2. They are costly for utilities. They require significant amounts of electricity and water, driving up the price of both. They may strain the grid capacity, risking power outages for other customers, and they may lower water tables, which is especially risky in states like Arizona and California where drought is common.[13]

3. A gold-rush mentality is always a financial risk. There is no guarantee that the proliferation of AI will continue growing at the current pace and even accelerate to justify the projections

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[8] There Is No Cloud," (December 23, 2025, https://tscsw.substack.com/p/the-datacenter-bible-from-layman).

[9] "Data Centers Attract an Increasing Share of Construction Spending" by Juan Arias, (December 12, 2025, CoStar, https://www.costar.com/article/1751306256/data-centers-attract-an-increasing-share-of-construction-spending).

[10] This conclusion was reached by surveying all data centers identified in the CoStar database throughout Los Angeles County.

[11] "Here's Where Southern California Data Center Players Are Gravitating" by Brannon Boswell, (August 26, 2025, CoStar, https://www.costar.com/article/1562331028/heres-where-southern-california-data-center-players-are-gravitating).

[12] "There Is No Cloud," (December 23, 2025, https://tscsw.substack.com/p/the-datacenter-bible-from-layman).

[13] "There Is No Cloud," (December 23, 2025, https://tscsw.substack.com/p/the-datacenter-bible-from-layman).

of the tech companies who forecast that they will need all these data centers. Many industrial developers got burned very recently when the speculative development of the pandemic years turned out to be excessive and properties sat vacant until absorption caught up. The geographic concentration of data center construction — namely, places like Texas and Arizona — should be another warning sign. These are the same places where multifamily development boomed during the pandemic years, and now they are the places with some of the sharpest declines in rents and housing prices.[14] The risk of overbuilding is real. Boom towns can become ghost towns. When it comes to real estate, it is best for most communities to stay diversified.

Battery energy storage systems (BESS) are less well-known but more likely to locate in many SGV communities. The BESS technology can be large or small. It stores energy generated by sources that fluctuate throughout the day, like solar and wind power, and therefore it solves one of the key obstacles that has been preventing renewable energy technologies from overtaking fossil fuels around the world.[15] It also eases a key problem facing data centers — namely, the difficulty accessing consistent electricity through an outdated grid — and in so doing, it has the potential to lessen the negative environmental impact of data centers by powering them with renewable energy.[16]

Battery energy storage systems could transform renewable energy by storing fluctuating solar and wind power, making clean electricity more reliable for communities and industries.

In the San Gabriel Valley, BESS development has both public policy and technological innovation on its side. California is the leading state promoting battery energy storage, requiring it in most new commercial buildings.[17] Meanwhile, the technology keeps improving, driving down the capital costs per kilowatt-hour — with more cost reductions projected for the coming decades. Newer versions of the technology are more energy-dense, packing more storage into less space. This is crucial for a region with high land values like Southern California because it allows BESS facilities to be built on smaller land parcels.[18]

BESS projects have been proposed on various sites across the San Gabriel Valley, including Industry, Irwindale, and Pasadena.[19] They are not uncontroversial. Lithium-ion batteries are infamous fire risks, though the safety is improving as the technology evolves. Residents have raised important concerns about locating so close to these facilities. Policymakers will need to weigh these concerns carefully along with the benefits of the facilities to the environment and the economy. Despite these risks, the acceleration of BESS construction seems unstoppable.

Beware of Investors and Policymakers "Blowing Bubbles"

One of the gravest risks to an economy is excessive leverage. The economic historian Charles Kindleberger and the economist Hyman Minsky famously surveyed booms and busts throughout US history and concluded that financial markets were too often tempted to overborrow and overinvest in assets long after they had exceeded their fundamental value. Crisis after crisis

[14] "Rent Concessions Are on the Rise in America's Sunbelt Cities" by Rebecca Picciotto (January 12, 2026, *Wall Street Journal*, https://www.wsj.com/real-estate/commercial/housing-supply-prices-free-rent-a8278a65).

[15] "Four Factors to Guide Investment in Battery Storage" by Arnaud de Giovanni (June 14, 2024, EY, https://www.ey.com/en_us/insights/energy-resources/four-factors-to-guide-investment-in-battery-storage).

[16] "Utility-Scale Battery Storage Opens Up for Investors," (June 25, 2024, JLL, https://www.jll.com/en-us/insights/utility-scale-battery-storage-opens-up-for-investors).

[17] "Four Factors to Guide Investment in Battery Storage" by Arnaud de Giovanni (June 14, 2024, EY, https://www.ey.com/en_us/insights/energy-resources/four-factors-to-guide-investment-in-battery-storage).

[18] "Utility-Scale Battery Storage Opens Up for Investors," (June 25, 2024, JLL, https://www.jll.com/en-us/insights/utility-scale-battery-storage-opens-up-for-investors).

[19] For details on these three projects, see https://www.irwindaleca.gov/806/Gabriel-Battery-Energy-Storage-System-BE; https://lapublicpress.org/2026/01/la-battery-fire-industry-ai/; and https://pasadenanow.com/main/city-wants-neighbors-input-on-what-its-first-battery-storage-facility-will-look-like; respectively.

has proven that it is very costly — and for many firms and households, even catastrophic — to unwind this buildup of unsustainable debt.[20] The longest-lasting, most severe recessions and depressions in American history have been financial crises.

Forecasters struggle with the question, How much debt is too much? We take a different approach. The supply-and-demand model teaches us to consider quantities and prices together. A better warning sign than just the quantity of debt would include the price of debt as well. Financial economists have demonstrated that markets are most likely getting over-levered when the volume of lending increases and the price of debt declines. Either lenders can afford to offer more debt at a cheaper price because some financial innovation has lowered their costs… or they are simply making capital too freely available — enabling borrowers to overspend on risky assets.[21] When this happens, we say that they are "blowing bubbles" in asset markets.

All around the economy, we see signs that investors and policymakers want to lower the price of debt and use lending to sustain or boost growth:

1. The White House has put strong pressure on the Federal Reserve to lower interest rates, despite many economists' concerns about inflation. This is the most sustained campaign by politicians to influence the central bank since the Nixon administration.[22] Around the world, when central banks cave to politicians, they often push interest rates low enough to spur unintended inflation.[23] The Trump administration's appointees are still a minority voting bloc on the Federal Open Market Committee, but the minority is growing and led by a new Chair with a variety of tools at his disposal, including the bully pulpit from which he can issue "forward guidance" that convinces markets to expect lower rates in the future.

Markets may be "blowing bubbles" when lending volumes rise while borrowing costs fall, encouraging excessive debt and risky investments that can trigger financial crises.

2. The White House and the Federal Reserve also have significant control over financial regulation, where they can make it easier or harder for financial institutions to issue loans. The leaders of both institutions have signaled that they want to remove guardrails put in place in the wake of the Great Financial Crisis, beginning with the Consumer Financial Protection Bureau that they mostly defunded in early 2025.[24] Less regulation will allow lenders to lower the cost of debt and take more risks.

3. Bill Pulte, the Director of the Federal Housing Finance Agency and the Chairman of both Fannie Mae and Freddie Mac, has instructed the powerful government-sponsored enterprises (GSEs) to start buying billions of dollars worth of mortgage bonds, as they did in the days before the Great Financial Crisis. He hopes that the injection of liquidity will

[20] *Manias, Panics, and Crashes: A History of Financial Crises* by Charles P. Kindleberger (1978, Macmillan); *Stabilizing an Unstable Economy* by Hyman Minsky (1986, Yale University Press).

[21] The economists Andrey Pavlov and Susan Wachter identified this mechanism and repeatedly warned about it before the housing "bubble" popped in the early 2000s. See, e.g., "Robbing the Bank: Non-recourse Lending and Asset Prices" by Andrey Pavlov and Susan Wachter (2004, *Journal of Real Estate Finance and Economics*), and "The Inevitability of Marketwide Underpricing of Mortgage Default Risk" by Andrey Pavlov and Susan M. Wachter (2006, *Real Estate Economics*). Subsequently, research has shown that this mechanism played out in the leadup to the Great Depression as well. See *Keeping Races in Their Places: The Dividing Lines That Shaped the American City* by Anthony W. Orlando (2021, Routledge).

[22] "Trump vs the Federal Reserve: How the Clash Reached Uncharted Territory" by Amanda Macias (January 12, 2026, Fox Business, https://www.foxbusiness.com/politics/fed-meeting-puts-spotlight-back-trumps-rift-chairman-powell).

[23] "Do Central Bank Reforms Lead to More Monetary Discipline?" by Alexander Jung, Davide Romelli, and Etienne Farvaque (2025, ECB Working Paper, https://papers.ssrn.com/sol3/papers.cfm?abstract_id=5211898).

[24] "Consumer Protection Agency Neutralized by Trump's New Chief" by Douglas Gillison (February 10, 2025, Reuters, https://www.reuters.com/world/us/trumps-acting-cfpb-chief-halts-all-supervision-companies-2025-02-09/).

lower mortgage rates, essentially bypassing the Federal Reserve and doing some backdoor monetary policy to spur more homebuying.[25]

4. JPMorganChase CEO Jamie Dimon famously warned "when you see one cockroach, there are probably more" when he started to see financial distress in the private credit industry in October 2025.[26] Since then, analysts have been on the lookout for more deterioration in this rapidly growing market where businesses have been borrowing outside the bond market and their traditional bank relationships. It is harder to detect mispricing of risk in this less regulated world, which will prolong the process of identifying and winding down nonperforming investments.

5. The price of debt is particularly low for tech companies borrowing to fuel their AI investments, especially the speculative construction of data centers.[27] If these data centers are overbuilt or AI technologies do not generate productivity gains as fast as investors expect, some firms may have difficulty repaying their debt. Like the housing investments of the early 2000s, many of these AI debt investments are structured in complicated, off-balance-sheet financial deals, where it is difficult to monitor and forecast their performance.[28]

Leverage is an essential driver of economic growth in a financially developed economy like the United States. Although it makes many consumers nervous, it is a valuable and productive tool when undertaken by borrowers and lenders who have the necessary information to make a rational decision and the prudence to price the risks appropriately. Throughout 2026 and beyond, keep an eye out for deals and dealmakers that do not meet these criteria for financial safety and stability.

As investors and policymakers want to lower the price of debt and use lending to sustain or boost growth, keep an eye out in 2026 for any deals or dealmakers that do not meet criteria for financial safety and stability.

[25] "Trump Housing Finance Chief OKs More Mortgage Spending and Adds Risk for Government-Backed Lenders" by Brian Slodysko (January 24, 2026, Associated Press, https://apnews.com/article/pulte-mortgages-bonds-fannie-mac-freddie-mae-bd96e67f56910cbda81b7b9b3a54516c).

[26] "3Q25 Financial Results: Earnings Call Transcript" (October 14, 2025, JPMorganChase, https://www.jpmorganchase.com/content/dam/jpmc/jpmorgan-chase-and-co/investor-relations/documents/quarterly-earnings/2025/3rd-quarter/jpm-3q25-earnings-call-transcript.pdf).

[27] "Should Credit Investors Be Concerned About Rising AI-Related Debt Issuance?" by Wade O'Brien and Abby Varney (March 3, 2026, Cambridge Associates, https://www.cambridgeassociates.com/insight/should-credit-investors-be-concerned-about-rising-ai-related-debt-issuance/).

[28] "The AI Debt Wave: What It Means for Investors" by Jack Ablin (February 24, 2026, Cresset, https://cressetcapital.com/articles/market-update/market-update-2-24-26-the-ai-debt-wave-what-it-means-for-investors/).

Appendices

Appendix A
2024 Population by Race and Ethnicity in the US, California, Los Angeles County and the SGV

	US	California	LA County	East SGV	Pasadena	SW SGV	Upper SGV	SGV
Total Population [thousands]	334,922	39,287	9,809	918	265	309	316	1,809
Hispanic or Latino [%]	19.3	40.2	48.4	54.8	26.7	38.7	45.9	46.4
White [%]	57.4	33.8	24.7	14.5	37.8	7.1	13.9	16.6
Black or African American [%]	11.9	5.2	7.4	3.1	7.2	1.1	2.0	3.2
American Indian & Alaska Native [%]	0.5	0.3	0.2	0.3	0.1	0.2	0.4	0.3
Asian [%]	5.9	15.3	14.9	24.3	21.6	50.4	34.6	30.2
Native Hawaiian & Pacific Islander [%]	0.2	0.3	0.2	0.2	0.2	0.2	0.2	0.2
Other [%]	0.6	0.6	0.6	0.5	0.5	0.5	0.4	0.5
Two or more [%]	4.3	4.4	3.5	2.3	5.9	1.8	2.6	2.8

Source: Census ACS-5 DP05.

Photo courtesy of the City of Glendora.

Appendix B
Population Estimates: San Gabriel Valley Cites [thousands]

Area	2021	2022	2023	2024	2025	Forecast 2026	Forecast 2027	Forecast 2050
Alhambra	82.4	82.1	82.0	82.2	82.4	82.3	82.4	79.7
Arcadia	56.6	56.3	56.0	56.0	56.1	56.1	56.1	54.3
Azusa	50.1	49.6	49.8	49.7	49.0	49.0	49.0	47.4
Baldwin Park	71.6	71.0	70.7	70.7	70.8	70.8	70.8	68.5
Claremont	38.2	37.4	37.2	37.3	37.3	37.3	37.3	36.1
Covina	51.3	50.6	50.4	50.6	51.1	51.1	51.1	49.4
Diamond Bar	54.8	54.0	53.7	53.6	53.5	53.5	53.5	51.8
Duarte	21.6	21.5	23.1	23.8	23.7	23.7	23.7	22.9
El Monte	108.7	107.4	106.8	107.1	108.0	107.9	108.0	104.5
Glendora	52.0	51.7	51.4	51.3	51.3	51.3	51.3	49.6
La Cañada Flintridge	20.4	20.2	20.2	20.1	20.2	20.2	20.2	19.5
La Puente	37.8	37.7	37.6	37.5	37.5	37.5	37.5	36.3
La Verne	32.1	32.4	32.1	32.1	32.3	32.3	32.3	31.2
Monrovia	38.1	37.7	37.6	38.2	38.9	38.9	38.9	37.6
Montebello	62.5	61.9	61.9	62.2	62.7	62.7	62.7	60.7
Monterey Park	60.8	59.9	59.5	59.3	59.3	59.3	59.3	57.4
Pasadena	139.9	138.7	138.3	140.1	140.6	140.5	140.6	136.0
Pomona	150.1	150.4	150.7	152.0	153.0	152.9	152.9	148.0
Rosemead	51.0	50.3	50.2	50.3	50.5	50.5	50.5	48.9
San Dimas	34.7	34.5	34.3	34.2	34.2	34.2	34.2	33.1
San Gabriel	39.4	38.6	38.5	38.6	39.0	39.0	39.0	37.7
San Marino	12.5	12.3	12.3	12.3	12.3	12.3	12.3	11.9
Sierra Madre	11.1	11.0	10.9	10.9	10.9	10.9	10.9	10.5
South El Monte	19.5	19.7	19.5	19.5	19.5	19.5	19.5	18.9
South Pasadena	26.8	26.4	26.3	26.3	26.3	26.3	26.3	25.4
Temple City	36.5	36.2	36.1	36.1	36.3	36.3	36.3	35.1
Walnut	28.3	28.1	28.0	28.0	28.2	28.2	28.2	27.3
West Covina	109.2	108.2	108.8	109.7	109.4	109.3	109.4	105.8
San Gabriel Valley *	**1,501**	**1,489**	**1,487**	**1,493**	**1,497**	**1,496**	**1,497**	**1,448**
% Change **	(0.18)	(0.81)	(0.13)	0.39	0.31	(0.06)	0.03	(0.13)
Los Angeles County	**9,966**	**9,870**	**9,834**	**9,849**	**9,877**	**9,871**	**9,874**	**9,554**
% Change **	(0.62)	(0.97)	(0.36)	0.15	0.29	(0.06)	0.03	(0.13)
California	**39,370**	**39,180**	**39,228**	**39,421**	**39,529**	**39,391**	**39,445**	**40,819**
% Change **	(0.42)	(0.48)	0.12	0.49	0.27	(0.35)	0.14	0.13

Data source: Zillow. Authors' calculations.

** San Gabriel Valley: Incorporated only. Cities with population less than 2,000 not shown, but included in totals.*
*** YoY, execpt 2050 which is annualized 2025-2050 change.*

Appendix C
US Unauthorized Immigrants by Region of Birth, 2023

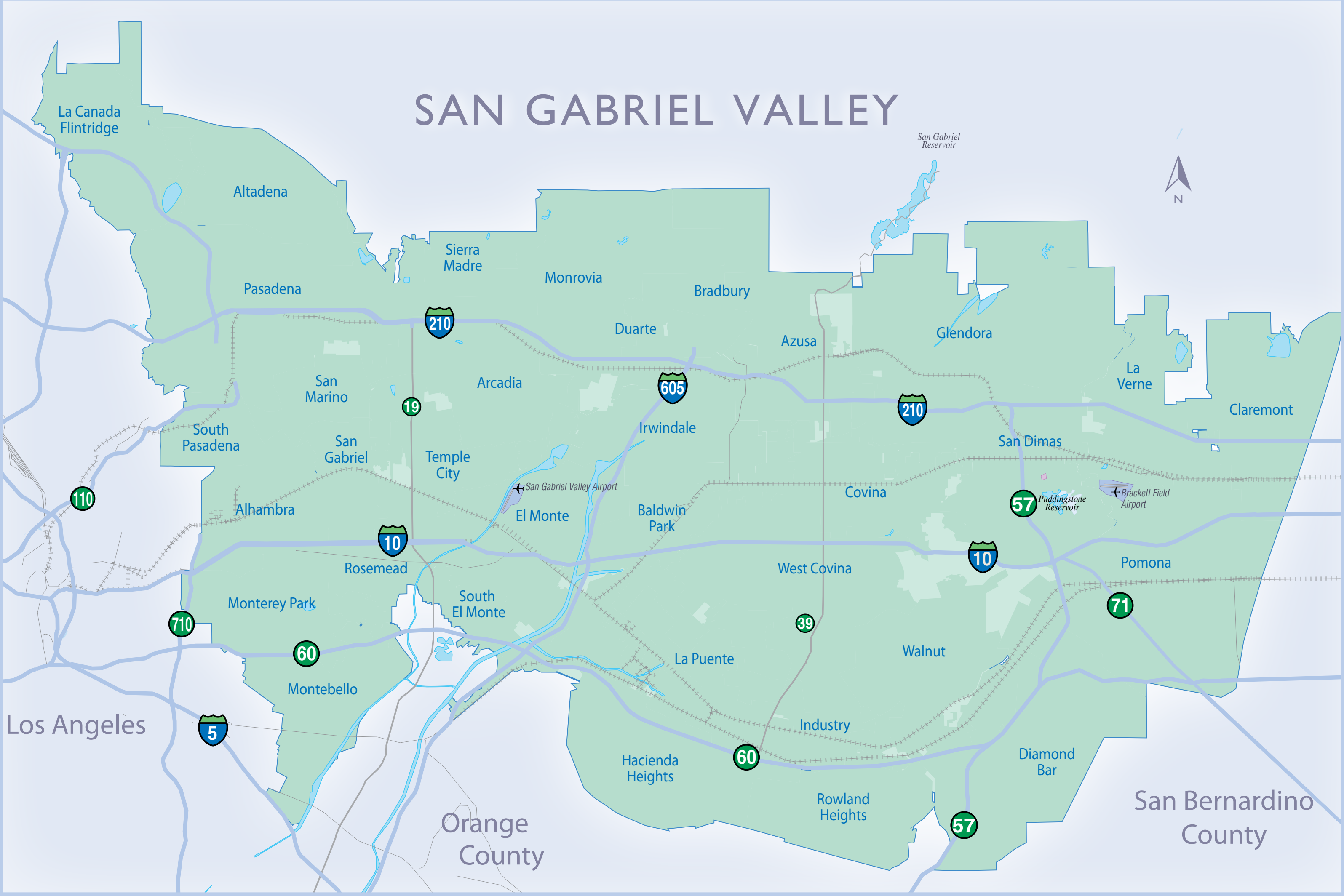
	Number	% Total
All Countries	**14,000,000**	**100.0%**
Mexico	4,250,000	30.4%
Central America	2,850,000	20.4%
South America	2,100,000	15.0%
Caribbean	1,150,000	8.2%
Europe & Canada	1,050,000	7.5%
Asia	1,750,000	12.5%
Middle East	250,000	1.8%
Africa (sub-Saharan)	475,000	3.4%

Source: Pew Research Center. Totals do not add due to rounding.

Appendix D
San Gabriel Valley: 2025 Labor Force, Employment, Unemployment, and Rate by City and CDP

Area	Labor Force	Employment	Unemployment	Rate
Alhambra	43,200	40,900	2,260	5.2
Altadena CDP	21,800	20,600	1,250	5.8
Arcadia	26,000	24,700	1,330	5.1
Avocado Heights CDP	6,700	6,200	450	6.8
Azusa	26,300	24,800	1,450	5.5
Baldwin Park	34,600	32,600	1,940	5.6
Bradbury	500	400	-	0.0
Charter Oak CDP	5,200	4,800	320	6.1
Citrus CDP	5,700	5,400	290	5.1
Claremont	18,200	17,300	930	5.1
Covina	27,300	25,800	1,470	5.4
Diamond Bar	27,400	26,000	1,380	5.0
Duarte	11,400	10,700	590	5.2
East Pasadena CDP	2,800	2,800	50	1.9
East San Gabriel CDP	11,700	11,100	560	4.8
El Monte	50,900	48,200	2,710	5.3
Glendora	25,200	23,800	1,340	5.3
Hacienda Heights CDP	27,000	25,800	1,090	4.0
Industry	100	100	-	0.0
Irwindale	700	700	10	1.3
La Cañada Flintridge	8,900	8,600	340	3.8
La Puente	18,800	17,700	1,010	5.4
La Verne	14,700	13,800	850	5.8
Mayflower Village CDP	2,700	2,600	100	3.7
Monrovia	20,200	19,100	1,090	5.4
Montebello	30,900	29,200	1,680	5.4
Monterey Park	28,700	27,200	1,450	5.0
North El Monte CDP	2,300	2,300	10	0.4
Pasadena	77,900	73,600	4,260	5.5
Pomona	73,400	69,100	4,330	5.9
Rosemead	24,800	23,500	1,260	5.1
Rowland Heights CDP	23,700	22,400	1,290	5.5
San Dimas	17,200	16,300	860	5.0
San Gabriel	20,100	19,200	960	4.8
San Marino	5,600	5,400	200	3.6
Sierra Madre	6,100	5,900	140	2.2
South El Monte	8,900	8,300	540	6.0
South Pasadena	15,000	14,200	790	5.3
South San Gabriel CDP	4,000	3,800	130	3.2
South San Jose Hills CDP	9,000	8,300	640	7.1
Temple	17,600	16,700	940	5.3
Walnut	13,300	12,600	700	5.3
West Covina	55,300	52,400	2,910	5.3
West Puente Valley CDP	10,600	10,000	600	5.7
San Gabriel Valley	**882,100**	**835,400**	**46,500**	**5.3**
Los Angeles County	**5,098,800**	**4,807,000**	**291,820**	**5.7**
California	**19,849,000**	**18,764,200**	**1,084,750**	**5.5**

Source: CA EDD.



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SAN GABRIEL BASIN WATER QUALITY AUTHORITY

UPPER WATER UPPER SAN GABRIEL VALLEY MUNICIPAL WATER DISTRICT

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SOUTHERN CALIFORNIA EDISON