

Valley Economic Forecast 2022

Forecaster: Economist Matthew Fienup believes the Valley's economic growth this year will outrun metro L.A.'s as well as California's and the nation's.



POST-PANDEMIC SPURT

Economists at California Lutheran University's Center for Economic Research and Forecasting regularly produce an economic analysis and forecast for the San Fernando Valley in partnership with the Business Journal. Their report was presented at a breakfast meeting Feb. 28 at the Hilton Woodland Hills hotel. An article about the event appears on page 1 of this issue. Matthew Fienup, the executive director of CERF, provides his summary, below, and his colleague, Dan Hamilton, writes about the Valley's challenging real estate market beginning on page 20.

By **MATTHEW FIENUP** | Photos by **SHELDON BOTLER**

Prior to the COVID-19 pandemic, the San Fernando Valley was a true economic hotspot, whose performance compared favorably to almost any other geography. As the team at California Lutheran University's Center for Economic Research and Forecasting has been documenting for years, the San Fernando Valley enjoyed a substantial economic growth premium, which elevated it above the broader Los Angeles metropolitan area and the nation.

At the onset of the pandemic in early 2020, the Valley was in the midst of a stretch of robust economic growth that had entered its sixth year. Over the preceding 5 years, economic growth in the Valley averaged 4.2 percent. By comparison, the broader L.A. metro area averaged growth of just 3.1 percent, and the nation averaged just 2.3 percent.

The economic strength exhibited in the Valley was broad based. In the year leading up to the pandemic, every single sector of the nonfarm economy experienced gains in output. Information and Technology, a broad sector that includes software engineering, internet development, and motion picture production, was a noteworthy hotspot. Output in that sector increased 5.9 percent in 2019 and was up more than 100 percent since before the Great Recession.

On top of 5 years of strong GDP growth, the Valley was enjoying a third straight year of relatively strong job growth. During the 3 years leading up to the pandemic, Valley job growth averaged 2 percent. By comparison, the broader L.A. metro area averaged growth of just 1.4 percent, while the nation averaged 1.5 percent.

As with economic output, the strength of the Valley's labor market was broad based. Every sector of the Valley's nonfarm economy except two saw job gains in 2019. Utilities, Transportation and Warehousing, and Construction saw the largest gains, with the number of jobs in these sectors growing 8.3, 6.6 and 5.5 percent, respectively. Retail Trade and Durable Goods Manufacturing were the only sectors to have lost jobs during the year prior to the pandemic, and combined, they lost only 800.

At the end of 2019, the U.S. economy was buckling under the weight of the most restrictive international trade policies in nearly 90 years. Business investment contracted sharply in the environment of uncertainty that the trade war created. That is to say, the economic outlook for the nation was eroding even before the pandemic began. Yet, the Valley's significant economic growth premium was maintained. In this way, the underlying strength of the Valley economy provided

insulation from outside factors and trends – not even a trade war could topple the Valley's economic dominance. As we document below, this underlying strength also equipped the Valley to better absorb the impact of the COVID-19 pandemic and the extraordinary economic displacement that accompanied it. The economic impacts were less severe in the San Fernando Valley than in the broader L.A. Metro area, and the rebound has been more rapid.

COVID-19 Impacts

The pre-pandemic peak of economic activity was February 2020, when there were 575,200 jobs across all industries in the San Fernando Valley. Government-mandated shutdowns beginning in March 2020 caused an unprecedented contraction. By that April, the Valley's job market had lost over 95,000 jobs, a loss of nearly 17 percent of all jobs.

By now, it is well known that the impacts of the pandemic are not evenly distributed across the labor market. Jobs in Retail and Leisure and Hospitality, the lowest paying sectors in the San Fernando Valley economy, dropped by a collective 33 percent. Jobs in these sectors have grown by 50 percent since the low point in April 2020 and have now recovered the pre-

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HOUSING'S BIG HEAVE

Valley residential prices, relative to median income, are the highest in region.

By DAN HAMILTON

The COVID-19 pandemic did not seem to slow the steady rise of housing prices in the San Fernando Valley. The average of the median single-family home prices in April and May of 2020, a period of dramatic economic contraction brought about by the pandemic, was \$745,000. While this is down from the March 2020 value of \$775,000, it is up from the December 2019 value of \$723,000, and it is 8 percent higher than the April/May 2019 average of only \$690,000.

The average of December and January, the two most recent months for which we have data, is just under \$960,000. The latest figures represent a 30 percent increase since the trough of the pandemic recession. Using round numbers, we see that the Valley's average monthly change in the median home price, from the depths of the pandemic until recently, was a stunning \$10,000 a month for 20 months.

'San Fernando Valley industrial space has become very tight, with leasable space vacancy rates at only a half of a percent. Vacancy rates for space like this are ordinarily considered tight at levels less than 2 percent.'

The latest reading of \$967,000 places the Valley in the company of just a few places in California. Only a few communities in the Bay Area and Orange County are higher. This price level, only \$33,000 from the \$1 million mark, is not the price level for fancy or nice homes, but for the median home. Median condominium prices, which were \$200,000 in February 2012, are now \$570,000.

The Valley's single-family home prices imply a \$4,150 monthly mortgage payment, which is a clear indication of a housing affordability problem in the Valley. The median condominium price also indicates an affordability problem. Though certainly less extreme, it is still unattainable for many families with an implied monthly mortgage payment of \$2,440.

The Valley's single-family home median multiple, the home price divided by median household income, is 11.8 based on 2021 data. The Valley has the highest home prices relative to income in our region.

'Not enough houses'

The prices in many California areas, including the Valley, are driven by a fundamental demand/supply imbalance. There are not enough houses available, new or existing, in the Valley. The Valley also has a dynamic that some coastal California communities do not have, which is a robust economy. This job and income generation adds to demand. The resulting affordability problem

has impacts, especially on net domestic migration.

Families who cannot afford the home prices will migrate to another region in the United States when they can, typically experiencing a positive boost to their household wealth. While this is financially good for those who can leave, it is not good for the Valley's economy. The out-migration slows population growth as is the case across most of California's communities. Population growth and economic growth are well-known to have a consistent, strong, positive correlation. Net out migration and slow population growth potentially indicate a slowing of the Valley's economy over the next decade.

Housing turnover, or sales, impacts the vitality of the housing industry and the broader economy more than prices do. An increase in transactions provides benefits not just to real estate brokers, but also to industries including inspection, repair, interior decoration, and insurance (homeowners and title). It further boosts purchases of furnishings and appliances.

The pandemic impact on San Fernando Valley housing sales was brief and limited to the months of April and May of 2020. For both single-family homes and for condominiums, the rest of 2020 and 2021 sales were a bit stronger than they were for 2019. The Valley's single-family home sales for 2021 was 5,800 units, up from 5,170 in 2019. Last year's condo sales were 2,210 units, up from 2019's sales of 1,820.

Conventional 30-year fixed mortgage rates have risen a bit lately but are historically low, even compared with history as recent as early 2019.

I expect that rates will stay low relative to history. As I wrote a couple of years ago, but this is worth repeating, the Federal Reserve is convinced that the large-institution liquidity benefits and short-rate control benefits the Fed accrues from a large balance sheet outweigh the negatives of reduced financial intermediation, investment, and slower growth.

It is true that the Fed's policies have created an over-shoot of inflation, and that the policy arm of the Fed feels required to raise rates to fight inflation. I am convinced the Fed is worried about raising rates, as a substantial rate hike will be followed by a stock market drop. The Fed will watch for an excuse to not raise rates substantially. Vladimir Putin's invasion of the Ukraine might just be the excuse the Fed will utilize.

The low rates do not help home buyers. Prices are high enough that the prospect of buying a home in the San Fernando Valley creates a principle problem for the buyer, not a rate problem. Low rates cannot overcome the affordability problem.

Commercial and office space

The latest information on the Valley's commercial real estate activity includes data through the fourth quarter of 2021. The Valley's office market has softened a bit, which is unsurprising due to the pandemic, while the industrial market has strengthened noticeably since our last report. This data comes from Collier's International by way of the San Fernando Valley Business Journal and is a definition that does not include Burbank or

HOUSEHOLD INCOME & HOME PRICES - 2021

	Housing Prices	Median Household Income	Median Multiple*
San Fernando Valley	\$918,983	\$77,805	11.8
Los Angeles Metro	776,675	75,379	10.3
Ventura County	819,900	90,994	9.0
California	786,275	82,053	9.6
United States	350,200	67,086	5.2

Source: National, California & Southland Regional Realtors, Claritas Demographics
*Home prices divided by median income

Glendale.

Meanwhile, the Valley's net absorption of office space, an important indicator of market activity, turned positive in the last quarter of last year. This is great news for the Valley, although we note that gross absorption, which includes vacated space during that time frame, was probably positive in many more quarters in which net absorption was negative. It is noteworthy that net absorption was positive in 2021's fourth quarter given the pandemic's impact on office space. Numerous companies are finding it difficult to require their workforce back to the office.

The Valley's office segment vacancy rate rose during 2020 as the pandemic implied fewer workers in offices and has hovered in the 17 to 18 percent range the past few quarters. It is slowly subsiding as workers for certain companies move back into their offices.

Office space vacancies in Los Angeles County and in the Conejo Valley also rose during the pandemic, but in contrast with the Valley, their vacancies have continued to rise during the past few quarters.

The Valley's asking gross rents for office space have been remarkably stable, remaining in the range of \$2.60 to \$2.80 per square foot for 12 quarters ending in 2021's fourth quarter. The Conejo Valley's asking rents have also been in this same range since 2019's third quarter.

Asking gross rents for Los Angeles County are a full dollar higher than either of the San

Fernando or Conejo valleys, indicating that, for office space, Los Angeles is a different market. Its rents are at a 37 percent premium relative to the San Fernando or Conejo Valleys. This could be due to the type of product being very different in central areas of Los Angeles, such as downtown and Century City. LA's asking rents did soften just a bit during the Pandemic but have strengthened in Q2 of 2021.

Industrial space

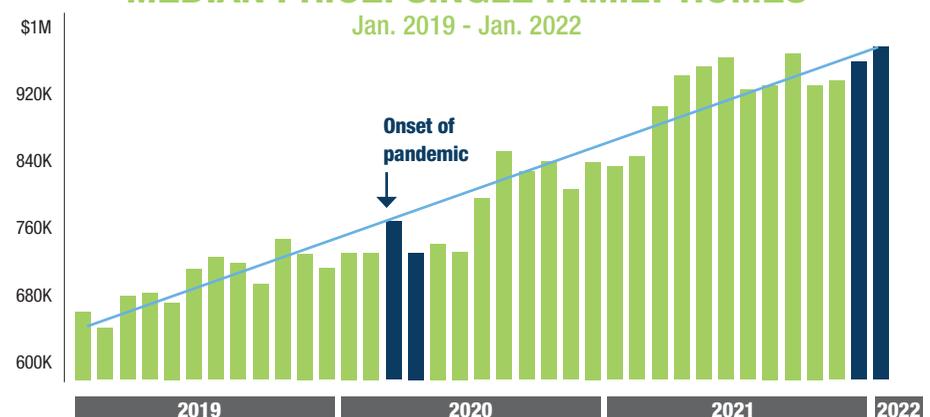
San Fernando Valley industrial space has become very tight, with leasable space vacancy rates at only a half of a percent. Vacancy rates for space like this are ordinarily considered tight at levels less than 2 percent. However, the Valley's market has been tighter than that for at least 5 years now.

We might suspect that with vacancy rates like that, rents would be rising. They have indeed jumped more than 30 percent in the last year, rising from about 90 cents a square foot, triple net, in 2021's first quarter to \$1.30 in 2021's fourth quarter. The tight vacancies and the growth in rents is echoed in Los Angeles County and in the Conejo Valley as well.

Dan Hamilton is the chief economist of the Center for Economic Research and Forecasting at California Lutheran University in Thousand Oaks. He and his colleague, Matthew Fienup, have produced the Valley Economic Forecast in partnership with the Business Journal since 2016.

MEDIAN PRICE: SINGLE FAMILY HOMES

Jan. 2019 - Jan. 2022



San Fernando Valley

VALLEY ECONOMIC FORECAST

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pandemic level. Meanwhile, jobs in Information and Technology, Financial Activities, and Professional and Business Services, collectively the highest paying sectors, declined by only 13.6 percent. They have subsequently increased 13.9 percent and are still more than 1 percent below the pre-pandemic peak.

The contrast between job losses in low- and high-paying sectors is revealing. The COVID-19 pandemic and the pattern of resulting impacts to the economy represent a tale of two recessions. Valley residents working in high paying sectors of the economy, which generally support remote working arrangements, saw significantly smaller impacts of the pandemic and the various government responses. The economic impact to low-wage segments was significantly deeper.

The fact that jobs across all nonfarm sectors have recovered or nearly recovered their pre-pandemic levels is, once again, an indication of the underlying strength of the San Fernando Valley economy. In neighboring Ventura County, which entered the pandemic already suffering from a prolonged period of economic weakness, the labor market recovery has been much slower.

Annual GDP data tell an interesting story regarding the San Fernando Valley's pandemic impacts compared to the broader Los Angeles metropolitan area. Clearly, the Valley's decline was smaller, and the rebound was substantially stronger. The Valley's economy contracted by 5 percent in 2020, compared to 5.8 percent for the L.A. metro area. The Valley's economy surged by 9 percent last year, compared to only

6.1 percent for L.A. metro. Annual jobs data tell a similar story. Valley jobs contracted by 7.2 percent in 2020, compared to 9 percent for the L.A. metro area. Jobs rebounded an estimated 4.5 percent compared to only 1.9 percent for L.A. metro.

Big changes

As detailed in previous Valley Economic Forecast publications, despite relative labor market strength, the Valley economy has not escaped the broad sectoral changes seen in other geographies since the Great Recession. From 2007 until the start of the pandemic, the Valley labor market saw general declines in goods producing and other high value-added sectors such as Financial Activities. Meanwhile, lower paying sectors such as Education, Health Care, Repair and Maintenance as well as Leisure and Hospitality have seen explosive growth.

One major exception to this pattern has been Information and Technology which is the Valley's single highest paying sector and which saw an increase in jobs of more than 14 percent during the period from 2007 until the start of the pandemic.

Two years after the start of the pandemic, with the jarring contraction of both output and jobs experienced early on and the strong recovery that followed, the general labor market composition is similar to the pre-pandemic one. The only obvious exception is, once again, Information and Technology, which saw job gains of 14.2 percent from 2007 to the start of the pandemic, but which is now down 8.6 percent relative to the pre-Great Recession peak of 2007. That is to say, the pandemic succeeded in undoing more than a decade of labor market gains in a sector which

ECONOMIC GROWTH

	2019	2020	2021*
San Fernando Valley	4.4	-5.0	9.0
Los Angeles Metro	3.0	-5.8	6.1
Ventura County	2.7	-2.6	3.4
California	3.6	-2.8	7.7
United States	2.3	-3.4	5.7

Source: California Lutheran University's Center for Economic Research and Forecasting. *2021 is estimated.

has been a source of well-paying, family-sustaining jobs and which has been vital to the robust growth enjoyed by the Valley over the past decade. Interestingly, output in Information and Technology is still up more than 100 percent relative to 2007, so the impacts are seen much more obviously in jobs than in GDP.

Our hope is that these jobs will return to the Valley as the last remaining pandemic restrictions are lifted and that Information and Technology will continue to be a hot spot within the hot spot that is the San Fernando Valley economy. We will be watching this sector with particular interest as the Valley's recovery from the COVID-19 pandemic proceeds in the months ahead. A failure of these jobs to return to pre-pandemic levels would result in a downward revision to our outlook for the Valley economy.

As we have done in previous Valley forecasts, we note that housing affordability

is one of the primary threats to the economic strength and resilience that the Valley has demonstrated. Prior to the pandemic, the median single-family home in the San Fernando Valley was more than 17 times the average salary in Education and Health Care and Leisure and Hospitality, the two fastest growing sectors of the San Fernando Valley labor market. Even before the extraordinary home price appreciation of the past two years (which is detailed in the nearby real estate article), the San Fernando Valley was struggling to house its workforce. The 30 percent increase in median home price experienced since April of 2020 has made this challenge much more difficult. The Valley will need to summon the collective efforts and leadership of the community and the openness that Valley residents and businesses have historically shown to economic opportunity and to growth in order to tackle the suddenly more severe housing crisis.



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Valley forecast

The San Fernando Valley economy is forecast to grow 4.4 percent in 2022, compared to 3.4 percent for the L.A. metropolitan area and 3.1 percent for the United States. The growth premium that the San Fernando Valley enjoys relative to the L.A. metro area will grow from 1.0 this year to 1.4 in 2024. The Valley's growth premium is thus forecast to meet or exceed the average growth premium which prevailed in the 5 years prior to the pandemic. That is to say, the pandemic does not appear to have weakened the Valley economy relative to other geographies.

As with economic growth, the Valley's job growth is forecast to exceed that of the L.A. metro area and the United States over the full forecast horizon. Valley job growth is forecast to be 5.2 percent in 2022, compared to 3.7 percent for metro Los Angeles and 3.3 percent for the United States.

The primary headwind for the San Fernando Valley economy over the course of the forecast horizon is slowing U.S. growth. U.S. growth is forecast to slow significantly in response to the extraordinary monetary and fiscal interventions of the past 2 years. Even in the face of this headwind, we still believe that the underlying strength of the San Fernando Valley economy will continue to provide a degree of insulation from this broader macroeconomic trend.

The Valley economy is forecast to continue to grow more rapidly than the nation, the state of California and the L.A. metro area for the foreseeable future.

As we have stated previously, it is no accident that the Valley is a true economic hot spot. The lengthy creative and technological legacies of the Valley, coupled with an attitude and with policies that, on balance, embrace



growth and economic dynamism, will surely continue to pay dividends. There is strong evidence that the Valley reaped the benefits of its legacy of strong growth during the extraordinary displacement of the COVID-19 pandemic.

As we have concluded in previous forecasts, the San Fernando Valley exhibits uncommon economic strength. We anticipate that the region will remain uncommonly strong in the years ahead. Not even a two-year long global pandemic can change that.

Matthew Fienup, Ph.D., is director of economics for the Center for Economic Research and Forecasting at California Lutheran University in Thousand Oaks. He and his colleague, Dan Hamilton, have produced the Valley Economic Forecast in partnership with the Business Journal since 2016.

SFV NONFARM ECONOMY

	Changes from Great Recession to Pre-COVID Peak		Changes Since Great Recession	
	GDP	JOBS	GDP	JOBS
Utilities	147.2%	105.7%	421.9%	270.9%
Construction	-8.5	3.3	0.5	6.6
Durable Goods Manufacturing	31.4	-28.5	35.3	-32.7
Non-Durable Goods Manufacturing	18.8	-24.8	25.4	-33.1
Wholesale Trade	-3.5	-19.7	1.4	-23.7
Retail Trade	3.8	-7.3	10.5	-9.1
Transportation & Warehousing	24.8	20.5	24.9	38.4
Information & Technology	115.8	14.2	112.5	-8.6
Financial Activities	17.9	-17.7	22.5	-22.2
Professional & Business Services	25.3	3.0	35.7	2.1
Education / Health / Repair / Maintenance	53.8	52.6	59.8	53.6
Leisure & Hospitality	22.2	29.5	-0.8	15.4
Government	3.2	-1.6	8.7	-5.8
Total All Industries	27.4	7.7	32.0	4.5



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“The Great Resignation (Exodus) is here, confirming SHRM’s 2021 prediction: “50% of the workforce will either retire or relocate.” Economist, Matthew Fienup, Ph.D., Center for Economic Research, verified this for California. As technology creates dramatic change and access for some industries - others like non-profits, services, and schools hunt for multi-generational staff.”

Danone Simpson,
CEO
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