



SAN DIEGO | MLS

ECONOMIC FORECAST

FEBRUARY 2023

ALAN NEVIN - DIRECTOR OF APPRAISAL & MARKET RESEARCH, VERTEX



February 2023

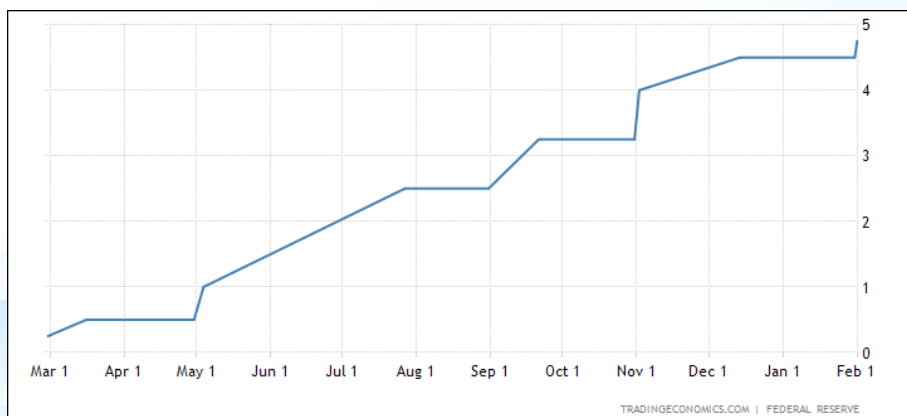
A Mixed Blessing: Economy Up – Home Sales Down

This is one of the strangest economic timeframes that I have seen in many years. The economy is booming despite everything the Feds have done to damper it. Let's take a look:

The Federal Funds Rate has moved from essentially zero to 4.75% this month.

Yet, the U.S. unemployment rate has bottomed out and is now at 3.4%. Perhaps even more puzzling is that we had more than 6 million folks hired this past year and there are still job openings for more than 11 million workers.

FEDERAL FUNDS RATE 2022-2023



Unemployment Rate United States 2018-2023

Year	Unemployment Rate
2018	3.9%
2019	3.6%
2020	6.7%
2021	3.9%
2022	3.5%
2023	3.4%

Source: Bureau of Labor Statistics (BLS)

Job Hires United States 2018-2023

Year	Hires
2018	5,800,000
2019	5,839,000
2020	5,900,000
2021	6,362,000
2022	6,100,000
2023 (est)	6,200,000

Source: BLS

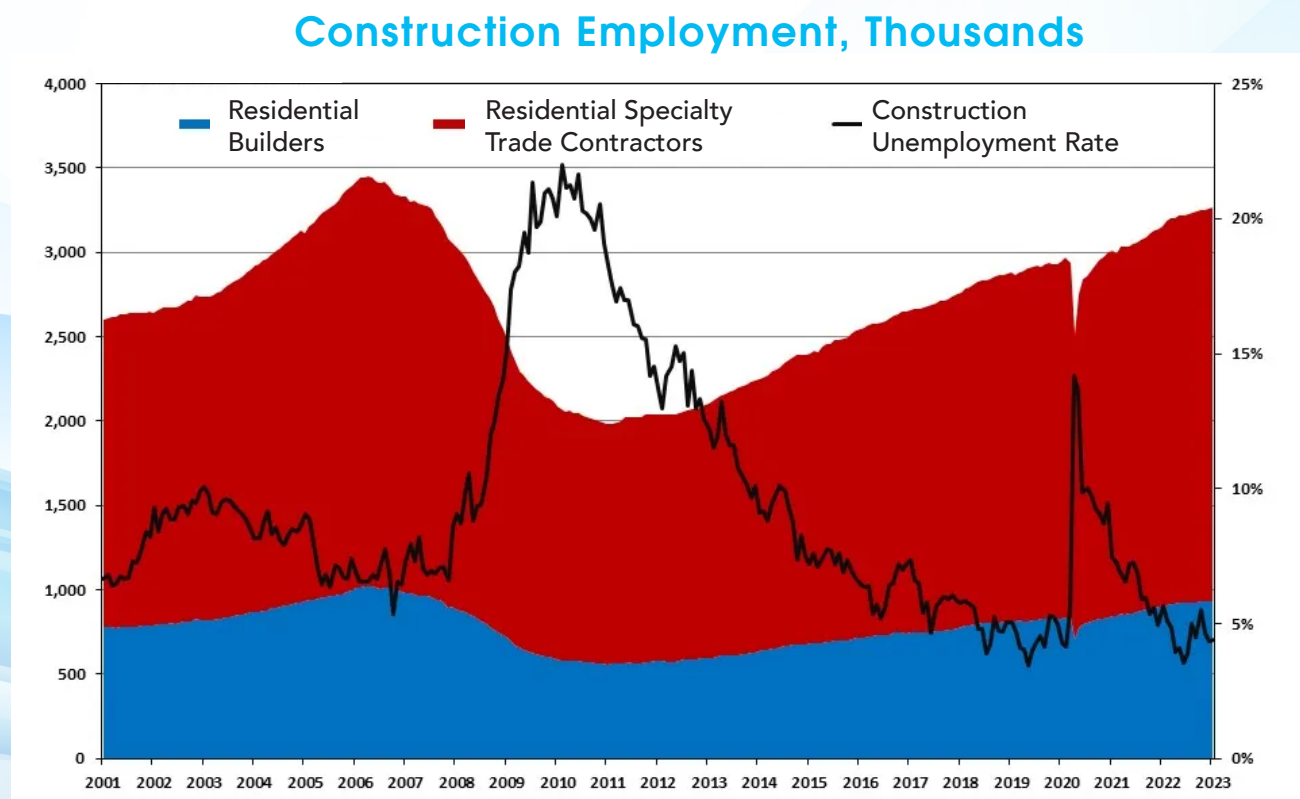
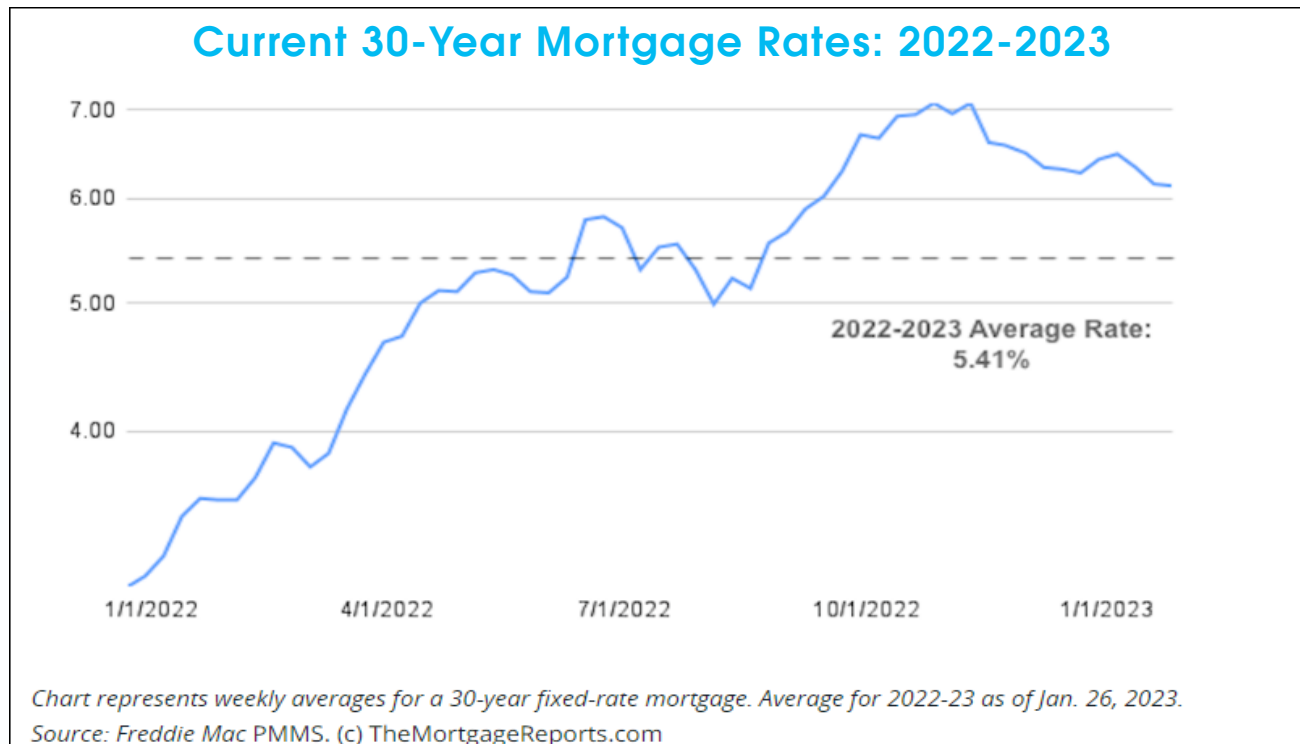
Job Openings United States 2018-2023

Year	Openings
2018	7,100,000
2019	7,166,000
2020	6,493,000
2021	10,600,000
2022	10,100,000
2023 (est)	11,000,000

Source: BLS

Despite the Fed Funds Rate going up, the mortgage rates are going down. Obviously, they are still high compared to the rates early in 2022, but they are moving south nonetheless.

On the construction scene, homebuilding is moving right along with the construction unemployment rate now below 5%.



The San Diego Story

The weather here is a bit more chilly than normal, but the employment market is bordering on hot. This past year we added more than 50,000 jobs and the unemployment rate fell to 2.9% (essentially “zero”).

New Jobs San Diego County 2022

Month	Jobs
Jan-22	1,497,700
Dec-22	1,548,200
Change	50,500

Source: BLS

Unemployment Rate San Diego County 2018-2022

Year	Unemployment Rate
2018	3.3%
2019	3.0%
2020	8.4%
2021	4.1%
2022	2.9%

Source: BLS



The only soft spot in the economy is home sales, unfortunately. Closings were down, but the good news is that prices were relatively stable.

Looking at the Market Indicators, you can witness the softening of the market with days on the market and other factors.



Median Price Detached and Attached San Diego County January 2022 & 2023

Year	Detached	Attached
2022	\$880,000	\$585,000
2023	\$849,000	\$590,000
Change	(\$31,000)	\$5,000
% Change	-3.5%	0.9%

Source: SDAR

Closed Sales Detached and Attached Homes San Diego County January 2021-2023

Year	Detached	Attached
2021	1,466	833
2022	1,404	771
2023	886	459
Change 2022-2023	(518)	(312)
% Change	-37%	-40%

Source: SDAR

As is traditional in the local market, it is the homes under \$750,000 that have taken the big hit on sales. Homes over \$750,000 have had modest declines in sales.

Well, spring isn't quite in the air, but I am of the opinion that warmer weather will bring a warmer homebuying economy. Stay tuned!



Market Indicators San Diego Inventory January 2022 & 2023

Indicator	2022	2023	Change	% Change
Detached				
% of Original Price Received	103.0%	95.6%	7.4	-7.2%
Days on Market Until Sale	24	43	19	79.2%
Inventory of Homes for Sales	1,458	1,666	208	14.3%
Months Supply of Inventory	0.7	1.1	0.4	57.1%
Attached				
% of Original Price Received	103.8%	97.0%	6.8	6.6%
Days on Market Until Sale	19	40	21	110.5%
Inventory of Homes for Sales	632	861	229	36.2%
Months Supply of Inventory	0.5	1.1	0.6	120.0%

Source: SDAR



Sales by Price Range Detached and Attached Homes San Diego County January 2022 & 2023

Price Range	2022	2023	Change	% Change
Detached				
Under \$500,000	712	401	(311)	-44%
\$500,000-750,000	8,255	4,115	(4,140)	-50%
\$750,000-1,000,000	7,359	5,642	(1,717)	-23%
\$1,000,000+	8,816	7,677	(1,139)	-13%
Attached				
Under \$500,000	5,705	2,563	(3,142)	-55%
\$500,000-750,000	5,532	4,260	(1,272)	-23%
\$750,000-1,000,000	1,724	1,618	(106)	-6%
\$1,000,000+	1,435	1,443	8	1%

Source: SDAR

Spotlight on Downtown San Diego

Until this past year, the square footage of office space developed in the past two decades in downtown San Diego was negligible.

However, in the past year, 889,000 square feet of office space was completed, including a 219,000-square-foot building by Kilroy in Little Italy and a new Navy headquarters with 370,000 square feet. There is another 2.5 million square feet under construction and another 500,000-plus million square feet pending.

When complete, the 2.6 million square feet of office space will create 8,000 to 10,000 jobs. Currently, there are 60,000 jobs downtown.

The two largest projects are The Campus at Horton (formerly Horton Plaza) and IQHQ. Both are life science-oriented and well under construction. The Campus at Horton will also include 350,000 square feet of retail space. And adjoining IQHQ will be a 1,160-room Fairmont hotel by the Manchester Group.

Also, in the planning stage is the \$3.6 billion revitalization of Seaport Village. The new Seaport Village will include 2,000 hotel rooms, an aquarium, observation tower and a concert venue. Construction is anticipated to begin in 2028. Gafcon is the developer.

Summary of Residential Development (Units Completed) Downtown San Diego January 2001-December 2022

Years	Condos	Rentals	Total
2001-2009	8,270	4,380	12,650
Pre-Recession	65%	35%	100%
2010-2014	-	1,559	1,559
Recovery	0%	100%	100%
2015-2019	285	5,963	6,248
	5%	95%	100%
2020-2022	232	2,842	3,074
COVID years	8%	92%	100%
Total	8,787	14,744	23,531
% by Type	37%	63%	100%

Source: Census Bureau: 2018-2022



Currently, there are 36,000 people living downtown, most of them in housing that was developed since 2000. In the past two decades, more than 23,000 rental and condominium units were developed downtown, most of them in the 2001-2009 timeframe. Condominium development was vibrant in the first decade of the 21st century, but the 2008-2013 recession caused a cessation of that activity. Construction defect litigation also caused developers to refrain from condominium development activity.

As the economy recovered, apartment construction blossomed downtown. Since 2015, a total of more than 9,000 apartment and condominium units have been constructed.

2022 was a very successful year for condominium sales in downtown San Diego. Almost 1,000 condominium units changed hands at the highest prices since we started keeping track.

Note that 2021 had an unusually high number of sales, but that relates to the sales in the two new Bosa projects downtown (Savina and Pacific Gate).

In 2022, the average unit sold for more than \$900,000, a 37% increase since 2017

Sales were strong in all price levels, with particular strength in the \$1,000,000-plus market. In 2022, 238 condominiums were sold for more than \$1 million. And those that sold for more than \$1 million were priced at an average of \$1,167 per square foot. Very impressive!



Condominium Sales Downtown San Diego (92101) 2017-2022

Year	Sales	Avg. Sq.Ft.	Avg. Price	Avg. Price/ Sq.Ft.	% Change
2017	865	1,113	\$657,541	\$591	-
2018	828	1,083	\$645,439	\$596	100.8%
2019	720	1,090	\$679,043	\$623	105.4%
2020	936	1,096	\$702,889	\$641	108.5%
2021 (1)	1,367	1,124	\$878,334	\$781	132.1%
2022	959	1,129	\$912,816	\$809	136.9%

(1) Includes two new condominium projects

Source: Chicago Title Co.

On the exhibit here, we show the top selling condominium projects downtown in calendar year 2022. These 14 projects each sold more than 15 condominium units this past year.

The units are ranked from the most expensive per square foot to the least expensive. The most expensive was Bosa's Savina with 24 sales averaging more than \$1.6

million, or \$1,149 per square foot.

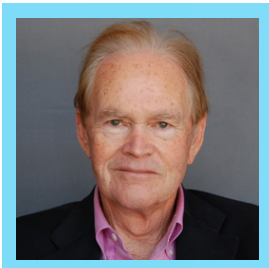
Overall, considering that interest rates sky-rocketed, it is very gratifying to see almost 1,000 units sold. Imagine what could be sold if there was new product coming online and interest rates returned to a crowd-pleasing 3 to 4%. We may be in for a surprise in 2023. Stay tuned.



Condominium Sales by Price Range Downtown San Diego (92101) CY 2022

Project	Address	Developer	No. Sold	Sq. Ft.	Avg. Price	\$/Sq.Ft.
Savina	1388 Kettner Blvd.	Bosa	24	1,405	\$1,614,071	\$1,149
Pinnacle	550 Front St.	Pinnacle	19	1,283	\$1,259,722	\$982
Electra	700 West E St.	Bosa	21	1,095	\$1,021,548	\$933
Breeza	1431 Pacific Hwy.	Intracorp	19	922	\$813,263	\$882
Harbor Drive	100-200 Harbor Dr.	HomeFed	28	1,340	\$1,117,469	\$834
CityFront Terrace	500 W. Harbor Dr.	Crescent	24	1,249	\$1,021,667	\$818
The Mark	800 The Mark Ln.	Douglas Wilson	17	1,073	\$840,147	\$783
Icon	321 10th Ave.	Levin & Menzies	18	896	\$694,895	\$776
Acqua Vista	425 W. Beech St.	Intracorp	33	990	\$761,250	\$769
Trellis	530 K St.	Intracorp	21	792	\$603,619	\$762
Aria	1441 9th Ave.	Anka	19	1,277	\$896,833	\$702
Palermo	1501 Front St.	Western Pacific	21	938	\$657,824	\$701
Smart Corner	1080 Park Blvd.	Harmer	27	803	\$496,259	\$618
Metrome	1150 J. St.	Barratt American	26	849	\$508,596	\$599

Source: Chicago Title Co.



ALAN NEVIN - DIRECTOR OF APPRAISAL & MARKET RESEARCH, VERTEX

Economist, Alan Nevin is the Director of Appraisal and Market Research at Vertex. A graduate of Stanford University, Mr. Nevin has a broad background in real estate development, investment and market research. He serves the legal and insurance communities with valuations, market supply and demand and economic loss analyses. His book "The Great Divide" focuses on the future of the U.S. and the industrialized nations of the world. Mr. Nevin is available for speaking engagements. Contact him at (619) 417-1817 or email nevin.econ@gmail.com.



SAN DIEGO | MLS

info@sdar.com | (858) 715-8000

4845 Ronson Ct, San Diego, CA 92111

www.sdar.com | www.sdmls.com