

HUD PD&R Housing Market Profiles

Santa Cruz-Watsonville, California



Quick Facts About Santa Cruz-Watsonville

Santa Cruz, California

By Rhine Islam | As of October 1, 2022

- Current sales market conditions: tight
- Current apartment market conditions: tight
- The Santa Cruz metropolitan area is a popular vacation destination and home to the more than century-old Santa Cruz Beach Boardwalk (hereafter, the Boardwalk), the oldest surviving amusement park in California (Visit California).



Overview

The Santa Cruz metropolitan area includes Santa Cruz County in the central coast region of California and is coterminous with the Santa Cruz-Watsonville Metropolitan Statistical Area. Known for tourist attractions—including the Boardwalk, the Santa Cruz mountains and redwood forests, and wineries—the metropolitan area attracts 3 to 4 million visitors a year (Choose Santa Cruz).

- As of October 1, 2022, the population of the metropolitan area is estimated at 266,700, representing an average annual decrease of 1,680 people, or 0.6 percent, since July 2018. By contrast, the population was relatively unchanged from 2015 to 2018 (U.S. Census Bureau population estimates as of July 1).
- Net out-migration increased to an average of 2,075 people a year since 2018, up significantly from an average of 830 people annually from 2015 to 2018. A significant increase in housing costs between these two periods contributed to the higher level of net out-migration.
- Housing affordability has declined significantly in the metropolitan area since 2016. The median household income increased 21 percent from 2016 to 2021, the

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median rent increased 23 percent, and the median home sales price increased 36 percent during the same period (American Community Survey 1-year estimates; CoreLogic, Inc.). Between 2019 and 2020, most people leaving the area migrated to neighboring Monterey County, where housing costs are relatively lower (Internal Revenue Service county-to-county migration data).

- Due in large part to an increased number of deaths associated with the COVID-19 pandemic, net natural increase has averaged 450 annually in the metropolitan area since 2018, down from the average of 950 a year from 2015 to 2018 (U.S. Census Bureau population estimates as of July 1).

Economic Conditions

The economy in the Santa Cruz metropolitan area has largely recovered from the downturn in 2020 that stemmed from efforts to limit the spread of COVID-19. By September 2022, the metropolitan area recovered 98 percent of the jobs lost during March and April 2020; by contrast, jobs had fully recovered on the national level in May 2022 (monthly data, not seasonally adjusted). The manufacturing sector recovered the strongest, with payrolls in the sector 12 percent higher during September 2022 compared with February 2020, prior to the pandemic. The government sector is the largest sector in the metropolitan area, and the publicly funded University of California, Santa Cruz (UCSC) is one of the largest employers, with more than 7,100 employees and an annual economic impact of \$1.3 billion on the regional economy. During the fall 2021 term, approximately 19,800 students were enrolled at the university, representing an average annual increase of 1.8 percent since the fall of 2015. By comparison, enrollment averaged an annual increase of 0.8 percent from the fall of 2010 through the fall of 2015 (UCSC).

During the 3 months ending September 2022—

- Nonfarm payrolls averaged 101,800 in the metropolitan area, an increase of 3,400 jobs, or 3.5 percent, compared with the same period a year ago and 1.9 percent lower than the number of jobs during the 3 months ending September 2019, before the COVID-19 pandemic. For comparison, nonfarm payrolls in the metropolitan area grew an average of 1.4 percent annually from 2010 through 2013, after recovering from the Great Recession, and grew an average of 1.8 percent annually from 2014 through 2019, a period of accelerated economic growth.
- All nonfarm payroll sectors added jobs or remained stable in the Santa Cruz metropolitan area, with the fastest growth in the government sector, which expanded by 1,800 jobs, or 9.0 percent, from the previous year. Payrolls in this sector, however, are 2.7 percent lower than prepandemic levels in the 3 months ending September 2019.

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During the third quarter of 2022, jobs in the Santa Cruz metropolitan area increased in 8 of the 11 nonfarm payroll sectors.

	3 Months Ending		Year-Over-Year Change	
	September 2021 (Thousands)	September 2022 (Thousands)	Absolute (Thousands)	Percent
Total Nonfarm Payrolls	98.4	101.8	3.4	3.5
Goods-Producing Sectors	12.4	12.8	0.4	3.2
Mining, Logging, & Construction	4.8	5.1	0.3	6.3
Manufacturing	7.6	7.7	0.1	1.3
Service-Providing Sectors	86.0	89.0	3.0	3.5
Wholesale & Retail Trade	14.4	14.4	0.0	0.0
Transportation & Utilities	2.0	2.0	0.0	0.0
Information	0.6	0.6	0.0	0.0
Financial Activities	3.2	3.3	0.1	3.1
Professional & Business Services	10.7	10.8	0.1	0.9
Education & Health Services	17.1	17.6	0.5	2.9
Leisure & Hospitality	13.5	13.8	0.3	2.2
Other Services	4.6	4.8	0.2	4.3
Government	20.0	21.8	1.8	9.0
Unemployment Rate	5.9%	3.7%		

Note: Numbers may not add to totals due to rounding.

Source: U.S. Bureau of Labor Statistics

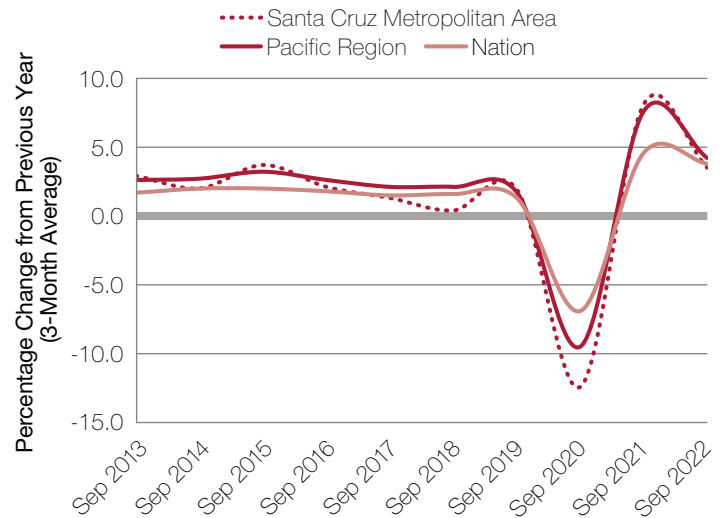


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- The education and health services, the mining, logging, and construction, and the leisure and hospitality sectors added the next highest level of jobs on a numerical basis, with increases of 500, 300, and 300 jobs, respectively. Several large-scale construction projects at UCSC and developments at the Santa Cruz Wharf and Boardwalk have contributed to job additions in the mining, logging, and construction sector.
- The unemployment rate declined significantly to an average of 3.7 percent, down from 5.9 percent a year ago and below the average of 3.9 percent during the 3 months ending September 2019. By comparison, the national unemployment rate declined to an average of 3.6 percent during the 3 months ending September 2022, down from 5.2 percent a year ago and below the average of 3.7 percent during the 3 months ending September 2019.

Tourism is one of the top industries in the metropolitan area, with visitor spending totaling \$693 million in 2021, up 37 percent from 2020 but still below the recent high of \$1.1 billion in 2019 (Visit California). Sales tax receipts in the county have also rebounded, reflecting the recovery of businesses and restaurants, many of which stayed afloat during the pandemic by collaborating with GetVirtual, a service by which UCSC students supported local businesses in their shift to a virtual environment. Since lifting pandemic restrictions, many businesses have continued to operate with both a brick-and-mortar and an online presence, and restaurants have embraced outdoor dining options, capitalizing on the appeal of the Boardwalk. Redevelopment on the Boardwalk includes the long-awaited luxury hotel, La Bahia, with work under way and the expected opening in late 2024. New hotel construction on the Boardwalk has increased to support rising tourism and a growing number of company retreats and conferences in the area.

After experiencing a higher rate of growth in the previous year during the 3 months ending September 2022, the rate of job growth in the Santa Cruz metropolitan area fell below both the Pacific region and national rates.



Source: U.S. Bureau of Labor Statistics

Largest Employers in the Santa Cruz Metropolitan Area

Name of Employer	Nonfarm Payroll Sector	Number of Employees
University of California, Santa Cruz	Government	7,100
County of Santa Cruz	Government	2,500
City of Santa Cruz	Government	880

Note: Excludes local school districts.
Source: City of Santa Cruz

Sales Market Conditions

The sales housing market in the Santa Cruz metropolitan area is tight due to limited for-sale inventory, with an estimated sales vacancy rate of 0.5 percent, down from 1.6 percent in April 2010, but conditions are starting to ease as net out-migration continues. Strong demand for homes in the metropolitan area occurred during the pandemic, partly due to its location by the Pacific Ocean, redwood forests, and historically low mortgage interest rates, which lasted until the second quarter of 2022. The higher quality of life and slower pace in the metropolitan area attracted homebuyers. In addition to the environment, the metropolitan area offered larger homes at lower prices for commuters and remote workers in the neighboring Silicon Valley. During the 12 months ending September 2022, Santa Clara and San Mateo Counties had average total home sales prices 45 and 55 percent higher,

respectively, than homes sold in the Santa Cruz metropolitan area (CoreLogic, Inc.). As interest rates have risen from the second quarter of 2022, homes for sale have remained on the market for a longer amount of time. During September 2022, a 3.1-month supply of homes was available for sale, up significantly from a 1.4-month supply in September 2021 and a 1.8-month supply in September 2020. The rate of mortgage loans that were seriously delinquent or in real estate owned status was 0.5 percent in September 2022, down from 1.4 percent in September 2021. The rate has declined nearly every month after reaching a high of 3.3 percent in July 2020. The current rate in the Santa Cruz metropolitan area is lower than both the 0.7-percent rate for California and the 1.3-percent rate for the nation.

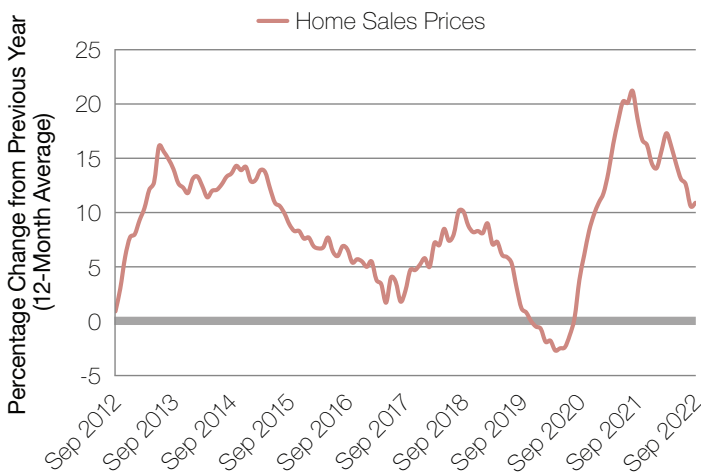
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During the 12 months ending September 2022 —

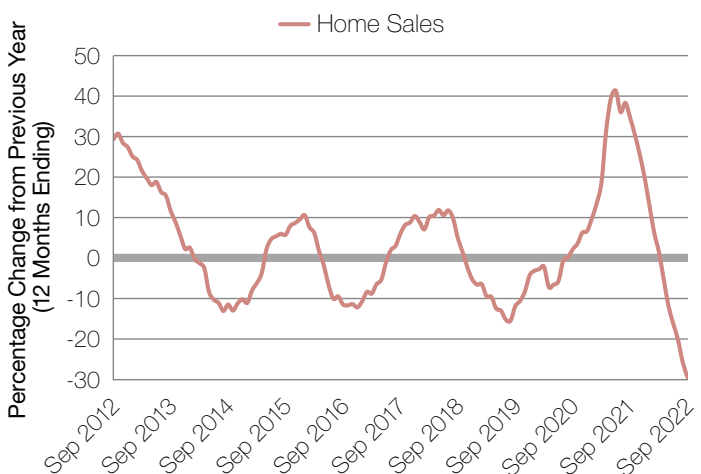
- Home sales totaled 2,675, down 30 percent from a year earlier; by comparison, home sales decreased an average of 4 percent annually from 2014 through 2019.
- The average sales price for homes rose sharply to \$1.1 million, an increase of 11 percent from a year earlier; by comparison, home prices increased an average of 7 percent annually from 2014 through 2019.
- The National Association of Home Builders/Wells Fargo Housing Opportunity Index for a given area is defined as the share of homes sold in that area that would have been

In the Santa Cruz metropolitan area, home sales price growth has declined from the previous year but remains well above prepandemic rates of growth.



Note: Includes single-family homes, townhomes, and condominiums.
Source: CoreLogic, Inc., with adjustments by the analyst

Home sales in the Santa Cruz metropolitan area fell during the past year due at least in part to rising mortgage rates.



Note: Includes single-family homes, townhomes, and condominiums.
Source: CoreLogic, Inc., with adjustments by the analyst

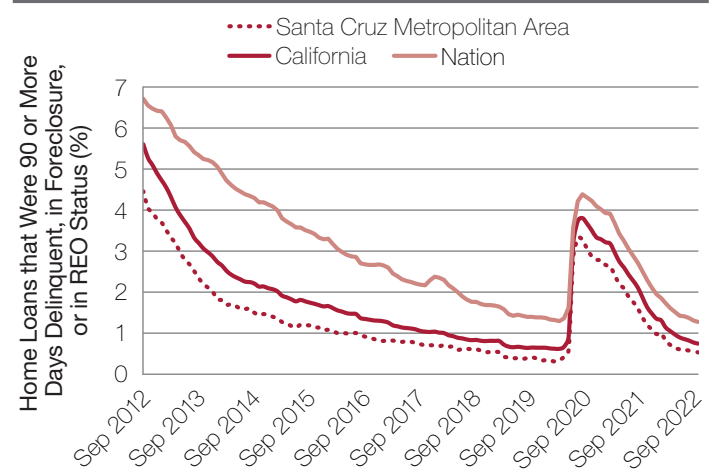
affordable to a family earning the local median income. In the Santa Cruz metropolitan area, only 7.9 percent of homes sold in the third quarter of 2022 were affordable to families earning the local median income, down from 17.9 percent in 2019.

As the economy and housing market improved following the Great Recession, single-family homebuilding activity rose beginning in the mid-2010s.

- Approximately 370 single-family homes were permitted during the 12 months ending September 2022, an increase of 120 homes from the previous 12 months (preliminary data).

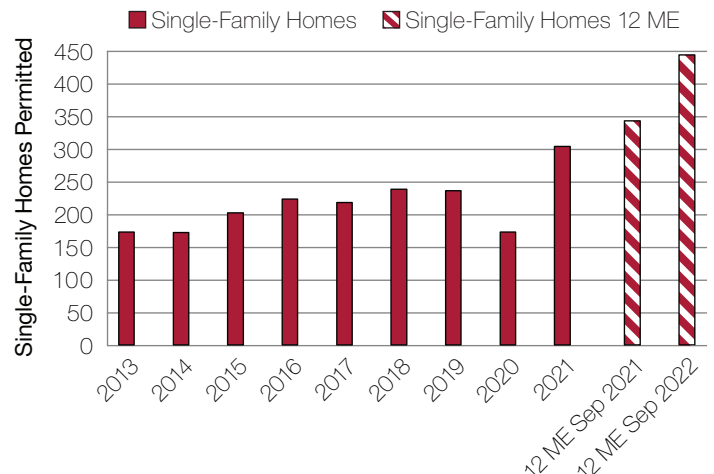
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The Santa Cruz metropolitan area has had consistently lower rates of mortgages that were seriously delinquent or had transitioned to REO status than both the state of California and the nation since the early 2010s.



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

The number of single-family homes permitted in the Santa Cruz metropolitan area reached new highs during the 12 months ending September 2022.



12 ME = 12 months ending.

Sources: U.S. Census Bureau, Building Permits Survey; 2013–21—final data and estimates by the analyst; past 24 months of data—preliminary data and estimates by the analyst

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- Single-family permitting averaged 150 homes permitted from 2010 through 2014 and accelerated to an average of 220 homes permitted from 2015 through 2019 before slowing down to 170 homes in 2020 due to the pandemic.

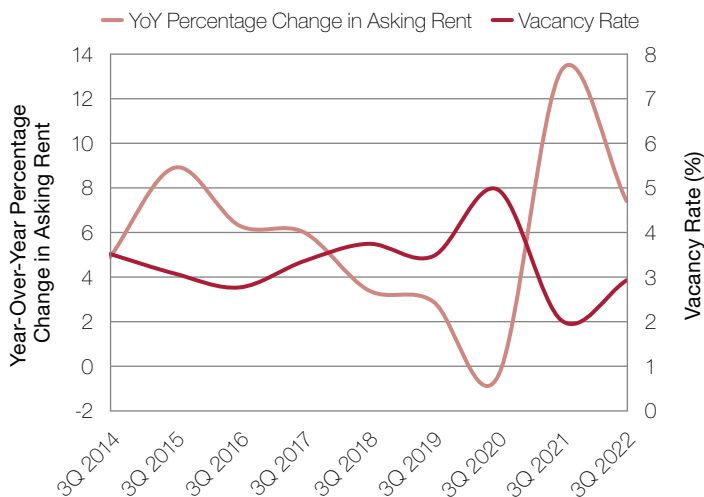
Apartment Market Conditions

Due in part to relatively high levels of multifamily permitting since 2016, the tight apartment market conditions in the Santa Cruz metropolitan area are improving compared with a year ago but are tighter than they were in 2020. The apartment market in the metropolitan area remains underbuilt due to a lack of buildable land and height restrictions on new development. In 2017, the city of Santa Cruz increased the height limit for new buildings on the south side of downtown. Despite this change in the zoning regulation, it will take time and significant additions to the rental supply to alleviate the tight market, as the Santa Cruz metropolitan area is the second most expensive rental market in the country in 2022 (National Low Income Housing Coalition).

During the third quarter of 2022—

- The apartment vacancy rate in the Santa Cruz metropolitan area was 2.9 percent, up from 2.0 percent a year ago but below the average rate of 3.4 percent from 2015 through 2019 (CoStar Group).
- The average apartment rent was \$2,675, up 7 percent from a year ago and approximately 30 percent above the average rent of \$2,050 from 2015 to 2019, when the average rent increased less than a percentage point a year.

Rent growth slowed, and vacancy rates increased in the Santa Cruz metropolitan area during the third quarter of 2022.



3Q = third quarter. YoY = year-over-year.
Source: CoStar Group

- One of the more recent communities built in the metropolitan area is the Polo Ranch community in the city of Scotts Valley. The community is made up of 40 homes averaging \$2 million per home.

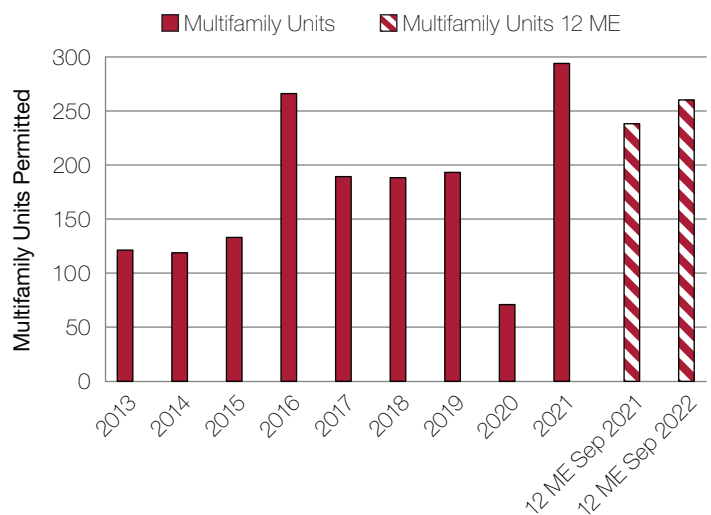
- Rent growth, at 7 percent, was notably faster than the average year-over-year rent growth from 2015 to 2019 but was slower than the 13-percent increase during the third quarter of 2021, reflecting a return to tight conditions from the very tight conditions brought on partly by the pandemic.
- UCSC students also struggled to find housing, with many commuting from outside the county, doubling up, or having an unstable situation such as sleeping in their vehicle or couch surfing. The 2020 University of California systemwide survey of students found that 9 percent of UCSC students lack access to safe, secure housing (UCSC).

Multifamily construction activity, as measured by the number of multifamily units permitted, has generally been at high levels since 2016. The 290 multifamily units permitted in 2021 were the highest annual total since 2007, with most building occurring in the cities of Santa Cruz and Watsonville.

- During the 12 months ending September 2022, approximately 260 multifamily units were permitted in the Santa Cruz metropolitan area, an increase of 20 homes, or 9 percent,

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The number of multifamily units permitted in the Santa Cruz metropolitan area declined slightly during the 12 months ending September 2022, as the apartment vacancy rate rose.



12 ME = 12 months ending.

Sources: U.S. Census Bureau, Building Permits Survey; 2013–21—final data and estimates by the analyst; past 24 months of data—preliminary data and estimates by the analyst

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from the previous 12 months (preliminary data, with adjustments made by the analyst).

- An average of 210 units were permitted annually from 2016 through 2019, up from an average of 110 units permitted each year from 2012 through 2015.
- The Downtown Expansion Plan hopes to help alleviate housing shortages in Santa Cruz, with projects such as the Pacific Station North and South that will provide 164 affordable rental units. The plan will also improve public

amenities and coordinate with the Santa Cruz Warriors to construct a new permanent sports arena.

- The largest apartment property currently under construction in the metropolitan areas is the Pacific Front Mixed-Use Development, which will provide 205 market-rate units in the city of Santa Cruz. Construction is expected to be completed by early 2024. The property is part of six blocks of development planned for downtown, with 820 units planned among six buildings. Rents have not yet been determined.

Terminology Definitions and Notes

A. Definitions

Building Permits	Building permits do not necessarily reflect all residential building activity. Some units are constructed or created without a building permit or are issued a different type of building permit. For example, some units classified as commercial structures are not reflected in the residential building permits. As a result, the analyst, through diligent fieldwork, makes an estimate of this additional construction activity. Some of these estimates are included in the discussions of single-family and multifamily building permits.
Home Sales/Home Sales Prices	Includes single-family, townhome, and condominium sales.
Net Natural Increase	Resident births are greater than resident deaths.
Seriously Delinquent Mortgages	Mortgages 90+ days delinquent or in foreclosure.
Silicon Valley	Silicon Valley is an area in Northern California that is home to a large number of innovative technology companies. Located in the southern part of the San Francisco Bay Area, it corresponds roughly to San Mateo County and Santa Clara County.

B. Notes on Geography

1. The metropolitan statistical area definition noted in this report is based on the delineations established by the Office of Management and Budget (OMB) in the OMB Bulletin dated April 10, 2018.