



# **“COVID-19 and Its Impact on the Santa Clara County Economy and Real Estate Markets”**

**SIR Branch 54**

**April 14, 2022**



**Santa Clara County Assessor, Larry Stone**

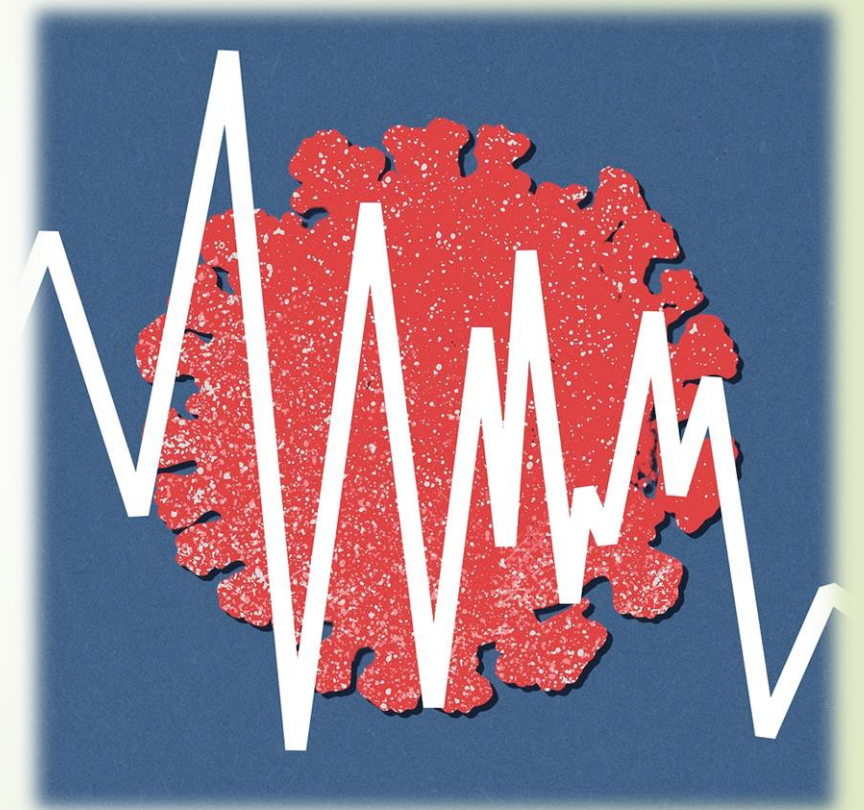
# Anything but a Normal Recession ...



- COVID-19 inserted level of uncertainty in global economy that made normal analysis difficult
- Economic recovery is highly globalized
- Silicon Valley has highest level of income/wealth inequality in U.S.

# Economic Implications of COVID-19

- Business investment, retail sales, home construction, exports, consumer and gov't. spending, all reached record levels of decline in 2020
- During COVID, Americans were stockpiling savings, which reached a 30-year high
- Now, we are spending at record levels
- Consumer spending accounts for 70% of economic activity



# Inflation and the Economic Recovery



- Inflation jumped 8.5% in March, the fastest pace in 40 years
- Supply chain disruptions, rapid consumer demand and spending, and historic housing costs has fueled inflation
- Perfect storm of high demand and low supply
- Two types of inflation – the cost of materials and products, and labor inflation

# Is there a labor shortage?



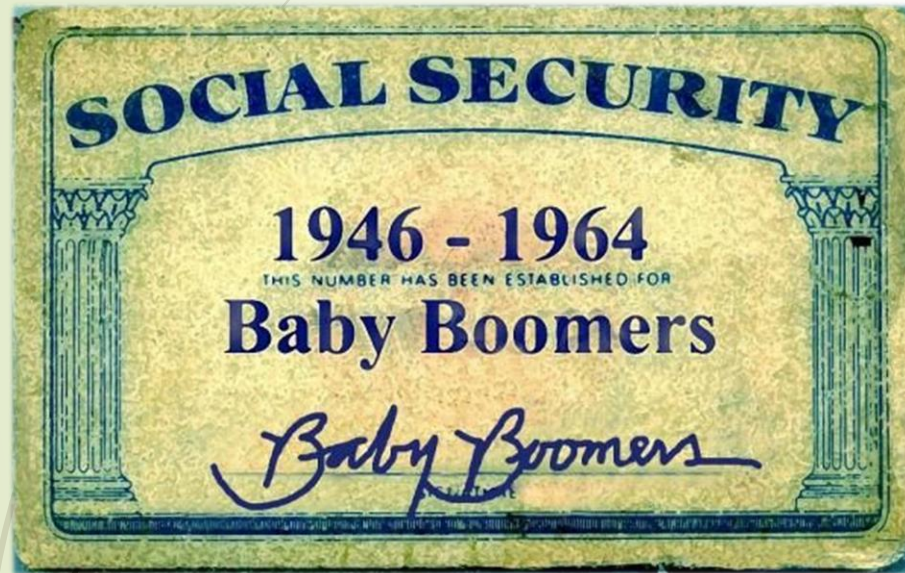
- Number of job openings have topped 10 million for 5 consecutive months
- 1.7 job openings for every unemployed
- 6.7 million Americans are unemployed
- Still 5 million fewer jobs today than in February 2020
- California's job count stands at 87% of pre-pandemic levels

# Unemployment vs. Work/Life Changes



- Silicon Valley unemployment rate fell from 6.6% to 2.9% in February
- Tech jobs are 5% above pre-COVID levels
- Americans are quitting jobs at record pace
- COVID has given people time to re-think their lives and careers

# COVID-19 and Retirement



- Retirements accelerated during COVID
- More baby boomers are leaving the labor force, than Millennials and Gen-Zers are entering
- Increased immigration and robots are only solution to meet future workforce demand
- Bay Area economic challenges remain in housing, transportation and economic competitiveness

# Federal Deficit

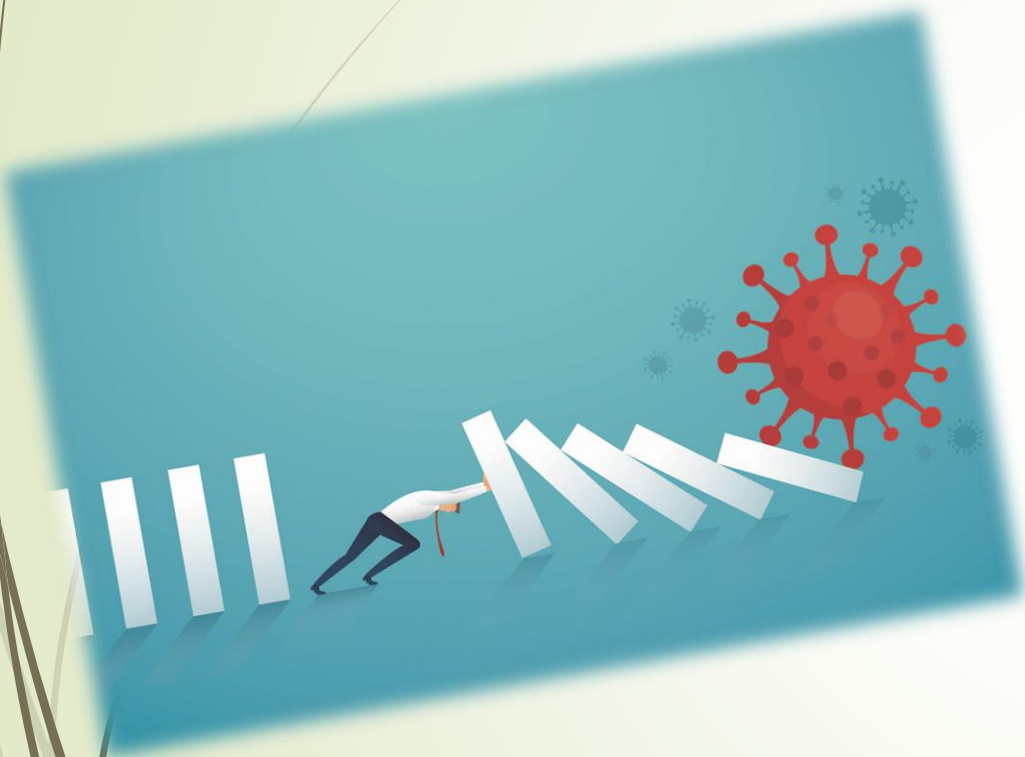
- Chris Thornberg says COVID recession is “technically over” because it has no “long-term” characteristics of the 2008 Great Recession
- Thornberg believes there is a huge inequity of wealth distribution
- This could be deepest and shortest recession in economic history





# The Resiliency of Silicon Valley

- California is a large, diverse economy – this is our strength
- Silicon Valley's economy structured to resist long-term declines; Big Tech is resilient
- Venture Capital hit record high of \$80 billion last year; Angel investments were up 21% year over year



# COVID-19 Economic Implications

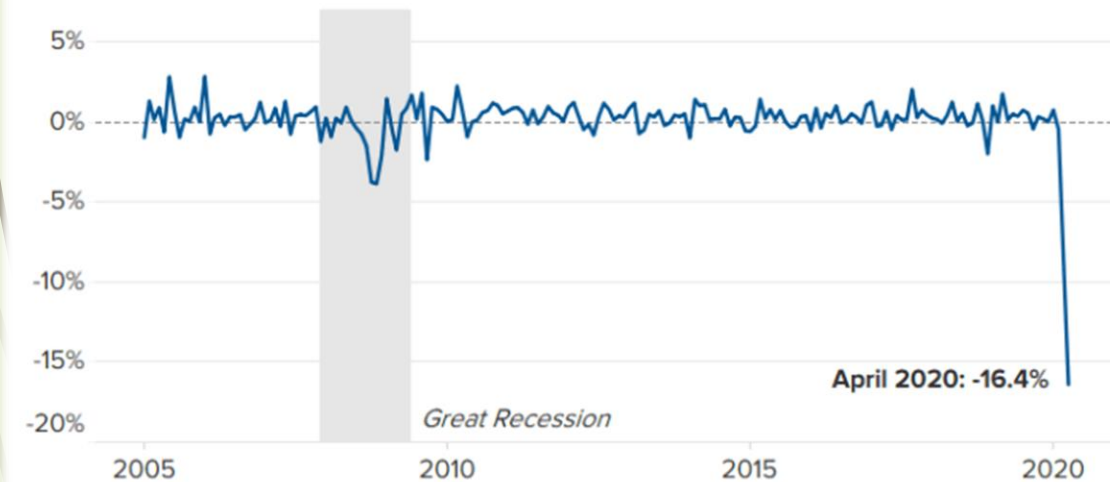
- Travel, hospitality, and leisure sectors were hit first, and the hardest
- Hotels that depend on business travelers suffered the most; During COVID, business travel was down 85%
- Hotel industry not expected to fully recover until 2024
- As businesses use Zoom and webinars more, business travel and lodging may be permanently impacted



# The Retail Sector is Suffering

## Record drop in retail sales

Advance retail and food service sales, percent change from prior month



SOURCE: U.S. Census Bureau, retrieved from FRED, Federal Reserve Bank of St. Louis. Data is seasonally adjusted.



- Fear of social contact and plummeting consumer confidence
- Restaurants, food/beverage outlets, and major malls suffer from compulsory or self-imposed access restrictions
- 10% of all U.S. restaurants closed permanently last year
- Online sales are growing exponentially faster than in-store sales
- The retail bubble has burst; it is a “forever” trend

# “The Unmalling of America”

- 30% of the nation's 1,100 malls will close in next 4 years
- Nearly 16,000 retail locations closed last year compared to 7,000 in 2019; 60% are mall-based
- The U.S. is simply “overstored”
- Traditional shopping centers are being repurposed to “consumer centers”



# Retail “Mess”

- Millennials are a driving force behind e-commerce
- “Three C’s – Closures, Consolidations & Contractions
- Retailers expected to downsize their storefront space by 40-50% over next 10 years
- Still, e-commerce represents only 18% of total retail sales



# High-tech Companies

- Amazon, Apple, Google, and Facebook, abusive monopolies?
- Google has 92% market share; 22% of the S&P 500 alone
- Apple owns 4 of 5 biggest apps and became first \$3 trillion company
- Facebook has 2 billion subscribers!
- “Clicks to Bricks”



# Residential Housing Market

- Residential housing market has come booming back
- Median home prices increased 29% year over year in Santa Clara County to \$1.65 million
- Median time home is on the market declined from 23 days in 2019, to 8 days in San Jose metro area
- Apartment rents have fully recovered, up 12.8% for both new leases and renewals



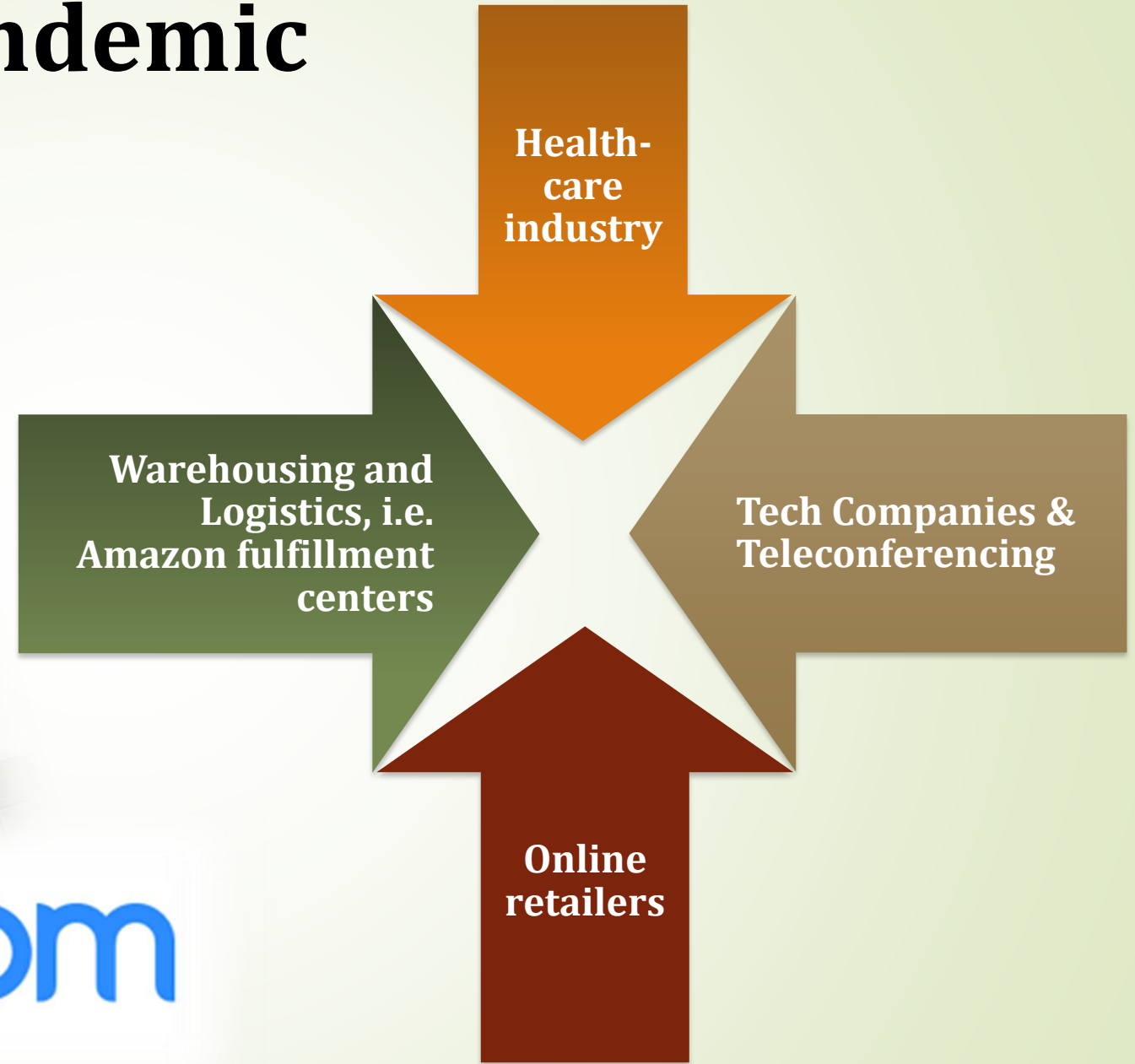
# Office/Commercial Sector

- Silicon Valley's commercial property market recorded its biggest year ever in 2021
- Big tech companies are leasing the most office space in U.S.
- CBRE declared Silicon Valley the #1 market for future office development in the U.S.
- Silicon Valley industrial and warehouse markets are very strong





# Winners of Pandemic



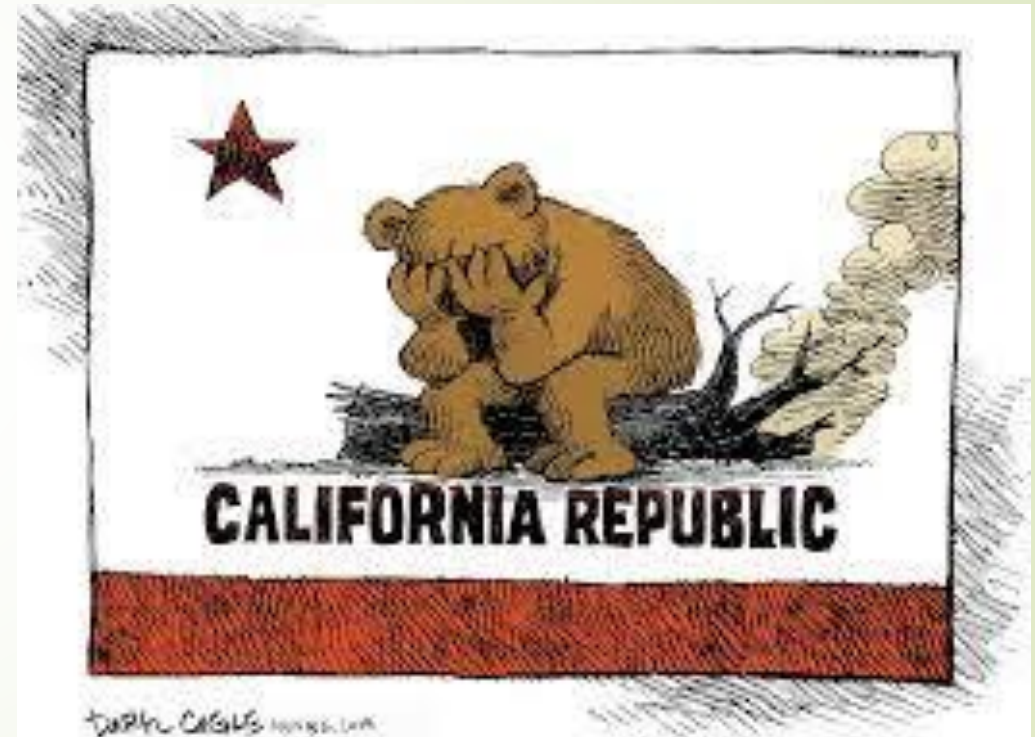
# Tax Revenues and the Economy



- There is a connection between economic growth and tax revenues
- As tax revenue declines, so does government spending
- 46% of jobs could be replaced by artificial intelligence by 2030

# “The California Exodus”

- In 2020, 650,000 people left California, but 480,000 people moved to California – net loss of 170,000 people
- In 10 years ending in 2019, Californians exit rate was 1.6% - the lowest in the nation
- Not a crisis, but a concerning trend





**Thank you for  
listening!**

**Questions?**