HUD PD&R Housing Market Profiles

San Luis Obispo-Paso Robles-Arroyo Grande, California

San Luis Obispo, California

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

- **Current sales market conditions: slightly tight**
- **Current rental market conditions: tight**
- **The San Luis Obispo-Paso Robles-Arroyo Grande metropolitan area is the third largest wine producer in California, after Napa and Sonoma Counties. The economic impact of the wine industry on the metropolitan area was approximately $1.9 billion in 2015 (University of California, Davis).**

By Mildred Jara Ramirez | As of November 1, 2020

Overview

The San Luis Obispo-Paso Robles-Arroyo Grande, CA Metropolitan Statistical Area (hereafter, San Luis Obispo metropolitan area) is coterminous with San Luis Obispo County and is located on the central coast of California, halfway between the cities of Los Angeles and San Francisco. The metropolitan area is home to California Polytechnic State University (Cal Poly) and is also an agricultural region recognized for wine production. Wine production is concentrated in the city of Paso Robles, with more than 200 wineries producing more than 40 wine varietals. The university and the wine and tourism industries are major contributors to the local economy, promoting job growth in the largest sectors—the government and the leisure and hospitality sectors.

- As of November 1, 2020, the population of the San Luis Obispo metropolitan area is estimated at 282,700, representing an average annual decrease of 300, or 0.1 percent, since July 2018. The recent population decline is due to net out-migration of approximately 320 people a year and limited net natural change (resident births minus resident deaths) of 20 people annually.

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- Population growth averaged 2,150 people, or 0.8 percent, annually from 2011 to 2016, when economic growth was relatively strong (Census Bureau population estimates as of July 1). From 2016 to 2018, population growth slowed to an average of 780 people, or 0.3 percent, a year in part due to slower job growth and rising home prices.
- Net in-migration averaged 1,825 people annually and accounted for 85 percent of total population growth from 2011 to 2016. Despite slower net in-migration from 2016 to 2018, which averaged 730 people annually, net in-migration accounted for 94 percent of total population growth.
- The college-age population, ages 18 to 24, accounts for a relatively large share of the population in the metropolitan area compared with California and the nation because of the presence of Cal Poly. Approximately 15 percent of the population is college-aged, compared with 9 percent for both California and the nation (2019 American Community Survey [ACS] 1-year data).

Economic Conditions

After 9 consecutive years of job growth, the countermeasures taken to slow the spread of COVID-19 in the spring of 2020 weakened economic conditions in the San Luis Obispo metropolitan area. On March 4, 2020, the governor of California declared a state of emergency, followed by stay-at-home orders issued by the state of California and the county of San Luis Obispo effective on March 19, 2020. These interventions impacted nonfarm payrolls in the San Luis Obispo metropolitan area significantly, particularly the leisure and hospitality sector, as businesses were ordered to cease nonessential operations and nonessential travel was restricted. Despite the easing of restrictions in September 2020—many businesses reopened after having partially opened in May and closed again in July as restrictions were adjusted to meet criteria for phased reopening—many businesses have not resumed normal operations. Only 35 percent of jobs lost from March to May have been recovered as of October 2020. Before the COVID-19 pandemic, nonfarm payrolls in the San Luis Obispo metropolitan area increased by an average of 2,700 jobs, or 2.5 percent, a year from 2011 through 2019, with slower job growth during the last 4 years of the period.

During the 3 months ending October 2020—

- Nonfarm payrolls averaged 105,000 jobs, a decrease of 14,700 jobs, or 12.3 percent, from the same period a year earlier. Job losses in the San Luis Obispo metropolitan area were more severe than in California and the nation, which declined 8.5 and 6.4 percent, respectively.
- The leisure and hospitality sector, the second largest sector in the metropolitan area, lost the most jobs, down by 5,500 jobs, or 27.1 percent, from the 3 months ending October 2019 as the imposed public health measures

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Nonfarm payrolls in the San Luis Obispo metropolitan area declined in all but two sectors during the 3 months ending October 2020.

	3 Months Ending		Year-Over-Year Change	
	October 2019 (Thousands)	October 2020 (Thousands)	Absolute (Thousands)	Percent
Total Nonfarm Payrolls	119.7	105.0	-14.7	-12.3
Goods-Producing Sectors	16.4	13.6	-2.8	-17.1
Mining, Logging, & Construction	8.5	7.3	-1.2	-14.1
Manufacturing	7.9	6.3	-1.6	-20.3
Service-Providing Sectors	103.3	91.4	-11.9	-11.5
Wholesale & Retail Trade	16.4	15.1	-1.3	-7.9
Transportation & Utilities	4.1	4.1	0.0	0.0
Information	1.2	1.1	-0.1	-8.3
Financial Activities	3.8	3.8	0.0	0.0
Professional & Business Services	11.5	10.3	-1.2	-10.4
Education & Health Services	18.0	17.4	-0.6	-3.3
Leisure & Hospitality	20.3	14.8	-5.5	-27.1
Other Services	4.1	3.4	-0.7	-17.1
Government	23.9	21.4	-2.5	-10.5
Unemployment Rate	2.7%	6.9%		

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

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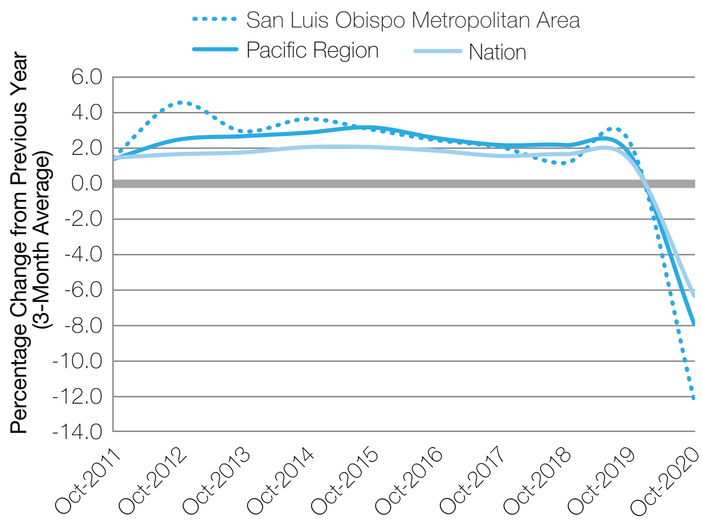
required restaurants, bars, wineries, and tasting rooms to reduce operations. Nonfarm payrolls in the food services and drinking places industry declined by 3,700 jobs, or 27.0 percent, compared with a gain of 500 jobs, or 3.5 percent, during the 3 months ending October 2019.

- Significant losses also occurred in the manufacturing sector, which declined by 1,600 jobs, or 20.3 percent. SLO Brewing Co. laid off 107 employees during the start of the pandemic, affecting job growth during the current 3-month period.
- Despite the faster rate of decline in jobs, the unemployment rate in the San Luis Obispo metropolitan area averaged 6.9 percent. It continued to be lower than in California and the nation, with rates of 10.3 and 7.6 percent, respectively, partly because the labor force declined at a faster rate in the metropolitan area. Before the pandemic, the average unemployment rate in the metropolitan area was 2.7 percent, compared with respective rates of 3.8 and 3.5 percent in California and the nation during the 3 months ending October 2019.

Cal Poly had 22,287 students enrolled in the fall of 2020, an increase of nearly 5 percent from the 21,242 students enrolled in the fall of 2019 (Cal Poly Institutional Research). Student enrollment at the state university increased despite the onset of the pandemic and efforts to mitigate the spread of COVID-19. In contrast, university jobs and nonfarm payrolls in the government sector declined sharply. Cal Poly Corporation, a nonprofit organization serving as an auxiliary service provider to Cal Poly, reported the layoff of 120 employees, including part-time students and intermittent workers, in September 2020. The government sector, the largest sector of the metropolitan area, declined by 2,500 jobs, or 10.5 percent, during the 3 months ending October 2020 compared with the same period a year ago. While the state government subsector partially contributed to the decline in government jobs, the local government subsector accounted for 76 percent of total government job losses as local jurisdictions implemented hiring freezes, layoffs, and furloughs in response to revenue losses because of the shelter-at-home order. In mid-2020, the city of San Luis Obispo furloughed about 200 part-time, temporary employees, and the city of Morro Bay laid off more than 70 part-time and temporary employees; other cities, including Arroyo Grande and Paso Robles, implemented a hiring freeze. In early August, the county of San Luis Obispo announced plans to eliminate 28 full-time jobs.

During the 3 months ending October 2020, nonfarm payrolls in the San Luis Obispo metropolitan area fell at a faster rate than in the Pacific region and the nation.



Source: U.S. Bureau of Labor Statistics

Largest Employers in the San Luis Obispo Metropolitan Area

Name of Employer	Nonfarm Payroll Sector	Number of Employees
California Polytechnic State University	Government	3,000
Department of State Hospitals, Atascadero	Government	2,000
Pacific Gas and Electric Company	Transportation & Utilities	1,875

Note: Excludes local school districts.
Source: San Luis Obispo Chamber of Commerce

Sales Market Conditions

The sales housing market in the San Luis Obispo metropolitan area is currently slightly tight, with an estimated sales vacancy rate of 1.0 percent, down from 2.1 percent in 2010. Population growth during most of the 2010s and strong demand for homes have resulted in a general decline of available for-sale inventory, contributing to a lower vacancy rate. During October 2020, a 3.4-month supply of homes was available for sale in the metropolitan area, down from a 3.5-month supply a year earlier (CoreLogic, Inc.). By contrast, during October 2010, when conditions were soft, an 8.5-month supply of homes was available for sale. The recent economic downturn has contributed to an increase in the percentage of home loans in the metropolitan area that were seriously delinquent (90 or more days delinquent or in foreclosure) or transitioned into real estate owned (REO) status; the share increased from 0.4 percent in September 2019 to 2.9 percent in September

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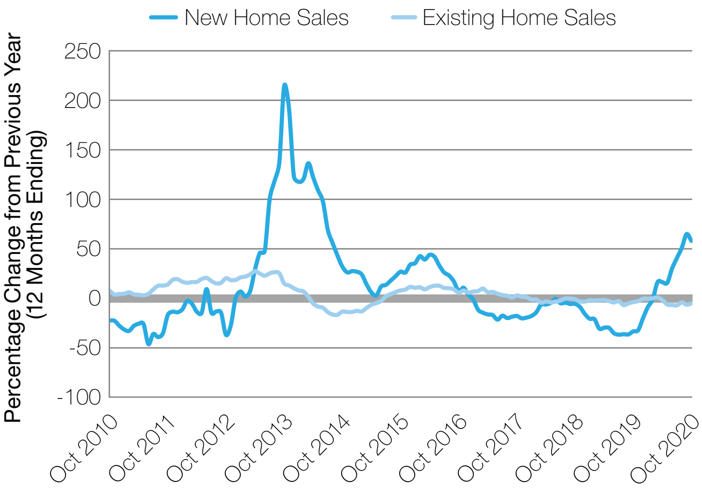
2020 (CoreLogic, Inc.). By comparison, during September 2010, the rate of seriously delinquent mortgages and REO properties was 5.9 percent. The September 2020 rate in the San Luis Obispo metropolitan area was lower than the 3.7-percent rate for California and the nearly 4.4-percent rate for the nation.

New home sales in the San Luis Obispo metropolitan area increased during the past year, whereas existing home sales declined.



Note: Includes single-family homes, townhomes, and condominiums.
Source: Zonda

During the 12 months ending October 2020—

- Existing home sales totaled 3,850, down 6 percent from the nearly 4,100 homes sold during the 12 months ending October 2019 (Zonda). Low levels of for-sale inventory contributed to the decline in existing home sales and the increase in home prices.
- The average sales price for existing homes reached a record high of $670,900, 4 percent higher than the average sales price during the previous 12 months and 10 percent higher than the average sales price during the 12 months ending October 2018.
- A total of 360 new homes were sold, up 57 percent from the 230 homes sold during the previous 12-month period and 3 percent below the average of 370 homes sold annually from 2014 through 2019. By comparison, new home sales were up approximately 64 percent from the average of 220 homes sold annually from 2008 through 2013 when single-family home construction was relatively low.
- The average new home sales price was $782,700, approximately 6 percent below the $835,100 average sales price during the previous 12-month period but 8 percent above the average sales price during the 12 months ending October 2018.

New home construction, as measured by the number of single-family homes permitted, was relatively stable from 2014 through 2019 partly because of slowing job and population growth.

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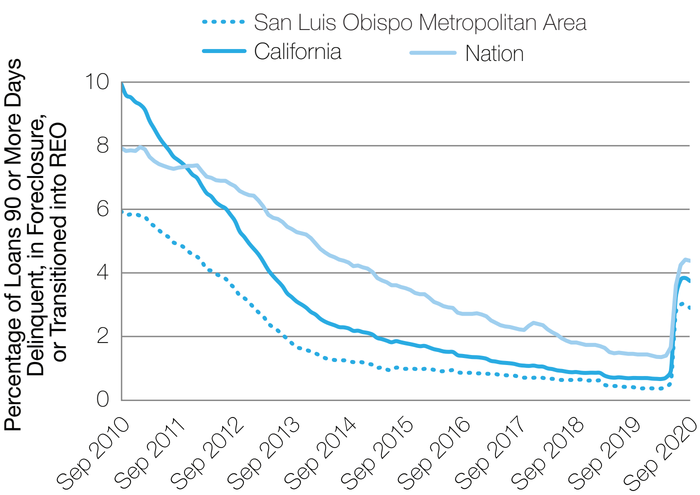
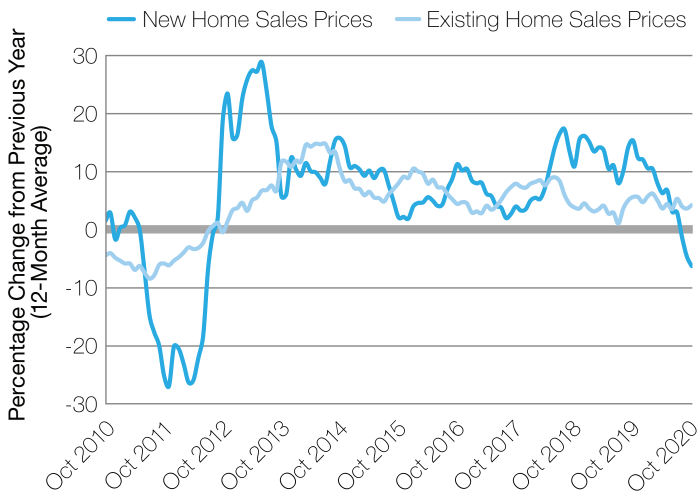
The proportion of seriously delinquent home loans and REO properties in the San Luis Obispo metropolitan area began rising in June 2020, but remains below the state and national rates.



REO = real estate owned.
Source: CoreLogic, Inc.

After increasing since late 2012, new home sales prices in the San Luis Obispo metropolitan area declined during the past year, whereas existing home sales prices continued increasing.



Note: Includes single-family homes, townhomes, and condominiums.
Source: Zonda

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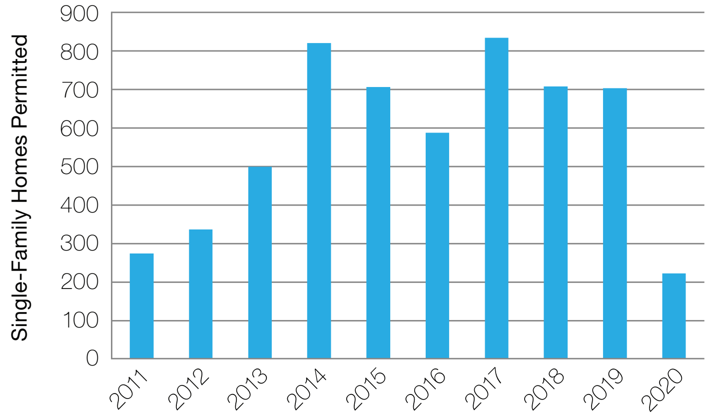
- During the 12 months ending October 2020, approximately 280 single-family homes were permitted, down 16 percent from the nearly 340 homes permitted during the 12 months ending October 2019 (preliminary data, not all jurisdictions reporting).
- After averaging only 380 units from 2008 through 2013, new home construction increased to an average of 730 homes a year from 2014 through 2019 as housing market conditions tightened.
- Several single-family home developments are under construction in the city of San Luis Obispo, including The Arroyos at Righetti, which will consist of 113 three- and four-bedroom homes ranging from 1,722 to 2,534 square feet and with prices starting at $847,900. Two housing developments underway will provide affordable housing options. The first of these is the 720-unit Avila Ranch, with prices ranging from $250,000 to $750,000 for a mix of condominiums, townhomes, and single-family homes; the second is the 577-unit San Luis Ranch, which will have 216 condominiums, 80 townhomes, and 281 single-family homes, with prices ranging from the $300,000s to the $600,000s, with expected completion of the first units during 2021. These developments will offer people who live or work in the city of San Luis Obispo the opportunity to purchase a home before buyers from outside the area.

Single-family home permitting in the San Luis Obispo metropolitan area was relatively stable from 2014 through 2019.



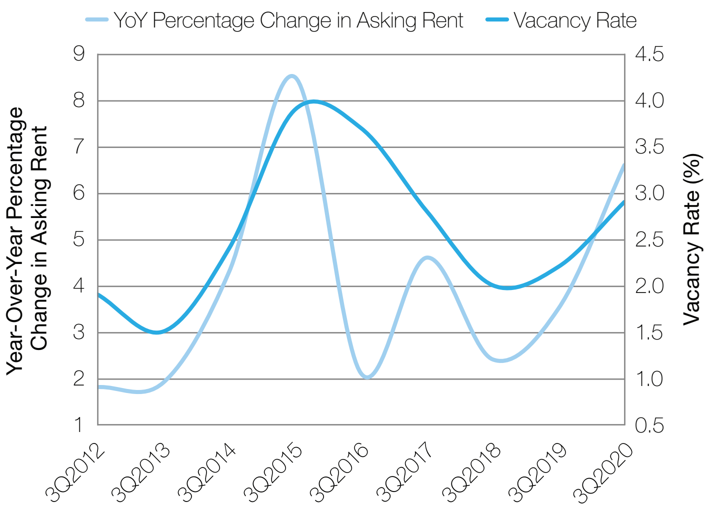
Note: Includes preliminary data from January 2020 through October 2020.
Source: U.S. Census Bureau, Building Permits Survey, with estimates by the analyst

Rental Market Conditions

Overall 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 number of rental housing units added to the market—including the construction of new apartments and sales housing that shifted to the rental market—contributing to the tightening of the rental market. Approximately 45 percent of renter households in the metropolitan area live in single-family attached or detached homes, whereas only 26 percent live in multifamily homes with five or more units, typically apartments; in 2010, the comparable figures were 50 and 22 percent, respectively (2010 and 2019 ACS 1-year data).

- The overall rental vacancy rate (including single-family homes, townhomes, mobile homes, and apartments) is estimated at 4.0 percent as of November 1, 2020, down from 5.5 percent in 2010.
- During the third quarter of 2020, the apartment market was also tight, with a vacancy rate of 2.9 percent—up from 2.2 percent during the third quarter of 2019 (Reis, Inc.). Vacancy rates increased partly because of weakening economic conditions and net out-migration.
- The average monthly apartment asking rent in the San Luis Obispo metropolitan area was $1,313 during the third quarter of 2020, nearly 7 percent higher than the average asking rent of $1,231 during the third quarter of 2019.

Apartment vacancy rates in the San Luis Obispo metropolitan area have increased since the third quarter of 2019 but are below the peak reached during the third quarter of 2015.



3Q = third quarter. YoY = year-over-year.
Source: Reis, Inc.

Multifamily building activity in the San Luis Obispo metropolitan area, as measured by the number of units permitted, was at

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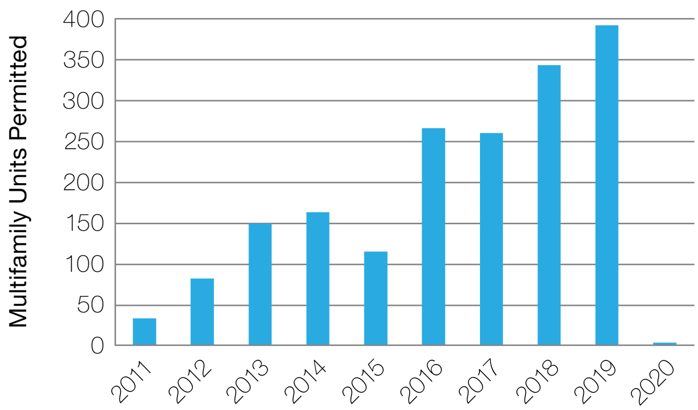
higher levels from 2016 through 2019 compared with earlier in the decade.

- During the 12 months ending October 2020, nearly five multifamily units were permitted, a decrease from the 25 units permitted during the previous 12-month period (preliminary data, not all jurisdictions reporting).
- After averaging 110 units annually from 2008 through 2015, multifamily permitting rose to an average of 320 units a year from 2016 through 2019.
- Recently completed apartment communities include the 105-unit Vintage at SLO in the city of San Luis Obispo, which is currently in lease-up. Rents range from $2,105 to $2,175 for studio units, from $2,359 to $2,375 for one-bedroom units, and from $2,710 to $2,915 for two-bedroom units.
- Emerald Ridge, a 208-unit apartment community currently under construction in the city of Atascadero, will consist of rental townhomes and one- and two-bedroom apartment units. Unit sizes will range from 750 to 1,300 square feet, with rents ranging from $1,700 to $2,500. The first phase of the development, which will include 36 units, is expected to be completed in 2021.
- Construction is underway for The Junction, a 69-unit apartment community in the city of San Luis Obispo. The development will consist of studio and one-bedroom units and is expected to be completed in 2021.

Multifamily permitting activity in the San Luis Obispo metropolitan area generally increased from 2012 through 2019.



Note: Includes preliminary data from January 2020 through October 2020.
Source: U.S. Census Bureau, Building Permits Survey, with estimates by the analyst