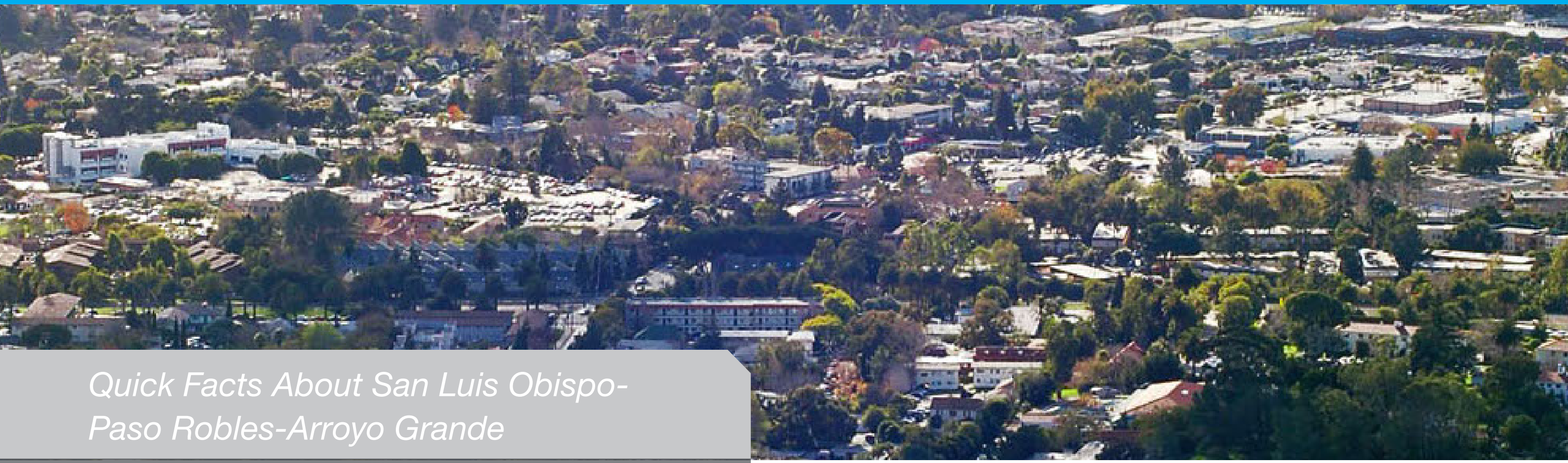
HUD PD&R **Housing Market Profiles**

San Luis Obispo-Paso Robles-Arroyo Grande, California



Quick Facts About San Luis Obispo-Paso Robles-Arroyo Grande

- **Current sales market conditions: balanced.**
- **Current rental market conditions: tight.**
- **The government sector accounts for 20 percent of total nonfarm payrolls, partly because of the presence of California Polytechnic State University (Cal Poly), the largest employer in the metropolitan area. Cal Poly had an economic impact of $1.4 billion on the metropolitan and northern Santa Barbara County areas during 2013 (Productive Impact LLC). The enrollment increase of approximately 600 students a year at Cal Poly through 2022 and continued strong nonfarm payroll growth has and will continue to support increased population and local housing markets.**

By Wendy Ip | As of October 1, 2015

Overview

The San Luis Obispo-Paso Robles-Arroyo Grande (hereafter, San Luis Obispo) metropolitan area is conterminous with San Luis Obispo County, California, and is part of the greater Central Coast tricounty area that includes San Luis Obispo, Santa Barbara, and Ventura Counties. The metropolitan area's proximity to the Pacific Coast and nutrient-rich soil, particularly in the Edna and Arroyo Grande Valleys, has supported growth in wine production and tourism, two prominent industries. The 220 vineyards in the metropolitan area, the third largest producer of wine in California, support more than 8,100 full-time jobs and $241 million in wages (City of Paso Robles) and, along with Cal Poly, are among the key drivers that attract residents.

- As of October 1, 2015, the estimated population of the San Luis Obispo metropolitan area is 275,400, an increase of 1,700, or 0.6 percent, annually since 2013, when the economy reached a full recovery. Strong economic growth and lower housing prices than in neighboring counties have supported an average net in-migration of 1,300 people annually since 2013.
- Population growth averaged 2,450 people, or 1.0 percent, from 2000 to 2008, when lenient mortgage lending standards during the early-to-mid 2000s and relatively lower priced homes in the metropolitan area contributed to an average net in-migration of 1,900 people annually.

continued on page 2

continued from page 1

- From 2008 to 2013, weak economic conditions from the Great Recession followed by a slow recovery of jobs contributed to a lower level of net in-migration from neighboring counties. Net in-migration averaged 470 people a year, resulting in net population growth averaging 950 people, or 0.4 percent, the lowest level of growth since 2000.

Economic Conditions

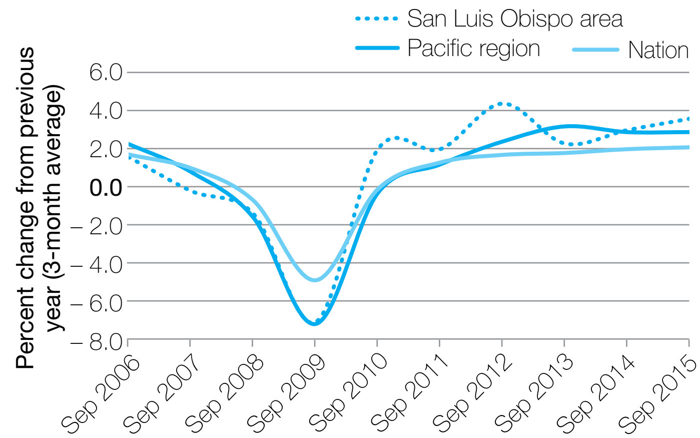
The economy of the San Luis Obispo metropolitan area has expanded at a rapid pace after achieving a full recovery in 2013. Nonfarm payroll growth exceeded 3.0 percent annually from 2013 through September 2015, surpassing a period of economic expansion that occurred from early 2000 through 2007, when payroll growth averaged of 1.4 percent annually.

During the 3 months ending September 2015—

- Nonfarm payrolls averaged 111,800 jobs, an increase of 3,900 jobs, or 3.6 percent, compared with the number of jobs during the same 3-month period in 2014, resulting from growth in 9 of the 11 sectors. The level of growth was the highest in more than a decade and surpassed the previous peak in 2005, when payrolls grew by 2,200 jobs, or 2.2 percent.
- The most significant gains were in the education and health services and the mining, logging, and construction sectors, up by 1,000 and 800 jobs, or 7.0 and 12.3 percent, respectively, from the 3 months ending September 2014.

continued on page 3

Nonfarm payrolls have increased at a higher rate in the San Luis Obispo area than in the Pacific region and the nation since September 2014, largely because of expansions in health care and construction.



Note: Nonfarm payroll jobs.
Source: U.S. Bureau of Labor Statistics

Four sectors in the San Luis Obispo area grew 7 percent or more during the 3 months ending September 2015.

	3 Months Ending		Year-Over-Year Change	
	September 2014 (thousands)	September 2015 (thousands)	Absolute (thousands)	Percent
Total nonfarm payrolls	107.9	111.8	3.9	3.6
Goods-producing sectors	13.4	14.5	1.1	8.2
Mining, logging, and construction	6.5	7.3	0.8	12.3
Manufacturing	6.9	7.1	0.2	2.9
Service-providing sectors	94.6	97.3	2.7	2.9
Wholesale and retail trade	16.6	17.0	0.4	2.4
Transportation and utilities	4.0	4.6	0.6	15.0
Information	1.4	1.4	0.0	0.0
Financial activities	4.1	4.0	– 0.1	– 2.4
Professional and business services	12.1	11.9	– 0.2	– 1.7
Education and health services	14.3	15.3	1.0	7.0
Leisure and hospitality	17.4	17.6	0.2	1.1
Other services	4.5	4.9	0.4	8.9
Government	20.2	20.7	0.5	2.5
	(percent)	(percent)		
Unemployment rate	5.8	4.5		

Note: Numbers may not add to totals because of rounding.
Source: U.S. Bureau of Labor Statistics

continued from page 2

- Of the increase in the education and health services sector, 70 percent was attributed to growth in the health care and social assistance industry, up by 700 jobs, or 5.4 percent.
- Higher levels of residential and nonresidential construction supported job growth in the mining, logging, and construction sector. Developments included the expansion of three hospital facilities, the start of six hotels to accommodate vineyard tourism, and the recent start of a 1,475-bed dormitory at Cal Poly.
- Job losses occurred in the financial activities and the professional and business services sectors, down by 100 and 200 jobs, or 2.4 and 1.7 percent, respectively, from the 3 months ending September 2014. Stronger sales housing market conditions reduced the number of jobs needed to service delinquent mortgages, leading to a decline in the financial activities sector. The decline in the professional and business services sector followed a 500-job, or 4.6-percent, increase during the same 3-month period in 2014, when jobs in the sector were at the highest level ever achieved. Despite the recent decline, payrolls in the professional and business services sector remain higher than in any other year, except the previous year, since 2000.

Health care remains the strongest industry in the San Luis Obispo metropolitan area, with growth bolstered by the Affordable Care Act, which has expanded access to health care and resulted in greater need for medical staff. Three hospitals under Dignity Health Central Coast are expanding to allow for greater patient capacity within the metropolitan area: French Hospital Medical Center, Arroyo Grande Community Hospital, and Marian Regional Medical Center. The total jobs that will be added have yet to be announced, but completion of these expansions is expected at the end of 2015. In addition, employment announcements for registered nurses remained the highest among all employment types in the metropolitan area, totaling approximately 260 jobs as of September 2015 (California Employment Development Department).

Largest employers in the San Luis Obispo area

Name of Employer	Nonfarm Payroll Sector	Number of Employees
California Polytechnic State University	Government	4,450
Department of State Hospitals, Atascadero	Government	2,000
Pacific Gas and Electric Company	Transportation and utilities	1,900

Note: Excludes local school districts.
Source: 2015 *Pacific Coast Business Times Journal*

Sales Market Conditions

The sales housing market in the San Luis Obispo metropolitan area is currently balanced, with an estimated sales vacancy rate of 1.0 percent, a decrease from 2.1 percent in 2010. During the 12 months ending September 2015, new home sales and prices (including single-family homes, townhomes, and condominiums) increased from a year ago partly because of the number of new luxury homes sold, particularly in Nipomo, and the continued buildout of communities in San Miguel and the city of San Luis Obispo. Sales and sales prices of existing homes also rose from a year ago. Despite an upward pressure on prices, the metropolitan area remains relatively affordable, and average sales prices were 20 percent or more below average prices in Santa Barbara, Ventura, and Los Angeles Counties, which have accounted for the greatest proportion of net in-migration to the metropolitan area. As sales market conditions improved, the percentage of home loans in the San Luis Obispo metropolitan area that were seriously delinquent (90 or more days delinquent or in foreclosure) or had transitioned into real estate owned (REO) status declined from 1.2 percent in September 2014 to 0.9 percent in September 2015 (Black Knight Financial Services, Inc.). The current rate is lower than the 1.9-percent rate for California and the 4.2-percent rate for the nation. The rate is also the lowest in the tricounty area; Santa Barbara and Ventura Counties have rates of 1.4 and 1.6 percent, respectively.

During the 12 months ending September 2015—

- Despite rising mortgage interest rates and higher new home sales prices, new home sales increased 28 percent to 400 homes sold, unchanged from the 12 months ending September 2014 and up 48 percent from the average of 270 homes sold annually from 2008 through 2012 (Metrostudy, A Hanley Wood Company, with adjustments by the analyst).
- Existing home sales totaled 3,450, up by 220 homes sold, or 7 percent, from the 3,225 homes sold during the 12-month period ending September 2014 and up 40 percent from the average of 2,475 homes sold annually from 2008 through 2011. The increase in existing home sales resulted from a 9-percent, or 260-home, increase in regular resales that offset a 22-percent, or 40-home, decline in REO sales. Regular resales were 81 percent more than the average of 1,825 homes sold annually from 2008 through 2012, and REO sales were 77 percent less than the average of 650 homes sold during the same period.
- The average sales price for new homes was $565,000, up by $29,800, or 6 percent, compared with the average price during the previous year. The average new home sales price remained below the prerecessionary average price of $605,200 from 2005 through 2007.

continued on page 4

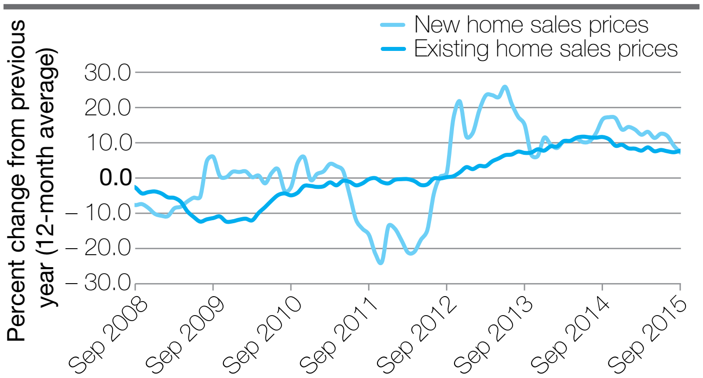
continued from page 3

- The average sales price for existing homes was $545,200, up by $33,600, or 6 percent, compared with the average price during the 12 months ending September 2014. The average sales price for existing homes was 13 percent less than the average price of $626,000 from 2005 through 2007 but 19 percent higher than the average price of $460,100 from 2008 through 2012.

Single-family home construction activity, as measured by the number of single-family homes permitted, held steady during the 12 months ending September 2015, remaining higher than recessionary levels.

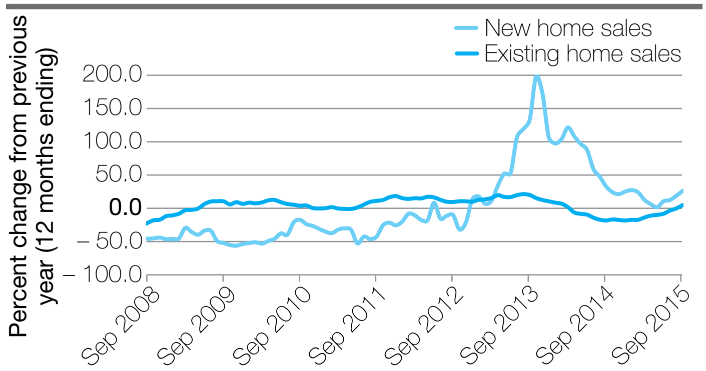
- The number of single-family homes permitted was 400 during the 12 months ending September 2015, nearly unchanged from the 410 homes permitted a year earlier (preliminary data).
- The number of single-family homes permitted was nearly 1,400 in 2006 before construction activity declined each year to 320 homes in 2009. Construction activity remained at lower levels, with only minor fluctuations, from 2009 through 2011, when an average of 300 homes were permitted annually. Single-family home construction activity began to increase in 2012, to 810 homes in 2014.
- Notable single-family developments are under construction in San Luis Obispo, Nipomo, and San Miguel. The Serra Meadows community in the city of San Luis Obispo has 10 homes under construction, 119 homes complete, and plans for 179 homes at buildout. Prices start in the high $500,000s. In downtown San Luis Obispo, construction has begun on Marsh Street Brownstones, consisting of 73 luxury townhomes. Completion is expected in 2017 with prices starting at $1 million. In Nipomo, the Monarch Dunes community began construction on 1,320 single-family homes in the early 2000s, and 850 homes are complete. The newest neighborhoods under way include Trilogy at Monarch Dunes, with plans for 619 single-family homes starting at $537,000 for a two-bedroom home. In San Miguel, the Heritage Ranch Village has 2,900 homes planned at buildout, with 2,100 homes already complete. The current plans are to build 357 single-family homes at approximately 60 to 100 homes a year. Prices for these homes have yet to be announced.

New and existing home sales prices in the San Luis Obispo area continued increasing but at a slower pace during the 12 months ending September 2015.



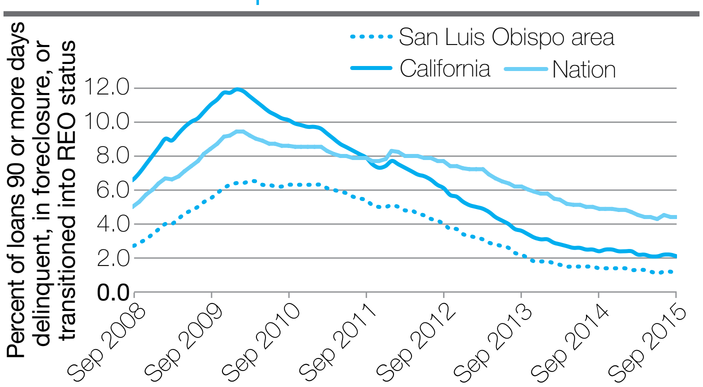
Note: Includes single-family homes, townhomes, and condominiums.
Source: Metrostudy, A Hanley Wood Company, with adjustments by the analyst

Home sales in the San Luis Obispo area have moderated or declined since 2014 because of decreases in REO property sales and higher interest rates.



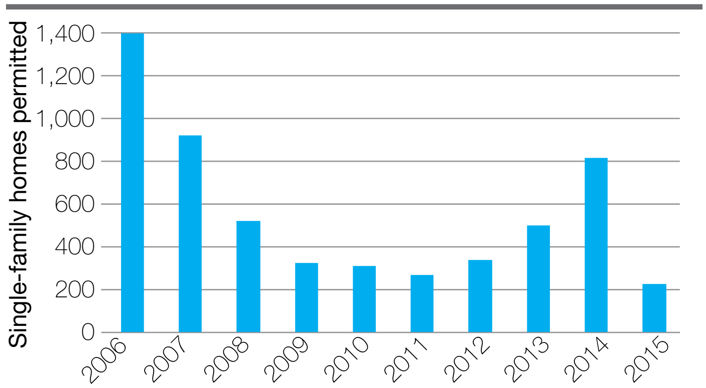
REO = real estate owned.
Note: Includes single-family homes, townhomes, and condominiums.
Source: Metrostudy, A Hanley Wood Company, with adjustments by the analyst

The rate of seriously delinquent loans and REO homes in the San Luis Obispo area has declined since 2010.



REO = real estate owned.
Source: Black Knight Financial Services, Inc.

Single-family home permitting in the San Luis Obispo area increased but remained below prerecession levels.



Note: Includes preliminary data from January 2015 through September 2015.
Source: U.S. Census Bureau, Building Permits Survey

Rental Market Conditions

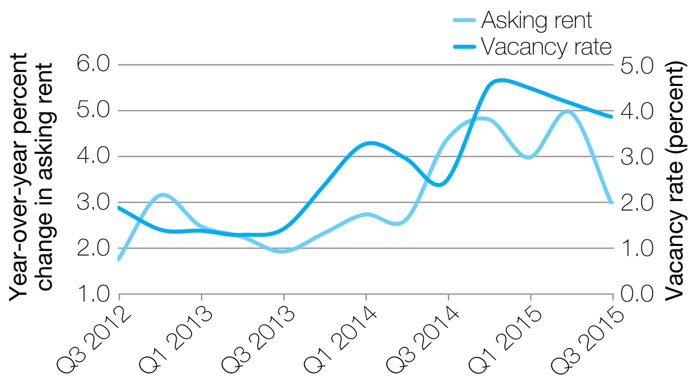
Rental housing market conditions in the San Luis Obispo metropolitan area are currently tight. The increase in the number of renter households since 2010 has outpaced the construction of new rental units and the conversion of single-family homes to rental units.

- The estimated vacancy rate for all rental units (including single-family homes, manufactured homes, and apartment units) is 4.5 percent as of October 1, 2015, a decrease from 5.5 percent in 2010.
- The apartment market, which represents 42 percent of all rental units, was tight, with a 3.9-percent vacancy rate in the third quarter of 2015 compared with 2.4 percent a year earlier (Reis, Inc.). Vacancy rates rose partly because of the completion of 200 apartments since the third quarter of 2014.
- The average monthly apartment asking rent was $1,033 in the third quarter of 2015, up by $30, or 3 percent, from the third quarter of 2014.

Multifamily construction activity, as measured by the number of multifamily units permitted, increased in the past year but remained below prerecessionary levels.

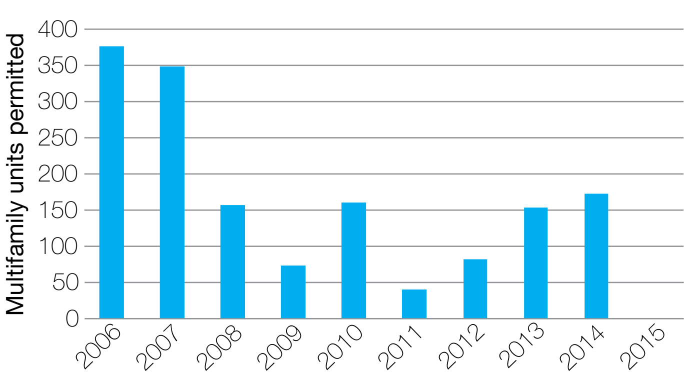
- Multifamily construction activity, as measured by the number of multifamily units permitted, averaged 360 units annually in 2006 and 2007 before declining in 2008 to 160 units in response to stringent lending standards that restricted development.
- Multifamily construction activity since 2008 has varied but has overall remained at lower levels than in the mid-2000s, reaching a low of 40 units permitted in 2011 before increasing to an average of 160 units permitted annually in 2013 and 2014. Despite the tightness of the rental market, construction remains at lower levels because of the current statewide drought that has limited development in most areas in the metropolitan area.
- During the 12 months ending September 2015, approximately 70 multifamily units were permitted compared with 10 units permitted during the same period a year ago (preliminary data).
- Market-rate apartments under construction have been concentrated in the city of San Luis Obispo. Palomar Apartments began construction in mid-2015, with 33 studio apartments geared toward housing Cal Poly students, who comprise approximately 5 percent of all renter households in the metropolitan area. The 69-unit Junction, geared toward both Cal Poly students and young professionals, will consist of studio and one-bedroom units, and completion is expected in 2016. In downtown San Luis Obispo, small-scaled, mixed-use developments, comprising 10- to 20-unit apartments situated above commercial buildings, have increased during the past 3 years. Monterey Place, with 23 units over commercial space, is currently under construction, with completion expected in 2016. Rents at all developments have yet to be announced. For newly constructed market-rate studio, one-bedroom, two-bedroom, and three-bedroom units, rents start at $960, $1,050, $1,250, and $1,400, respectively, in the San Luis Obispo metropolitan area.

Apartment market conditions in the San Luis Obispo area have been strong, with low vacancy rates and positive rent growth.



Source: Reis, Inc.

Multifamily permitting in the San Luis Obispo area has increased since 2010 but remained below prerecession levels.



Note: Includes preliminary data from January 2015 through September 2015.
Source: U.S. Census Bureau, Building Permits Survey