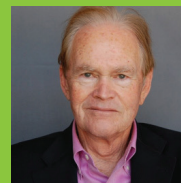


# Quarterly Economic Report

JULY 2020

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## JOBS, REAL ESTATE & CONSTRUCTION AS COVID-19 HOVERS

Life goes on. Especially in real estate.

The enormous dip the U.S. economy took in April is gradually working its way back. And we still have 16 million jobs to recapture before we are back to where we were in February. The national employment rate, which dipped to 3.6% in January jumped to 14.7% in April before settling down to 11.1% in June. Part of those big gains in May and June shows that some of the 25 million unemployment claims were in fact people who were furloughed instead of lost jobs.

### Total Employment United States January-June 2020

Month	Total Jobs (000)	Change
January	158,714	n/a
February	158,759	45
March	155,772	(2,987)
<b>April</b>	<b>133,403</b>	<b>(22,369)</b>
May	137,242	3,839
June	142,182	4,940

As with several past recessions, the less educated suffered most. In June, those with a bachelor's degree or higher had an unemployment rate of 6.9% compared to a 16.6% unemployment rate for those who didn't finish high school.

In a similar vein, the youthful workforce has suffered most. The 25-and-older workforce has not suffered nearly as badly.



### Unemployment Rate United States January-June 2020

Month	Unemployment Rate	Employment Rate
January	3.6%	96.4%
February	4.4%	95.6%
March	4.4%	95.6%
<b>April</b>	<b>14.7%</b>	<b>85.0%</b>
May	13.3%	86.7%
June	11.1%	88.9%

### Unemployment Rate by Years of Age United States April-June 2020

Age	%
Age 19 & younger	23.2%
20--24	19.0%
25-54	9.5%
55 & Over	8.9%

# Unemployment Report

Additionally, the unemployment rate for married folks is distinctly less than for the unemployment rate as a whole.

## Unemployment Rate by Marital Status United States April-June 2020

Age	Unempl. Rate
Married Men, Spouse Present	6.9%
Married Women, Spouse Present	8.9%
Overall Unemployment Rate	11.1%

Source: BLS.gov



## REAL ESTATE AND CONSTRUCTION UNEMPLOYMENT VS. INITIAL UNEMPLOYMENT

Inevitably our real estate industry, locally and nationally, guides our recovery. The construction industry had an unemployment rate of 6.9% in March, which then jumped to 16.6% in April and now has settled back to 10.1% in June. Hopefully that path continues downward.

Initial unemployment claims continue to plummet, down 79% from the peak week of March 28.

## Unemployment Rate Construction Industry United States March -June 2020

Month	%
March	6.9%
April	16.6%
May	12.7%
June	10.1%

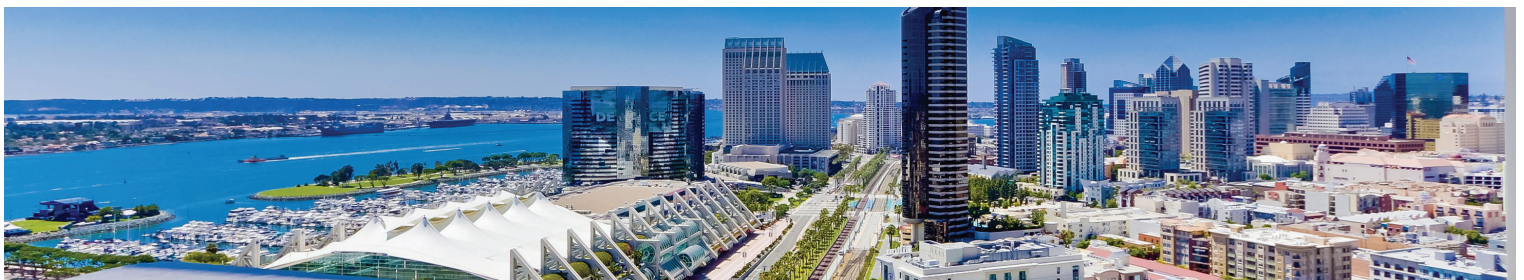
Source: BLS.gov

## Initial Unemployment Claims United States March 21-July 4 2020

Week	(000)
21-Mar	3,307
<b>28-Mar</b>	<b>6,867</b>
4-Apr	6,615
<b>6-Jun</b>	<b>1,542</b>
<b>4-Jul</b>	<b>1,399</b>

<b>% Decline from March 28</b>	<b>79.6%</b>
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Source: Bureau of Labor Statistics





# California Employment

## THE CALIFORNIA STORY

I find it interesting that the California General Fund Revenues are ahead of their forecast through May 2020: Up 10.6%. That's good news.

### Actual & Forecast California General Fund Revenue (millions) May-20

Category	Forecast	Actual	Change	% Change
Personal Income	\$ 4,111	\$ 4,632	\$ 521.0	12.7%
Sales & Use	\$ 2,106	\$ 2,067	\$ (39.0)	-1.9%
Other	\$ 1,214	\$ 1,517	\$ 303	25.0%
<b>Total</b>	<b>\$ 7,431</b>	<b>\$ 8,216</b>	<b>\$ 785</b>	<b>10.6%</b>

Source: CA DOF

## UNEMPLOYMENT BY CATEGORY

The big hit has been leisure and hospitality – down almost 50% between March and May. Other industries fared much better in our County. Leisure and hospitality account for more than half of job losses since March.

In the City of San Diego, leisure and hospitality account for 17% of tax revenues. By way of comparison, the U.S. leisure and hospitality business accounts for 2.6% of GDP.

In Europe, which is far more tourism dependent than the U.S., leisure and hospitality accounts for 11%, somewhat akin to the San Diego economy. In some places, like the Mediterranean island of Mallorca, tourism accounts for 37% of the GDP. Europe is anticipating a loss of \$1 trillion in tourism revenue this year.

It is ironic that before the COVID pandemic hit, several European cities were rebelling about excessive tourism and talking about putting limitations on the number of visitors.

It is equally ironic that some elected officials want to decimate short-term rentals in our County, when our tourism economy desperately needs them to bolster our tourism business. Last year, short-term rentals produced \$30 million-plus in tax revenues for the City of San Diego. The majority of Comic-Con out-of-towners stay in short-term rentals because the hotel rooms are all booked well in advance.



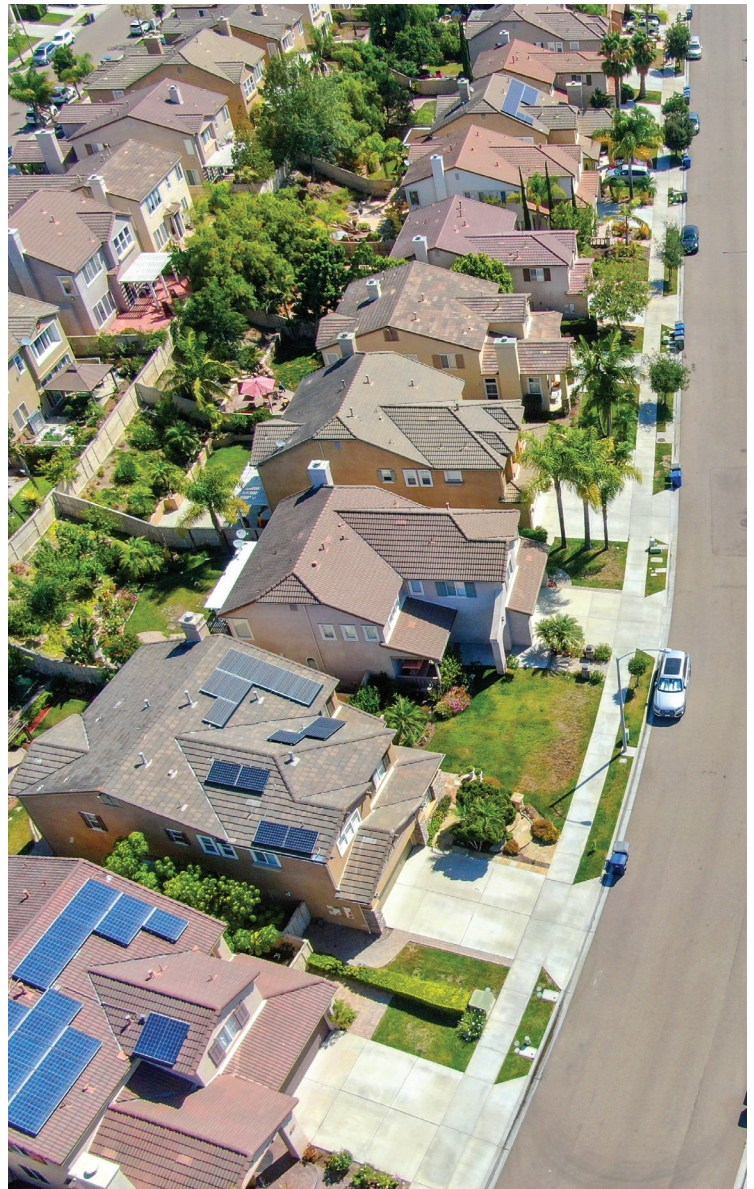
## SAN DIEGO EMPLOYMENT

Now on to San Diego: Our County unemployment rate increased dramatically in April and May. The June numbers for the County won't be available until late July.

### Civilian Employment Rate San Diego County January thru May 2020

Month	Total Employment (excluding military)	Unemployment Rate
January	1,540,000	3.3%
February	1,544,300	3.2%
March	1,509,100	4.2%
April	1,317,500	15.0%
May	1,319,500	15.0%

Source: Bureau of Labor Statistics



# COVID in San Diego

I recognize that our lives nowadays are dominated by COVID-19 and you may be bored reading about it, but I still think it's important to take a look at the trends just to put things into reality.

Let's look at this picture. **San Diego has one-third of deaths per million persons than the U.S. as a whole: We must be doing something right!**

Since COVID is responsible for temporarily destroying our wonderful local economy, I thought I'd bring you to date on COVID in San Diego County.

First, and perhaps, foremost, is that COVID in this County has been most brutal for folks over 60, comprising 88% of all deaths. Equally disturbing is the fact that an estimated 50% of the deaths have been in nursing homes. From a slightly brighter perspective, if you're under 40, the chances of dying in San Diego from COVID are mighty low.

## Deaths by COVID-19 U.S., California and San Diego as of July 13 2020

Locale	Total Deaths from all causes - 2019	COVID Deaths as of 7.13.2020	COVID as % of Total Deaths
United States	2,800,000	135,984	4.86%
California	263,000	7,086	2.69%
San Diego	22,000	422	1.92%

Source: Census.gov; John Hopkins Covid Map

## Deaths by Age Group COVID 19 San Diego County as of 7.3.2020

Age Group	%
Under 40	1.8%
40-59	10.6%
<b>60+</b>	<b>87.6%</b>
Total	100.0%

<b>Median Age</b>	<b>78</b>
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<b>% of Deaths in Nursing Homes</b>	<b>50.0%</b>
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Source: San Diego County Communicable Disease Registry

## NEW YORK / NEW JERSEY COMPARED TO CALIFORNIA

Another remarkable statistic is the comparison of COVID deaths in California compared to New York/New Jersey. NY/NJ has about the same population as Southern California but has had almost ten times as many deaths.

An interesting note: San Francisco and Manhattan, both with high density populations and heavy use of mass transit but are amazingly different in terms of deaths from COVID. San Francisco has had 50 deaths and Manhattan had 3,100.

## COVID Deaths NY and California as of July 13 2020

Area	Population	Deaths	COVID Deaths Per 1,000,000 Pop.
New York/New Jersey	18,471,319	39,106	2,117
Northern California	7,675,807	647	84
Southern California	21,931,878	5,577	254

Source: Johns Hopkins Research & Individual States





# COVID in San Diego

## FACTORING IN DOWNTOWN OFFICE SPACE

There are many factors behind the stark difference in deaths, but one of them is that California's downtowns have less office employment and buildings with elevators. San Francisco has 74 million square feet compared to Manhattan's 568 million. And San Diego has a grand total of 10 million square feet of office space downtown.

In downtowns across the country, office space accounts for 25-35% of the region's office employment. Downtown San Diego accounts for only 10% of office employment in the County.

### Square Feet of Office Space Manhattan & San Francisco

Area	Sq.Ft.
City of San Francisco	73,750,000
Manhattan	568,000,000

### Comparison: Manhattan & San Francisco Deaths by COVID as of July 3 2020

Area	Population	Deaths
City of San Francisco	870,053	50
Manhattan	1,632,480	3,100

## SAN DIEGO CONFIRMED CASES BY ZIP

Lastly, let's take a look at Confirmed COVID Cases by ZIP Code in San Diego County. There are 90 ZIPS in the County and 12 of them have almost half of the confirmed cases. Of the 12, almost all are south of Interstate 8.

### COVID-19 By ZIP Code Confirmed Cases Top Dozen ZIPS San Diego County as of July 13, 2020

ZIP	Area	Area	So. Of I-8	No.
91910	Chula Vista	South County	x	835
91911	Sunbow, Otay Mesa West	South County	x	1070
91950	National City	South County	x	875
91977	Spring Valley/La Presa	South County	x	616
92154	Otay Mesa/Eastlake	South County	x	1302
92173	San Ysidro	South County	x	659
92020	El Cajon	East County		583
92021	Blossom Valley, Fletcher Hills	East County		537
92102	Market Street Corridor	East of D/T	x	490
92105	South Park	SE San Diego	x	679
92113	Shelltown, Logan Hts.	SE San Diego	x	819
92114	Bay Terrace, Valencia Park	SE San Diego	x	616

<b>Total County (90 ZIP Codes)</b>			<b>20,348</b>
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<b>Total Top 12</b>			<b>9,081</b>
<b>% of Total</b>			<b>45%</b>

<b>South of I-8</b>			<b>7,961</b>
<b>South Co. as % of Total</b>			<b>39%</b>

Source: County Dept. of Public Health



# San Diego Real Estate

Things are definitely looking up for our industry.

I was fearful that many of the pending listings in May might not close, but they did. June was the best closing month this year for SDAR members. Imagine what they would be without COVID. The reality is that prospective homebuyers in San Diego still have jobs and want homes. And July looks like it is going to be equally as strong, going into the month with 3,636 sales pending, by far the best this year.

## Closed Sales Existing Homes San Diego County January-June 2020

Month	Detached	Attached	Total
January	1,381	720	2,101
February	1,415	807	2,222
March	1,746	933	2,679
April	1,405	675	2,080
May	1,218	569	1,787
<b>June</b>	<b>1,867</b>	<b>920</b>	<b>2,787</b>

## Pending Sales January-June 2020

Month	Detached	Attached	Total
January	1,589	922	2,511
February	1,759	955	2,714
March	1,590	755	2,345
April	1,313	591	1,904
May	2,005	1,010	3,015
June	2,406	1,230	3,636

And three of my favorite indicators are holding steady:

(1) Percent of Original List Price Received;

(2) Days on Market Until Sale; and

(3) Months' Supply of Inventory.

All looking good. Yes, we would all like to see a much larger inventory, and that may happen in July or August, but for now it's a tight, tight market. The months' supply of inventory continues to decline. In most markets around the U.S., a six-month supply is normal. Sales of detached homes under \$500,000 are gradually disappearing, down by almost one-third in the past year. The under \$500,000 detached home declined from 21.6% of total detached sales to 15.8%. That situation is going to put additional pressure on the market for attached homes.



## Key Indicators Existing Homes Sales San Diego County June 2020

Category	Detached	Attached
% of Original List Price Received	99.8%	98.5%
Days on Market Until Sale	26	28
Months Supply of Inventory	1.4	1.7

## Months Supply of Inventory June 2017-2020

June	Detached	Attached
2017	2.3	1.5
2018	2.7	1.9
2019	2.9	2.6
2020	1.4	1.7



COVID is bad, but it has not deterred the homebuying public from taking advantage of low interest rates if, in fact, they can find a home for sale that meets their needs. The reality is that some buyers may have to settle for less than they originally wanted. And, as our employment numbers show, most folks who are candidates for home acquisition are still working.

## Homes Sold by Price Range San Diego County as of June 2020

Price Range	Detached		
	No. Homes		6/20 as % of 6/19
	Jun-19	Jun-20	

Under \$500,000	4,581	3,260	71%
\$500,000-750,000	9,196	9,737	106%
\$750,000-1,000,000	3,539	3,663	104%
Over \$1,000,000	3,909	4,006	102%

<b>Total</b>	<b>21,225</b>	<b>20,666</b>	
<b>% of Total Sales</b>	<b>21.6%</b>	<b>15.8%</b>	

	Attached		
	No. Homes		6/20 as % of 6/19
	Jun-19	Jun-20	

	7,123	6,827	96%
	2,378	2,547	107%
	637	671	105%
	513	539	105%

	<b>10,651</b>	<b>10,584</b>	
	<b>66.9%</b>	<b>64.5%</b>	

## COMMERCIAL PROPERTY ACTIVITY

Through First Quarter 2020, all sectors of the market were strong – very strong – as shown on this exhibit:

### Market Conditions: 1st Qtr. 2020 Commercial Property San Diego

Property	Total Sq.Ft./Units	Occupancy	Sq.Ft./Units Construction (1)	Cap Rate Props Sold
Apartments	301,359	96.3%	7,799	4.2%
Office	103,944,293	90.2%	1,427,841	5.4%
Retail	69,914,442	96.0%	356,923	5.0%
Industrial	191,007,574	94.3%	1,269,646	6.2%

(1) includes major renovations

Source: Kidder Mathews, CoStar, CBRE



I don't recall ever seeing a report showing occupancies this high in all four commercial categories simultaneously. Sheer happiness.

And then COVID hit. Obviously, second quarter results are not yet ready for publication, but it may not be as devastating as one may imagine.

# COMMERCIAL PROPERTY ACTIVITY

Our apartment owner/manager clients tell us that July rent collections are still in the 90%+ range. And the rent strikes that made good press, for the most part, didn't happen in San Diego. Many folks really don't want to move during times of stress. And with an average of 1.6 jobs per household, the odds of both jobs disappearing are slim.



The retail scene is the most troubled with hundreds of small businesses going dark, and a few big ones. Several chains that were already on the ropes finally called it quits like Garden Restaurants (Souplantation). Inevitably the small businesses will be replaced because this is a country of small businesses.

The supermarket-anchored centers continue to do well because their food/drug anchors have persevered and prospered.

And the regional centers are basket cases. Fortunately for them, 30-40% of their total annual sales are between Thanksgiving and Christmas. Hopefully, COVID will ease off by then.

The industrial market has retained its strength and shows no evidence of weakness.

And the office market hasn't shown any weakness, but in the future, may see some changes of significance. The good news is that we have relatively little office space under construction.

Life goes on, particularly in Southern California. Our strong mix of employment bases will be our salvation. And the acquisition appetite of our populace seems to be never-ending.

My only fear is that my hope for a "V" recovery may be too ambitious given the new round of confirmed cases. Perhaps the bottom of my "V" is getting a little wider.



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