

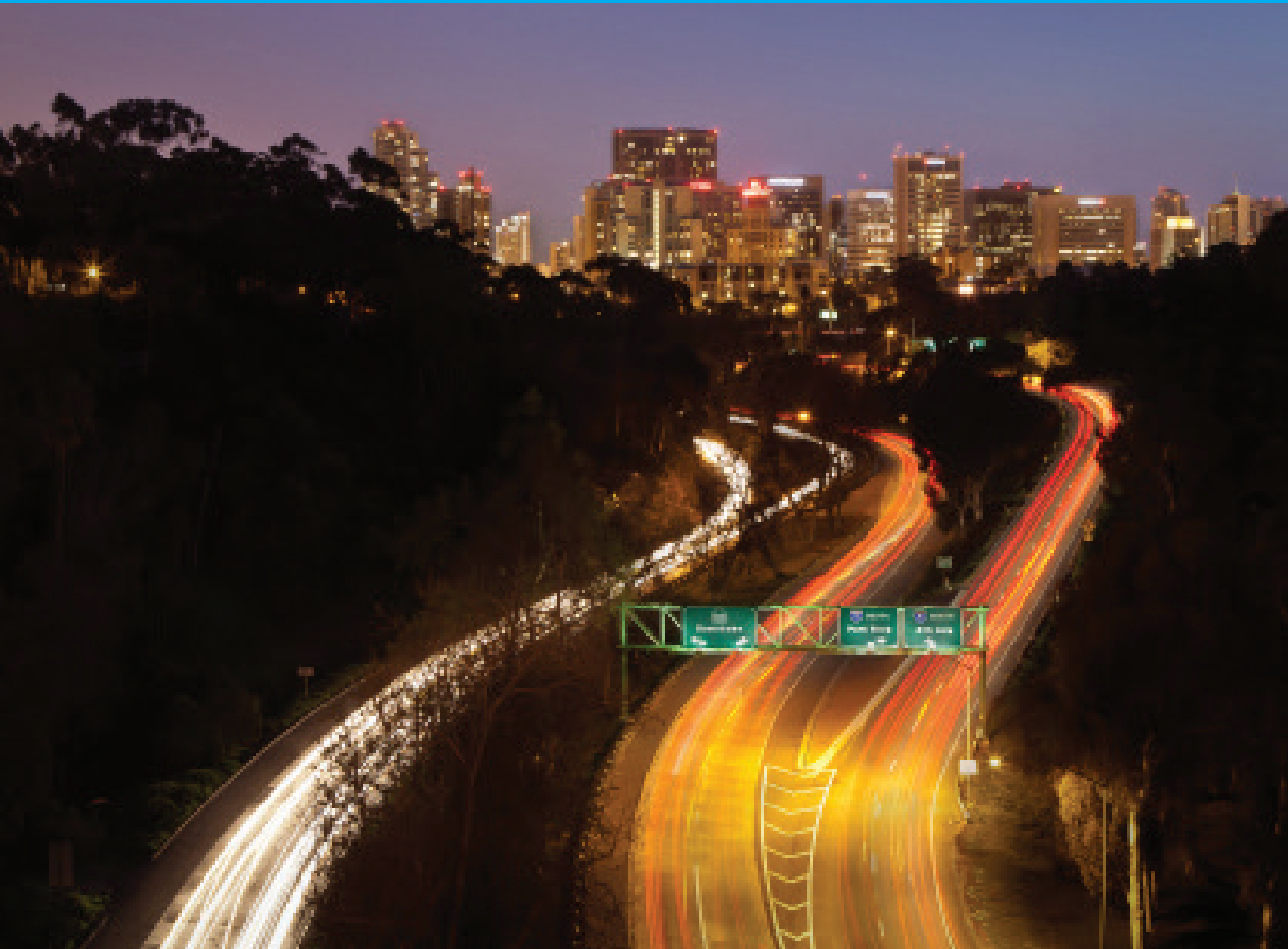


SAN DIEGO | MLS

ECONOMIC FORECAST

APRIL 2023

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April 2023

U.S. Economy Still Moving Forward with Vigor

I realize that the local home sales market is not moving forward with its usual high spirits, but it is comforting to know that the national economy continues to expand with meager indications of a recession.

In March, the U.S. unemployment rate dipped to 3.5% with job gains of more than 200,000. Job gains were not as strong last month as they were in January and February, but still very positive considering the Federal Reserve Bank's continual rise in interest rates.

The slowdown in job creation is what the Fed is trying to accomplish in order to begin a decline in interest rates.

Preston Caldwell, chief U.S. economist at Morningstar Research, said the data offered fresh hope that the Fed could cool off the economy without causing a recession. He said "the range of options that are adjacent to what we might call a soft landing is expanding."

Unemployment Rate United States March 2021-2023

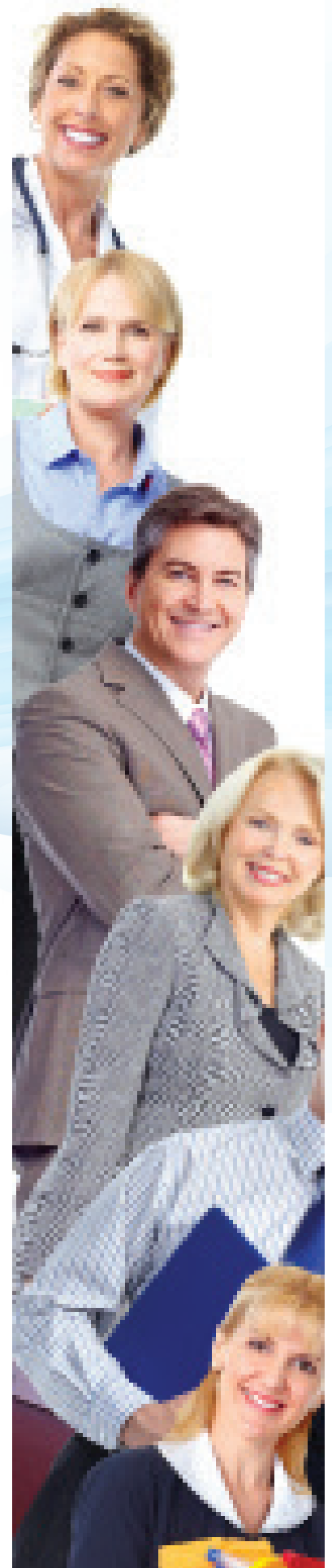
March	Unemployment Rate
2021	6.1%
2022	3.6%
2023	3.5%

Source: Bureau of Labor Statistics (BLS)

New Job Creation United States Dec 2022-Mar 2023

Month	Total Jobs
Dec-22	239,000
Jan-23	472,000
Feb-23	326,000
Mar-23	236,000

Source: BLS



The Bureau of Labor Statistics (BLS) released the unemployment rate by ethnicity and was most enthusiastic in noting that the black unemployment rate was the lowest in memory at 5%. Two years ago it was approaching 9%.

The BLS states that “the labor market has achieved something remarkable: the lowest unemployment rate on record for blacks” and the smallest ever gap between the rates for black and white people.

And as is always the case, the unemployment rate is a function of educational attainment. The statistic I like most relates to the unemployment rate for people with a bachelor’s degree or higher: 2%. You really can’t get much lower than that.

Overall, the United States is moving forward with modest vigor, but moving forward nonetheless.



**Unemployment Rate
Ethnicity - United States
March 2022 and 2023**

Ethnicity	Mar-22	Mar-23
White	3.3%	3.2%
Hispanic	4.4%	4.9%
Black	6.3%	5.0%
Asian	2.7%	2.8%

Source: BLS

**Unemployment Rate
Level of Education - United States
March 2021 and 2023**

Education	Mar-21	Mar-23
Less Than HS Degree	8.4%	4.8%
High School Graduate	6.7%	4.0%
Some College	5.9%	3.0%
Bachelor's Degree or Higher	3.7%	2.0%

Source: BLS





San Diego Real Estate

Now let's talk about real estate in San Diego County.

On the non-residential scene, five of the six major categories are reporting low vacancy (apartments, industrial, retail, life science, medical). Only the office market is suffering. Downtown San Diego's office vacancy rate is approaching 25%.

The residential market is not quite as devastated as the office space market, but it is suffering.

Detached and attached home sales are down 37% and 40% respectively from one year ago and substantially lower than two years ago when interest rates were rock bottom.

Despite the slowdown in closings, it is important to note that the median prices of both detached and attached homes have not suffered with declines of 3.5% and 1.6% respectively from March 2022 to March 2023.

Closed Sales Detached and Attached Homes San Diego County March 2022-2023

Year	Detached	Attached
2022	1,974	1,110
2023	1,330	759
Change 2022-2023	(644)	(360)
% Change	-37%	-40%

Source: SDAR

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

Year	Detached	Attached
2022	\$975,000	\$645,000
2023	\$940,500	\$635,000
Change	(\$34,500)	(\$10,000)
% Change	-3.5%	-1.6%

Source: SDAR

This indicates that a major part of the slowdown in closings relates to a paucity of inventory.

The months' supply of inventory is barely one month for both detached and attached homes. And the percent of original price received is in the 100% range.

Overall, the market indicators are

favorable and, no doubt, anxiously await a return to more acceptable interest rates.

Many REALTORS® are generating sales by having the sellers hold aside money to buy down a buyer's loan, usually a 3-2-1 arrangement with the thought that rates will subside and the buyer can then refinance at a new lower rate.

As in past months, the most substantial downturns have been in homes selling for less than \$750,000.

Overall, March in San Diego was the coldest month on record in terms of temperature, and the real estate market was a bit chilly, too. Here's hoping both warm up in spring.

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

Price Range	2022	2023	Change	% Change
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Detached				
Under \$500,000	692	407	(285)	-41%
\$500,000-750,000	8,038	4,124	(3,914)	-49%
\$750,000-1,000,000	7,340	5,115	(2,225)	-30%
\$1,000,000+	8,352	6,567	(1,785)	-21%

Attached				
Under \$500,000	5,434	2,567	(2,867)	-53%
\$500,000-750,000	5,232	3,868	(1,364)	-26%
\$750,000-1,000,000	1,667	1,409	(258)	-15%
\$1,000,000+	1,391	1,203	(188)	-14%

Source: SDAR

Spotlight on Otay Mesa/San Ysidro

The Otay Mesa/San Ysidro area is the southernmost sector of San Diego County and is bordered by Mexico, spanning San Diego County from the Pacific Ocean on the west to Imperial County on the east. The easternmost point of entry is identified as Otay Mesa and the westernmost point of entry is San Ysidro.

Freeways I-5 and I-805, both in a north/south direction, connect with the San Ysidro area.

San Ysidro is the busiest land crossing in the United States with 2022 total crossings approaching 17 million. The second busiest land entry point is Otay Mesa with approximately 8 million crossings in 2022.

The east-west spine of the area is the I-905 Freeway which parallels the border with Mexico. Midway across I-905 is the Cross-Border Xpress, the walkable skybridge to the Tijuana Airport. More than 4.0 million passengers in 2022 took advantage of the lower air fares from Tijuana.

At the eastern end of the I-905 are more than 10 million square feet of industrial/warehouse space, including Amazon's 3.4 million square foot facility.

On the western side of I-905, there are three major residential developments in progress, from Cornerstone, Colrich & Tri-Pointe.

Cornerstone Communities, the largest private homebuilder in San Diego County has acquired 44 acres in Otay Mesa where it will



build 450 all-electric townhomes for entry-level buyers. Homes are anticipated to begin sales in the 3rd quarter of 2024. The property will have four distinct neighborhoods. Homes will range in size from 1,344 to 1,904 square feet and expected to be in the mid-\$500,000s to low \$600,000s.

ColRich's 93-acre Epoca is now under construction on Airway Road and ultimately will have 2,000 units. The initial "for sale" housing is Willow and Reed by Lennar, both soon to open for sales.

Reed is a series of three-story townhomes that will sell for the

high \$400,000s and Willow is also a series of three-story townhomes priced from the mid-\$500,000s.

Also under construction are the Ironwood and Silo Apartments, and soon to break ground, the Mason Apartments. Silo Apartments are now leasing.

Tri-Pointe is the largest residential land holder in Otay Mesa and will ultimately have 5,000 homes and apartments on its site on the north side of the 905 freeway. Their current project is La Brisa, a series of townhomes priced in the high \$500,000s, ranging in size from 1,244 to 1,946 square feet.



Willow at Epoca

Currently, home sale activity in the area is minor as the current inventory of for sale homes is also minor, but we have opted to include the home sale activity with the knowledge that within the next few years, there will be extensive development in Otay Mesa and will have the most affordable homes in San Diego County.

New detached homes will be priced in the \$750,000 range (though there will be few of them) and attached product in the \$500,000 to \$600,000 range.

With employment expanding dramatically on the eastern side of the I-905, demand for housing in the western side will certain to be in high demand.

Home Sales Detached and Attached Nestor and Otay Mesa YTD March 2022 & 2023

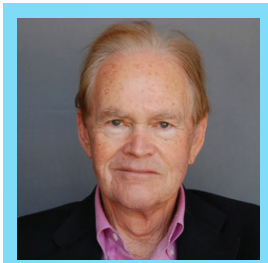
Closed Sales	YTD 2022	YTD 2023
Detached	84	46
Attached	49	37
Total	133	83

Source: SDAR

Median Prices Detached and Attached Nestor and Otay Mesa YTD March 2022 & 2023

Closed Sales	YTD 2022	YTD 2023	\$ Change	% Change
Detached	\$739,883	\$699,950	(\$39,933)	-5.4%
Attached	\$530,000	\$565,000	\$35,000	6.6%

Source: SDAR



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Economist Alan Nevin is the Director of the Economic Consulting Group at GAFCON. 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.



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