



SAN DIEGO | MLS

ECONOMIC FORECAST

August 2023

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Retail, and Leisure & Hospitality - Two Very Healthy Economic Sectors

Two sectors of the Southern California economy are not doing very well: residential real estate and the office market. So I thought I would add a little cheer to this report and talk about the ebullient retail sector (trade, transportation and utilities) and the leisure and hospitality sector.

In the two sectors that comprise most of the retail and service employment in San Diego, job gains have been very steady, with leisure and hospitality making huge strides since the COVID devastation in the first quarter of 2020.

The unemployment rate in those two categories is in the 3 to 3.5% range -- essentially no unemploy-

ment at all. As these two categories comprise one-quarter of all jobs in

San Diego County, acknowledging their enduring strength is important.

Employment in Retail/Service Businesses San Diego County June 2020 - June 2023

Month	Leisure & Hospitality	Trade, Transportation & Utilities
June 2020 ¹	131,700	198,500
June 2021	167,300	212,800
June 2022	196,800	220,900
June 2023	210,600	222,200
Change 2020-23	+78,900	+23,700

¹ COVID March 2020

Source: Bureau of Labor Statistics (BLS)





Matching the paucity of unemployment is the vacancy rate for retail space: 4.25%. In the exhibit below, we show the vacancy rate on a quarterly basis since the first quarter of 2022 and the rate has been steady.

Equally important, the retail space vacancy rate throughout the county has typically been in the 3.5 to 4.5% range, mirroring the pre-COVID strength.

Vacancy Rate - Retail San Diego County 2022-2023

Period	Vacancy Rate
Q1 2022	4.75%
Q2 2022	4.32%
Q3 2022	4.15%
Q4 2022	3.93%
Q1 2023	4.26%
Q2 2023	4.25%

Source: Voit

And perhaps of equal importance is that there is virtually no retail space under construction in the County. This past quarter had the lowest

number of retail square footage under construction in more than a decade. That's a good sign!

Regional Retail Sub-Markets San Diego County 2nd Quarter 2023

Area	Inventory (sq ft)	Vacancy Rate
Central South	38,881,903	3.40%
East County	19,315,677	3.85%
I-15 Corridor	6,440,465	3.66%
North County	33,249,362	5.35%
Central North	17,439,199	4.52%
South County	19,441,571	4.40%
Total	134,768,177	4.25%

Source: Voit

And now, let's turn to real estate...

San Diego Real Estate

Below is one of my favorite exhibits. Look closely at the correlation between mortgage rates and home price increases. *Focus on the highlighted section.* When interest rates dip, home prices in San Diego rise nicely. And vice versa.

Show this exhibit to your clients and let them decide what will happen to home prices in San Diego when interest rates start to come down. You don't need to be a member of the Federal Reserve Board to figure it out. Clearly, buying now makes sense.

The only blessing is that prices have not collapsed. All we can do is wonder what will happen to sale prices when interest rates subside.

On another positive note, homes on the West Coast are equity rich; i.e, the combined loan balances secured by these properties were no more than half of their estimated market value. San Diego ranks among the most equity rich in the United States at 69%.

Correlation Between Interest Rates and Home Prices San Diego County - 2017-2023

	Jul '17	Jul '18	Jul '19	Jul '20	Jul '21	Jul '22	Jul '23
Mortgage Interest Rates	4.0%	4.5%	3.8%	3.1%	2.9%	5.3%	6.7%
Detached Home Prices (Avg)	\$773,000	\$313,000	\$835,000	\$932,000	\$1,157,000	\$1,284,000	\$1,310,000
\$ Change	--	\$45,000	\$17,000	\$97,000	\$225,000	\$127,000	\$26,000
% Change	--	5.8%	2.1%	11.6%	24.1%	11.0%	2.0%

Source: Greater San Diego Association of REALTORS® (SDAR), Federal Reserve Economic Data (FRED)

Now let's look at the local scene. Listings continue their downward spiral and are nearly half of what they were two years ago, while closings also closely match the declines of new listings from 2021.

New Listings San Diego County July 2021-2022-2023

July	Detached	Attached	Total
2021	2,698	1,499	4,197
2022	2,474	1,344	3,818
2023	1,477	841	2,318
% Change 2021-23	-45%	-44%	-44%

Source: SDAR

Closed Sales San Diego County July 2021-2022-2023

July	Detached	Attached	Total
2021	2,283	1,317	3,600
2022	1,374	825	2,199
2023	1,266	690	1,956
% Change 2021-23	-44%	-48%	-46%

Source: SDAR

Fortunately, despite the decline in listings and closings, prices are holding steady with detached closings approaching \$1 million and attached homes at \$641,000.

The inventory of detached homes for sale has increased and has decreased for attached homes. The months supply continues to be a modest number as does the days on market until sale.



Median Price San Diego County July 2021-2022-2023

July	Detached	Attached
2021	\$875,000	\$550,500
2022	\$955,625	\$625,000
2023	\$990,000	\$641,000

Source: SDAR

It does appear that there is a viable market for both detached and attached homes with a totally acceptable months' supply and relatively short days on market. And prices appear to be rather strong.

My conclusion is that the market for detached and attached homes is strong. The missing ingredient is inventory. I suspect that all we need to have is lower interest rates and the market for homes will rally.

Inventory, Months' Supply, Days on Market Detached and Attached Homes San Diego County July 2021-2022-2023

Category	Jul-21	Jul-22	Jul-23
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Detached			
Inventory of Homes for Sale	2,239	3,674	2,807
Months' Supply	1.0	2.0	2.2
Days on Market Until Sale	18	23	24

Attached			
Inventory of Homes for Sale	1,110	1,655	1,284
Months' Supply	0.9	1.6	1.8
Days on Market Until Sale	18	20	22

Source: SDAR

Spotlight on 92103

Bankers Hill / Hillcrest / Mission Hills

The Bankers Hill, Hillcrest, and Mission Hills area is one of San Diego's favorite residential areas. It encompasses all of Bankers Hill and Hillcrest between University Avenue on the north, I-5 on the South, I-5 on the west and Balboa Park on the east.

The community contains several of the major employers in the county and also several of its more luxurious residential projects.

It is one of the oldest established sub-areas of San Diego County, tracing its roots back to the early 1900s. It was and continues to be one of the most favored residential areas of the county, lying immediately west of Balboa Park, and is freeway proximate.

Established in 1868, Balboa Park contains the "world famous" San Diego Zoo and Botanical Gardens, eighteen museums, an organ pavilion, a miniature train ride and extensive walking trails. Immediately east of Balboa Park is an 18-hole public golf course and the Balboa Tennis Club.

The employment heart of the area is its three major hospitals: the 392-bed UCSD Hillcrest, the 433-bed Scripps Mercy and the 272-bed Balboa Navy Hospital. The areas surrounding the hospitals have numerous medical/health care offices and is generally known as "Pill Hill." More than 10,000 health care personnel work in the hospitals and immediate area surrounding them.



In the coming decade, the UC San Diego Hillcrest campus will undergo a massive redevelopment and expansion, replacing the aged existing hospital and adding several high-rise residential towers. UC San Diego is currently nearing completion on a 250,000 square foot outpatient pavilion and an 1,850-space parking structure.

In addition to the medical facilities, the area is also a highly

popular center of restaurants, bars and nightlife with 1,400 businesses operating in the area.

There are also several major rental projects underway: a clone to Greystar's 6th and Olive high-rise; Dan Floit's super luxury rental at 6th and Thorn; a newly approved high-rise at 3rd and Quince and lastly the second phase of Strauss 5th Avenue. To our knowledge, there are no condominium projects in planning in 92103.



UC San Diego Hillcrest Medical Campus - Phase One

92103 Demographics & Home Sales

Demographically, persons in households in the ZIP code 92103 are older, more educated and have higher incomes than the San Diego County as a whole.

The median age in 92103 is 40 compared to 35 in the County. The persons per household are nearly one-half the size of those in the county (1.7 compared to 2.8). 92103 is virtually an all-adult community, with 87% of its population over age 19.

Coinciding with demographics, two-thirds of the population lives in multi-family housing (condominium, rentals) compared to one-third in the county.

In terms of education, 92103 is substantially more educated than the county as a whole with 59% of persons over age 25 holding a bachelor's degree or higher, compared to 35% countywide. We should note that San Diego County, as a whole, has one of the highest percentages of college graduates in the nation.

Coinciding with the educational levels, the household income levels are substantially higher than in the county as a whole.

92103 Home Sales YTD July 2023

Type	No.	Med. Price
Detached	68	\$1,705,000
Attached	129	\$734,000

Source: SDAR

Existing Housing Market - 92103 and SD County 2021 and 2022

ZIP 92103	Through 12-2021		Through 12-2022	
	Sales	Med. Price	Sales	Med. Price
Detached	208	\$1,400,000	125	\$1,572,000
Attached	406	\$650,000	271	\$728,375

SD COUNTY	Through 12-2021		Through 12-2022	
	Sales	Med. Price	Sales	Med. Price
Detached	25,252	\$842,000	18,317	\$935,000
Attached	14,510	\$546,000	10,167	\$625,000

Source: SDAR

Based on recent IRS returns, in 92103, 23% have incomes over \$100,000.

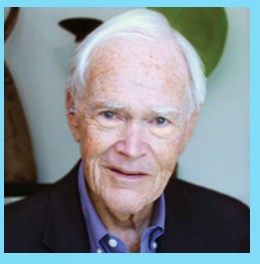
Despite rising interest rates, the ZIP 92103 was highly active in 2022 with sales of 125 detached homes and 271 attached homes. Through December, detached homes had a median sale price of \$1,572,000, approximately 50% higher than the county as a

whole. Attached homes averaged \$728,375.

Sales are not as vibrant as last year but the median prices have been surprisingly strong.

Overall, 92103 is a highly favored ZIP with a limited number of homes and condominiums available and virtually none under construction.





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