Economic Forecast 2021

JANUARY 2021

Alan Nevin – Director of Economic and Market Research, Xpera Group

2021: A YEAR OF HEALING

One year ago I presented to you a very optimistic forecast for 2020. And like economists everywhere around the world, I got it wrong. But I'm pretty sure that I'll get it right for 2021. Trust me.

COVID-19 wiped out a year of gains throughout the world economy and now we have to start over again.

In 2020, economically speaking, the devastation was spotty with some industries -- leisure and hospitality, in particular -- being hurt badly while others prospered. This time around, real estate, for the most part, escaped the collapse.

In the exhibit shown is a picture of the economy at year-end 2019 and 2020. The real estate sector falls into two categories: construction, which completely ignored the pandemic; and professional and business services that had relatively few job losses. Overall, our job losses totaled 5% from December 2019 to December 2020.

Leisure and hospitality accounted for almost 50% of all the job losses in the United States.

Employment by Industry (Millions)
United States
December 2019- December 2020

Industry	YE 2019	YE 2020	Change	% of Losses
Leisure & Hospitality	**16,450**	**12,712**	**(3,738)**	**44.5%**
Construction	7,447	7,425	**(22)**	**0.3%**
Financial Activities	8,819	8,756	**(63)**	**0.7%**
Educaton	3,909	3,483	**(426)**	**5.1%**
Retail Trade	16,159	15,730	**(429)**	**5.1%**
Health Care	16,497	16,066	**(431)**	**5.1%**
Manufacturing	12,876	12,331	**(545)**	**6.5%**
Trade, Transportation & Utilities	28,582	27,896	**(686)**	**8.2%**
Professional & Business Services	21,600	20,800	**(800)**	**9.5%**
Government Workers	23,011	21,750	**(1,261)**	**15.0%**
Total	**155,350**	**146,949**	**(8,401)**	**100.0%**

Note: Not Seasonally Adjusted
U.S. Bureau of Labor Statistics

In most recessions, it takes several years for the unemployment rate to return to its previous levels. This time around, the national unemployment rate skyrocketed to 14.7% in a few short months, and in nine months has plummeted to 6.7%.

Unemployment Rate
United States
March-December 2020

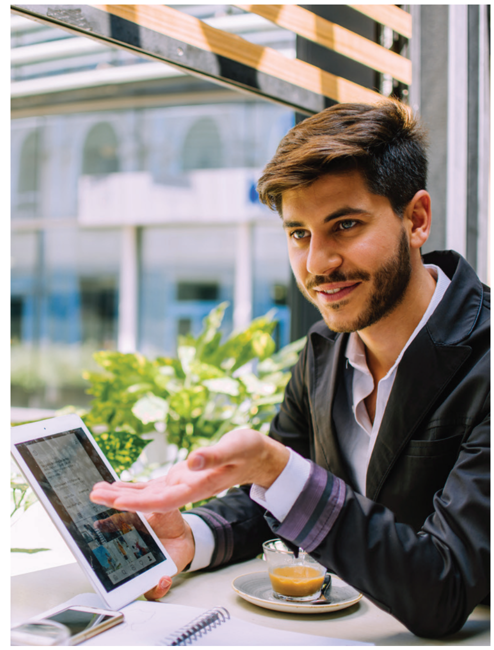
Month	Unmployment Rate
March	**4.4%**
April	**14.7%**
September	**7.9%**
December	**6.7%**

Source: U.S. Bureau of Labor Statistics
Not seasonally adjusted

Employment and Interest Rates

With the strong possibility that the vaccine will be widely distributed in the next few months and if the vaccine reaches most of the population by late summer, the U.S. economy could reach the "magic" unemployment 5% level by third quarter 2021.

Unemployment Rate



In many respects, this is a recession for those who did not complete college. The unemployment rate for those with a college degree is 3.8%, less than half that for those who only hold a high school degree.

Unemployment Rate
By Years of Educational Attainment
United States
2019-2020

Month	YE 2019	YE 2020
Bachelor's Degree or Higher	**1.8%**	**3.8%**
Some College or A.A. degree	2.6%	6.3%
High School (no college)	3.7%	7.8%
Less than a HS Degree	5.9%	9.8%

Source: BLS.gov

I typically follow more than a dozen economic indexes in an effort to better understand the economic strengths and weaknesses of the nation. There are four indices that inevitably have the greatest impact: (1) employment (discussed above); (2) interest rates; (3) vehicle sales; and (4) real estate (construction and sales).

INTEREST RATES

Mortgage rates and business borrowing rates today are at a 50-year low and I see no reason why they should rise in 2021. The supply of funds is a combination of people saving more today (believe it or not); foreign funds finding their way to the U.S.; and the Federal Reserve's determination to get the economy moving again. Needless to say, these low interest rates augur well for real estate construction and acquisition.

In 2008 in the last major recession, mortgage rates were in the 7% range, a far cry from today's rock-bottom rates.

30-year mortgage rates chart

Vehicle and Real Estate Sales

VEHICLE SALES

I track vehicle sales because they are "feel good" indicators. Until COVID, we had been selling 17 million new vehicles (cars and light trucks) for the prior five years, while used car sales rose to 40 million in 2019.

In 2020, new vehicle sales fell to 14.5 million. In 2021 there will be a bounce back to 16-17 million vehicles.

One of the reasons for this projection is that the average U.S. vehicle is now 12 years old, up from 9 years a decade ago. With interest rates at a new low, buying a vehicle is almost an American imperative.

Used vehicles remain in hot demand, and in 2020, despite COVID, sold 41 million vehicles. It's been growing every year since 2015. Used car dealers, unfortunately, cannot obtain a sufficient number of vehicles to please their clientele. Ordinarily, used car dealers have a two-month supply on their lots; now they are down to one month, thanks to the decline in trade-ins.

That's enough about cars. Let's turn to real estate:

New Car Sales - Annual
United States
2015-2020

Year	No.
2015	17,404,970
2016	17,500,719
2017	17,212,565
2018	17,323,849
2019	17,023,894
2020	14,500,000

Used Vehicle Sales
United States
2015-2020

Month	000
2015	37,255
2016	38,602
2017	39,204
2018	40,233
2019	40,807
2020	41,000

Source: Bureau of Transportation Statistics

REAL ESTATE

To stay on top of the U.S. real estate market, I look at these three factors: new residential, resales of existing homes, and valuation of construction.

RESIDENTIAL AND COMMERCIAL CONSTRUCTION

On a national basis, the number of residential units permitted has been going up since 2015 and has continued on an upward path through this past year. In 2020, the U.S. produced 1.4 million new housing units and almost reached the 1 million level for detached homes.

Census.gov keeps track of the dollars expended in both the private and public sector. It tracks residential and commercial construction in the private sector and also the public sector. Since 2015, all three categories have been increasing with residential housing leading the way.

Residential Building Permits
United States
2015-2020

Year	Total	Single Family	Multi-Family
2015	1,182,600	696,000	486,600
2016	1,206,600	750,800	455,800
2017	1,282,000	820,000	462,000
2018	1,328,800	855,300	473,500
2019	1,386,000	862,100	523,900
2020 (P)	1,400,000	950,000	450,000

Source: Census.gov

Real Estate Sales

RESALES OF EXISTING HOMES

In most years, national sales of 5 to 6 million existing homes is considered good – very good. But in 2020, U.S. sales passed the 7.0 million mark. The result of this splurge of purchases is a rapidly reducing supply of existing homes for sale and the desire for home ownership. At the end of 2020, the nation's supply had declined to 2.5 months. In most of the United States, a 5 to 6-month supply is normal.

Value of Construction (Millions)
Private & Public Sector
United States
2015-2020 (P)

	Private Sector			
Year	Residential	Coml	Public Sector	Total
2015	$ 438,695	$701,467	$ 293,768	$1,433,930
2016	$ 485,965	$737,706	$ 296,539	$1,520,210
2017	$ 545,753	$734,088	$ 296,539	$1,576,380
2018	$ 563,877	$769,306	$ 310,167	$1,643,350
2019	$ 550,942	$814,195	$ 334,433	$1,699,570
2020 (P)	$ 593,954	$805,562	$ 339,736	$1,739,252
Change 2015-2020	**$ 155,259**	**$104,095**	**$ 45,968**	**$ 305,322**
% Change	**35.4%**	**14.8%**	**15.6%**	**21.3%**

Source: Census.gov

Home Resales
United States
2015-2020

Year	Total	Months Supply
2015	5,250,000	5.9
2016	5,450,000	5.4
2017	5,510,000	3.9
2018	5,340,000	4.0
2019	5,340,000	3.9
2020 (P)	7,000,000	2.5

Source: National Association of REALTORS®

Summary: The U.S. and San Diego 2021 Forecast

With a new President and Vice President, and a new vaccine, the nation should move forward once again.

Nationally, that might not take place until the third quarter, unless some particularly obnoxious new strains materialize fail to pay attention to the new vaccine.

Assuming that most folks will take the double shot in the next few months -- in the U.S. and around the world -- our employment should probably return to where it was last March by the end of 2021. This obviously means that we are not likely to have job gains in 2021 over March 2020, but that is just reality. Until COVID, our nation had been gaining 2.2 to 2.5 million jobs annually.

As for vehicles, we should return to the 16-17 million new cars annual level that we have been accustomed to and continue to sell more than 40 million used cars. When folks obtain their first real job, the first thing they do is buy a used car. And that is why public transit ridership has been on a decline the past several years.

The resale housing market will remain hot. Right now the problem is a shortage of inventory. Once potential sellers will allow potential buyers into their homes and REALTORS® will resume their caravans, the market should continue to blossom.

The San Diego Economy

San Diego County is still growing, but not quite as fast as in years past. We still have 18,000 more births than deaths, but our in-migration from south of the border has slowed and we are losing folks to Texas, Arizona, and Nevada.

Although I cannot document it yet, it appears that our in-migration is composed mostly of college-educated and eventually affluent folks, often from the Bay Area. Those who are leaving are less affluent and looking for lesser expensive places to live.

Looking to the future, these next few decades will see a substantial increase in the number of persons 35-59 years of age, the primary age group for home purchasing.

Population
San Diego County
2015-2020

Year	Population	Change
2015	3,280,850	n/a
2016	3,306,090	25,240
2017	3,321,240	15,150
2018	3,333,860	12,620
2019	3,340,312	6,452
2020	3,343,355	3,043

Source: Census.gov

Population by Age Group
San Diego County
2020-2050

	Population			
Age Group	2020	2050	Change	% Change
Under 20	869,131	765,267	(103,864)	-12%
20-34	768,887	807,095	38,208	5%
35-59	**1,043,723**	**1,161,865**	**118,142**	**11%**
60-74	481,703	536,157	54,454	11%
75+	206,974	459,951	252,977	122%
Total	3,370,418	3,730,335	359,917	11%

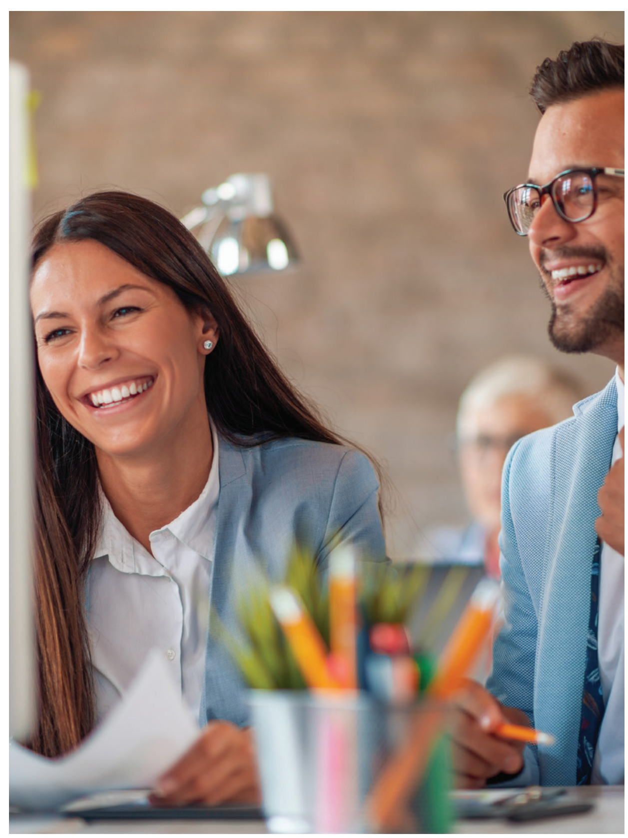
Source: Census.gov

Secondarily, the 65-plus age group will increase substantially and that more than likely means that homes owned by them will be offered for sale, thus freeing up the inventory for younger folks.

Home Ownership by Age Group
San Diego County
2019

Age Group	1-Person HH	2+ Person HH	Total
Under Age 45	22,069	162,822	184,891
45-64	38,494	180,040	**218,534**
65-74	20,376	54,607	**74,983**
75+	29,975	43,106	**73,081**
Total	**110,914**	**440,575**	**551,489**
% 45+	**80%**	**63%**	**66%**

Source: Census.gov



Employment in San Diego

The employment scene in San Diego County mirrors that of the U.S., but the leisure and hospitality industries have a larger share of the total jobs.

The loss of jobs has been highly selective, focusing to a major degree on leisure/hospitality -- and that includes restaurants. Virtually half of the jobs lost since March have been in that category. Most other industries have had gains or minor losses, as noted in this exhibit:

Job Losses/Gains by Category
Wage and Salary Employment
San Diego County
March - November 2020

Category	COVID March	November	Change March - Nov
Total	**1,494,000**	**1,426,000**	**(68,000)**
Leisure and Hospitality	**192,900**	**157,300**	**(35,600)**
L&H as % of Job Losses			**52%**
Professional & Business Services	259,500	268,300	**8,800**
Construction	80,200	86,000	**5,800**
Trade, Transportation & Utilities	218,800	217,900	**(900)**
Manufacturing	117,100	109,900	**(7,200)**
Education & Health Services	219,600	209,200	**(10,400)**
Government	252,900	236,500	**(16,400)**

Source: US Bureau of Labor Statistics

It will take several months for our region's leisure/hospitality to recover, especially the convention business which keeps those downtown hotels and Morton's and Ruth's Chris in business. We also need to work diligently to resuscitate our cruise ship business. We were on a path to have 300,000 passengers in 2020 (we had almost that many in 2019) when the ships sprung a COVID leak.

The good news is that cruise ship bookings for later in 2021 and 2022 are strong and there are indications that our convention business will somewhat resuscitate by fourth quarter. Our local restaurant business should be back in business by third quarter.

RESIDENTIAL CONSTRUCTION

Despite COVID, our residential construction industry has been very busy and matched the 2019 output in 2020. I look forward to a repeat of 2019 and 2020 in 2021. Note that the multi-family category includes condominiums, townhomes and apartments. our nation had been gaining 2.2 to 2.5 million jobs annually.

As for vehicles, we should return to the 16-17 million new cars annual level that we have been accustomed to and continue to sell more than 40 million used cars. When folks obtain their first real job, the first thing they do is buy a used car. And that is why public transit ridership has been on a decline the past several years.

The resale housing market will remain hot. Right now the problem is a shortage of inventory. Once potential sellers will allow potential buyers into their homes and REALTORS® will resume their caravans, the market should continue to blossom.

Residential Building Permits
San Diego County
2019-2020

Annual	No. of Units Total	Single Family	Multi-Family (1)
2020	**8,400**	**2,700**	**5,700**
2019	**8,082**	**3,023**	**5,059**

(1) condominium and rental 2020 totals based on 11 months.
Source: U.S. Census

The Resale Market

The resale market seems to attract more press than the new home market. The members of the Greater San Diego Association of REALTORS® (SDAR) had a very good year in 2020 and it would have been even more vibrant if there was an inventory of ready to sell homes. Still, achieving 43,000 sales in a pandemic environment is a very positive market position.

Every month I track three key indicators: percent of original list price received; days on market until sale; and months' supply of inventory. More than 25% of the homes that sold had offers over the listing price. That sounds like 2007, almost.

Closed Sales
SDAR
2019 and 2020

Year	Detached	Attached	Total
2019	31,918	15,345	47,263
2020	28,996	14,550	43,546

Source: SDAR

Key Indicators
Existing Homes Sales
San Diego County
Year End 2020

Category	Detached	Attached
% of Original List Price Received	100.3%	99.4%
Days on Market Until Sale	19	21
Months Supply of Inventory	0.9	1.1

Source: SDAR

With the tightness in the market, median prices have increased dramatically in 2020, with single-family homes up 15.3% and attached homes up 14.1%.

As I look at 2021, I see a continuation of the heady appetites for sale housing, both new and existing, both detached and attached. I really hope that prices do not accelerate at this past year's pace because that is unwholesome and unsupportable and harmful to the overall economy.

Median Home Prices - Closed Sales
December 2019 and 2020

Month	Detached	Attached
2019	$ 655,000	$ 435,000
2020	$ 755,000	$ 496,500
Change 2019-2020	**$100,000**	**$61,500**
% Change	**15.3%**	**14.1%**

Commercial Real Estate

It was a roller-coaster year for most of the commercial property industry, but with a few shining spots. The homeruns this year were industrial and life science. And it looks like 2021 will be heady years for those two categories again. I anxiously await the grand opening of Amazon's 3.2 million-square-foot facility in Otay Mesa and their half-million-square-foot Amazon "last mile" delivery project in Poway.

The apartment business remains stable with most "A" and "B" properties still collecting 90%-plus in rent, but I fail to see indicators of rent increases in 2021. Long run, it's still great.

Office and retail are the biggest question markets in 2021. I still believe that most office workers will still want to work in an office and will soon tire of working at home. And it may be that to maintain permanently social distancing, firms will need more square footage per employee rather than less.

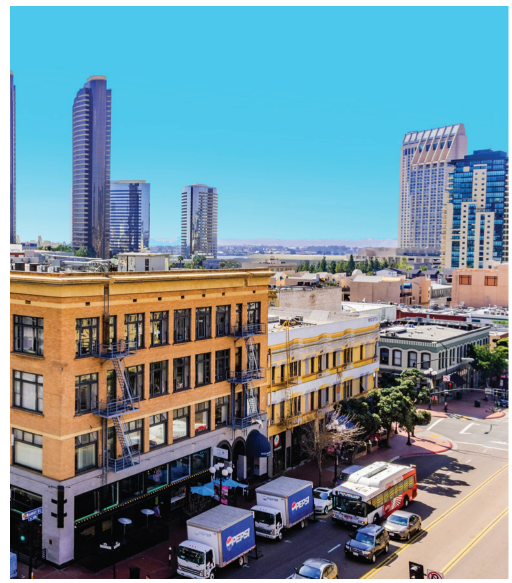
And for retail? Most will survive, although the regional centers will be ailing for some time.

And hotels? Well, the old ones can sell for homeless residencies and the new ones will gradually shine again. Though it may take a few months to get back in shape.

This exhibit rates the commercial real estate industry on a zero-to-10 scale, with 10 being the strongest.

Economic Forecast
Commercial Real Estate
San Diego County
2021

Category	Rating (0-10 Scale - with 10 being strongest) Occupancy	Revenue Increases	Ease of Financing	New Construction
Apartments - Existing	8	5	8	8
Office	7	5	5	3
Retail	8	5	5	3
Industrial	9	8	8	7
Life Science	9	8	8	9
Hotels	7	5	5	3



Overall, San Diego County remains blessed. Of course, there is the weather, but better yet, the County has a highly educated and work-oriented labor force that will allow the economy to grow and prosper and buy homes in communities that our developers struggle to get approved.

I'm not sure I know what normalcy is anymore, but I am pretty sure that normalcy will return as we move into the third quarter of 2021. And then on to bigger and better things.

Be prepared to enjoy 2021.

SDAR
GREATER SAN DIEGO ASSOCIATION OF REALTORS®

SAN DIEGO | MLS

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

4845 Ronson Ct, San Diego, CA 92111

www.sdar.com | www.sdmls.com