San Gabriel Valley Economic Summit 2021: A Shot in the Arm

San Gabriel Valley Economic Partnership
March 24, 2021

Robert A. Kleinhenz, Ph.D.
Cal Poly Pomona
Kleinhenz Economics
Outline

- US
- California and Regions
- San Gabriel Valley and Los Angeles County
- Housing
- Commercial Real Estate
- Conclusion
What’s Happening Now?...US
Unemployment Rate Falling Slowly, Job Gains to Accelerate by 2\textsuperscript{nd} Half of 2021

- **Contending forces:**
  - Pos: Desire to resume activity
  - Neg: Virus containment
- **Face-to-face recovering more slowly:**
  - Leisure & Hospitality (restaurants, hotels, entertainment)
  - Retail (clothing stores)
  - Other Services (personal care salons, child care, nonprofits)
GDP-From Record Expansion to Contraction

GDP Annual Rate

GDP By Quarter ($T, Annualized)

Pandemic = event…
Not typical recession

Source: US BEA, Analysis by KE
<table>
<thead>
<tr>
<th>Period</th>
<th>GDP Changes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Great Depression (1930-33)</td>
<td>-8.5, -6.4, -12.9, -1.2</td>
</tr>
<tr>
<td>Post-WWII (1945-1947)</td>
<td>-1.0, -11.6, -1.1</td>
</tr>
<tr>
<td>Great Recession (2008-2009)</td>
<td>-0.1, -2.5</td>
</tr>
<tr>
<td>Pandemic Disruption (2020)</td>
<td>-3.5, All in first half of year!</td>
</tr>
</tbody>
</table>
Consumer Spending Advancing

Quarterly Real Income and Consumer Spending ($Trillions)

Q4-20 Savings Rate out of RDPI: 13.4%

Monthly Consumer Spending

Source: BEA, Analysis by KE
Consumers are Cautious but Risk is to Upside

Consumer loan balances down

Homeowner equity rising
Other Macro Sectors

- **Business Investment Spending**
  - Q1: -9.0% QTQ
  - Q2: -46.6%
  - Q3: +86.6%
  - Q4: +25.3%

- **International Trade**
  - Exports: +22% in Q4, slower recovery among trade partners
  - Imports: +29% in Q4, up due to gains in US income
    - POLB and POLA reported record highs for 2020

- **Government**
  - trillion-dollar federal deficits through end of decade
This is what pent-up demand looks like…
Fiscal Policy:
• $Ts to households, businesses, hospitals and other hard hit industries, government (Great Recession aid was $800B)

Monetary Policy:
• Fed funds rate at zero
• Purchases of long bonds/MBS to keep long rates low
  • Market limits on Fed’s ability to control influence rates
• Authorized $Ts in lending to HHs, businesses, financial institutions, and other industries
Trillion Dollar Deficits (CBO February 2021)

Budget Deficit ($B)

Year: 2020, 2021, 2022, 2023, 2024, 2025, 2026, 2027, 2028, 2029, 2030, 2031
Inflation Low, 2.0-2.5% Expected in 2021

Source: BLS, KE

2021 YTD through Feb
Financial Markets: Rates Up from Record Lows

Source: FRED, US Treasury, Freddie Mac
Q: Why has the stock market done so well?

A: Forward-looking... anticipates future economic performance, plus
- Pandemic relief, vaccines
- Fed actions
- Success of industries and firms during pandemic
- Poor returns elsewhere, US as safe haven
Employment Typically Recovers Slowly …

Measured from Peak Monthly Employment in Recent Cycles
...BUT Fed Predicts 4.5% U-Rate by End of 2021

Measured from Peak U-Rate in Recent Cycles

Feb 2021  Fed Target  Apr 2024

Outlook

• Pandemic had significant impact on households and small businesses, BUT acceleration in activity expected in 2021

• Shape and Pace of Recovery
  • GDP to recover sometime in second half of 2021 (up 5 to 6% annually)
  • Unemployment rate and employment to recover in 2022 and beyond
  • Uneven progress across industries and segments of population
  • Face-to-face industries recover more slowly
California
Unemployment Rates High, Falling Slowly

- Contending forces:
  - Pos: Desire to resume activity
  - Neg: Virus containment

- Face-to-face recovering more slowly:
  - Leisure & Hospitality (restaurants, hotels, entertainment)
  - Retail (clothing stores)
  - Other Services (personal care salons, nonprofits)

- CA harder hit than US as whole because of mix of industries and slower re-opening
California’s high u-rate due in part to:

- Industry mix
- Health protocols
Pandemic Wiped Out Job Gains of Last 15 Years

California Nonfarm Jobs (Millions)
Recovery Faltered in 2020, Acceleration in 2021

Monthly % Changes in Nonfarm Employment

California  U.S.
County U-Rates High

• High unemployment rates across the state, but lower than April-May

• April-May: all-time records exceeding Great Recession

• Coming down faster than during Great Recession …BUT not fast enough!!
Uneven Recovery: % of Mar-Apr 2020 Losses Recovered through January 2021

- Stockton-Lodi MSA: 72% Recovered, 28% Remaining
- Fresno MSA: 54% Recovered, 46% Remaining
- Inland Empire: 52% Recovered, 48% Remaining
- Sacramento MSA: 52% Recovered, 48% Remaining
- Oakland-East Bay: 40% Recovered, 60% Remaining
- Ventura County: 39% Recovered, 61% Remaining
- San Diego-Carlsbad MSA: 37% Recovered, 63% Remaining
- San Jose MSA: 31% Recovered, 69% Remaining
- Orange County: 27% Recovered, 73% Remaining
- Bakersfield MSA: 27% Recovered, 73% Remaining
- Los Angeles County: 26% Recovered, 74% Remaining
- Santa Rosa MSA: 20% Recovered, 80% Remaining
- San Francisco Metro Div: 13% Recovered, 87% Remaining

Source: EDD, Analysis by KE
Evidence of “K-shaped” Recovery

**Percent Change in Employment***

In California, as of **December 12 2020**, employment rates among workers in the bottom wage quartile **decreased** by 28.9% compared to January 2020 (not seasonally adjusted).

*Change in employment rates (not seasonally adjusted), indexed to January 4-31, 2020. This series is based on payroll data from Paychex and Intuit, worker-level data on employment and earnings from Earnin, and timesheet data from Kronos. The dotted line in the low wage series is a prediction of employment rates based on Kronos data.

*Last updated: March 01, 2021  next update expected: March 10, 2021*
Pandemic by the Numbers

- Lost 2.7 million jobs, wiping out 15 years of job gains in 2 months!
- Recovered 922,000 or 34% as of January (vs 60% nationally)
- Unemployment rate: record low to record high in 2 months
  - 2019 and early 2020: 4.1%
  - April 2020: 16.0%
  - January 2021: 9.0%
- Leisure and hospitality: 12% of employment, 36% of job losses
- Transportation and warehousing: Jobs 3% higher than before pandemic…only major industry with net gain in jobs
- Inland counties recovering faster than coastal counties
San Gabriel Valley and L.A. County
Unemployment Rates High, Falling Slowly

Record High County U-Rate

Industries Hit Hardest:
- Hospitality, tourism, and entertainment
- Restaurants and bars
- Retail (clothing stores)
- Other Services (personal care salons, nonprofits)

Source: EDD, Compiled by KE
SGV December Unemployment Rate Heat Map
Pandemic Rolled LA County Jobs to 1996 Level
Recovery Underway

LA Nonfarm Jobs (millions)
SGV Jobs: Lost 117K (-16%), Recovered 30K by June 2020

SGV data available with a 2-quarter lag, but tracks LA County closely!
SGV Industry Structure Similar to LA County

Industry as % of Total Jobs

- San Gabriel Valley
- Los Angeles County
<table>
<thead>
<tr>
<th>Industry</th>
<th>Feb-20</th>
<th>Feb to Apr</th>
<th>% Lost</th>
<th>Apr to Now</th>
<th>% Recovered</th>
<th>Jan '21 as % of Feb</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Nonfarm</td>
<td>4,619,500</td>
<td>-772,400</td>
<td>-16.7%</td>
<td>170,200</td>
<td>22%</td>
<td>87%</td>
</tr>
<tr>
<td>Leisure &amp; Hospitality</td>
<td>547,600</td>
<td>-251,100</td>
<td>-45.9%</td>
<td>29,100</td>
<td>12%</td>
<td>59%</td>
</tr>
<tr>
<td>Retail Trade</td>
<td>413,300</td>
<td>-89,800</td>
<td>-21.7%</td>
<td>62,300</td>
<td>69%</td>
<td>93%</td>
</tr>
<tr>
<td>Information</td>
<td>239,200</td>
<td>-67,500</td>
<td>-28.2%</td>
<td>1,700</td>
<td>3%</td>
<td>72%</td>
</tr>
<tr>
<td>Health Care &amp; Social Assistance</td>
<td>723,900</td>
<td>-63,400</td>
<td>-8.8%</td>
<td>37,600</td>
<td>59%</td>
<td>96%</td>
</tr>
<tr>
<td>Other Services</td>
<td>162,600</td>
<td>-53,100</td>
<td>-32.7%</td>
<td>3,800</td>
<td>7%</td>
<td>70%</td>
</tr>
<tr>
<td>Administrative &amp; Support &amp; Waste Service</td>
<td>274,400</td>
<td>-48,500</td>
<td>-17.7%</td>
<td>18,900</td>
<td>39%</td>
<td>89%</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>337,900</td>
<td>-45,100</td>
<td>-13.3%</td>
<td>10,300</td>
<td>23%</td>
<td>90%</td>
</tr>
<tr>
<td>Wholesale Trade</td>
<td>218,300</td>
<td>-36,800</td>
<td>-16.9%</td>
<td>14,300</td>
<td>39%</td>
<td>90%</td>
</tr>
<tr>
<td>Professional, Scientific &amp; Technical Services</td>
<td>310,500</td>
<td>-33,400</td>
<td>-10.8%</td>
<td>4,900</td>
<td>15%</td>
<td>91%</td>
</tr>
<tr>
<td>Construction</td>
<td>153,400</td>
<td>-22,900</td>
<td>-14.9%</td>
<td>14,200</td>
<td>62%</td>
<td>94%</td>
</tr>
<tr>
<td>Transportation, Warehousing &amp; Utilities</td>
<td>200,400</td>
<td>-17,400</td>
<td>-8.7%</td>
<td>20,000</td>
<td>115%</td>
<td>101%</td>
</tr>
<tr>
<td>Educational Services</td>
<td>140,400</td>
<td>-14,400</td>
<td>-10.3%</td>
<td>-5,200</td>
<td>-36%</td>
<td>86%</td>
</tr>
<tr>
<td>Real Estate &amp; Rental &amp; Leasing</td>
<td>88,400</td>
<td>-11,900</td>
<td>-13.5%</td>
<td>1,200</td>
<td>10%</td>
<td>88%</td>
</tr>
<tr>
<td>Government</td>
<td>598,000</td>
<td>-8,200</td>
<td>-1.4%</td>
<td>-43,800</td>
<td>-534%</td>
<td>91%</td>
</tr>
<tr>
<td>Management of Companies &amp; Enterprise</td>
<td>62,100</td>
<td>-4,500</td>
<td>-7.2%</td>
<td>500</td>
<td>11%</td>
<td>94%</td>
</tr>
<tr>
<td>Finance &amp; Insurance</td>
<td>135,000</td>
<td>-4,200</td>
<td>-3.1%</td>
<td>-100</td>
<td>-2%</td>
<td>97%</td>
</tr>
<tr>
<td>Mining and Logging</td>
<td>1,900</td>
<td>-300</td>
<td>-15.8%</td>
<td>0</td>
<td>0%</td>
<td>84%</td>
</tr>
</tbody>
</table>

Source: EDD, Analysis by KE
January Job Losses, BUT Gains in Coming Months

YTY % Change in Jobs, Jan. 2021

Leisure & Hospitality: -40
Other Services: -38
Information: -36
Total Nonfarm: -34
Real Estate & Rental & Leasing: -32
Mining and Logging: -30
Administrative & Support & Waste Services: -28
Wholesale Trade: -26
Manufacturing: -24
Government: -22
Educational Services: -20
Retail Trade: -18
Professional, Scientific & Technical Services: -16
Management of Companies & Enterprises: -14
Construction: -12
Health Care & Social Assistance: -10
Finance & Insurance: -8
Transportation, Warehousing & Utilities: -6
SGV Pandemic Job Losses: H1-19 to H1-20

SGV % Changes Close to LA County

YTY % Change in Jobs

Leisure & Hospitality
Other Services
Retail Trade
Professional & Business Services
Information
Wholesale Trade
Total Nonfarm
Manufacturing
Educational Services
Government
Finance & Insurance
Health Care & Social Assistance
Construction
Transportation, Warehousing & Utilities
Industry Performance Varies Greatly

- **Hardest hit**: Restaurants/Bars, Personal Services, Government, Hotels
- **Hit hard but recovering**: Health, Retail Trade
- **Doing well**: Real estate related (Construction, Real Estate Rental and Leasing, RE Finance), Logistics (Transportation and Warehousing, Wholesale Trade)
- **Sources of Growth**: Health Care, Logistics, Prof and Bus Services

- **Unemployment Rate/Jobs Improving Slowly**
  - High but edging down
  - Local industries recovering but pace varies
San Gabriel Valley Forecasts, 2021 and 2022

<table>
<thead>
<tr>
<th>Year</th>
<th>Population</th>
<th>Total Employment</th>
<th>Unemployment Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>2018</td>
<td>1,873,135</td>
<td>700,361</td>
<td>4.2</td>
</tr>
<tr>
<td>2019</td>
<td>1,870,028</td>
<td>702,583</td>
<td>4.1</td>
</tr>
<tr>
<td>2020</td>
<td>1,870,039</td>
<td>637,550</td>
<td>9.7</td>
</tr>
<tr>
<td>2021</td>
<td>1,870,050</td>
<td>663,060</td>
<td>8.6</td>
</tr>
<tr>
<td>2022</td>
<td>1,870,060</td>
<td>679,630</td>
<td>7.5</td>
</tr>
</tbody>
</table>

Source: KE

<table>
<thead>
<tr>
<th>Year</th>
<th>Population Change, %</th>
<th>Employment Change, %</th>
<th>Unemployment Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>2018</td>
<td>-0.1</td>
<td>0.9</td>
<td>-0.2</td>
</tr>
<tr>
<td>2019</td>
<td>-0.2</td>
<td>0.3</td>
<td>-0.1</td>
</tr>
<tr>
<td>2020</td>
<td>0.0</td>
<td>-9.3</td>
<td>5.6</td>
</tr>
<tr>
<td>2021</td>
<td>0.0</td>
<td>4.0</td>
<td>-1.1</td>
</tr>
<tr>
<td>2022</td>
<td>0.0</td>
<td>2.5</td>
<td>-1.1</td>
</tr>
</tbody>
</table>
Industries to Watch as Region Recovers and Expands

• Traded Industries:
  • Logistics
  • Tourism and hospitality
  • Manufacturing
  • Specialized health care

• Importance of Traded Industries
  • Serve markets beyond SGV
  • Source of income growth
  • Increase economic pie, much of which circulates through local economy

• Local Industries
  • Local hospitality
  • Retail trade
  • Health care and other services
  • Personal services

• Importance of Local Industries
  • Serve SGV population
  • Contributes to identity of neighborhoods and region
  • Source of amenities
  • Synergy between local and traded
Real Estate
California Housing: Record Price, Comeback in Sales Driven by Low Rates and Lean Supply

January 2021
Price: +22% YTY
Sales: +22% YTY
Sales and Prices Respond to Low Rates. OC Record High Price

<table>
<thead>
<tr>
<th>Southern California</th>
<th>2020.01</th>
<th>2020.12</th>
<th>2021.01</th>
<th>Price MTM% Chg</th>
<th>Price YTY% Chg</th>
<th>Sales YTY% Chg</th>
</tr>
</thead>
<tbody>
<tr>
<td>Los Angeles</td>
<td>$617,520</td>
<td>$709,500</td>
<td>$697,660</td>
<td>-2%</td>
<td>13%</td>
<td>15%</td>
</tr>
<tr>
<td>Orange</td>
<td>$855,000</td>
<td>$950,000</td>
<td>$971,000</td>
<td>2%</td>
<td>14%</td>
<td>14%</td>
</tr>
<tr>
<td>Riverside</td>
<td>$415,460</td>
<td>$488,250</td>
<td>$495,500</td>
<td>1%</td>
<td>19%</td>
<td>13%</td>
</tr>
<tr>
<td>San Bernardino</td>
<td>$325,000</td>
<td>$378,500</td>
<td>$390,000</td>
<td>3%</td>
<td>20%</td>
<td>17%</td>
</tr>
<tr>
<td>San Diego</td>
<td>$660,000</td>
<td>$730,000</td>
<td>$730,000</td>
<td>0%</td>
<td>11%</td>
<td>10%</td>
</tr>
<tr>
<td>Ventura</td>
<td>$660,000</td>
<td>$740,000</td>
<td>$776,000</td>
<td>5%</td>
<td>18%</td>
<td>7%</td>
</tr>
</tbody>
</table>

Source: C.A.R.
SGV Median Price Up 6.1% to $815,700 in 2020

Source: Zillow
Mort Rates Drop to Record Lows → Fuel Demand

Source: FRED, US Treasury, Freddie Mac
…and Lean Supply Drives Up Price

<table>
<thead>
<tr>
<th>Region</th>
<th>2020.01</th>
<th>2020.12</th>
<th>2021.01</th>
</tr>
</thead>
<tbody>
<tr>
<td>Los Angeles</td>
<td>3.1</td>
<td>1.7</td>
<td>2.2</td>
</tr>
<tr>
<td>Orange</td>
<td>3.3</td>
<td>1.4</td>
<td>1.9</td>
</tr>
<tr>
<td>Riverside</td>
<td>4.9</td>
<td>1.8</td>
<td>2.4</td>
</tr>
<tr>
<td>San Bernardino</td>
<td>3.9</td>
<td>1.3</td>
<td>2.2</td>
</tr>
<tr>
<td>San Diego</td>
<td>3.1</td>
<td>1.4</td>
<td>2.1</td>
</tr>
<tr>
<td>Ventura</td>
<td>5.2</td>
<td>0.9</td>
<td>1.4</td>
</tr>
</tbody>
</table>

Unsold Inventory Index (Months)

Source: C.A.R.
"Wait a minute…I thought we're in an economic downturn!!"

<table>
<thead>
<tr>
<th>Region</th>
<th>Q4-2019</th>
<th>Q3-2020</th>
<th>Q4-2020</th>
<th>Median Home Price</th>
<th>Monthly Payment Including Taxes &amp; Insurance</th>
<th>Minimum Qualifying Income</th>
</tr>
</thead>
<tbody>
<tr>
<td>Los Angeles</td>
<td>27</td>
<td>23</td>
<td>24</td>
<td>$688,660</td>
<td>$3,100</td>
<td>$124,000</td>
</tr>
<tr>
<td>Orange</td>
<td>26</td>
<td>23</td>
<td>22</td>
<td>$935,000</td>
<td>$4,210</td>
<td>$168,400</td>
</tr>
<tr>
<td>Riverside</td>
<td>41</td>
<td>40</td>
<td>39</td>
<td>$487,500</td>
<td>$2,200</td>
<td>$88,000</td>
</tr>
<tr>
<td>San Bernardino</td>
<td>51</td>
<td>51</td>
<td>48</td>
<td>$375,000</td>
<td>$1,690</td>
<td>$67,600</td>
</tr>
<tr>
<td>San Diego</td>
<td>29</td>
<td>27</td>
<td>26</td>
<td>$740,000</td>
<td>$3,330</td>
<td>$133,200</td>
</tr>
<tr>
<td>CA SFH (SAAR)</td>
<td>31</td>
<td>28</td>
<td>27</td>
<td>$713,660</td>
<td>$3,220</td>
<td>$128,800</td>
</tr>
<tr>
<td>US</td>
<td>57</td>
<td>55</td>
<td>55</td>
<td>$315,900</td>
<td>$1,420</td>
<td>$56,800</td>
</tr>
</tbody>
</table>

Source: C.A.R., KE
Overall: Mixed Signals in Housing

- Housing Permits:
  - CA: -10%
  - LA County:
    - 2019: 21,362
    - 2020: 20,251
    - YTY: Down 5%

- Economy-Housing (dis)Connection…K-shaped trajectory
  - Great opportunity for buyers who have financial resources to capitalize on current low rates
  - Challenging times for owners/renters who have lost jobs or reduced hours
    - →forebearance, rent/eviction moratoriums buy time!

### Permitted Housing Units

<table>
<thead>
<tr>
<th>Year</th>
<th>Single Family</th>
<th>Multi-Family</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>2019</td>
<td>57,255</td>
<td>53,744</td>
<td>110,999</td>
</tr>
<tr>
<td>2020</td>
<td>56,782</td>
<td>43,604</td>
<td>100,386</td>
</tr>
<tr>
<td></td>
<td>-0.8%</td>
<td>-18.9%</td>
<td>-9.6%</td>
</tr>
</tbody>
</table>

Source: RERC, CIRB, KE
Housing Market Outlook

- Demand fueled by
  - Demographics → millennials are first-timers
  - Income growth of potential buyers
  - Low but rising mortgage rates

- Supply limited by
  - Lean inventories of existing homes
  - Insufficient new construction

- Buyers: Trifecta: right home, right location, right rate
- Sellers market: timing of sale vs selling into a strong market
Office Vacancy Rates (CBRE Q4-2020) – limited growth
  ◦ SD: 12.4%
  ◦ LA: 14.6
  ◦ SF: 16.9 (4x increase)
  ◦ SJ: 8.9
  ◦ SAC: 11.2

Industrial Vacancy Rates (CBRE Q4-2020) – hot property!
  ◦ LA: 2.0%
  ◦ Oak: 2.8
  ◦ IE: 1.9
Conclusion/Outlook
Outlook 2021

- Recovery Trajectories Vary
  - GDP to fully recover no later than end of 2021
  - Labor market recovery in 2022 or later (Fed more optimistic)
  - Uneven progress: some already recovered, others will lag
  - Progress with pandemic dictates pace of recovery

- California
  - Slower recovery path than US…for now, accelerating as leading industries ramp up…tech, logistics, etc.
  - Track progress at the county level

- San Gabriel Valley – Conservative forecasts…
  - Unemployment rate: 8.6% in 2021, 7.5% in 2022
  - Job: +4.0% in 2021, +2.5% in 2022
Thank You!

Kleinhenz Economics
Cities and Regions | Economic Development
Real Estate | Public Speaking

Robert@KleinhenzEconomics.com
213.925.0221