

2008 Forecast: Some Post-Bubble Optimism

San Diego's economic outlook for 2008 includes many positive factors that outweigh the troubled mortgage/housing market



tate sales but spilled over into job losses in housing-related industries such as construction and financial services.

What's surprising is that other components of the San Diego economy—tourism, high-tech and international trade—are taking up the slack, seemingly unaffected by the housing crunch. Act Three for the local economy is also dependent on factors beyond our control, such as a national recession that would hurt tourism, and the value of the dollar, since a weaker dollar makes San Diego *more* desirable for international visitors and investors.

Add it all up, and you have what UCLA's Anderson Forecast calls "a near-recessionary environment" for Southern California, which experts say can also be applied to the local economy. For example, the University of San Diego's Index of Leading Economic Indicators has declined in 18 of the past 19 months, seven in a row through October. USD Professor of Economics Alan Gin, who publishes the index, says he expects a slow go in '08, with the economy adding roughly 10,000 new jobs, the same as in '07.

"What's interesting is that if you take job losses through real estate out, we'd be back where we were in 2006," Gin says. "We have well-performing sectors in leisure and hospitality, a lot of job growth

IF THE SAN DIEGO ECONOMY over the past three years were a play, we'd be heading into Act Three, in which the Forces of Darkness unleash their last furious attack before the Forces of Good mount a countercharge.

At least we won't have to revisit Act One, the Real Estate Bubble, and its partner in crime, Bubble Denial. In '07—Act Two—the bubble burst, but it had nothing to do with double-digit appreciation on homes where mortgages were paid up. It was all about selling mortgages to unquali-

fied borrowers on so-called entry-level homes, which in San Diego run north of \$400,000. As real estate prices dropped, adjustable rates on mortgages kicked in, meaning that homeowners—some of whom got in with no money down—owed more on their homes than they were worth. The resulting defaults and foreclosures not only sapped juice from real es-

"Optimism is what causes a teakettle to whistle when it's up to its neck in hot water."

— ANONYMOUS

in hotels and restaurants, though the worry there is these are low-paying jobs. But health-care is up, government employment is up, and professional and technical services—lawyers, architects, engineers—are also up.”

Kelly Cunningham, economist at the San Diego Institute for Policy Research, says though growth of the gross metropolitan prod-

uct in '08 will probably not exceed 2.5 percent in a \$163 billion regional economy, San Diego has an advantage of having felt the impact of the mortgage meltdown early on.

“We seem to be ahead of the curve since 2000,” he says. “We didn’t have quite the fall-out experienced elsewhere from the dot-com bust, and in this instance, we were the first to

see housing prices level off and start to decline. Our economy is about a year ahead of what is happening in the rest of the state, so it should start to pick up by the end of '08, and '09 should be even better.”

What happens in the local housing market could be affected by a so-called rate freeze being discussed in Washington that, in theory, would prevent homeowners in shaky circumstances from having their rates adjusted and subsequently losing their homes. There is a long list of questions about the rate freeze, but two main sticking points are: 1) Who would qualify? Everyone whose mortgage adjusted? Only those who can prove hardship to the bank? Would one actually have to be in default? 2) Who would lose out if mortgages were less profitable due to the rate freeze?

“I’m not sure if they can freeze interest rates, and it’s not clear who’s left holding the bag,” says James Hamilton, professor of economics at UCSD. “If it can prevent widespread defaults, then that could be a win-win situation. But the mortgage-associated problems are bigger than you could fix with a rate freeze.”

ASSUMING HOUSING continues to lag and shaves another 5-plus percent from home values in '08, other sectors will demonstrate the buoyancy of the San Diego economy.


“The commercial real estate sector is pretty strong,” says Gary London, of London Group Realty Advisors. “A lot of footage is being added, so there will be some slippage in lease rates and occupancy, but I’m not worried about commercial unless we go into a major recessionary situation. It’s more a function of supply being added rather than lower demand.”

Biotech also continues as a source of relatively high-paying jobs. The trade group San Diego Biocom says biotech employs more than 36,000; the industry generates about \$8.5 billion among 500 or so companies. San Diego biotech firms will be showcased when the na-


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