

SPECIAL REPORT: FINANCE

Post-Pandemic Small Business Creation Booming

FINANCE: Banks See Trend Continuing in 2023

■ BY JEFF CLEMETSON

For many small businesses, the story of the COVID-19 pandemic was one of infrequent customers, temporary closures – or worse. The post-pandemic recovery, however, tells a different tale.

According to data compiled by the U.S. Census Bureau, 2021 saw the highest number of applications for new small businesses – 5.4 million – since it began tracking new business filings in 2004. Last year, that number slightly dipped to 5 million new small businesses, but both years were higher than pre-pandemic levels.

The surge in small businesses created was seen in all economic segments, overwhelmingly led by retail, but the data also showed increased businesses in administrative and support, transportation and warehousing, accommodation and food services, and even a slight rise in finance and insurance businesses.

Trend Noticed Locally

Local banks and bankers have also noticed this trend in San Diego and pointed to a variety of factors leading to the pickup in small business entrepreneurship.



Jorge E. Ceballos
SVP & Small Business Market
Manager
Bank of America

“We have seen more small business creation over the past two years, for both new entities as well as our existing small business clients who created entirely new companies to diversify revenue streams,” said **Jorge E. Ceballos**, small business market manager at **Bank of America** in San Diego. “Driving this were low-interest rates, the economic stimulus and strong consumer spending.”



“Business optimism remains strong among San Diego entrepreneurs, as we continue to have double-digit, year-over-year lending growth here.”

JORGE E. CEBALLOS, BANK OF AMERICA

The unique needs of consumers that developed over the course of the pandemic are also a driver of small business creation.

“Many new entrepreneurs are starting businesses in industries that have seen a surge in demand during the pandemic, such as home delivery, online education and e-commerce,” said **Alan Prohaska**, regional president and head of corporate banking for **PNC** in San Diego, adding that “the trend of entrepreneurship is evident in San Diego” and that PNC has seen “a significant increase in loan applications and business services requests from small business owners in the area.”



Alan Prohaska
Regional President & Corporate
Banking Head
PNC



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ALAN PROHASKA

“Small business continues to be the heartbeat of our economy, giving individuals an opportunity to fuel a dream and break free from a wage or salary with the potential for growth not just financially, but also personally,” she said.

“The pandemic taught us many things about the unpredictability of life and has inspired our desire to be able to pivot, to be able to care for our priorities in new ways. For example, women discovered by being a business owner they could empower their ability to be entrepreneurs, mothers and partners, while not having to be tied to someone else’s hours and expectations.”



Devon Bray
Small Business Banking Regional
Leader, California
U.S. Bank

Bray added that the surge in new retail trade businesses is part of an ongoing trend of “more conscious consumers who not only want to shop and buy from small businesses but look for it even when shopping the big guys like Amazon.”

Steve Stuckey, executive vice president and San Diego market president for **California Bank & Trust**, pointed out that San Diego’s small business creation is also a downstream effect of the region’s ability to attract strong investment activity from private equity and venture capital – and drive the formation of new companies of the kind that provide high-paying jobs.



Steve Stuckey
EVP & San Diego Market
President
California Bank & Trust



“Loan demand appears to be holding up relatively well heading into 2023 ... indicating that entrepreneurs continue to feel confident about their ability to drive growth and profitability.”

STEVE STUCKEY, CALIFORNIA BANK & TRUST

“We’ve also seen large companies such as **Apple**, **Amazon** and **Alphabet** increasing their footprints in San Diego, driving additional interest in the region,” he said. “In turn, attracting highly paid professionals to the market drives growth across all sectors, creating a very favorable environment for entrepreneurs to support these new businesses and their employees.”



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DEVON BRAY, U.S. BANK

Business Creation

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Torrey Pines Bank Senior Managing Director of Commercial Banking **Chris Grassa** said San Diego has always been seen as a “strong entrepreneurial economy.”

“Other than in certain segments, such as defense, our market isn’t home to a huge set of big corporations based here, but rather we have a lot of small to mid-size businesses and startups alongside a strong ecosystem to support them,” he said.

‘Bullish’ For 2023

Despite the economic headwinds of higher interest rates and borrowing costs for new businesses, Grassa expects to see new business formations to continue to add to San Diego’s strong entrepreneurial economy to continue into 2023 and 2024.

“Of course, in 2022 we saw some major rate hikes, but, interestingly, what we didn’t see was those interest rates affecting company valuations or sellers acquiescing on price,” he said. “Now, as we move into 2023, we expect the Fed to slow the rise of interest rates, and even potentially start reducing them in the latter half of the year, which will drive more business in two ways, both through new entrepreneurs and those using capital to grow their small business.”

Bray also said she believes that small businesses will continue to be created and pointed out that existing small business owners continue to be optimistic, despite “national economic headlines.” She specifically cited **Constant Contact’s** “2022 Small Business Now Report” that showed 90% of small business owners are confident that they will still be in business through 2023.



Chris Grassa
Senior Managing Director of
Commercial Banking
Torrey Pines Bank

“And even more so, people continue to be motivated to begin something new and break free from their current corporate roles to individualize and specialize in their talents and passions,” she added.

Stuckey also pointed to existing business owners and their financial needs for growth as an indicator of how entrepreneurs might look at starting a business now.

“We continue to talk to business owners, both small and mid-sized, about their growth capital needs in 2023 and beyond, and to create customized financing solutions to help them achieve their goals,” he said. “We are bullish about overall loan demand in 2023 in San Diego.”

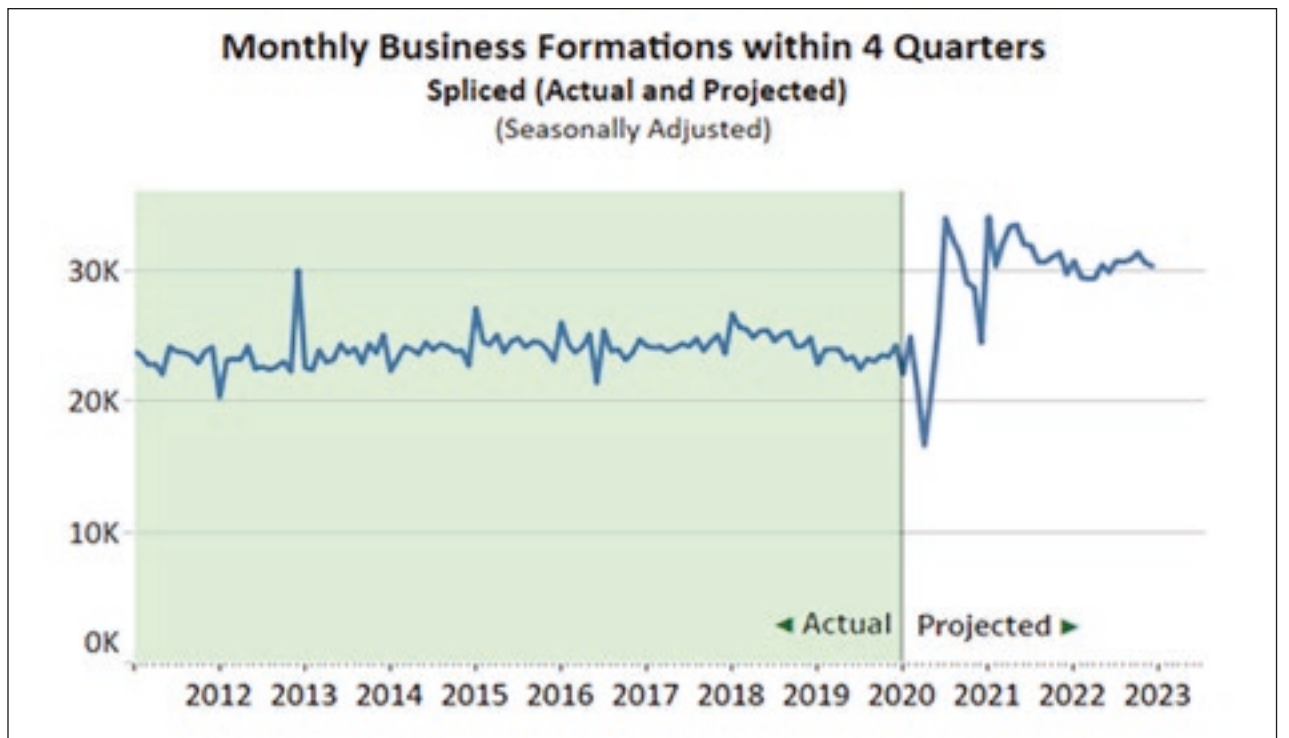
Although **Small Business Association (SBA)** loan applications across the region were slightly down year-over-year in the most recent quarter, Stuckey said the strong loan demand in 2022 “appears to be holding up relatively well heading into 2023 ... indicating that entrepreneurs continue to feel confident about their ability to drive growth and profitability.”

“This confidence is striking in light of the potential economic headwinds brewing in 2023, including additional rate hikes from the Federal Reserve to tame inflation and early indications of cooling consumer demand,” he continued.

In addition to high confidence in future growth and profitability, Stuckey pointed out that small businesses are still benefitting from a nearly record low unemployment rate of 4.1% going into this year and that so far San Diego is faring better in terms of layoffs that are mostly hitting the tech-heavy Bay Area.

“So the environment for new business formation and entrepreneurship is still relatively strong in this part of the state,” he said.

Ceballos noted that business optimism “remains strong among San Diego entrepreneurs, as we continue to have double-digit, year-over-year lending growth here.” However, he added, “as the economy continues to change, we see the rate of new business creation starting to normalize to pre-pandemic levels.”



Source: U.S. Census Bureau, Business Formation Statistics

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CHRIS GRASSA, TORREY PINES BANK

While the rate of new businesses may normalize to previous levels, the number of new business owners may still continue to rise through purchase or inheritance.

“When we look at the mergers and acquisitions space, we know that retiring baby boomers will sell or bequeath approximately \$10 trillion in assets over the next two decades, including 12 million privately owned businesses,” said **Roe Belzer**, SBA production manager at Torrey Pines Bank. “This means that we can expect to see a significant increase in these types of transactions, potentially 14 times the number of business sales we are currently seeing on average annually in the United States.”

According to Belzer, mergers and acquisitions activity could reach approximately 420,000 business sales per year. “Of course, this is just part of the rise in small businesses currently taking place; however, the data is staggering that we know millions of privately held companies are anticipated to change ownership in the next 20 years, continuing this massive wealth transfer trend.”

Minority Businesses Growth Trend

Another massive trend borne out in the Census data, is the increasingly larger share of new small business owners who are people of color, women and immigrants. Notably, Latino-owned businesses grew by 44% in the last decade, contributing approximately \$800 billion in annual economic activity in the U.S.

“Across the region, we continue to see strong application activity from minority entrepreneurs,” said Stuckey, adding that the SBA reported “a meaningful increase” in loan applications for in the first quarter of 2023 over the first



Roe Belzer
SBA Production Manager
Torrey Pines Bank

quarter of 2022. “This is an encouraging statistic and is reflective of the attention being paid by banks like California Bank & Trust to the financing needs of these historically underserved populations.”

Like many financial institutions in recent years, California Bank & Trust has developed a variety of tools for diverse business owners, including a Small Business Diversity Loan program that offers short-term and long-term financing under Special Purpose eligibility criteria for minority businesses.

Last year, PNC launched a Minority Business Development group that puts intentional focus and efforts toward driving “awareness to PNC’s commitment to the sustainability and growth of Black and Brown businesses across the organization and PNC footprint,” Prohaska said.

The Minority Business Development function offers minority-owned businesses a dedicated team that “uncovers and solves for the unique challenges” they face, he added.

It’s been exciting to see more minority- and women-owned business growth,” Ceballos said, and highlighted several efforts at Bank of America that resource diverse businesses, such as investing into **San Diego NAWBO’s** Launch and Grow program for female entrepreneurs, and recently expanding BofA’s online capital resource directory for minority- and women- business owners.

“We also invest into minority-led venture capital and private equity funds as well as minority-owned firms in industries where there is severe underrepresentation, such as in technology,” he said.

In addition to a new Business Diversity Lending program that U.S. Bank is soon set to launch that will create more opportunity to support minority entrepreneurs, Bray also pointed to programs for diverse businesses in San Diego that are run by entities other than traditional commercial banks, like the **San Diego Regional Chamber of Commerce**.

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ROE BELZER, TORREY PINES BANK

“And CDFIs (Community Development Financial Institutions) here in San Diego were developed with a commitment to our community and have the mission to promote economic development and provide financial resources including products and services - everything from how to file your business, how to understand your balance sheet, and even access to capital with grants and other opportunities,” she said. ■