SDMETRO

your business your life

NO. 1 VOL. XXXIII

SAN DIEGO'S NEWEST BANKING ENDEAVOR

The city's newest bankers are Dan Yates, chief executive officer of Endeavor Bank, left, and Steve Sefton, president, in bank headquarters in Symphony Towers. See more on **PAGE 8**

Photo by Greg Lambert, lambertphoto.com


The Millennial Edge:
SMART.
YOUNG.
SAVVY.
The next generation of business leaders has already hit the ground running, and Star is no exception. After graduating from college with a perfect 4.0 GPA and completing her MBA by age 20, Star began representing companies in their office lease and purchase transactions as one of California's youngest licensed commercial real estate brokers.
Many years later after serving nearly a thousand companies with their real estate needs, Star has become an expert in helping businesses find the space they need for their teams to thrive.
Find out how Star and Hughes Marino are changing the game for business owners with our tenants-only approach to commercial real estate. Call Star today at (619) 238-2111.
STAR HUGHES-GORUP
Director, Hughes Marino, Inc.
San Diego
1450 Front Street
San Diego, CA 92101
tel: (619) 238-2111
hughesmarino.com
SAN DIEGO
LOS ANGELES
ORANGE COUNTY
SAN FRANCISCO
SILICON VALLEY
Hughes Marino
Because Where You Do Business Matters™
TENANT REPRESENTATION | CONSTRUCTION MANAGEMENT | LEASE AUDIT SERVICES | LEASE ADMINISTRATION

2018 | ISSUE 1 Volume XXXIII

Our mission is to always provide quality journalism for our readers by being fair, accurate and ethical and a credible resource for our advertisers.

COVER STORY

San Diego's Newest Banking Endeavor

When is a bank not a bank? When Dan Yates and Steve Sefton are in charge. The two long-time bankers and businessmen are opening San Diego's first new bank since 2007 — Endeavor Bank, with a twist. Story on **Page 8**

SDMETRO
your business your life

Chairman | CEO
Robert Page
BobPage@sandiegometro.com

Publisher
Rebeca Page
RebecaPage@sandiegometro.com

Managing Editor
Manny Cruz
Manny@sandiegometro.com

Graphic Designer
Christopher Baker
cbaker@sandiegometro.com

Photography/Illustration
David Rottenberg

Contributing Writers
Jennifer Coburn
Tom Shess
Eric Breier
Randi Crawford
Delle Willett

Advertising
SALES & MARKETING DIRECTOR
Rebeca Page

Get in the loop with SD Metro's Daily Business Report. Sign up for daily emails on the latest business at sandiegometro.com

P.O. BOX 3679
RANCHO SANTA FE, CA 92067
858.461.4484 FAX: 858.759.5755

The San Diego Symphony proposes to construct a permanent outdoor performance and event venue in Embarcadero Marina Park South. (Conceptual rendering provided by Tucker Sadler.)

SAN DIEGO SCENE

Port of San Diego Moves Ahead on Bayside Performance Park Project

The Port of San Diego Board of Port Commissioners has voted to advance the San Diego Symphony's Bayside Performance Park Enhancement Project, proposed for the Port's Embarcadero Marina Park South.

At its Jan. 9 meeting, the board approved several items to advance the proposed project, including certification of the Final Environmental Impact Report, approval of a Port Master Plan Amendment (PMPA), and approval of a binding Letter of Intent (LOI) with the San Diego Symphony (Symphony).

The Symphony proposes to construct a permanent outdoor performance and event venue in Embarcadero Marina Park South where the nonprofit organization has operated a Bayside Summer Nights (formerly Summer Pops) concert series since 2004. Each year in the park, the Symphony assembles and disassembles a music festival-style stage, bleachers, seating, ticketing booths, concession stands, food stands, portable bathrooms, a chain-link fence and other items for the summer season.

The proposed Bayside Performance Park would allow the Symphony to offer a limited number of performances and events year-round.

San Diego Convention Center to Generate $1.2 Billion in Regional Impact in 2018

Medical meetings at the San Diego Convention Center will continue to drive attendance and economic benefits to San Diego this calendar year, resulting in an estimated $1.2 billion in regional impact.

The forecast for the year, from Jan. 1 through Dec., 31, 2018 shows a total of 108 events – 58 city-wide conventions, known as primary events, and 50 secondary events - booked at the San Diego Convention Center. These events will bring 862,408 attendees to the facility: that's almost equal to the population of the city of San Francisco.

The $27.5 million in estimated tax revenues during 2018 are generated by convention visitors and helps relieve the tax burden on local residents. These revenues pay for important services such as fire and police protection, beach and park maintenance, libraries and street improvements.

Comic-Con International will be the top economic generator of the calendar year, with 130,000 attendees and an estimated $147.1 million in regional impact. It is followed by four medical conventions, including the Society for Neuroscience. That one event alone is estimated to generate $88.8 million, generate 46,850 hotel room nights and bring 30,000 medical and science attendees from around the world.

Laura Rodriquez Awarded Certified Advisor of Personal Insurance Designation

Laura Rodriquez of Rancho Santa Fe Insurance in Rancho Santa Fe has been awarded a Certified Advisor of Personal Insurance (CAPI) designation from the Aresty Institute of Executive Education at the Wharton School of the University of Pennsylvania and Chubb.

Rodriquez is among a group of only 38 agents this year to receive the certification after completing a one-year intensive educational program on understanding the lifestyle and risk management and insurance needs of successful individuals and families. Created by Wharton and Chubb in 2014, the CAPI program is the first of its kind to focus on a specific client segment in the personal insurance marketplace. Rodriquez is the third graduate from Rancho Santa Fe Insurance, and a a fourth is enrolled for the 2018 program.

"The agents who have completed the CAPI program have proven that they have the highest level of skill and expertise required to understand the total family balance sheet and advise successful clients on their complex risk management and insurance needs," said Annmarie Camp, executive vice president, sales and distribution leader, Chubb Personal Risk Services.

Laura Rodriquez

Target to Open Store in North Park

Target has announced plans to open a small-format store in North Park in November, apparently believing that what worked well in South Park will work again in this community.

The store will be located at 3029 University Ave., in the building previously occupied by Wang's restaurant. It will be Target's second small-format store in the area, joining the existing South Park location, the Target Express, which opened in October 2015.

Rendering of the small-format Target store planned for North Park.

San Diego State University Gets its Own MRI Machine

San Diego State University is the new owner of the university's first magnetic resonance imaging (MRI) machine. SDSU students and faculty will be able to do groundbreaking research with brain imaging on campus. The MRI machine sits in the imaging center of the Engineering and Interdisciplinary Sciences Complex (EIS).

MRI machines are among the most critical tools for scientists who analyze brain images to understand basic human cognition as well as disease and disorders like fetal alcohol syndrome, autism and traumatic brain injury. While SDSU researchers have made great strides in studying these topics over the years, they've previously had to rely upon partnerships with other universities and institutions to gain access to their machines.

"There's a lot of advancement in the technology, and this [machine] is the top-of-the-line one," said psychology professor Martin Sereno, director of the SDSU brain imaging center. "It puts us a little ahead of a lot of other places."

SDSU's new Magnetic Resonance Imaging machine. (Image from a video by Scott Hargrove)

San Diego Office Market Soars in 2017

San Diego's office market flourished in the second half of 2017, according to Cushman & Wakefield's latest year-end market report. With a commanding 716,600 square feet of positive net absorption in the third quarter, San Diego's office sector added another 356,000 square feet of net gains in the fourth quarter, which pushed this market to well over 1 million square foot of occupancy growth in the past six months.

"San Diego recorded an astounding 1.6 million square feet of office net absorption overall in 2017, observing its highest annual figure since 2005's 1.9 msf," said Jolanta Campion, Cushman & Wakefield's research director in San Diego. "The fourth quarter represented the 14th consecutive quarter of positive net absorption in the region's office market."

General Atomics Awarded Contract from Office of Naval Research

General Atomics Electromagnetic Systems has been awarded a contract from the Office of Naval Research to design and deliver an advanced permanent-magnet propulsion motor intended for use in large displacement unmanned undersea vehicles (LDUUVs).

"After completing a review of our motor's capabilities and the applicability for undersea operations, we are very excited to take the next step to design and deliver a second-generation propulsion motor to ONR for further evaluation and eventual on-vehicle testing," said Rolf Ziesing, vice president of programs at General Atomics Electromagnetic Systems.

Over the next 18 to 20 months, the company will design, build, and test the advanced permanent-magnet propulsion motor and deliver a complete motor system to ONR. Characterization and testing of the motor system will be conducted by the Pennsylvania State University Applied Research Laboratory.

SAN DIEGO'S NEWEST BANKING ENDEAVOR

Longtime bankers envision a different kind of financial institution

By Andrea Papagianis-Camacho

When is a bank not a bank? When Dan Yates and Steve Sefton are in charge.

The two long-time bankers and businessmen are opening San Diego's first new bank since 2007 — Endeavor Bank — but they don't think of it as just a bank. This is an opportunity to create a unique relationship-oriented platform to deliver business advice and banking services hand-in-hand.

Many business people can feel anonymous to their bank, where the delivery of modern-day banking services have become increasingly more cookie cutter and with a one-size-fits-all approach. The only personal contact clients may have with a banker is when they need a loan.

Yates and Sefton envision a different type of banking relationship.

They see the banker's job akin to a trusted adviser. Starting with decades of knowledge, acquired while working with business owners, their banker continues to invest time and research to learn the ins and outs of a client's business and industry. The payoff is the ability to help clients solve their problems, take advantage of opportunities to grow revenues and ultimately foster better decision making.

Embracing this concept of "consultative banking," the two are on a mission to turn the way Southern California businesses bank on its ear.

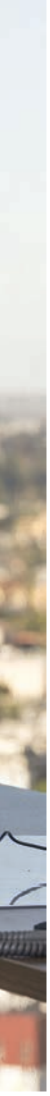
The New Endeavor

The banking industry has seen tremendous transformation, especially since the Great Recession.

Significant changes in regulations and market forces have caused consolidation. At its peak, the industry claimed more than 16,000 banks nationwide. Today, that number is less than 6,000.

In San Diego, the trend holds true. In the mid-2000s there were 28 local banks. Now, only nine are headquartered here, including a few specialty thrift and loan institutions not focused on commercial business banking.

"Due to this exodus of locally based busi-



ness banks, there is a hole in the market," Yates said.

It's one the duo hopes to fill with an experienced management team and proven business savvy while taking advantage of the strong economy.

Working in their favor is the fact that very few banks have outright failed in San Diego. Instead, local consolidation has occurred primarily due to mergers.

"If there is a spot on the U.S. map to start a community bank, San Diego is it," Sefton said.

And the numbers back him up. There are nearly $80 billion in deposits locally with an overwhelming amount of those deposits at big, institutional, national banks.

A Community Endeavor

Endeavor Bank is a community owned and focused business bank.

Headquartered downtown in Symphony Towers, its board of directors, advisory board and management team are established San Diego business people, and most of the bank's shareholders are also local business owners and the professionals who serve them.

Yates started in banking more than 30 years ago and worked his way up the ladder. Most recently, he was president/CEO of Regents Bank and then held the same title at Neighborhood National Bank, where he was recruited to improve asset quality and recapitalize the specialty community development bank.

Sefton is also a career banker with over 35 years of expertise. He followed Yates as president and CEO of Regents Bank after it was acquired by Grandpoint Capital, growing the bank during his five-year tenure.

The chairman of the board is Matt Rattner, the visionary craft brewer who cofounded San Diego's Karl Strauss Brewing Company. Fellow board members include Yates, Sefton, Lorne Polger, Gina Champion-Cain, Joyce Glazer, James Ledwith and Christopher Woolley.

Joining Yates and Sefton on the bank's management team are several San Diego banking leaders including Robert Horsman, Robert Lampert and Nasrin Rostami.

Also backing the bank are a few hundred shareholders who participated in Endeavor Bank's initial capital raise of approximately $25 million. The minimum buy-in was $25,000 at $10 per share.

Many community banks are privately held with a very small number of shareholders, where selling the bank is often the only option those shareholders have to receive a return on their investment after creating significant enterprise value from growing a bank over the years.

Endeavor Bank is publicly traded and its earnings will be reinvested back into the bank. Sefton and Yates expect the bank to be profitable within 36 months and as the enterprise value is reflected in the share price over the years, some shareholders can elect to trade to realize their investment return. This should create liquidity for all shareholders in three to five years.

The bank is focusing on creating a client base of Southern California businesses and will offer both business and personal banking services, including business and real estate lending.

With 43 percent of small business loans being made nationwide by community banks, business owners make it clear their desire to do their business with a local bank, Yates said.

"They want to know and talk to the person making the decisions and they want to know their banker," he said. "They want a banker who understands their business and is well connected and respected in the local community so they can leverage their banker's close influential network of key contacts."

A Competitive Endeavor

Sefton and Yates' experience in both banking and business helps create Endeavor Bank's competitive difference.

"Our focus is on connecting with business owners, not just selling loans and deposits," Sefton said. "Other banks that are here today have different focuses, very different."

Yates coined the phrase "consultative banking" years ago which he described as a "tool box."

"We are always looking for the best tools to help our clients solve their business issues and seize opportunities," Yates said.

By working with small and mid-size businesses throughout their careers, Sefton and Yates have gained a thorough understanding of what makes businesses tick, what demands businesses face and how to best provide value in serving clients. Through their own experiences, they also know firsthand what it is like to start and run an organization — to be an owner, decision maker and problem solver.

As they have done at previous banks, the Endeavor team plans to get to know their customers one-on-one and be a resource to discuss challenges and options for every aspect of their business, not just those needs that are finance related.

"Dan and I always do a deep dive with business owners. Our goal is to help expand revenues and deal with their problems," Sefton said.

They also envision bank customers doing business together.

Yates and Sefton plan to leverage the natural affinity group of shareholders and customers who are business owners by encouraging them to meet and network a few times a year to get to know each other and find ways to create new business opportunities. One investor even likened this approach and his ownership in the bank as a "business owners club."

The Future Endeavor

After envisioning Endeavor Bank for several years, Yates and Sefton are excited to see it launch and grow and the future is bright. In the past 25 years, only one quarter of one percent of community banks nationwide have failed. With the odds on their side, the pair is banking on Endeavor Bank to succeed.

However, they don't plan on aggressive growth, but rather a steady pace.

"We don't want to grow too fast, that's not prudent," Yates said.

"You can grow a bank too fast, but you may not like what you get," Sefton added.

The duo is betting that San Diegans are going to like what they get from Endeavor Bank — the bank that's a bank and more.

Andrea Papagianis-Camacho is a San Diego-based freelance writer.

BALLOT BREAKDOWN

THESE INITIATIVE IDEAS ARE HEADED YOUR WAY

By Ben Christopher | CALmatters

Direct democracy can be an exhausting business. This year civically engaged Californians will be expected to have informed opinions about affordable housing and park funding, how best to divvy up cap-and-trade money, how to spend the state's new gas tax money, and when new voter-approved laws ought to be enacted.

And those are just the measures on the ballot so far. Joining those five — all of which come referred from the Legislature and most of which are destined for the June ballot — are the citizen-backed proposals, which must compete for spots on the November ballot. More than 40 have already been cleared to be passed around the state gathering signatures, while another dozen await the go-ahead from the state attorney general.

What's on the menu this year? It's still too soon to say for sure, but here are some major themes and a few examples of what you can expect to see:

FISCAL FIXERS

California pioneered fiscal populism with voter-approved constitutional amendments like Prop. 13. So it wouldn't be a California election without at least a few voter-backed proposals that take a blow torch to the state tax code.

Lower Taxes: Last year, the Democrats kicked off the legislative session by passing a $5 billion-plus transportation plan, funded with new fuel and vehicle fees. There's a reason they chose to raise the gas tax as far from election day as possible.

Now two initiatives have been proposed in response: One, backed by San Diego Republican Carl DeMaio, would require voter approval for this and all future fuel and vehicle tax hikes. The second, supported by Republican gubernatorial candidate Travis Allen, would simply repeal the fuel and vehicle fees. The DeMaio initiative has made more progress so far, but either way, the California GOP's political good fortune in 2018 may rest on anti-gas tax fervor.

In the meantime, it's an election year so expect another fight about property taxes. Prop. 13, California's original tax revolt initiative, caps the rate that property taxes can increase on a particular homeowner from one year to the next. The longer a homeowner stays in an appreciating house, the stronger the incentive to stay put and keep your low taxes, even if downsizing or relocating might be more practical. The California Association of Realtors has proposed a solution: change the California Constitution to allow older or disabled homeowners to take a portion of their lowered property tax base with them when they move.

The Howard Jarvis Taxpayers Association, named for the father of Prop. 13, has proposed a simpler way to lower taxes: give qualifying homeowners and renters a $500 tax credit.

Higher Taxes: While the Realtors push for an expansion for Prop. 13, a growing coalition of progressives will soon be campaigning for a partial rollback. This proposed initiative would strip the benefits of lower property taxes from certain industrial and commercial properties and use the additional revenue to fund schools.

The Service Employees International Union-United Healthcare Workers has proposed a more straightforward source of revenue: hike taxes on millionaires by 1 percent and channel the money to hospitals serving low income Californians.

NUCLEAR OPTIONS

For those who believe our politics are dysfunctional, and compromised beyond repair, these initiatives propose a new start for California.

Decentralization: Republican gubernatorial candidate John Cox has a vision to blow up the Legislature. That is, he wants to increase the number of legislators from its current 120 to roughly 12,000 with each lawmaker representing 5,000 to 10,000 Californians. Cox, who has already submitted the required number of signatures for the measure, believes the "neighborhood legislature" would make representatives more accountable and less beholden to outside campaign cash. Still, this small army of lawmakers would vote for 80 assembly members and 40 state senators to send to Sacramento, thus obviating the need to convert the state capitol building into a football stadium.

Or if 12,000 subdivisions of the state is too many, how about three? Tim Draper, the Silicon Valley venture capitalist who unsuccessfully campaigned in 2014 to split California in six, is now pushing for a more modest three-state solution. Under the proposal, the state would be divided into Northern California, California, and Southern California.

Separation: The 2018 election is rapidly approaching, but many California progressives are still recovering from 2016. Thus, two nascent initiatives that would push the state toward a clean break from the other 49 states. One proposal would call for a Constitutional Convention where California would submit a legal pathway to possible independence. The other, a constitutional amendment backed by Bush-era anti-war activist Cindy Sheehan, would declare the state's intent to become an "autonomous nation." It is unclear how likely it is that either measure will make it onto the ballot.

MONEY MEASURES

This is where lawmakers and interest groups come to the voter, hat in hand, asking permission to borrow a bit of extra money. Voters decide whether the new investment is worth the extra debt—though historically, voters have seen more benefit than cost. Since 1986, Californians have approved $9 in fresh borrowing for every $10 requested of them.

New money for green things: Last fall, lawmakers passed a bill to put a $4 billion borrowing plan on the ballot. If approved, the borrowed money will fund a variety of natural resource projects: building new parks in low income neighborhoods, remediating soil and wetlands around the Salton Sea, revamping aging dams and levees, and funding grants to adapt to climate change. Voters will review the plan in June.

Conservation groups are gathering signatures for a $8.9 billion initiative exclusively to improve and expand water infrastructure — from drinking water to flood management to ecosystem restoration.

New money for housing: Remember the package of housing bills the Legislature narrowly passed at the end of last session? One major component was a $4 billion bond measure placed by the Legislature on the November ballot. Roughly $3 billion would be slated for new affordable housing construction and $1 billion for below-market home loans for veterans.

Also in the running... Two more bond measures were submitted last month: One plan would borrow $1.5 billion to fund new buildings and other improvements at children's hospitals. The other would borrow $2 billion to fund cleanup of mold, asbestos, and lead at homes and schools.

PATCH UPS

Sometimes legislators need to tie up legislative loose ends or keep promises made to political allies. Here's the place on your ballot where the sausage gets made.

Legislative sweeteners: When Democrats sought to renew the state's cap-and-trade program last summer, they needed the votes of a few moderate Republicans. Under cap and trade, the state restricts greenhouse gas emissions and auctions off the right to pollute. Democrats offered an assurance to the GOP holdouts by putting a new constitutional amendment on the ballot: Any cap-and-trade auction revenue raised after 2024 would require the approval of two-thirds of both the Assembly and Senate before it could be spent, making Republican involvement more likely. In June, voters will decide what that assurance is worth.

Second, the gas tax. Earlier last year, when Democrats raised the tax on gasoline along with other vehicle fees to pay for road and transit improvements, they also passed a ballot-bound constitutional amendment alongside it. If approved by the voters, it will create a budgetary "lockbox" for the new gas tax money that can be tapped only for transportation projects. Putting this measure on your June ballot was intended to inoculate the transportation bill against future political attack. It didn't.

Constitutional tweaks: Unless otherwise specified, if a ballot measure gets over 50 percent of the vote on election night, it becomes law the following morning. But what if a vote is too close to call? Or called incorrectly only to be changed after absentee ballots are counted? This amendment referred by the Legislature, also up in June, would delay the enactment of new voter-approved laws until five days after the Secretary of State has called the result.

WORKAROUNDS

For special interest groups, the California ballot is a second chance. If you failed to convince enough lawmakers to advance your agenda during the legislative session, why not try the voters? At the very least, mounting a credible initiative campaign is a good way to force your political adversaries to the bargaining table.

Another shot at health reform: Last year the SEIU-United Healthcare Workers failed to convince lawmakers to pass two bills that would have placed new pricing and staffing requirements on the state's for-profit dialysis clinics. While the union tries to revive those efforts, they've launched a measure that would require clinics to pay payers (namely, health insurance companies) back for any charge more than 115 percent of the statewide average cost of care. Note that this is all happening as the union tries to organize the state's dialysis clinic technicians.

A bolder health initiative campaign proposes to set up a health care fund exempt from the spending caps and revenue sharing requirements that constrain other areas of the budget. Most budget experts argue that this is a necessary first step before the Legislature can pass a state-run, single-payer health insurance program — an effort that was put on hold in the Assembly last year.

Another shot at the labor code: From the other side of the political spectrum, three similar initiative proposals—still in the early signature gathering stage — take aim at the Private Attorneys General Act. Ever since the law was enacted in 2004, giving workers the right to sue their employers on behalf of the state for alleged labor code violations, business interests have argued that it gives too much power to workers and their attorneys to sue over minor infractions. Last year, three bills to weaken the law failed to gain traction. Each circulating initiative would make it more challenging to bring cases and less profitable for the attorneys who bring them.

Another shot at housing: For more than two decades, California cities have been barred from passing rent control ordinances—rules that restrict the ability of landlords to raise rents. The state's ever-increasing cost of living has put pressure on lawmakers to change that. They resisted last year, but 2018 brings fresh opportunities—a new bill in the Legislature and a proposed ballot initiative that would repeal the ban on rent control.

NEW RULES

California is often caricatured as the state hogtied with red tape — often applied by voters at the polls. Here are a few possible new ones, along with one regulatory rollback.

For companies: In case those 10,000-word Terms and Condition policies don't offer you the assurance of privacy, this measure would give consumers the right to learn about the kind of personal data a company is gathering about them or selling to third-parties. It would also prevent companies from discriminating against those who ask, either by denying them equal service or charging higher prices.

Another proposed initiative from the Humane Society of the United States would tighten regulations on livestock treatment—requiring farmers to provide a certain amount of floor space for confined cows, pigs, and chickens.

For workers: In 2016, the California Supreme Court held that security guards in California cannot be considered on-call when on breaktime. Last year some Democrats in the Assembly unsuccessfully attempted to a pass a law that would guarantee undisturbed rest and meal time for ambulance drivers and technicians too. Now the industry is punching back with a ballot measure that would explicitly exempt them.

Of course, there are more. To date more than 60 measures have been submitted to the attorney general's office. Beyond those listed above, they include proposals to loosen felony sentencing guidelines, tighten felony sentencing guidelines, repeal the California's "sanctuary state" law, tax estates to fund college aid, pay public school teachers more, defund public schools, change the state's voting rules for primaries, criminalize abortion, and decriminalize magic mushrooms.

Would-be reformers and repealers have until late April to get their signatures in order for the November ballot.

In the New Year, California has a lot to Worry About

By Joel Kotkin

Propped up by media idolatry, California is moving from denial to delusion. Case in point: A recent AP story claimed that the state "flush with cash from an expanding economy" would consider spending an additional billion dollars on health care for the undocumented, as well as a raft of new subsidies for housing and the working poor.

All this wishful thinking and noble intentions ignores a slowing state economy, and a structural deficit, keyed largely to state worker pensions, that may now be headed towards a trillion dollars. Perhaps the widely celebrated, although poorly distributed "good times" of the past few years, have clouded Sacramento's judgment.

Gov. Jerry Brown, repeatedly lionized in the national press, finally leaves office after next year, he will likely leave his successor both a totally out of control legislature and looming fiscal crisis. Brown's replacement will also have to deal with a state that, according to the Social Science Research Council, suffers the greatest income inequality in the nation and the third worst economic environment for middle class families. Worse yet — upwards of one-third of the state population subsists near or in poverty.

A fading boom

It's clear that period of tech-driven rapid growth is coming to an end. In the most recent quarter, BEA reports, California's GDP growth ranked a meager 35th in the nation; just last year the state's growth was twice the national average and among the highest in the nation.

Two factors are driving this turnabout — the fading of Silicon Valley's boom and a hyper-inflated real estate market. After soaring for year, the tech economy has slowed dramatically. The San Jose Mercury recently reported that even as the country overall enjoyed strong job gains, the Bay Area lost 4,700 jobs in the last quarter, at least 1000 in the tech sector.

California has suffered from other tech busts before but this time there's no suitable alternative — such as manufacturing or homebuilding — to create new source of high wage jobs. Overall blue collar jobs have declined for a decade; the state has lost a net 160,000 manufacturing jobs. In 2015-2016, sadly, near minimum wage jobs for almost two-thirds of the state's net growth.

The unending housing crisis

California's other primary driver has been escalating property prices. The rapid appreciation in housing, which has been more than 3.5 times faster in coastal California than the national average since 1969, even after adjustment for incomes. This has certainly enriched many older, mostly white Californians, like me, but also propelled both house prices and rents to unsustainable levels for a population that increasingly earns far too little to pay for it.

No surprise then that we see a plunging rate of homeownership, particularly for younger people and a continued upsurge in homelessness. High-housing prices have contributed to driving important headquarters such as Toyota, Jacobs Engineering and Occidental Petroleum out of state. Similarly many of our top tech firms — Google, Facebook, Amgen, Apple — continue to shift more jobs to less expensive states. One persuasive fact to corporate relocators: to buy a median priced house in Atlanta, Dallas-Fort Worth or Houston is between one-half and one-third the cost in the Bay Area or Los Angeles.

More serious still is the impact on migration and population growth, which last year was 9 percent less than the U.S. average. High housing costs — you need to earn over $200,000 annually to buy a median priced house in Silicon Valley — may well explain dropping millennial populations in both Los Angeles and San Francisco. On a per capita basis only four states — Michigan, Ohio, Wisconsin and Illinois — fared worse in bringing in new residents.

Insanity in the Age of Trump

The elevation of California-unfriendly President Trump should have chastened legislators, but the Donald's antic have only made them more extreme in their strident embrace of the self-described "resistance." The people running Sacramento might do better to consider the impact of the new GOP tax bill; the now greatly reduced write-offs for local taxes in California were worth some $100 billion in 2014. Some believe these changes will drive more high-income earners out of the state.

It would seem sensible to show these residents at least some commitment to frugality and moderation. California gains half its income tax revenues from its top one percent of earners while the top 10 percent of taxpayers supply nearly 80 percent of all personal income tax revenue, up from 70 percent two decades ago. Yet instead, the state legislature seems intent on ramping up new social spending, considering expanding the scope of rent control statewide and adding ever more draconian environmental regulations. These are likely to swell the budget deficit, accelerate de-industrialization and lead to, most likely, yet another round of tax increases.

Similarly, a state with an existing massive poverty population should not be hanging up a welcome sign to other poor people by proposing state health care for the undocumented likely to put even more pressure on the state budget. At some point, there may be only so many taxpayers willing to fund these mounting bills. But this is not an easy argument to make in a one-party, one-ideology state where self-righteousness repeatedly triumphs over common sense.

Courtesy of the Orange County Register.
Joel Kotkin is the R.C. Hobbs Presidential Fellow in Urban Futures at Chapman University in Orange and executive director of the Houston-based Center for Opportunity Urbanism (www.opportunityurbanism.org).

NORTH SAN DIEGO BUSINESS CHAMBER
CONNECTIONS START HERE.

San Diego WOMEN'S WEEK

March 19-23, 2018

ONE WEEK OF INSPIRATIONAL SPEAKERS & EVENTS

Kim Coles, Actress, Comedienne, Author
Your Stories are Powerful, Amazing, and YOURS

Lesia Cartelli
PEOPLE Magazine's
Hero of the Week
Many Faces of Resilience

Captain Corrie Mays
Blue Angel #8, USMC
Dream Big

Edith Eger
Auschwitz Survivor
The Choice: Embrace the Possible

TICKETS

$35 - $189

Monday, March 19 - Women & Wine at Bernardo Winery
Wine & food tastings, unique shopping, networking

Wednesday, March 21 - Dare to Dream Luncheon
Keynote speaker, lunch, networking

Friday, March 23 - Leadership Conference at Town and Country Resort & Convention Center
See website for full speaker lineup. Additional speakers to be announced in January and February.

Presenting Partners

SDMETRO your business your life · Littler Employment & Labor Law Solutions Worldwide · SHARP HEALTH PLAN make life better · The San Diego Foundation Growing a Vibrant Region · USC Marshall Executive MBA Program San Diego

SONY · NORTHROP GRUMMAN · ORACLE · SHARP Rees-Stealy Medical Centers

SDWomensWeek.com

(858) 487-1767

California Economic Outlook 2018

By Alan Nevin

I like 2018. It's going to be a good year. I guarantee it. Let's look at the big picture for the United States:

• Interest rates will remain low.
• Oil prices are stable and will remain so.
• The U.S. will add 2,500,000 persons (as usual).
• Our nation will add 2,000,000+ jobs.
• The unemployment rate will be 4.0. to 4.5 percent (again).
• The rate of inflation for urban dwellers will again be less than one-quarter of 1.0 percent (exclusive of home prices).
• Finally, job openings will continue to rise.
• In January 2011, U.S. job openings totaled 2,939,000. Now they are at the 6,000,000+ level, a 10-year high mark.

Let's not forget that one of President Trump's key concerns is ensuring the continuing rise in value of his family's hotels, commercial space and apartment projects. He knows that low interest rates, pro-real estate legislation and taxation, and a strong economy benefit him and his families (and, of course, others).

Focusing on population trends: In 2018, 45 percent of all the population gains will be in California, Texas and Florida. Despite hurricanes, floods, earthquakes, res and pestilence, it doesn't seem to make much of a difference. The big three just keep on growing.

Then, there's the housing market:

In terms of total residential units permitted, 2018 will be the strongest housing market in a decade. That's good, of course. However, single-family production is still meager. The 2004- 2006 average production of single-family homes nationwide was 1,558,000 units. In 2017, it will be 850,000, about half of the 2004-2006 level. We project the 2018 total will rise to the 900,000 to 950,000 level, which is pretty good. What we are unable to incorporate into our projections is the total number of replacement units destroyed by hurricanes, floors and fires.

Multi-family projects, which are overwhelmingly apartments, have become a stronger part of the permit activity. In the past four years (including 2017), the average production was 445,000 multi- family units, up from 260,000 in the previous four years, for an increase of 70 percent.

I really like apartments, but recognize, in pure economic terms, that they have far less of a multiplier effect than single-family homes. Apartment dwellers don't visit Home Depot every weekend. They don't install pools, landscaping, wall and window coverings or spend elaborately on furnishings. Apartments just don't pack the economic power of single-family homes.

In 2018, we will once again permit 450,000 to 475,000 multi-family units. Importantly, a larger percentage will be townhomes and other attached for-sale housing.

On the existing home scene, sales nationally will stand a pretty good chance of reaching the 6,000,000 level for the first time in more than a decade. I doubt if we will ever see sales rise to the 7,000,000 level as they did in 2005, but 6,000,000 is still pretty good. Sales prices of single-family homes nationally will continue to rise at a pace of 4 percent to 5 percent annually. In 2017, the average price of a resale single-family home nationally will be in the $250,000 range. (I know, we Californians can't relate to that price range).

Now let's turn to California. Legislatively, to the left of Lenin; businesswise, pure capitalism.

Once again, California will add 325,000 to 350,000 to the population and be on the cusp of hitting the 40-million mark. By way of comparison, Canada has a population of 37 million and Spain 46 million.

Job gains in 2017 edged downward from 2016. In 2016, the state added 266,000 jobs, but only 175,000 jobs in 2017. The good news is that construction jobs increased from 57,000 to 62,000 in 2017. It is highly possible that the increase would have been greater if labor were available.

In 2018, we project that job gains will once again be in the 175,000 to 200,000 range. Construction should be vibrant with a continuation of residential construction, in addition to a major boost in infrastructure (excluding the Central Valley train to nowhere).

In new residential construction, California finally passed the 100,000-unit mark in 2016 (barely, at 100,961) and will do it again in 2018. Single-family home production has been moving up steadily since 2011 and in 2018 will be in the 55,000- to 60,000-unit range. Multi-family production will also continue to rise, matching the 55,000 to 60,000 single-family production.

Perhaps the most exciting part of the construction industry in 2017 was the non-residential component. In both 2016 and 2017, non-residential construction in California topped more than $27 billion, the highest in state history and more than twice the 2011 figures.

We anticipate that in 2018, non-residential construction will top 28 billion with a major boost from infrastructure spending and renovation/additions. The latter category accounts for almost one-half of all non-residential spending.

Lastly, we are in a quandary about the impact of the new Tax Act for Californians. We recognize the state tax will no longer be deductible from the federal tax and there will be other limits on deductibility. Countering that will be the massive reductions in corporate taxes that should inure to the bottom lines of California businesses. Those reductions should result in more profits, which means higher dividends and distributions, higher stock prices and help to bolster California's public pension funds. Overall, we are not convinced that the new Tax Act will have any meaningful impact on the business of California or its housing market.

In summary, it appears to me that 2018 is going to be another winning year for California. Perhaps the only thing that could hold the state back would be a dearth of entry-level labor reaching our shores or being forced to move out of the country. Those folks are the lifeblood of California's economy.

Alan Nevin is the director of market research and forensic services at Xpera Group. He serves the real estate and legal industries with residential and commercial real estate valuations, real estate development market studies and litigation support. He can be reached at 858.436.7770 or anevin@xperagroup.com

Presort Standard
U.S. POSTAGE
PAID
PERMIT NO. 2325
SAN DIEGO, CA

We invite you to experience

our take on the classic steak house. Our passion for flavor and commitment to quality has encouraged a wide and loyal following. Join us at Donovan's.

America's Best
DONOVAN'S
STEAK & CHOP HOUSE

877-698-6666
LA JOLLA · SAN DIEGO · PHOENIX

WWW.DONOVANSSTEAKHOUSE.COM
OPEN AT 4:00PM, DINNER AT 5:00PM.
RESERVATIONS RECOMMENDED.
BUSINESS CASUAL. VALET PARKING AVAILABLE.