2022: Forecasting Another Banner Year for San Diego and the Region

But the year just past, remarkably, was a strange one.

As I noted in last month’s newsletter, this past year has been almost without precedence, both on an international and national level. We have experienced at least 12 plagues:

- COVID Omicron
- Rampant inflation
- Shortage of computer chips
- International shipping crisis
- Wild upswing in lumber prices
- Shortage of truckers
- Erratic movement in gold prices
- Run-up in used car prices
- 11 million-plus job openings
- Tornadoes and storms
- Taliban takeover in Afghanistan
- Smash-and-grab robberies

And with it all, we have had the lowest interest rates in decades and the real estate market continues to be vibrant throughout the nation and particularly on the West Coast with an insatiable appetite for new and existing homes and commercial properties.

Better yet, the U.S. is ending the year with an unemployment rate of about 4% and apparently an endless supply of jobs that employers just can’t be filled.

The National Forecast

It was almost two years ago when we learned of COVID and the world hasn’t been the same since. In April 2020, the nation’s unemployment rate skyrocketed to 14.8%, the highest in memory. But we persevered, and 1-1/2 years later, the rate was down to 4.8% and we ended the year with 3.9%, just where we like it.

<table>
<thead>
<tr>
<th>Month</th>
<th>Unemployment Rate</th>
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<tbody>
<tr>
<td>Aug-19</td>
<td>3.6%</td>
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<tr>
<td>Apr-20</td>
<td>14.8%</td>
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<tr>
<td>Aug-20</td>
<td>8.4%</td>
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<tr>
<td>Sep-21</td>
<td>4.8%</td>
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<tr>
<td>Oct-21</td>
<td>4.6%</td>
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<tr>
<td>Nov-21</td>
<td>4.2%</td>
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<tr>
<td>Dec-21</td>
<td>4.0%</td>
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Source: Bureau of Labor and Statistics (BLS.gov)
In 2021 the U.S. added almost 6 million jobs and we are only 1 million jobs away from where we were before COVID. Obviously, we should be further ahead, but we are on our way.

Our big problem now is that we have almost 11 million job openings. There appear to be several reasons why we have so many openings: People retiring early; parents who have elected to stay home with their kids; and folks who are just waiting for the right job to come along.

And initial job claims (i.e. unemployment) have declined to less than 200,000, the same as pre-COVID.

If the service in your favorite restaurant is a little slow or if the lines at the market are a little longer, it’s because the proprietors can’t find folks who want to work. End of story.

**Forecast:** I am fairly certain that we will add 3 to 4 million jobs this year. I think the pay scales will increase sufficiently to entice people to go back to work and others will find the right job for themselves. In any event, we will gain a substantial number of jobs and our unemployment rate will remain at 4%.

### U.S. Residential Construction

The costs of construction have skyrocketed, mostly because of the cost of materials. The price of lumber has increased from its traditional $300 per 1,000 board feet to more than $1,000. And plumbing fixtures and appliances, most of which are manufactured overseas, are backlogged on ships. And, oh, yes, labor is in short supply, too.

Having said that, construction of new homes, condominiums and apartments were at a decade high in 2021 with production of more than 1.7 million units. It’s the highest production level since the last great recession.

**Forecast:** It is highly likely that the ships bogged down in the harbor will get unloaded and that normalcy will prevail. Further, lumber prices will return to some form of rationality. For those reasons, and because financing is plentiful and developers are ambitious, 2022 will once again see production in the range of 1.5 to 1.7 million units, and that’s a good thing for America.

In addition, we will see a major increase in non-residential construction and particularly in the public sector, thanks to the recently approved Federal Public Works legislation.

### Home Resales

2021 marked a decade high 6.46 million existing homes sold, with the months’ supply reduced to 3.1. The only negative in the picture is that the share of home purchases made by investors is creeping up with more than a quarter of homes sold to investors in 2021.

**Forecast:** Due to the limited supply of homes on the market and rising interest rates, we anticipate that resales will decline to the 5 to 5.5 million level.
The Federal Debt
The Federal debt has been on a gentle upswing since the 1980’s but then began a more aggressive move-up as the costs of the military overseas skyrocketed. And then, to cap it off, the Feds had to borrow substantially during COVID to keep the country solvent. Now we have a Federal Debt approaching $28 trillion.

Forecast: No Change.

Inflation
We have been enjoying essentially no inflation for the past five or six years. Unfortunately, it's time for a reset. We are currently at more than 6.0% as a result of the shipping problems, rising fuel prices, labor costs and an all-around shortage of merchandise on the shelves.

Forecast: During the course of the year, many of the traffic problems we face now will be solved and inflation will drop back to the 3-4% level by the end of the year.

Interest Rates
Like inflation, we have been living the good life and it's time to push the reset button. It is rather obvious that the Feds will gradually move up the discount rate which will have an immediate effect on the 10-year T-bill (which determines mortgage rates).

Forecast: There is a very strong chance that interest rates will gradually move upward and by the end of 2022, mortgage rates could be at the 3.75%-4.00% range. Now that isn’t a tragedy based on historical norms, but it is a bucket of ice water compared to what we have become accustomed to. And, of course, it makes it harder to qualify for a home.

COVID
Total deaths have subsided somewhat since the beginning of 2021, thanks to massive vaccinations. As warmer weather approaches in the spring and a high percentage of folks get the jab, the number of deaths per month will subside.

Forecast: By year end 2022, monthly deaths nationwide will decline to the 10,000-15,000-monthly level. Just as a touch of reality, every year, without COVID, 2.8 million people die in the U.S.

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<tr>
<th>COVID Deaths United States 2021-2021</th>
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<tr>
<td><strong>End of Month</strong></td>
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<tr>
<td>Sep-21</td>
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<td>Oct-21</td>
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<td>Nov-21</td>
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Source: National Association of REALTORS®
The state of California, prior to COVID, has had a wonderful pace of growth with the Gross Domestic Product increasing at 5 to 6% each year. COVID took its toll and in 2020, the GDP declined for the first time in more than a decade.

Forecast: When the final numbers are tabulated, 2021 will have a GDP increase of 6 to 7%, playing catch-up and moving forward. In 2022, the GDP increase should be in the 5 to 6% range.

Population Change

As the media has told us on numerous occasions, California has lost population in the past year. Let’s take a look at the last decade to see what has transpired. The loss of population was four-fold: (1) a decline in natural increase (more deaths than births, thanks to COVID); (2) a decline in births (blame it on COVID); (3) much less legal in-migration; and (4) folks moving out of California.

Forecast: The natural increase will turn positive when COVID is conquered (or at least controlled) and legal immigration may increase with the present administration.

I doubt if the domestic outmigration situation will change. We have just gotten too expensive for some folks to live here. Optimally, the loss of population will subside and someday we will see the state's population top 40 million. We are still the golden state.
Residential Construction

Residential construction hasn’t been a smooth ride in this century so far with exceptionally heavy production in the 2000-2005 timeframe and then, thanks to the recession, a substantial decline in production from 2006-2014. I believe that the production in 2015-2020 represents a more realistic production level for San Diego County.

Forecast: My forecast for 2022 will be almost identical to the production in 2021: approximately 9,000 housing units. The shame is that we need more than 3,000 single family units a year, but we just don’t have enough lots to make that happen. Therefore, the traffic on the I-15 will continue to expand as San Diego job-holders commute from Riverside County.

I should mention the non-residential sector. It will be booming with government-funded projects bulging: The new Terminal 1 at the airport; the new border crossing in Otay Mesa; continued military spending; and major dollars generated for highway construction. And continued development of life sciences and industrial space will be significant.
History tells us that 2021 was an aberration, and that in most years a home price increase of 7 to 8% is realistic, but 19% is not, not even in the Halcyon world of San Diego.

**Existing Home Sales Forecast:** Sales won’t be as vibrant in 2022 as in 2021, with interest rates higher and prices somewhat out of hand, but REALTORS® will still close escrow on 35,000 homes and condominiums.

Home prices will continue to escalate but at a much slower pace. I am projecting home prices in San Diego County to accelerate by an average of 8%. In any other venue but San Diego, that would be considered wonderful, but here not so much.

Overall, the Nation, the State and San Diego County will experience a very positive 2022 unless a follow-on to Omicron causes undue health issues and Russia doesn’t invade the Ukraine and China does not decide to show off its military prowess. I prefer to take the positive route. We live in the right County at the right time in the right State and the right Nation. We are blessed!