



2021 ECONOMIC FORECAST

Alan Nevin

A FRESH START

To say that 2020 was a difficult year would be an understatement. From an economic standpoint, it was on par with the 2008 financial crisis.

However, there are a couple of major differences.

In 2008, nobody died as a result of the recession. The economic collapse affected all industries. Real estate was hit particularly hard since subprime defaults and bank failures cut off the financial oxygen for the industry.

In 2020, the economic impact was uneven, with some industries (such as leisure and hospitality) devastated while others managed to remain prosperous. For the most part, real estate has avoided market collapse this time around. Any long-term effects are still emerging.

In an effort to better understand the economic strengths and weaknesses of the nation at a given time, I typically follow more than a dozen economic indexes. There are four indices that inevitably have the greatest impact:

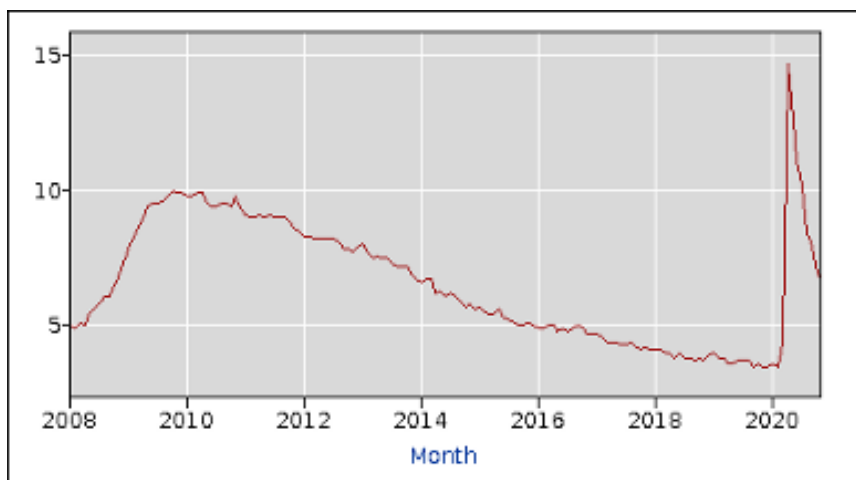
- (1) Employment
- (2) Interest rates
- (3) Vehicle sales
- (4) Real estate (construction and sales)

Let's take a closer look at each of these indicators, both nationally and the San Diego local economy.

UNITED STATES OUTLOOK

NATIONAL EMPLOYMENT

During the last recession (which started in 2008), the unemployment rate reached 10%. It did not return to its pre-recession level of 5.0% until 2016 – eight years later.



Unemployment Rate - United States - 2008-2020

The COVID-19 employment situation is much different. On a national level, the unemployment rate skyrocketed to nearly 15% in April, before plummeting to 6.7% in November.

U.S Unemployment Rate March - November 2020

In a single month last year, we lost 22 million jobs. Nine months later, we only need 2.5 million more jobs to return to the ±4.0% percent level we saw pre-COVID-19.

Month	Unemployment Rate
March	4.4%
April	14.7%
- - -	
September	7.9%
October	6.9%
November	6.7%

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

**Total Employment
United States
March - November 2020**

Month	Total Jobs (in thousands)	Change
March	155,772	n/a
April	133,403	(22,369)
September	147,563	14,160
October	149,806	2,243
November	153,246	3,440
Need to Recover		2,526

Source: Bureau of Labor Statistics

**U.S. Unemployment Rate Comparison
By Years of Educational Attainment
April - November 2020**

Month	April	November
Bachelor's Degree or Higher	8.4%	4.2%
Some College or A.A. degree	15.0%	6.3%
High School (no college)	17.3%	7.7%
Less than a HS Degree	21.2%	9.0%

Source: BLS.gov

At the time of writing, COVID vaccines are starting to get widely distributed (a monumental effort). If the vaccine reaches most of the population by late summer, it is likely that the unemployment rate could reach the "magic" 5.0% level by third quarter 2021.

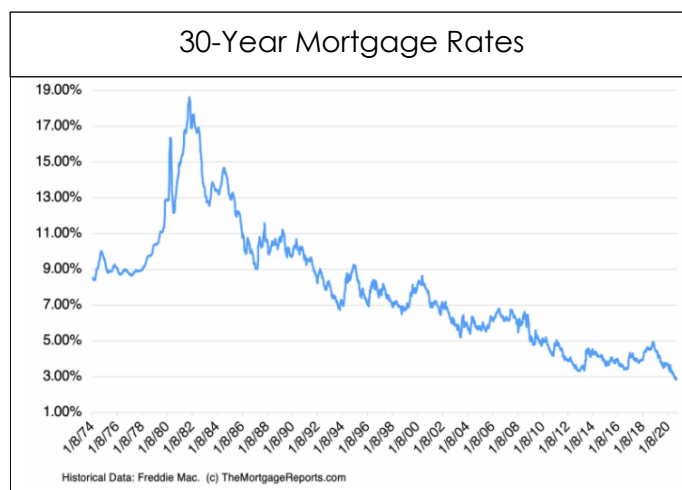
In many respects, this is a recession for those without four-year college credentials. The unemployment rate is twice as high for workers who only completed high school as it is for those with bachelor's or higher degrees.

INTEREST RATES

Mortgage and business borrowing rates are at a 50-year low right now and I see no reason why they should rise in 2021. The supply of funds is due to a combination of factors:

- People are saving more today (believe it or not)
- Foreign funds are finding their way to the U.S.
- The Federal Reserve is determined to get the economy moving again

Needless to say, these low interest rates bode well for real estate construction and acquisition.



VEHICLE SALES

I track vehicle sales because they are a good indicator of how people feel about the economy.

Prior to COVID-19, 17 million new vehicles (cars and light trucks) were sold in each of the previous five years. Used car sales rose to 40 million in 2019.

In 2020, new vehicle sales **will fall to 14 million** (once final numbers are released). In 2021, I predict we will see 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 nine years a decade ago. With interest rates at a new low, buying a vehicle is almost an American imperative.

I should point out that most of the decline in sales was in lower-priced vehicles. When you look at higher-end car brands (such as Mercedes-Benz), sales for the first three quarters of 2020 returned to normal after a dip in March and April.

Used car sales have grown every year since 2015 and they remain in high demand. Despite COVID-19, 41 million used vehicles were sold in 2020. Unfortunately, dealers cannot obtain a sufficient number of vehicles to satisfy buyer demand. Ordinarily, used car dealers have a two-month inventory on their lots. Now, they are down to just a one-month supply, thanks to a decline in trade-ins.

New Car Sales by Month United States 2019 - 2020

Month	2019	2020
January	1,172,653	1,157,415
February	1,257,589	1,434,716
March	1,552,126	912,800
April	1,355,548	563,122
May	1,606,260	1,181,756
June	1,462,664	1,214,706
July	1,417,418	1,336,267
August	1,628,577	1,298,489
September	1,282,712	1,370,243
October	1,384,010	1,187,800
Jan-Oct	14,119,557	11,657,314
November	1,446,173	1,235,042
December (1)	1,459,164	1,200,000
Total	17,024,894	14,092,356

Source: NADA (1) Dec. 2020 estimated

Mercedes Benz Sales by Month United States 2019 - 2020

Month	2019	2020
January	23,721	23,721
February	24,389	31,650
March	30,557	19,170
April	25,631	12,112
May	25,631	27,901
June	29,201	29,492
July	27,490	29,675
August	30,144	26,377
September	32,002	28,576

Source: Mercedes-Benz

REAL ESTATE

When evaluating the U.S. real estate market, I look at three factors: (1) new residential and commercial construction, (2) sales of existing homes, and (3) construction valuation.

RESIDENTIAL AND COMMERCIAL CONSTRUCTION

Nationally, the number of residential units permitted has been going up since 2015 and has continued on an upward path throughout this year.

In 2020, the U.S. will produce 1.4 million new housing units.

U.S. Residential Building Permits 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

Census.gov

SALES OF EXISTING HOMES

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)	7,200,000	2.5

In most years, sales of 5 to 6 million existing homes are considered very good. But in 2020, U.S. sales will pass the 7 million mark. This spike in purchases has resulted in a rapid reduction in the supply of existing homes for sale. At the end of 2020, the supply declined to just 2.5 months. In most of the country, a five- to six-month supply is normal.

Source: NAR

Census.gov tracks the dollars expended in the public sector as well as residential and commercial construction in the private sector. Since 2015, all three categories have been increasing, with residential housing leading the way.

**U.S. Value of Construction (Millions)
Private & Public Sector
2015 - 2020 (P)**

Year	Private Sector		Public Sector	Total
	Residential	Coml		
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

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 each year, but our in-migration from south of the border has slowed and we are losing residents to Texas, Arizona and Nevada.

San Diego County Population 2015 - 2020

Year	Population	Change
2015	3,274,586	25,893
2016	3,295,583	20,997
2017	3,318,132	22,549
2018	3,344,438	26,306
2019	3,357,442	13,004
2020	3,370,418	12,976

Source: CA DOF

Components of Change San Diego County 2018 - 2019

Population Change	13,004
Births	39,748
Deaths	21,995
Natural Increase	17,753
(1) Population Change - Natural Increase = ↓	
Net Migration (1)	(4,749)
Net Immigration	15,982
Net Domestic Migration (2)	(20,731)

(2) Net Migration minus Net Immigration

Source: CA DOF

The forced change to remote work in 2020 made it easier for people to move. Although I cannot document it yet, it appears that much of our in-migration is composed of college-educated (and eventually more affluent people), often from the Bay Area. Those who are leaving are typically less affluent and looking for less expensive places to live.

EMPLOYMENT

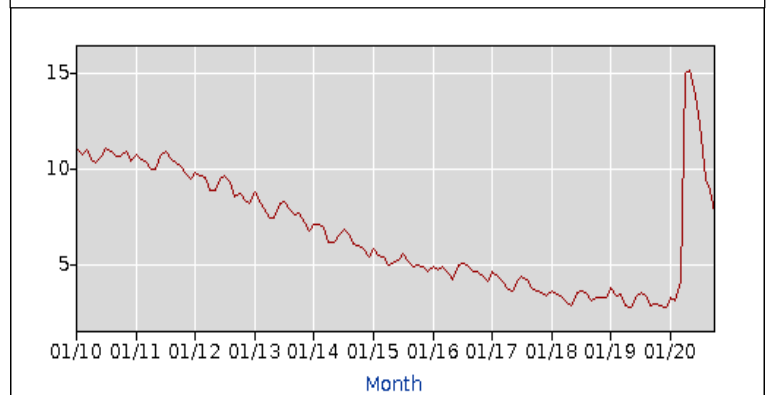
Since the COVID-19 stay-home order in spring, we appear to be making headway on employment. From a peak of 15.0% in April, we have gradually edged downward to less than half that.

San Diego Employment February - November 2020

Month	Total Employment	Unemployment Rate
February	1,544,265	3.2%
April	1,317,500	15.0%
November	1,426,300	6.6%

U.S. Bureau of Labor Statistics

San Diego Unemployment Rate



Job losses have been highly selective, focusing to a major degree on the leisure and hospitality industries (including restaurants). Virtually half of the jobs lost since March have been in that category. Most other industries have had gains or only minor losses, as noted in this exhibit:

Job Losses/Gains by Category San Diego County March - November 2020

Category	March (COVID start)	November	Change March - Nov
Total	1,494,000	1,426,000	(68,000)
Leisure and Hospitality	192,900	157,300	(35,600)
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: U.S. Bureau of Labor Statistics

It will take several months for our leisure and hospitality industries to recover, especially the convention business that keeps downtown hotels and restaurants in business. We also need to work diligently to resuscitate our cruise ship business. We were on track for 300,000 passengers in 2020 when the ships sprung a leak due to COVID-19. Time will tell how long would-be travelers remember the Diamond Princess outbreak.

RESIDENTIAL CONSTRUCTION

Despite the pandemic, our residential construction industry has been very busy and will match the 2019 output in 2020. I look forward to a repeat of these years in 2021.

Residential Building Permits San Diego County 2019 - 2020

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

(1) Includes condominiums/townhomes and rental apartments
Source: U.S. Census

RESALE MARKET

The resale home market seems to attract more press than the new home market. The San Diego Association of Realtors (SDAR) is having a field day and the market would be even more vibrant if there was an inventory of ready-to-sell owners.

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

Every month I track three key indicators for home sales: (1) Percentage of original list price received, (2) days on the market before sale, and (3) monthly supply of inventory. In October 2020, more than 25% of the homes sold had offers over the listing price. That sounds like 2008 – almost.

**Existing Homes Sales Key Indicators
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

**Median Home Prices - Closed Sales
December 2019 and 2020**

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

Source: SDAR

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

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

COMMERCIAL REAL ESTATE

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

The **apartment** business remains stable with most A and B properties still collecting 90%+ of their rents. I fail to see any indicators of rent increases in 2021. In the long run, this is still great.

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

In terms of retail, most businesses will survive, although the regional centers will struggle for some time. As far as hotels, the new ones will gradually shine again, although it may take a few months to get back in shape. The old ones can be sold for use as homeless residences.

**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

OPTIMISM ON THE HORIZON

With a new President and new vaccines, the Nation should move forward once again.

Assuming that most folks will take the double shot (or the single shots pending approval) in the next few months, the U.S. employment should return to where we were last March by the end of 2021.

Overall, San Diego County remains blessed. Of course, there is always the weather, but more importantly, we have a highly educated and work-oriented labor force that will allow the economy to grow and prosper. They will continue to 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 some version of it will be ours again in the second half of 2021. Then, we can move on to bigger and better things.



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