

HUD PD&R Housing Market Profiles

Santa Cruz-Watsonville, California



Quick Facts About Santa Cruz-Watsonville

- Current sales market conditions: very tight
- Current rental market conditions: very tight
- The Santa Cruz metropolitan area is a popular vacation destination, particularly for nearby Bay Area residents, and advertises its 262 days of sun per year, its 29 miles of regional beaches, and its ranking by *Time Magazine* as the third healthiest and happiest city in the country in 2017 (Santa Cruz Economic Development).



By Elaine Ng | As of October 1, 2018

Overview

The Santa Cruz-Watsonville (hereafter, Santa Cruz) metropolitan area is coterminous with Santa Cruz County in the central coast region of California, southwest of San Jose. Leading industries include tourism and higher education. Known for tourist attractions, including the Santa Cruz Beach Boardwalk, the Santa Cruz mountains and redwood forests, and the Santa Cruz World Surfing Reserve, the metropolitan area attracts 3 to 4 million visitors a year (Choose Santa Cruz).

- As of October 1, 2018, the population of the Santa Cruz metropolitan area is estimated at 276,800, an increase of 1,700, or 0.6 percent, annually since 2010, double the rate of population growth during the 2000s due to stronger net in-migration. From April 2010 to July 2017, net in-migration averaged 650 people annually and contributed to 35 percent of population growth. By comparison, from April 2000 to April 2010, migration out of the metropolitan area was greater than migration in, and net out-migration averaged 1,150 people annually, leading to a smaller population growth rate of 0.3 percent.
- A growing number of high-income households have moved to the Santa Cruz metropolitan area since 2010; 21 percent of all incoming residents had incomes of \$75,000 or greater

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in 2017, up from 15 percent in 2010 (2010 and 2017 American Community Survey 1-year estimates). A significant number of those households have been moving from neighboring Santa Clara County, part of the San Jose-Sunnyvale-Santa Clara metropolitan area, where the median income in 2017 was 49 percent higher than in the Santa Cruz metropolitan area and home prices are also significantly higher. Net in-migration from Santa Clara to Santa Cruz County increased by 57 percent

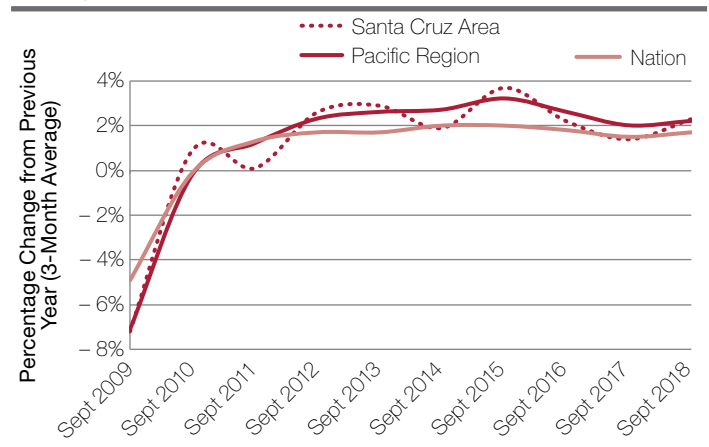
between the 2015–2016 and 2010–2011 periods (IRS county-to-county migration data).

- The very tight rental and sales markets, characterized by increasingly unaffordable housing and limited for-sale inventory in the Santa Cruz metropolitan area, has led to net out-migration that has averaged about 120 people since 2015 and a slowdown in population growth to an average of 0.3 percent annually during the same period.

Economic Conditions

Economic conditions have remained strong in the Santa Cruz metropolitan area since 2012, but the rate of job growth has been declining since 2015, partly because of a tight labor market and reduced migration. Nonfarm payrolls in the metropolitan area averaged 104,000 jobs during the 3 months ending September 2018, a gain of 2,300 jobs, or 2.3 percent, from a year earlier. From 2012 through 2015, by comparison, payroll growth was stronger, averaging 2.7 percent a year. Government is the largest sector in the metropolitan area and was the fastest growing service-providing sector during the past 3 months. The publicly funded University of California, Santa Cruz (hereafter, UCSC) is one of the metropolitan area’s largest employers, with between 1,000 and 4,999 faculty and staff and an annual economic impact of \$1.3 billion on the regional economy (Choose Santa Cruz). During the fall 2017 term, approximately 19,500 students were enrolled at the university, 13 percent higher than enrollment during the fall 2010 term (UCSC).

The rate of job growth in the Santa Cruz area outpaced growth in both the region and the nation during much of the period since 2012.



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

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Nonfarm payroll growth remained strong in the Santa Cruz area, with the largest job gains in the government sector.

	3 Months Ending		Year-Over-Year Change	
	September 2017 (Thousands)	September 2018 (Thousands)	Absolute (Thousands)	Percent
Total Nonfarm Payrolls	101.7	104.0	2.3	2.3%
Goods-Producing Sectors	11.7	12.3	0.6	5.1%
Mining, Logging, & Construction	4.7	5.2	0.5	10.6%
Manufacturing	6.9	7.1	0.2	2.9%
Service-Providing Sectors	90.1	91.7	1.6	1.8%
Wholesale & Retail Trade	15.7	15.4	- 0.3	- 1.9%
Transportation & Utilities	1.6	1.6	0.0	0.0%
Information	0.8	0.8	0.0	0.0%
Financial Activities	3.6	3.5	- 0.1	- 2.8%
Professional & Business Services	10.2	10.7	0.5	4.9%
Education & Health Services	17.9	17.6	- 0.3	- 1.7%
Leisure & Hospitality	15.0	15.4	0.4	2.7%
Other Services	5.1	5.2	0.1	2.0%
Government	20.2	21.5	1.3	6.4%
	(Percent)	(Percent)		
Unemployment Rate	4.6%	3.8%		

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



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Largest Employers in the Santa Cruz Area

Name of Employer	Nonfarm Payroll Sector	Number of Employees
University of California, Santa Cruz	Government	1,000–4,999
Seagate Technology	Professional & Business Services	1,000–4,999
Titan Corporation	Information	1,000–4,999

Note: Excludes local school districts.

Source: State of California Employment Development Department

During the 3 months ending September 2018—

- The greatest year-over-year job gains occurred in the government sector, which added 1,300 jobs, or 6.4 percent. Jobs in the sector accounted for more than one-fifth of all nonfarm payroll jobs in the metropolitan area.
- The mining, logging, and construction; the professional and business services; and the leisure and hospitality sectors added the next highest level of jobs, with increases of 500, 500, and 400 jobs each, or 10.6, 4.9, and 2.7 percent, respectively. Several large-scale construction projects at UCSC have contributed to job additions in the mining, logging, and construction sector, as detailed below. Tourism is one of the top industries in the metropolitan area, with visitor spending totaling \$997 million in 2017, up 6 percent from spending in 2016 (Visit California).
- Beginning in 2017, several high-tech firms in the professional and business services sector have created a variety of engineering jobs in the metropolitan area; engineering graduates from UCSC and migrants from San Jose are helping to fill those

jobs. New jobs include 50 openings at data analytics company Looker Data Sciences; 30 openings at Amazon Web Services, Inc.; and 30 openings at productOps, Inc., a client-based tech solutions company.

- Labor market conditions in the metropolitan area have tightened, partly because of recent net out-migration, with the unemployment rate averaging 3.8 percent, down from 4.6 percent a year ago. After peaking at 13.3 percent in 2010, the unemployment rate in the metropolitan area has declined each year since 2011.

The mining, logging, and construction sector contracted by an average of 600 jobs, or 13.2 percent annually from 2007 through 2011; however, since 2012, the sector has grown at the fastest average annual rate in the metropolitan area. The sector added an average of 300 jobs, or 7.4 percent, a year since 2012, primarily resulting from several large construction and renovation projects at UCSC, at least five of which are completed. Among the projects still under way is the Student Housing West development, which will add 3,000 new dormitory beds. The development is intended to address the severe housing shortage for university students that is the result of very tight apartment market conditions and limited new residence hall construction in the past decade. The housing shortage is so acute that the university has requested assistance from faculty and staff to consider renting rooms to students looking for housing in the short term. Completion of the first beds at the development is expected by the fall 2019 term, and the entire project should be complete by the fall 2022 term. An estimated 200 construction jobs are expected to be added during construction of the project.

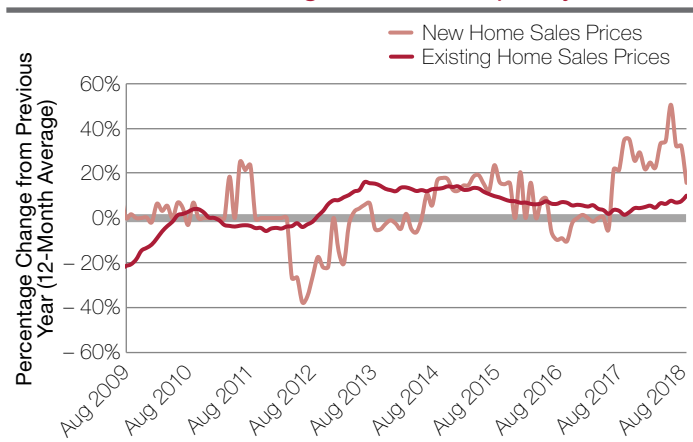
Sales Market Conditions

The sales housing market in the Santa Cruz metropolitan area is very tight because of net in-migration during much of the past decade and limited for-sale inventory, particularly in the lowest price

ranges, where demand is greatest. Although the active inventory of homes for sale increased slightly, by 1 percent, during the 12

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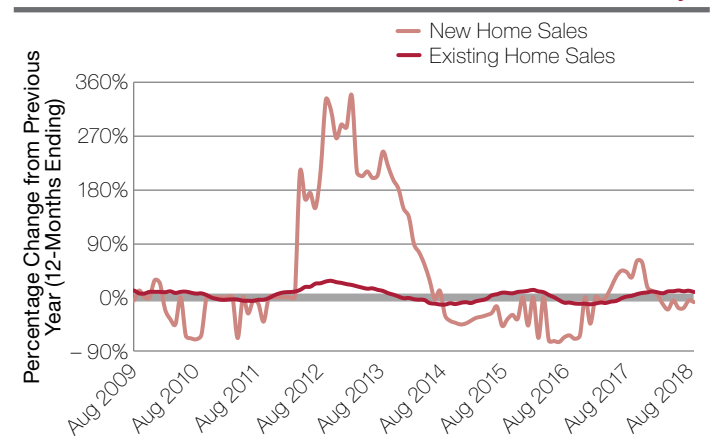
Both new and existing home sales prices have increased at double-digit rates in the past year.



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

Source: CoreLogic, Inc., with adjustments by the analyst

Home sales increased in the past year but remain below demand because of limited available inventory.



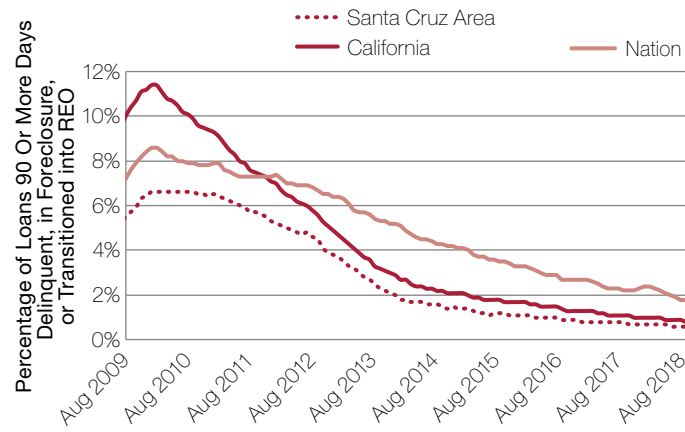
Note: Includes single-family homes, townhomes, and condominiums.

Source: CoreLogic, Inc., with adjustments by the analyst



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The rate of seriously delinquent mortgages and REO properties in the Santa Cruz area continues to be lower than the national and statewide rates.



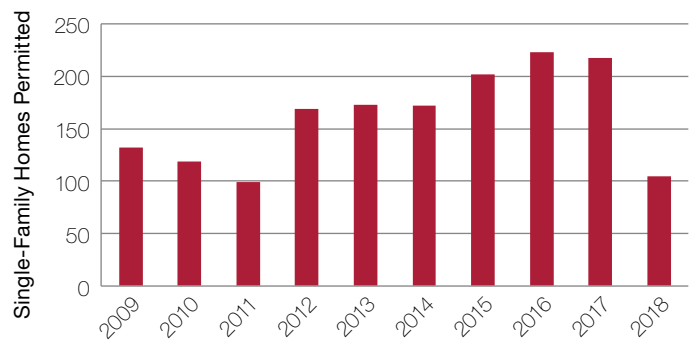
REO = real estate owned.
Source: CoreLogic, Inc.

months ending September 2018 compared with the previous 12-month period, the active inventory has declined an average of 12 percent annually since 2008. The lack of supply has limited sales of existing homes and caused existing home prices to rise sharply; however, the home price gains also contributed to a decline in the rate of seriously delinquent mortgages (loans that are 90 or more days delinquent or in foreclosure) and real estate owned (REO) properties in the metropolitan area. After peaking at 6.6 percent in January 2010, the percentage of home loans that were seriously delinquent or had transitioned into REO status was 0.6 percent in August 2018, down from 0.8 percent a year earlier (CoreLogic, Inc.). The current rate is lower than the rate in both California, at 0.8 percent, and the nation, at 1.8 percent.

During the 12 months ending August 2018—

- Approximately 3,200 homes sold in the metropolitan area, up 9 percent from the 2,925 homes sold a year earlier. Total home sales have averaged 3,075 homes sold annually since 2012, compared with an average annual of 2,375 home sales from 2007 through 2011, a low period (CoreLogic, Inc., with adjustments by the analyst).
- The average sales price rose 10 percent to \$816,500, and the average sales price of a new home—at \$914,900—was 16 percent higher than the average of \$813,500 for an existing home. Sales prices for new homes have historically fallen below those for existing home prices because newly constructed units were generally smaller; however, that trend has reversed direction recently as construction costs and labor shortages have put upward pressure on new home sales prices.

Despite a tight sales market in the Santa Cruz area, single-family permitting has been negligible since the Great Recession.



Note: Includes preliminary data from January 2018 through September 2018.
Source: U.S. Census Bureau, Building Permits Survey

- During the third quarter of 2018, the metropolitan area was the second least affordable sales market in the nation, behind only San Francisco, based on the large discrepancy between the median price of a single-family home and the median income in the area (National Association of Home Builders).
- Since 2008, single-family construction activity in the metropolitan area, as measured by the number of homes permitted, has been negligible and relatively steady after the Great Recession. Despite a very tight sales market, the current level of homebuilding continues to be below the levels reached during the housing boom during the mid-2000s.
- The number of single-family homes permitted increased by 17, to 136 homes, during the 12 months ending September 2018, compared with an increase of 8 homes during the previous 12 months (preliminary data).
 - Single-family permitting has remained low since the Great Recession, with an average of 170 homes permitted each year from 2008 through 2017. By comparison, an average of 650 single-family homes were permitted each year from 2003 through 2006, the last peak period of construction activity.
 - Despite its proximity to the major job center of San Jose, the center of Silicon Valley, new home construction in the area has been limited due to factors including topography constraints, with both the Pacific Ocean and Santa Cruz mountains, and height restrictions on new buildings. New developments tend to be small, and projects currently under way include the 63-unit Park Pacific condos, with a mix of studio, one-, and two-bedroom units. Construction is expected to be complete in late 2020, with yet-to-be-determined sales prices.



Rental Market Conditions

Rental housing market conditions are currently very tight, with an overall vacancy rate estimated at 1.5 percent, down from 3.5 percent in April 2010. Approximately 43 percent of renter-occupied units in the metropolitan area were single-family homes, 24 percent were in buildings with two to four units, 3 percent were in mobile homes, and 30 percent were in large apartment properties with five or more units in the structure (2017 American Community Survey 1-year data). The apartment market in the Santa Cruz metropolitan area is also currently very tight because of limited multifamily construction activity, growing enrollment at UCSC, and in-migration of residents from neighboring Santa Clara County since 2010, although the latter trend has slowed recently.

During the third quarter of 2018—

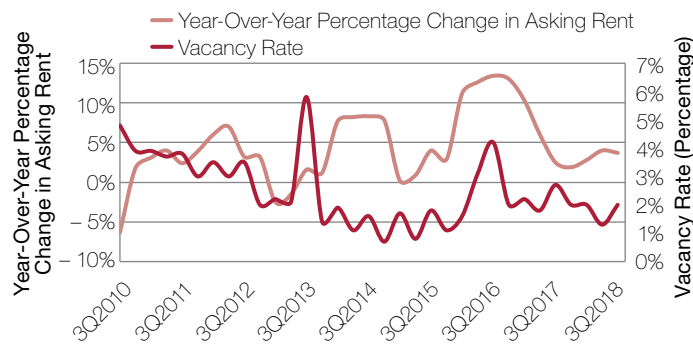
- Apartment rents in the metropolitan area averaged \$2,281, up 3.7 percent from a year earlier (RealPage, Inc.). By comparison, rent growth from the third quarter of 2016 to the third quarter of 2017 averaged 2.5 percent.
- The vacancy rate averaged 2.0 percent, down from the 2.7-percent rate during the third quarter of 2017. Apartment vacancy rates tend to rise during the third quarter in the Santa Cruz metropolitan area as students leave for the summer, but the shortage of rental housing has resulted in very tight conditions even during the summer months.
- The rental market is generally tight during the academic year, with some softening during the summer months. As a result,

apartment vacancy rates are, on average, 2 to 3 percentage points higher during the third quarter, compared with the rest of the year.

Although multifamily construction activity, as measured by the number of units permitted, has increased by an average of 35 percent annually since 2010, growth in demand for rental housing continues to outpace permitting.

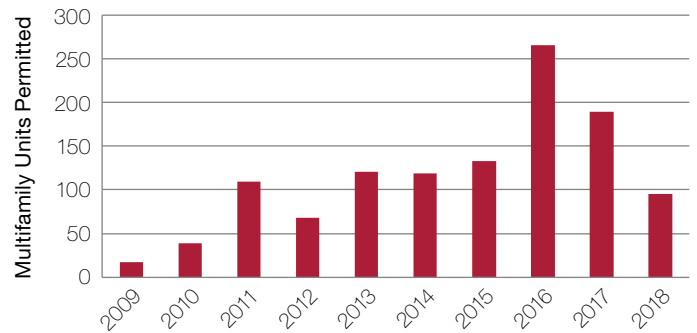
- During the 12 months ending September 2018, approximately 120 multifamily units were permitted in the metropolitan area, relatively unchanged from the number permitted during the previous 12-month period (preliminary data). By comparison, multifamily permitting activity increased by 26 units during the 12 months ending September 2017, from 100 units permitted a year earlier.
- Multifamily permitting peaked in 2007, when about 520 units were permitted, but quickly declined as a result of the Great Recession and reached a record low of only 17 units permitted during 2009.
- The largest development currently under way in the metropolitan area is the Delaware Addition, a live-work neighborhood that will be built in four phases with up to 248 units. The first phase of construction, consisting of two commercial buildings, was recently completed. Apartment construction will begin during the fourth and final phase. Rents have not yet been determined.

Apartment market conditions in the Santa Cruz area have been tight, with low vacancy rates and positive rent growth since the third quarter of 2013.



Source: RealPage, Inc.

Multifamily permitting has generally increased since reaching a low in 2009.



Note: Includes preliminary data from January 2018 through September 2018.

Source: U.S. Census Bureau, Building Permits Survey

