



SAN DIEGO | MLS

ECONOMIC FORECAST

JANUARY 2023

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January 2023

2023 Might be a 'Ho-Hum' Year – But It's Definitely Not 2008

Last year's forecast was headlined: "Did your house earn more than you did this past year?"

Unfortunately, I needed to create a new headline for 2023.

2008 was close to the Great Depression as it involved the total destruction of the savings and loan industry, obnoxious interest rates, endless home foreclosures, a 10% unemployment rate, and a near collapse of the European and Asian economies.

In comparison, I expect 2023 to be an "okay" year to the extent that it will be modestly recessionary, but not brutally so.

The Federal Reserve Board is near the top of the rate increase.

Household Budget

| Item | Fixed | Inflationary |
|---------------------|---------------|---------------|
| Home Mortgage | x | |
| Apartment Rent | x | |
| Car Loan Payments | x | |
| Insurance | x | |
| Property Taxes | x | |
| Income Tax | x | |
| Food/Beverage | | x |
| General Merchandise | | x |
| % Allocation | 70-80% | 20-30% |

They may push one or two more increases in the hope that those increases will gradually reduce the rate of inflation.

Further, there will be tremendous pressure from the White House and the Senate to reduce mortgage rates and inflation as the Democratic Party vigorously prepares for the 2024 election.

Inflation is really 2 to 3%. For most folks, 70-80% of their

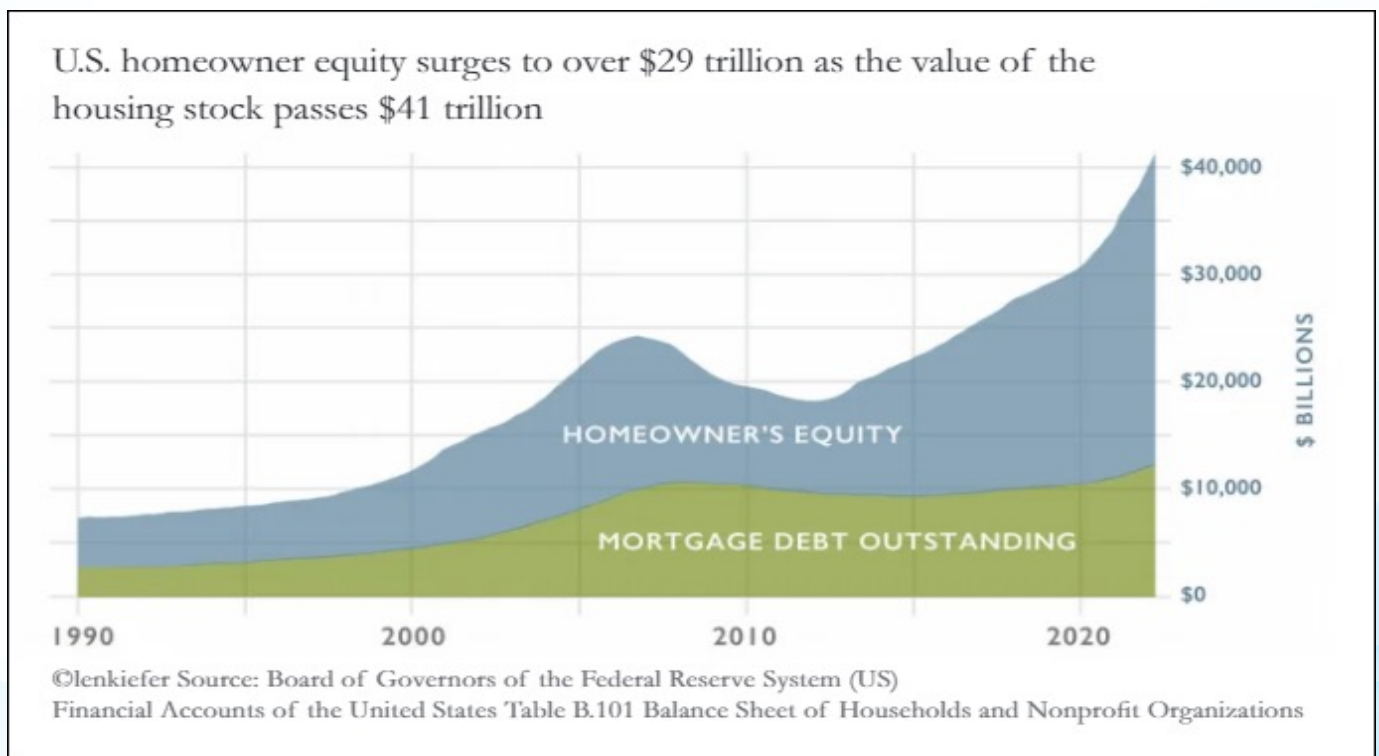
monthly expenditures are fixed -- mortgage, rent, taxes, car loan payments, insurance, et al. -- and therefore inflation applies only to food, beverages and general merchandise. (Prepare your own budget to test this theory.)

Much of the stated inflation related to supply problems. The Federal Reserve Bank of New York states that about 40% of U.S. inflation from 2019-2021 related to supply problem -- computer

chips and slow ships. They have now solved that problem.

California gas prices will continue to go downward, thanks to political pressure from Sacramento (and Costco).

The Big Picture: Homeowner equity has almost doubled in the past decade and is now more than \$41 trillion (and one-third of homeowners have no mortgage, even in San Diego).



San Diego Employment

San Diego County will add 30,000-plus jobs in 2023 with leisure and hospitality and professional and business services leading the way. The unemployment rate will remain in the 3.3 to 4% range.

Unemployment Rate San Diego County 2018-2023

| Year | % End of Yr |
|------------------|-------------|
| 2018 | 3.3% |
| 2019 | 3.0% |
| 2020 (1) | 8.4% |
| 2021 | 4.1% |
| 2022 | 3.2% |
| 2023 (Projected) | 3.3-4.0% |

(1): Covid Pandemic



Employment Projection San Diego County Calendar Year 2022- Projected 2023

| Category | CY 2022 | Projected 2023 | Change | % Change |
|-----------------------------------|---------|----------------|---------|----------|
| Leisure & Hospitality | 202,700 | 210,000 | 7,300 | 3.5% |
| Professional & Business Services | 287,500 | 300,000 | 12,500 | 4.2% |
| Government | 252,900 | 260,000 | 7,100 | 2.7% |
| Education & Health Services | 226,100 | 230,000 | 3,900 | 1.7% |
| Construction | 86,900 | 80,000 | (6,900) | -8.6% |
| Trade, Transportation & Utilities | 224,700 | 230,000 | 5,300 | 2.3% |
| Manufacturing | 113,800 | 115,000 | 1,200 | 1.9% |

Source: Bureau of Labor Statistics

Local Construction Business

Construction of residential units will decline substantially from 2022 as a result of homebuyer rejection of higher interest rates. Both single-family and attached for-sale housing permits (and sales) will decline by 20-25% in 2023.

Apartment construction (low and high-rise) will continue unabated as will non-residential construction. Non-residential construction will be particularly strong with major dollars going into life sciences, health care facilities (six new hospitals), educational and military facilities. The Fed's defense budget is very pro-San Diego.

There is going to be a lot of steel in the air in 2023, both downtown and in the suburbs. The only bad news: Steel is very expensive. But, on the other hand, the price of lumber has plummeted.



New Medical Facilities San Diego County 2023

| Medical Provider | Under Construction |
|------------------|--|
| Scripps | 185,000 sf tower under construction |
| Sharp | \$2 Billion expansion underway on SR-163 |
| Kaiser | 200-bed hospital under construction in San Marcos |
| UCSD - Hillcrest | 250,000 SF Outpatient Pavilion; 1,850-space garage |
| Scripps Mercy | Replacement of present tower underway & new garage |
| Rady Childrens' | \$400 million expansion plan underway |

Home Sales and Prices

The shock of higher interest rates caused the market to plummet, especially in the under \$750,000 sector. Gradually, interest rates will decline and ARM loans will gain acceptance and the buyers will return to the market.

Home prices will soften in 2023, but not collapse.



Residential Construction 2018-2023 San Diego County

| Year | Total | Single Family | Multi-Family | % Single Family |
|------------------|-------------|---------------|--------------|-----------------|
| 2018 | 9,788 | 3,510 | 6,278 | 35.9% |
| 2019 | 8,082 | 3,023 | 5,059 | 37.4% |
| 2020 | 9,447 | 2,898 | 6,549 | 30.7% |
| 2021 | 9,358 | 3,232 | 6,126 | 34.5% |
| 2022 | 10,000 | 3,800 | 6,200 | 38.0% |
| 2023 (Projected) | 7,000-8,000 | 3,000-3,200 | 4,000-4,800 | 50-60% |

Source: Census Bureau: 2018-2022

Residential Resale Activity San Diego County 2020-2023

| Year | Detached | Attached | Total |
|---------------------|---------------|---------------|---------------|
| 2020 | 23,891 | 12,553 | 36,444 |
| 2021 | 25,113 | 14,384 | 39,497 |
| 2022 | 18,317 | 10,167 | 28,484 |
| 2023 (Projected) | 17,000-19,000 | 10,000-11,000 | 27,000-30,000 |
| 2023 as a % of 2021 | 72% | 70% | 72% |

Resale Home Prices (Median) San Diego County

| Median Price (1) | | |
|------------------|------------|------------|
| Year | Detached | Attached |
| 2020 | \$745,000 | \$490,000 |
| 2021 | \$850,000 | \$590,000 |
| 2022 | \$869,900 | \$585,000 |
| 2023 (Projected) | \$782,910 | \$526,500 |
| Change 2022-2023 | (\$86,990) | (\$58,500) |
| % Change | 10.0% | 10.0% |

(1) End of Year Source: SDAR

The National Picture

The national forecast is rather favorable. The gross domestic product -- the sum of all the goods and services we produce -- will continue to rise, and that inevitably means that the national unemployment rate will remain very low.

Non-farm employment will rise by almost 1.7 million jobs and initial unemployment claims will remain in the 200,000-plus range. And there will continue to be an enormous number of job openings.



Economic Indicators United States 2022-2023 (Projected)

| Indicator | 2022 | YE 2023 | Change | % Change |
|-----------------------------------|-------------|-------------|-----------|----------|
| National Indicators | | | | |
| Gross Domestic Product (Trillion) | 25.7 | 26.7 | 1.00 | 3.9% |
| Dow Jones Average | 34,000 | 37,000 | 3,000 | 8.8% |
| Rate of Inflation | 7.0% | 5.0% | -2.0% | -28.6% |
| 30 Year Fixed Rate Mortgage | 6.8% | 5.5% | -1.3% | -19.1% |
| Employment | | | | |
| Initial Employment Claims | 250,000 | 220,000 | (30,000) | -12.0% |
| Job Openings | 10,717,000 | 10,000,000 | (717,000) | -6.7% |
| Non-farm Employment | 153,308,000 | 155,000,000 | 1,692,000 | 1.1% |
| Unemployment Rate | 3.7% | 4.2% | 0.5% | 13.5% |

San Diego Summary

Despite higher interest rate and slow home sales, the San Diego economy will have a strong economic year and can look forward to a very vibrant 2024.

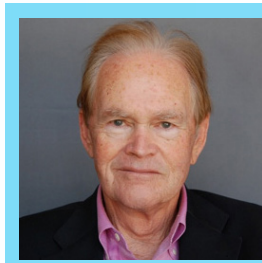
A final thought for a winning America:



“A key pillar of building a multi-racial, multi-religious democracy is providing every person in every place with the prospect of a dignified life”

- Amartya Sen
Nobel Prize-winning Economist





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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.



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