The COVID-19 pandemic has resulted in unprecedented large and rapid changes in many data series, and similarly unprecedented large policy responses, making analysis of, and longer run predictions for, the economy and housing markets exceptionally difficult and uncertain. HUD will continue to monitor market conditions in the HMA and provide an updated report/addendum in the future.

COMPREHENSIVE HOUSING MARKET ANALYSIS

San Luis Obispo-Paso Robles-Arroyo Grande, California

U.S. Department of Housing and Urban Development,
Office of Policy Development and Research

As of January 1, 2021

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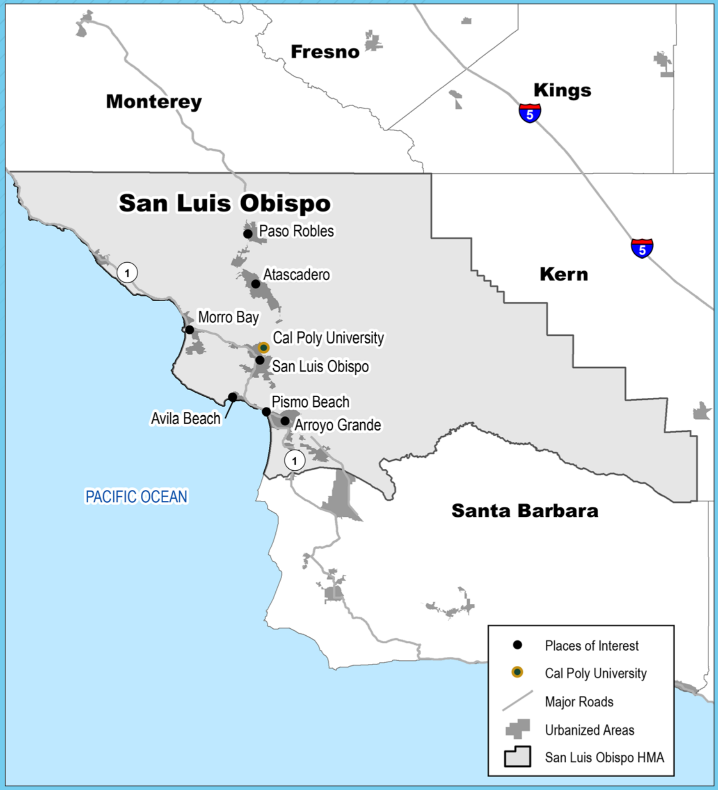

Executive Summary

Housing Market Area Description

The San Luis Obispo-Paso Robles-Arroyo Grande Housing Market Area (hereafter, San Luis Obispo HMA) is coterminous with the San Luis Obispo-Paso Robles-Arroyo Grande, CA Metropolitan Statistical Area (MSA) and is defined as San Luis Obispo County. The HMA is located on the central coast of California, approximately halfway between the cities of Los Angeles and San Francisco.

The current HMA population is estimated at 281,900.

The San Luis Obispo HMA is known for wine production and is home to the California Polytechnic State University (Cal Poly), the largest employer in the HMA. The combination of the prominent wine industry and the prime location along the Pacific Ocean have traditionally contributed to the growth of the tourism industry in the HMA.

Tools and Resources

Find interim updates for this metropolitan area, and select geographies nationally, at PD&R's Market-at-a-Glance tool.
Additional data for the HMA can be found in this report's supplemental tables.
For information on HUD-supported activity in this area, see the Community Assessment Reporting Tool.

Market Qualifiers

Economy

Weak: Nonfarm payrolls in the San Luis Obispo HMA declined 9.7 percent during 2020 because of restrictions implemented to slow the spread of COVID-19.

During the past year, economic conditions in the San Luis Obispo HMA weakened after 9 years of job growth. Nonfarm payrolls declined by 11,600 jobs, or 9.7 percent, to an average of 108,300 jobs during 2020. Jobs declined or were relatively unchanged in 10 of 11 sectors, with the greatest job losses in the leisure and hospitality sector, which fell by 4,700 jobs, or 23.6 percent, from a year ago. The unemployment rate averaged 7.5 percent during 2020, up from 2.9 percent a year earlier. During the 3-year forecast period, nonfarm payrolls are expected to increase an average of 2.2 percent annually.

Sales Market

Slightly Tight: The inventory of available homes for sale in the San Luis Obispo HMA was 3.8 months in December 2020, up from a 2.9-month supply a year earlier (CoreLogic, Inc.).

The sales market in the HMA is slightly tight, with an estimated vacancy rate of 0.9 percent, down from 2.1 percent in April 2010. During 2020, new and existing home sales increased by 140, or 3 percent, to 4,500, and the average home sales price increased by $33,400, or 5 percent, to a record high of $691,400 (Zonda). During the next 3 years, demand is estimated for 910 new homes. The 95 homes under construction will meet a portion of the demand during the first year of the forecast.

Rental Market

Slightly Tight: The average apartment rent in the San Luis Obispo HMA was $1,329 during the fourth quarter of 2020, up 2 percent from the fourth quarter of 2019.

The overall rental market in the HMA is currently slightly tight, with an estimated vacancy rate of 4.0 percent, down from 5.5 percent in April 2010. Apartment market conditions are also slightly tight, but conditions are easing. The apartment vacancy rate during the fourth quarter of 2020 was 3.0 percent, up slightly from 2.9 percent a year earlier. The average apartment rent increased 2 percent from a year earlier to $1,329 (Moody's Analytics REIS). During the 3-year forecast period, demand is estimated for 680 new rental units. The 330 units under construction will satisfy a portion of that demand.

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3-Year Housing Demand Forecast

		Sales Units	Rental Units
San Luis Obispo HMA	Total Demand	910	680
	Under Construction	95	330

Notes: Total demand represents estimated production necessary to achieve a balanced market at the end of the forecast period. Units under construction as of January 1, 2021. The forecast period is January 1, 2021, to January 1, 2024.
Source: Estimates by the analyst

Economic Conditions

Largest Sector: Government

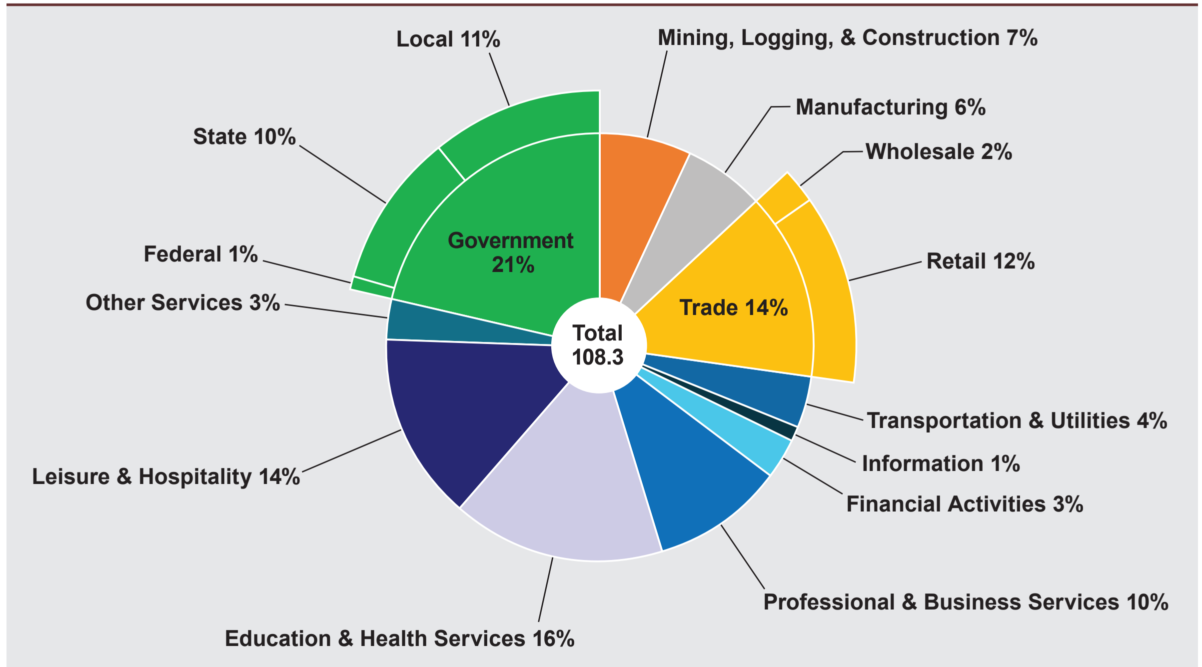
> The education and health services sector has been the fastest growing nonfarm payroll sector in the HMA since 2001.

Primary Local Economic Factors

The economy in the San Luis Obispo HMA depends heavily on the government sector—the largest sector in the HMA, with 21 percent of all nonfarm payrolls (Figure 1)—primarily because of the presence of Cal Poly. Despite the onset of the pandemic and efforts to mitigate the spread of COVID-19, there were 22,287 students enrolled at Cal Poly during the fall of 2020, a 5-percent increase from the 21,242 students enrolled during the fall of 2019 (Cal Poly Institutional Research). The County of San Luis Obispo and the Department of State Hospitals-Atascadero—the second and third largest employers in the HMA, respectively—are also part of the government sector (Table 1).

During periods of economic expansion, the tourism industry is a major contributor to overall economic growth in the San Luis Obispo HMA. The HMA is situated along the Pacific Ocean, with more than 80 miles of coastline and multiple beach communities—notably Pismo Beach and Avila Beach—that attract visitors who contribute to growth in the leisure and hospitality sector. In 2019, the HMA attracted 6.3 million visitors who spent $1.9 billion, fewer than the 7.5 million

Figure 1. Share of Nonfarm Payroll Jobs in the San Luis Obispo HMA, by Sector



Notes: Total nonfarm payroll is in thousands. Percentages may not add to 100 percent due to rounding. Based on 12-month averages through December 2020.
Source: U.S. Bureau of Labor Statistics

Table 1. Major Employers in the San Luis Obispo HMA

Name of Employer	Nonfarm Payroll Sector	Number of Employees
California Polytechnic State University	Government	3,000
County of San Luis Obispo	Government	2,900
Department of State Hospitals-Atascadero	Government	2,000
Pacific Gas and Electric Company	Transportation & Utilities	1,875
California Men's Colony	Government	1,525
Cal Poly Corporation	Professional & Business Services	1,400
Tenet Healthcare Corporation	Education & Health Services	1,300
Compass Health, Inc.	Education & Health Services	930
MINDBODY, Inc.	Professional & Business Services	600
French Hospital Medical Center	Education & Health Services	550

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

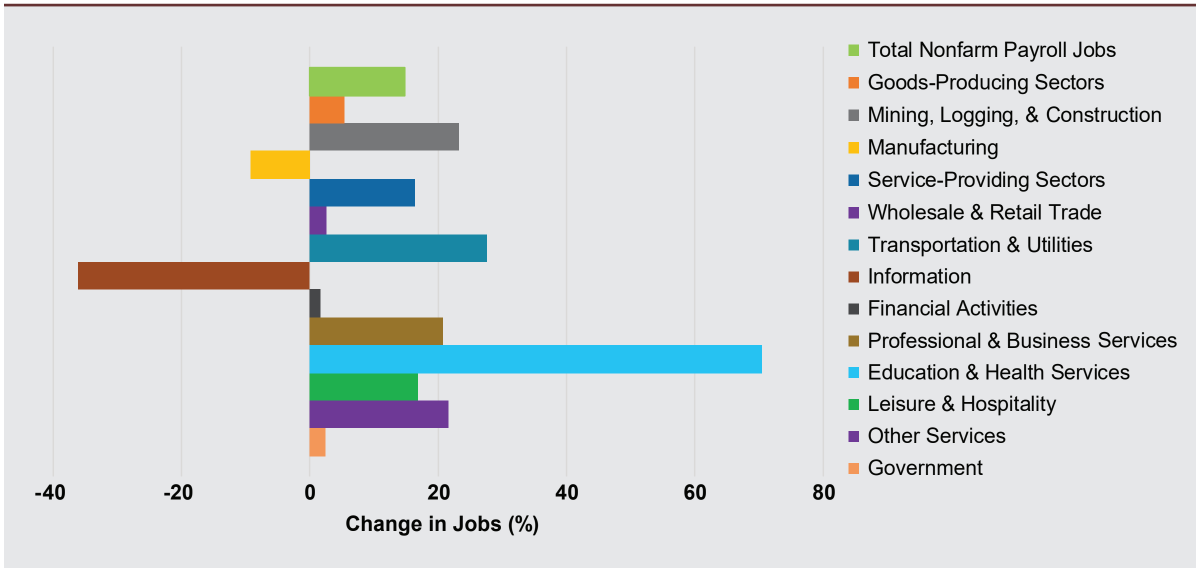
visitors who spent $1.8 billion in 2018 (Visit SLO CAL). The HMA is also an agricultural region recognized for wine production and is the third largest wine producer in California, after Napa and Sonoma Counties. Wine production is primarily concentrated in the city of Paso Robles, which has more than 200 wineries that produce more than 40 wine varietals. The economic impact of the wine industry on the HMA was approximately $1.9 billion in 2015 (University of California, Davis). Winery and vineyard tours, combined with visits to tasting rooms and restaurants affiliated with wineries, have contributed to job growth in the leisure and hospitality sector, which is currently tied for the third largest sector in the HMA. Before the pandemic, the leisure and hospitality sector was the second largest sector. Currently, the education and health services sector is the second largest and the fastest growing sector in the HMA since 2001 (Figure 2). Growth in the sector resulted partly from increasing demand for healthcare services due to the rising share of people at retirement age in the HMA, which has subsequently supported hospital additions and expansions.

Current Economic Conditions in the HMA and the Effects of COVID-19

After 9 consecutive years of job growth from 2011 through 2019, economic conditions in the San Luis Obispo HMA weakened during the past year because of countermeasures implemented in March 2020 to slow the spread of COVID-19. 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 San Luis Obispo County on March 19, 2020. Those interventions impacted nonfarm payrolls in the HMA, particularly the leisure and hospitality sector, as businesses were ordered to cease nonessential operations and nonessential travel was restricted. During 2020, nonfarm payrolls in the HMA declined significantly, down by 11,600 jobs, or 9.7 percent (Table 2). Job losses were more severe in the San Luis Obispo HMA than in California and the nation, where payrolls declined 7.0 and 5.8 percent, respectively.

In the HMA, job declines during 2020 were primarily in the leisure and hospitality sector, which decreased by 4,700 jobs, or 23.6 percent, and accounted for 41 percent of all jobs lost. The sector contracted as public health measures required hotels, restaurants, bars, wineries, and tasting rooms to cease or reduce operations. Nonfarm payrolls in the food services and drinking places and in the accommodation industries declined by 3,200 and 1,000 jobs, or 23.7 and 22.3 percent, respectively. Nonfarm payrolls in the government and the wholesale and retail trade sectors were also heavily impacted, falling by

Figure 2. Sector Growth in the San Luis Obispo HMA, 2001 to Current



Note: The current date is January 1, 2021.
Source: U.S. Bureau of Labor Statistics

1,500 and 1,300 jobs, or 6.1 and 7.8 percent, respectively. 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 approximately 200 part-time 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, and San Luis Obispo County announced plans in early August to eliminate 28 full-time jobs. Since May 2020, there have been a series of relaxations and reimpositions of restrictions on businesses in the HMA, partly contributing to slow job recovery. As of December 2020, only 29 percent of the jobs lost from March through May have been recovered, and nonfarm payrolls remain 12.7 percent below the February 2020 level (not seasonally adjusted).

Unemployment Trends

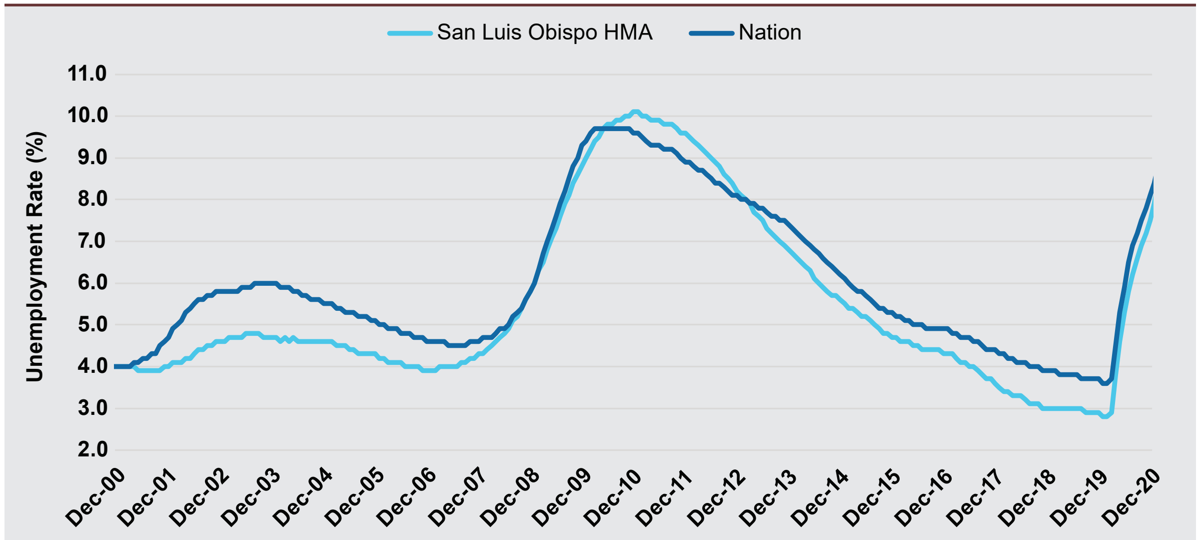
The unemployment rate in the San Luis Obispo HMA declined each year from a high of 10.1 percent in 2010 to a low of 2.9 percent in 2019 (Figure 3). During 2020, the unemployment rate increased sharply to 7.5 percent as the economy of the HMA contracted. By comparison, the unemployment rate in California and the nation averaged 10.3 and 8.1 percent, respectively, up from respective rates of 4.0 and 3.7 percent a year earlier.

Table 2. 12-Month Average Nonfarm Payroll Jobs (1,000s) in the San Luis Obispo HMA, by Sector

	12 Months Ending December 2019	12 Months Ending December 2020	Absolute Change	Percentage Change
Total Nonfarm Payroll Jobs	119.9	108.3	-11.6	-9.7
Goods-Producing Sectors	16.0	14.2	-1.8	-11.3
Mining, Logging, & Construction	8.2	7.5	-0.7	-8.5
Manufacturing	7.8	6.7	-1.1	-14.1
Service-Providing Sectors	103.9	94.1	-9.8	-9.4
Wholesale & Retail Trade	16.7	15.4	-1.3	-7.8
Transportation & Utilities	4.0	4.1	0.1	2.5
Information	1.3	1.2	-0.1	-7.7
Financial Activities	3.8	3.8	0.0	0.0
Professional & Business Services	11.3	10.5	-0.8	-7.1
Education & Health Services	18.3	17.6	-0.7	-3.8
Leisure & Hospitality	19.9	15.2	-4.7	-23.6
Other Services	4.1	3.5	-0.6	-14.6
Government	24.4	22.9	-1.5	-6.1

Notes: Based on 12-month averages through December 2019 and December 2020. Numbers may not add to totals due to rounding. Data are in thousands.
Source: U.S. Bureau of Labor Statistics

Figure 3. 12-Month Average Unemployment Rate in the San Luis Obispo HMA and the Nation



Note: Based on the 12-month moving average.
Source: U.S. Bureau of Labor Statistics

Economic Periods of Significance

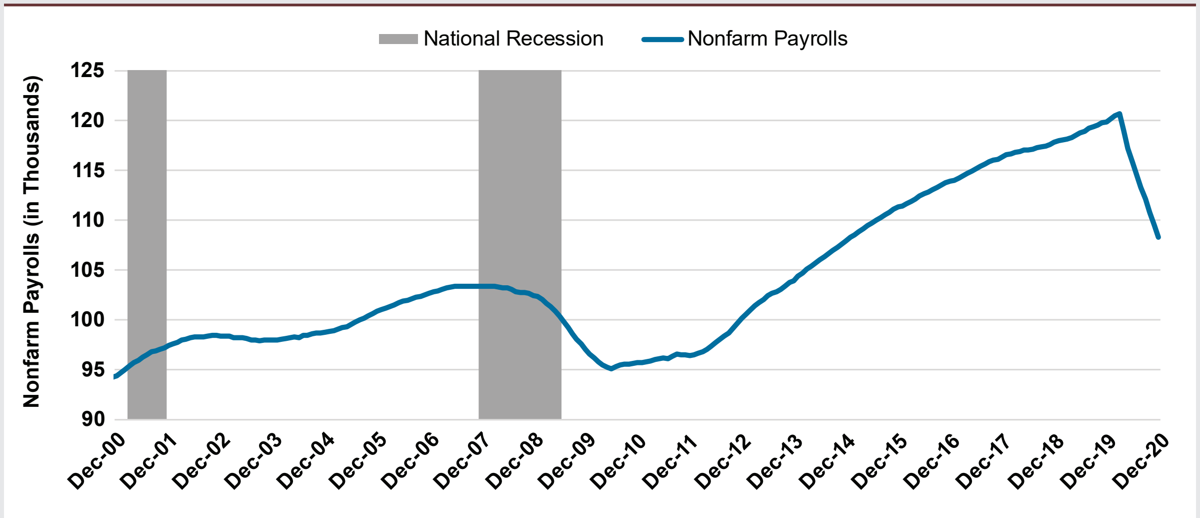
2001 Through 2007

Nonfarm payrolls in the San Luis Obispo HMA generally increased from 2001 through 2007 by an average of 1,300 jobs, or 1.3 percent, annually (Figure 4). An economic contraction during 2003 constrained overall job growth when nonfarm payrolls declined by 400 jobs, or 0.4 percent. Job losses in 2003 were primarily in the government sector, which declined by 600 jobs, or 2.6 percent, because of projected revenue losses that led to budget cuts in the local government. The education and health services, the leisure and hospitality, and the wholesale and retail trade sectors accounted for 85 percent of job growth in the HMA from 2001 through 2007, increasing by averages of 400, 400, and 300, or 3.4, 2.7, and 1.7 percent, a year, respectively.

2008 Through 2010

As a result of the housing crisis and the accompanying national recession, the economy of the San Luis Obispo HMA contracted from 2008 through 2010. Nonfarm payrolls in the HMA declined by an average of 2,600 jobs, or 2.5 percent, a year. Job losses occurred in almost all nonfarm payroll sectors, with the largest job losses in the mining, logging, and construction sector, which declined by 900 jobs, or 13.6 percent, annually, because of a significant decline in residential construction during the period. The education and health services sector was the only sector to add jobs, increasing by an average of 400 jobs, or 3.0 percent, annually, in part because the $26 million expansion of the Sierra Vista Regional Medical Center was completed in 2008.

Figure 4. 12-Month Average Nonfarm Payrolls in the San Luis Obispo HMA



Note: 12-month moving average.
Sources: U.S. Bureau of Labor Statistics; National Bureau of Economic Research

2011 Through 2019

The economy of the San Luis Obispo HMA began to recover in 2011. By 2013, nonfarm payrolls reached 104,000 jobs—surpassing the pre-recessionary high of 103,400 jobs in 2007. From 2011 through 2015, job growth was strong, increasing by an average of 3,100 jobs, or 3.1 percent, annually. Gains were the strongest in the leisure and hospitality sector, which added an average of 600 jobs, or 3.5 percent, annually because of increased tourism to the HMA. During 2015, the tourism industry grew 4 percent and had an economic impact of $1.6 billion on the HMA economy (San Luis Obispo Chamber of Commerce). Strong economic growth from 2011 through 2015 led to an increase in residential construction activity. The mining, logging, and construction sector was the fastest growing sector during the period, which increased by an average of 400 jobs, or 6.5 percent, annually. The construction of hotels contributed to job growth in both the leisure and hospitality and the mining, logging, and construction sectors.

Notable hotel additions during 2015 occurred in the cities of Paso Robles and Atascadero, including Allegretto Vineyard Resort Paso Robles and SpringHill Suites by Marriott Paso Robles Atascadero.

The rate of job growth in the HMA began to slow in 2016 because of tight labor market constraints partly resulting from an expensive housing market. From 2016 through 2019, nonfarm payrolls rose by an average of 2,100 jobs, or 1.9 percent, annually. During the 4-year period, the leisure and hospitality, the education and health services, and the mining, logging, and construction sectors added respective averages of 600, 500, and 400 jobs, or 3.1, 2.6, and 5.2 percent, a year. The ongoing construction of new hotels, including Hotel Cerro and Hotel San Luis Obispo in the downtown area of the city of San Luis Obispo, and the construction of the Oppenheimer Family Center for Emergency Medicine at the French Hospital Medical Center (FHMC), contributed to job growth in those sectors.

Employment Forecast

During the 3-year forecast period, nonfarm payroll growth is expected to average 2.2 percent a year, with slower growth in the first year before accelerating slightly during the second and third years as more jobs are recovered. Job gains are expected in the leisure and hospitality sector, as jobs lost because of the COVID-19 restrictions return. The education and health services sector is also expected to contribute to job growth in the HMA, partly because of the $125 million FHMC expansion, which will add between 190 and 260 local construction jobs and is expected to create 300 jobs when the four-story 85,000 square foot medical tower is complete in 2022.

Population and Households

Current Population: 281,900

The population of the HMA has declined during the past 2 years primarily because of net out-migration in response to rising housing costs.

Population Trends

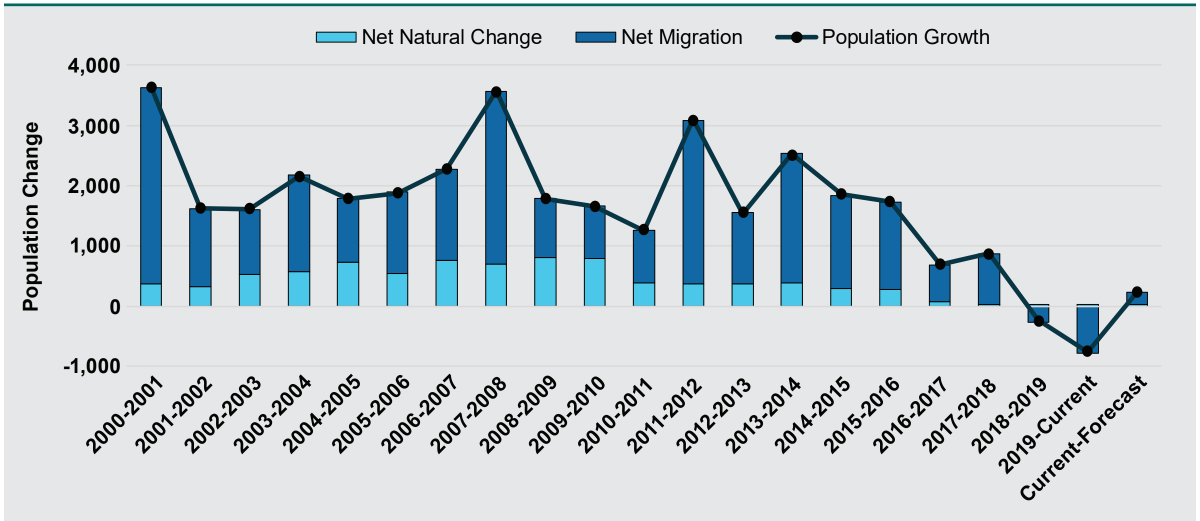
As of January 1, 2020, the population of the San Luis Obispo HMA is estimated at 281,900, representing an average increase of 1,150, or 0.4 percent, annually since April 2010 (Table 3). Economic conditions, housing prices, and university enrollment changes at Cal Poly have generally affected population growth and migration trends in the HMA. From 2000 to 2008, the HMA had relatively strong population growth, averaging 2,375 people, or 0.9 percent, a year (Figure 5; Census Bureau decennial census counts and population estimates as of July 1). Strong economic conditions contributed to an average net in-migration of 1,800 people annually during the period, which accounted for 76 percent of total population growth. Population growth subsequently slowed to an average of 1,575 people, or 0.6 percent, annually from 2008 to 2011, as weak economic conditions resulted in an average net in-migration of only 920 people a year, or 58 percent of total population growth.

Table 3. San Luis Obispo HMA Population and Household Quick Facts

		2010	Current	Forecast
Population Quick Facts	**Population**	269,637	281,900	282,600
	Average Annual Change	2,300	1,150	230
	Percentage Change	0.9	0.4	0.1
		2010	**Current**	**Forecast**
Household Quick Facts	**Households**	102,016	108,200	108,500
	Average Annual Change	930	570	110
	Percentage Change	1.0	0.5	0.1

Notes: Average annual changes and percentage changes are based on averages from 2000 to 2010, 2010 to current, and current to forecast. The forecast period is from the current date (January 1, 2021) to January 1, 2024.
Sources: 2000 and 2010—2000 Census and 2010 Census; current and forecast—estimates by the analyst

Figure 5. Components of Population Change in the San Luis Obispo HMA, 2000 Through the Forecast

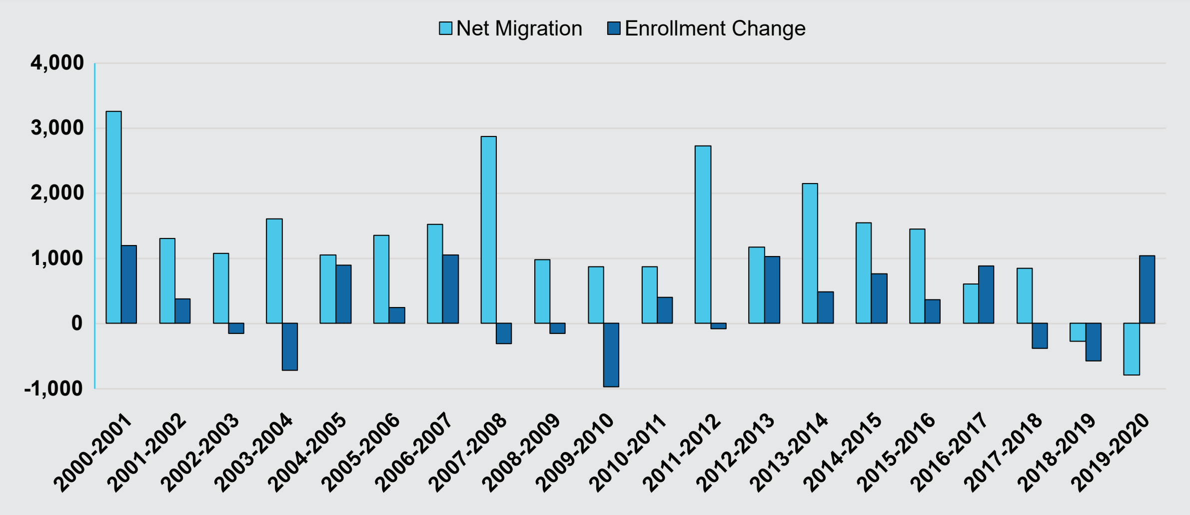


Notes: Net natural change and net migration totals are average annual totals over the time period. The forecast period is from the current date (January 1, 2021) to January 1, 2024.
Sources: U.S. Census Bureau; current to forecast—estimates by the analyst

As the economy recovered and expanded following the economic downturn, population growth accelerated, and net in-migration returned to pre-recessionary levels. From 2011 to 2016, population growth averaged 2,150 people, or 0.8 percent, annually, with net in-migration averaging 1,800 people a year and accounting for 84 percent of population growth. Enrollment at Cal Poly rose in all but 1 of the years from 2011 to 2016, partly contributing to the increase in net in-migration during that period (Figure 6). Lower levels of net natural change, however, constrained population growth from 2011 to 2016, averaging 340 people a year compared with 590 people annually from 2000 to 2011. As economic growth slowed and housing prices continued to increase for the fifth consecutive year, net in-migration in the HMA declined, causing population growth to slow to an average of 780 people, or 0.3 percent, annually from 2016 to 2018, with net in-migration accounting for 95 percent of population growth. Net natural change fell to even lower levels, averaging only 45 people a year from 2016 to 2018.

Since 2018, slower economic growth, combined with high home prices, contributed to net out-migration that averaged 580 people a year and a decline in population by an average of 560, or 0.2 percent, annually. Net natural change slowed even further, to an average of 20 people a year since 2018. Net natural change has fallen to very low levels because of decreasing births—births declined 6 percent from 2011 to 2019—and because a large share of the population in the San Luis Obispo HMA is aged 65 or older. In 2019, approximately 21 percent of the HMA population was aged 65 or older, compared with 19 percent in 2016 and 15 percent in 2010 (American Community Survey [ACS] 1-year data). The median age in the HMA was 40.0 in 2019, up from 38.8 in 2016.

Figure 6. Student Enrollment at Cal Poly and Net Migration Trends in the San Luis Obispo HMA



Sources: U.S. Census Bureau; Cal Poly Institutional Research

Migration Trends

Most migration in and out of the HMA is the result of people moving within southern California. Although housing costs in the HMA are high, leading some residents to leave the area, the largest sources of in-migration are from nearby counties with even higher housing costs. The largest share of movers into the HMA from 2014 to 2018 was 1,715 people from Los Angeles County, followed by 1,627 people migrating from bordering Santa Barbara County and 1,214 people moving from Orange County (Table 4; U.S. Census Bureau County-to-County Migration Flows; 2014–2018 ACS, 5-year data). Despite the rise in home prices in the HMA, people are attracted to the HMA because of relatively lower prices—average home sales prices in 2020 were 57, 42, and 32 percent lower than in Santa Barbara, Orange, and Los Angeles Counties, respectively (Zonda). From 2000 to 2019, more than 75 percent of students attending Cal Poly were people who relocated to the HMA from surrounding areas, with the majority coming from the San Francisco Bay area and from Los Angeles, Orange, and Ventura counties (Cal Poly Institutional Research).

Household Trends

Consistent with population growth trends, the rate of household growth in the HMA was faster during the 2000s but has slowed since 2010. As of January 1, 2021, an estimated 108,200 households reside in the

HMA, reflecting an average annual increase of 570 households, or 0.5 percent, since 2010. By comparison, from 2000 to 2010, households increased by an average of 930, or 1.0 percent, annually. Currently, an estimated 61.8 percent of households are homeowners, up from 59.7 percent in 2010 (Figure 7). As the rate of homeownership increased, the proportion of renter households in the HMA has declined from 40.3 percent in 2010 to 38.2 percent currently. Student households account for an estimated 6 percent of renter households in the HMA, nearly unchanged from 2010 partly because the overall increase in student enrollment since 2010 was offset by the addition of 1,475 student dormitory beds in 2018.

Forecast

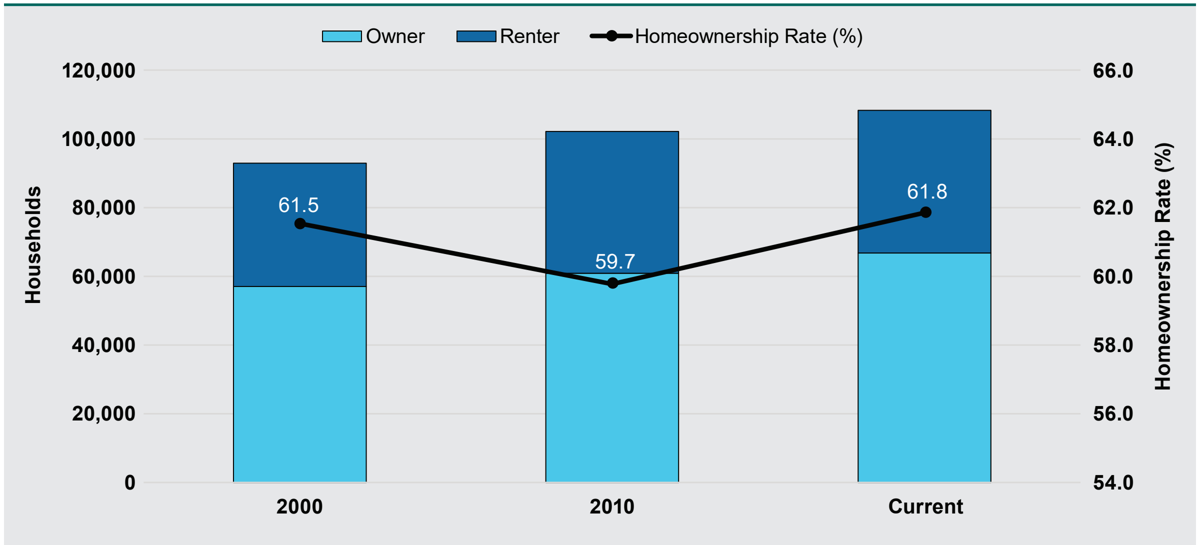
During the next 3 years, the population of the HMA is expected to increase by an average of 230, or 0.1 percent, annually. Population growth is expected to increase during each of the next 3 years, with net in-migration returning by the second year and increasing as economic conditions in the HMA improve. Relative home affordability is expected to contribute to in-migration from Los Angeles, Santa Barbara, and Orange Counties. The number of households in the HMA is expected to increase by an average of 110, or 0.1 percent, annually during the forecast period to 108,500 households.

Table 4. County-to-County Migration Flows in the San Luis Obispo HMA: 2014–2018

Into the HMA	
Los Angeles County	1,715
Santa Barbara County	1,627
Orange County	1,214
San Diego County	1,017
Fresno County	983
Out of the HMA	
Santa Barbara County	1,721
San Diego County	895
Los Angeles County	845
Fresno County	535
Santa Clara County	502

Sources: U.S. Census County-to-County Migration Flows; 2014–2018 American Community Survey, 5-year data

Figure 7. Households by Tenure and Homeownership Rate in the San Luis Obispo HMA



Note: The current date is January 1, 2021.
Sources: 2000 and 2010—2000 Census and 2010 Census; current—estimates by the analyst

Home Sales Market

Market Conditions: Slightly Tight

The average home sales price in the San Luis Obispo HMA has increased every year since 2012 as the home sales market tightened.

Current Conditions

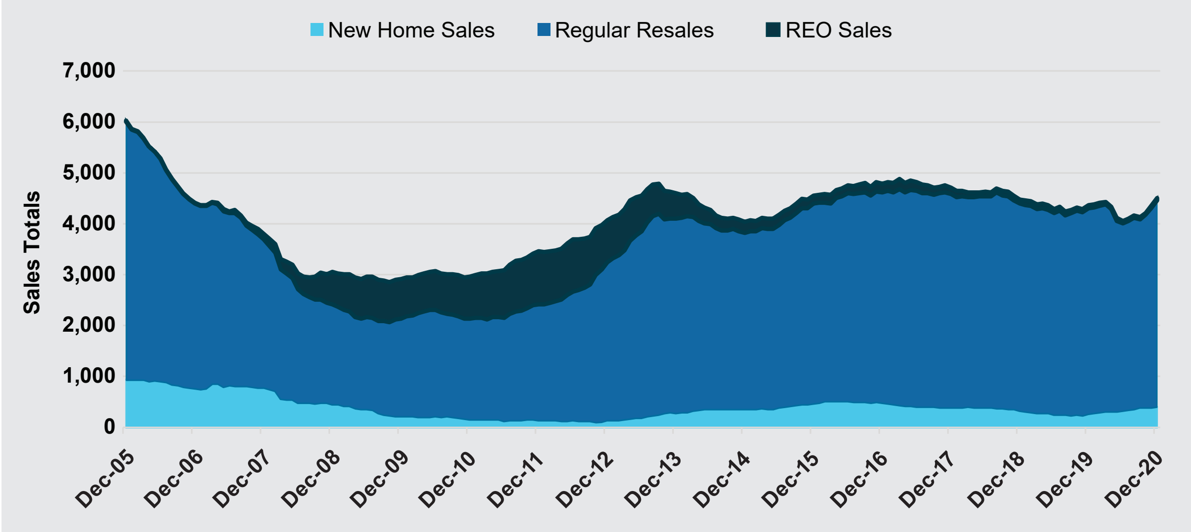
Home sales market conditions in the San Luis Obispo HMA are currently slightly tight, with an estimated sales vacancy rate of 0.9 percent, down from 2.1 percent during April 2010 (Table 5), when conditions were soft because of the housing market crisis. Despite the rising price of homes in the HMA and recent net out-migration, lower levels of home sales construction during the 2010s compared with the 2000s and strong demand for homes since 2012—31 percent of which have been second or seasonal home purchases compared with 24 percent from 2009 through 2011 (Zonda)—have resulted in a general decline of available for-sale inventory, contributing to the tightening of the sales housing market. The inventory of available homes for sale was 3.8 months in December 2020, up from a 2.9-month supply a year earlier but much lower than the 7.8-month supply during December 2010 (CoreLogic, Inc.). During 2020, new and existing home sales in the HMA increased 3 percent from a year ago to 4,500 homes sold (Figure 8; Zonda), while the average new and existing home sales price increased 5 percent to $691,400 (Figure 9).

Table 5. Home Sales Quick Facts in the San Luis Obispo HMA

		San Luis Obispo HMA	Nation
Home Sales Quick Facts	**Vacancy Rate**	0.9%	NA
	Months of Inventory	3.8	1.6
	Total Home Sales	4,500	6,451,000
	1-Year Change	3%	7%
	New Home Sales Price	$774,700	$333,100
	1-Year Change	-9%	4%
	Existing Home Sales Price	$683,500	$296,500
	1-Year Change	6%	9%
	Mortgage Delinquency Rate	2.5%	4.0%

NA = data not available.
Notes: The vacancy rate is as of January 1, 2021; home sales and prices are for the 12 months ending December 2020; months of inventory and mortgage delinquency data are as of December 2020; HMA home prices are the average for 2020; and national home prices are the median for 2020.
Sources: Vacancy rate—estimate by the analyst; months of inventory and mortgage delinquency rates—CoreLogic, Inc.; HMA home sales and prices—Zonda; national home sales and prices—National Association of Realtors® and Census Bureau/HUD

Figure 8. 12-Month Sales Totals by Type in the San Luis Obispo HMA



REO = real estate owned.
Source: Zonda

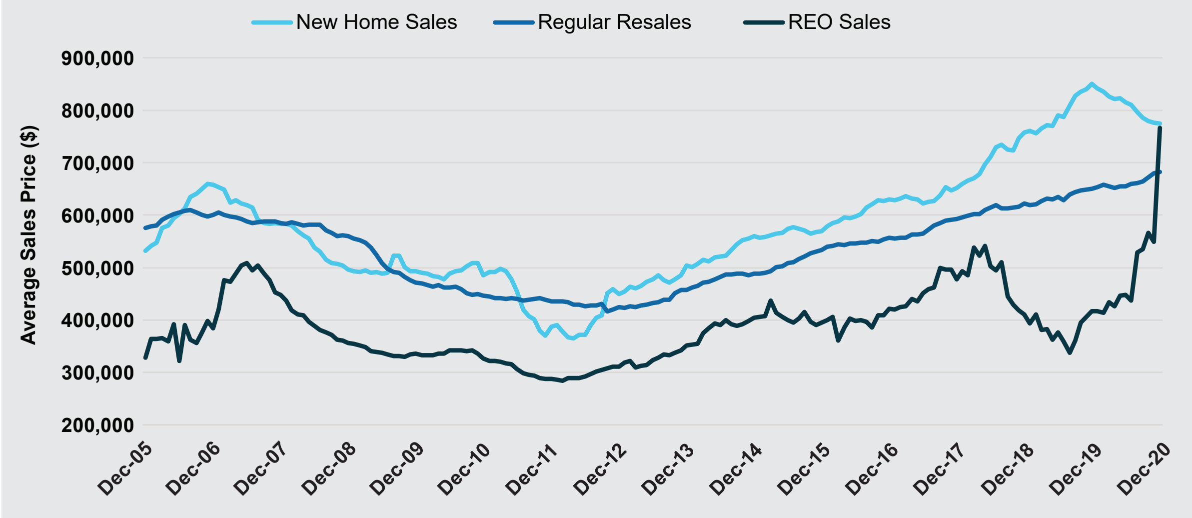
Home Sales Trends

Total home sales, including new and existing single-family homes, townhomes, and condominiums, were high during 2005 when the economy in the HMA was expanding. As the market began to weaken by the end of 2006, the number of homes sold fell significantly, declining by an average of 990, or 20 percent, annually from 2006 through 2008 (Zonda). Slow population growth and weak economic conditions caused home sales to remain low from 2009 through 2011, averaging 3,100 total homes sold annually. Growth in real estate owned (REO) home sales increased by an average of 140, or 18 percent, annually from 2009 through 2011, and offset average annual declines in new home sales of 110, or 35 percent. As the economy in the HMA began to recover during 2011, the housing market started to improve; total home sales increased from 2012 through 2013 by an average of 570 homes, or 15 percent, annually. Since 2013, total home sales have fluctuated but have averaged approximately 4,500 homes annually.

REO Sales and Delinquent Mortgages

The recent economic downturn caused by the COVID-19 pandemic has contributed to a sharp increase in the rate of seriously delinquent mortgages and REO properties. The increase in the rate began in June 2020 as many homeowners struggled to make mortgage payments due to loss

Figure 9. 12-Month Average Sales Price by Type of Sale in the San Luis Obispo HMA



REO = real estate owned.
Source: Zonda

of income. As of December 2020, 2.5 percent of home loans in the HMA were seriously delinquent or had transitioned into REO status, up from 0.3 percent during December 2019 (CoreLogic, Inc.). By comparison, during January 2010, the rate of seriously delinquent mortgages and REO properties peaked at 6.0 percent. The December 2020 rate in the San Luis Obispo HMA was lower than the 3.3-percent rate for California and the 4.0-percent rate for the nation. During 2020, REO home sales accounted for approximately 1 percent of total sales, down from a peak of 30 percent during 2011 (Zonda). The average sales price of an REO home in the HMA increased sharply during 2020, up 83 percent to $765,700.

Home Sales Price

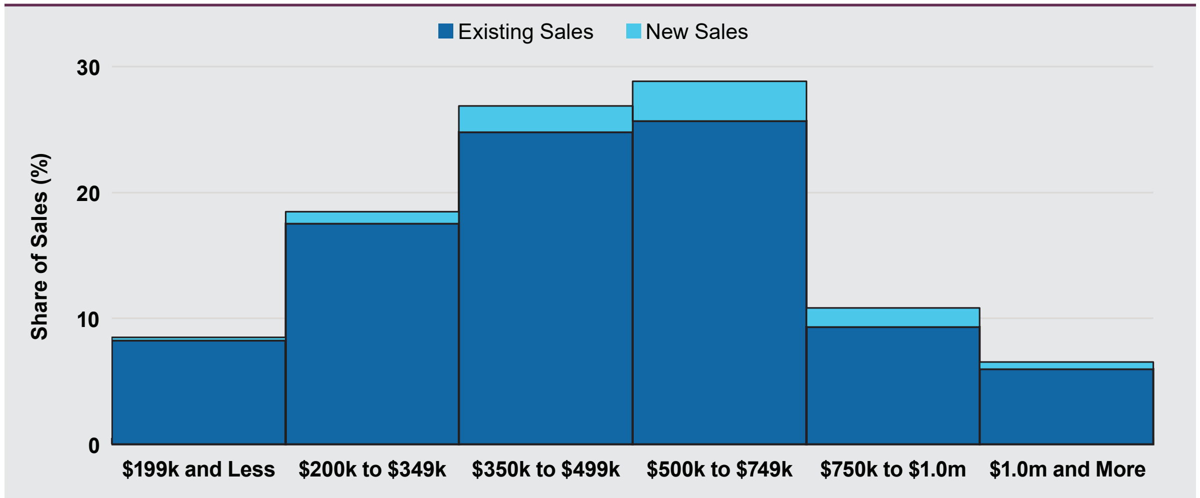
After reaching a high of $608,900 in 2006, the average home sales price declined as the market softened (Zonda). The average home sales price fell by an average of $29,750, or 6 percent, annually from 2006 through 2011, to a low of $390,000 in 2011. Increasing numbers of relatively low-priced REO sales contributed to declining sales prices during that period. The average sales price of an REO property was $288,500 in 2011, compared with a regular resale price of $435,800. As demand for sales housing increased, home prices have risen each year since 2012. The average home sales price increased by an average of $33,500, or 7 percent, each year from 2012 through 2020, to a record high of $691,400.

Low inventory levels and high demand have contributed to the rise in the average home price in the HMA. Overall, homes priced from $500,000 to $749,000 accounted for the largest share of sales among price ranges during 2020 (Figure 10).

Sales Construction Activity

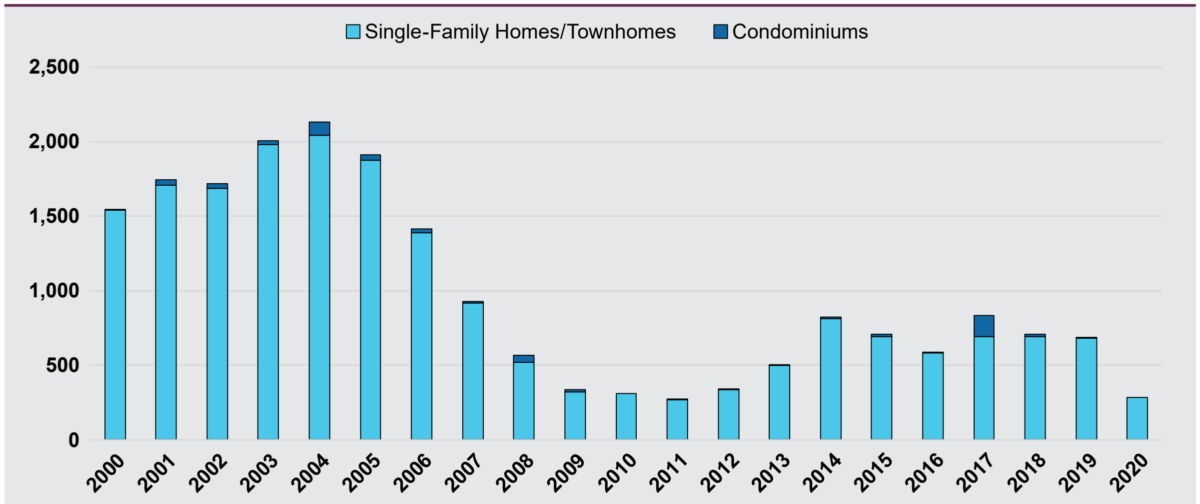
Sales construction activity in the HMA—as measured by the number of single-family homes, townhomes, and condominiums (hereafter, homes) permitted—has not returned to levels from the early to mid-2000s since declining to record lows from 2009 through 2012 (Figure 11). From 2001 through 2004, homebuilding activity generally rose as the population of the HMA grew, increasing by an average of 150 homes permitted, or 8 percent, annually, to a high of 2,125 homes by 2004. From 2005 through 2008, the number of homes permitted declined as the market softened during the years leading up to and during the housing market crisis, falling by an average of 390 homes, or 28 percent, annually before averaging only 310 homes permitted a year from 2009 through 2012. By 2013, sales construction activity increased to 500 homes permitted before increasing 64 percent to 820 homes permitted in 2014, as the sales market began to improve and net in-migration returned to pre-recessionary levels. Despite the subsequent tightening of sales housing market conditions, new home construction from 2015 through 2019 remained relatively low and steady, averaging 700 homes permitted annually, partly because of slowing population growth. During

Figure 10. Share of Overall Sales by Price During the 12 Months Ending December 2020 in the San Luis Obispo HMA



Note: New and existing sales include single-family homes, townhomes, and condominium units.
Source: Zonda

Figure 11. Average Annual Sales Permitting Activity in the San Luis Obispo HMA



Notes: Includes single-family homes, townhomes, and condominiums. Data for 2020 are through December 2020.
Sources: U.S. Census Bureau, Building Permits Survey; 2000 through 2019—final data and estimates by the analyst; 2020—preliminary data and estimates by the analyst

2020, approximately 280 homes were permitted, compared with 680 homes during 2019 (preliminary data, with estimates by the analyst).

New Construction

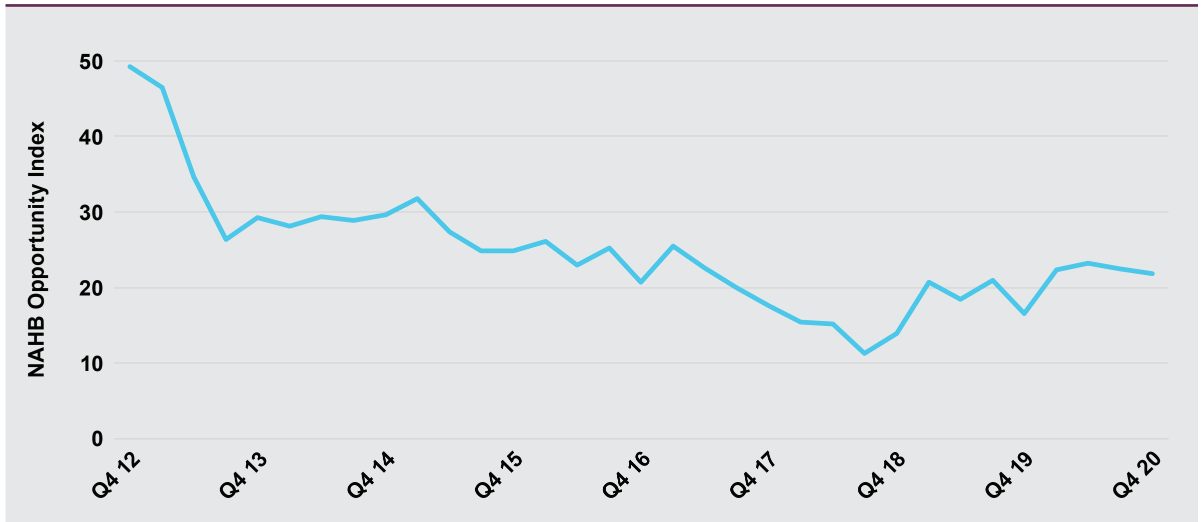
Although new home construction is occurring throughout the HMA, most recent new home developments are concentrated in the city of San Luis Obispo, including The Arroyos at Righetti, which will have 113 three- and four-bedroom homes ranging from 1,722 to 2,534 square feet and with prices starting at $847,900. In addition, there are two housing developments underway that will provide relatively lower priced housing options. The first of those is the 720-home Avila Ranch, which will have a mix of condominiums, townhomes, and single-family homes, with prices ranging from $250,000 to $750,000. The second is San Luis Ranch, which will have 216 condominiums, 80 townhomes, and 281 single-family homes at buildout. Prices will range from the $300,000s to the $600,000s, and the first units are expected to be completed in late 2021. Those two developments will offer people who live or work in the city of San Luis Obispo the opportunity to purchase a home before becoming available to buyers from outside the city.

Housing Affordability in the HMA: Sales

The affordability of buying a home in the HMA has generally declined since 2012 as home prices have increased each year (Figure 12). Low inventory levels have placed upward pressure on home prices, dampening growth in homeownership—particularly in areas within the HMA that have relatively lower income households. The National Association of Home Builders (NAHB)/Wells Fargo Housing Opportunity Index for the San Luis Obispo HMA, which represents the share of homes sold that would have been affordable to a family earning the local median income, was 21.8 during the fourth quarter of 2020, up from 16.5 during the fourth quarter of 2019 but down from a high of 49.2 during the fourth quarter of 2012. The HMA was the ninth least affordable area among metropolitan areas in the nation during the fourth quarter of 2020, when 259, or 97 percent, of the 268 ranked areas in the nation were more affordable than the San Luis Obispo HMA.

Low housing affordability in the HMA has made it difficult for first-time homebuyers to enter homeownership. The HUD First-Time Homebuyer Affordability Index measures the median household income for householders ages 25 to 44 years old relative to the income needed to purchase the 25th percentile-priced home. The index has generally declined since reaching a peak of 0.94 in 2012 when the median income for householders ages 25 to 44 years old was still less than the income needed to afford

Figure 12. San Luis Obispo HMA Housing Opportunity Index



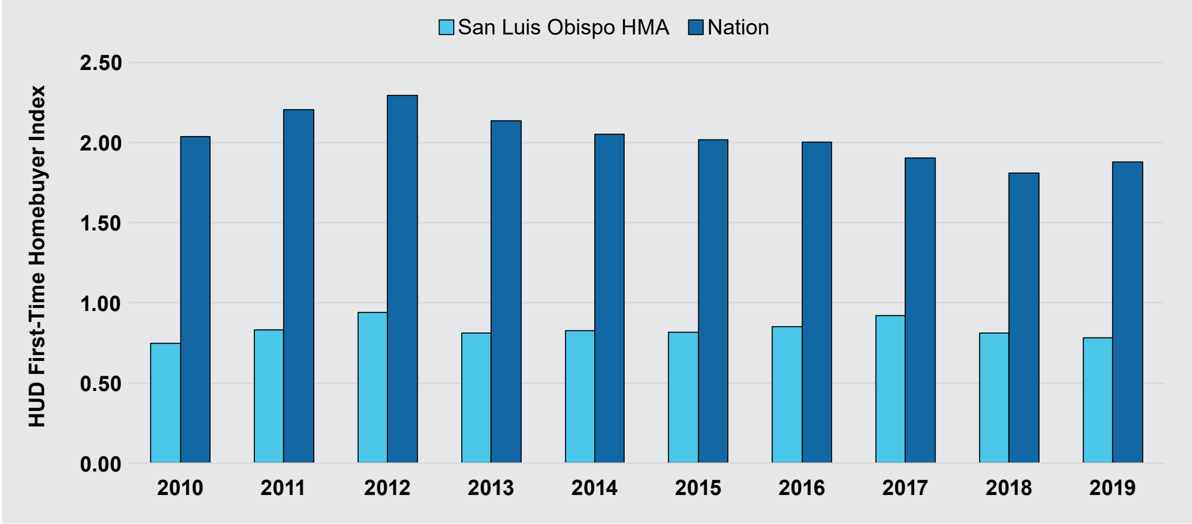
NAHB = National Association of Home Builders. Q4 = fourth quarter.
Sources: NAHB; Wells Fargo

the 25th-percentile priced home (Figure 13). During 2019, the index was 0.78, down from 0.81 in 2018. The decline was partly because of a 7-percent year-over-year increase in the 25th-percentile-priced home to $432,100, whereas the median income of householders aged 25 to 44 years declined 4 percent. The national index, however, increased from 1.81 in 2018 to 1.88 in 2019, remaining above 1.00 every year during the past decade.

Forecast

During the next 3 years, demand is estimated for 910 new homes in the HMA (Table 6). The 95 homes currently under construction will meet a portion of the demand during the first year of the forecast.

Figure 13. San Luis Obispo HMA HUD First-Time Homebuyer Index



Sources: American Community Survey, 1-year data; Federal Housing Finance Agency; Zonda

Table 6. Demand for New Sales Units in the San Luis Obispo HMA During the Forecast Period

	Sales Units
Demand	910 Units
Under Construction	95 Units

Note: The forecast period is from January 1, 2021, to January 1, 2024.
Source: Estimates by the analyst

Rental Market

Market Conditions: Slightly Tight

Despite fluctuations in the apartment market vacancy rate since 2005, the average apartment rent in the HMA has increased every year since 2011.

Current Conditions and Recent Trends

The rental housing market in the San Luis Obispo HMA is slightly tight, with an overall estimated rental vacancy rate of 4.0 percent, down from 5.5 percent in April 2010 (Table 7). Rising for-sale home prices and generally growing enrollment at Cal Poly have contributed to strong rental demand since 2010. Approximately 73 percent of renter households in the HMA reside in single-family homes, mobile homes, townhomes, and two- to four-unit structures (2019 ACS 1-year estimates). The remainder of renter households reside in multifamily structures with five or more units, typically apartments.

Single-Family Home Rentals

An estimated 45 percent of renter households in the HMA reside in single-family homes, down from 50 percent in 2010 (2010 and 2019 ACS 1-year estimates). Currently, the market for single-family rental homes is tight, unchanged from a year ago. Vacancy rates for professionally managed single-family rental homes during 2020 averaged 1.8 percent, unchanged from both a year ago and 2012, the earliest data available (CoreLogic, Inc.). By number of bedrooms, vacancy rates during 2020 ranged from 1.7 percent for four-bedroom homes to 3.7 percent for one-bedroom homes. Vacancy rates increased slightly for most unit types from a year ago, except for one-bedroom homes, which declined by 0.5 percentage point. The average rent increased the most for two-bedroom single-family homes, up 6 percent from a year earlier to $2,489. The average rent for three-bedroom homes increased 3 percent from a year ago to $2,823. Rents for one- and four-bedroom homes increased 1 percent each, to $1,956 and $3,367, respectively. Since 2012, average rents for each unit type have increased by at least 4 percent a year.

Table 7. Rental and Apartment Quick Facts in the San Luis Obispo HMA

		2010 (%)	Current (%)
Rental Market Quick Facts	Rental Vacancy Rate	5.5	4.0
		2010 (%)	2019 (%)
	Occupied Rental Units by Structure		
	Single-Family Attached & Detached	50	45
	Multifamily (2–4 Units)	21	25
	Multifamily (5+ Units)	22	26
	Other (Including Mobile Homes)	7	3

Notes: The current date is January 1, 2021. Percentages may not add to 100 due to rounding.
Sources: Rental vacancy rates—2010 Census and estimates by the analyst; occupied rental units by structure—2010 and 2019 American Community Survey, 1-year data

Apartment Market Conditions

The apartment market is slightly tight but easing, with a 3.0-percent vacancy rate as of the fourth quarter of 2020, up slightly from the 2.9-percent rate during the fourth quarter of 2019 (Figure 14; Moody's Analytics REIS). The apartment vacancy rate was highest, at 4.6 percent, during 2014. Vacancy rates increased recently because of weak economic conditions, net out-migration, and high levels of rental construction activity during recent years. The average monthly apartment asking rent in the HMA was $1,329 during the fourth quarter of 2020, 2 percent higher than $1,300 during the fourth quarter of 2019.

Student Housing

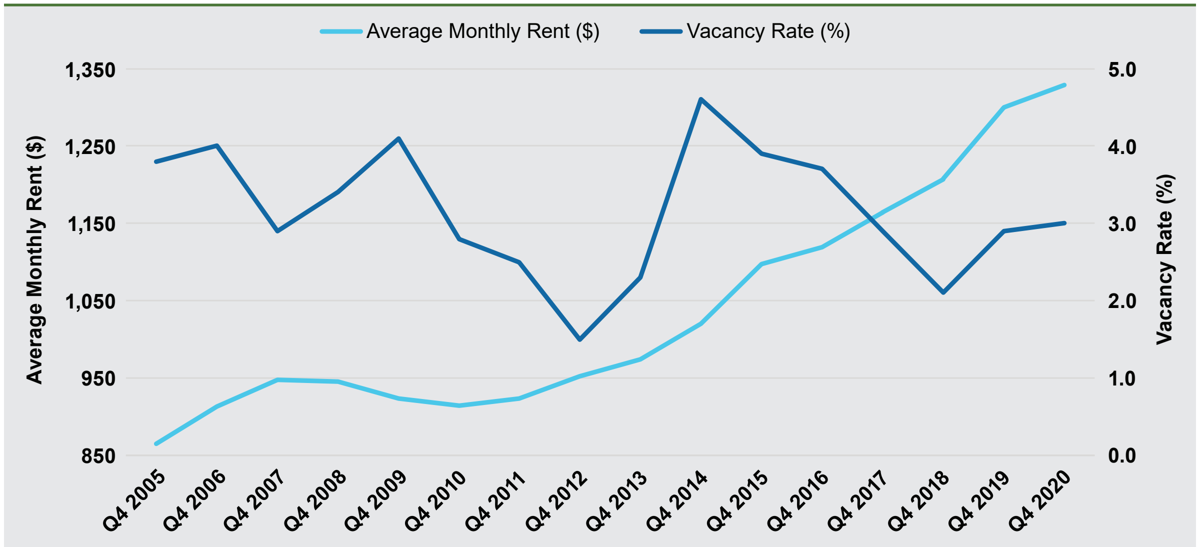
Since 2001, more than 80 percent of new first-time freshmen who enroll at Cal Poly originate from outside the central coast of California—or beyond 50 miles from the HMA—and typically need to relocate to attend school (Cal Poly

Institutional Research). Because of the pandemic and a temporary shift to remote classes, there is uncertainty concerning the number of students that moved to the HMA during the fall of 2020; however, from the available data, 62 percent of new first-time freshmen lived in on-campus housing during the fall of 2020, compared with nearly 100 percent during the fall of 2019. A portion of student housing demand is primarily met by the 8,500 student beds and bedrooms in residence halls and apartments on the Cal Poly campus. In 2020, an estimated 10,000 students lived off campus in the city of San Luis Obispo, where Cal Poly is located. Approximately 20 percent of Cal Poly students who enrolled in the fall of 2020 lived in on-campus housing—approximately 4,500 students—compared with 8,500 students who typically live in on-campus dormitories and apartments. The 2020 percentage was lower than in previous years because of the COVID-19 pandemic. Despite 2 years of decline, student enrollment has generally increased an average of 2 percent, or by 450 students, each year since 2012. Student enrollment is expected to continue to increase during the next 3 years. Currently, there are no plans to add additional student housing.

Housing Affordability: Rental

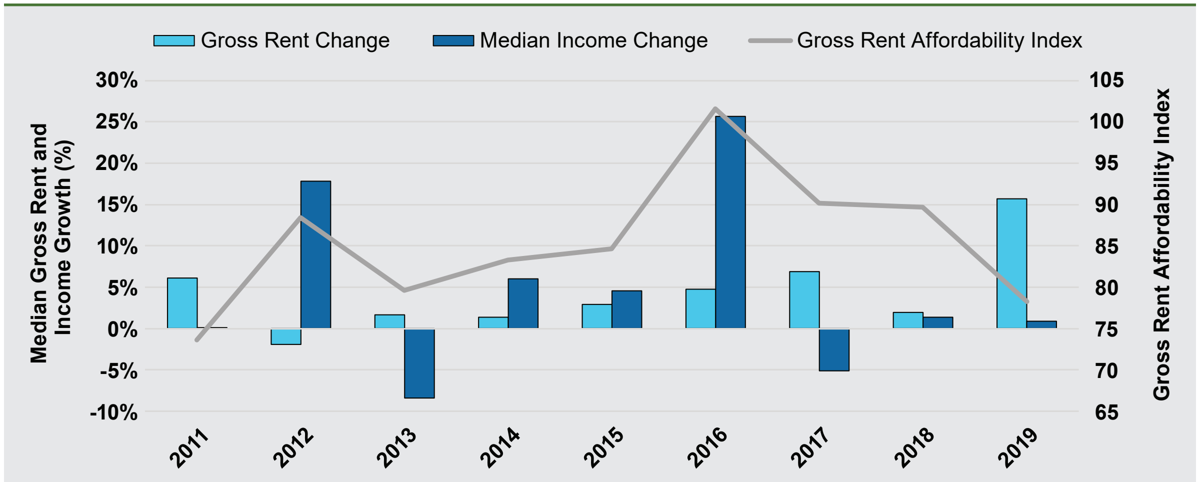
Rental affordability in the San Luis Obispo HMA has trended downward after peaking in 2016 (Figure 15). The median monthly gross rent in the HMA rose 26 percent from $1,313 in 2016 to $1,654 in 2019. During the same period, the

Figure 14. Apartment Rents and Vacancy Rates in the San Luis Obispo HMA



Q4 = fourth quarter.
Source: Moody's Analytics REIS

Figure 15. San Luis Obispo HMA Gross Rent Affordability Index



Notes: Rental affordability is for the larger San Luis Obispo MSA. The Gross Rent Affordability Index differs from the HUD Rental Affordability Index published on the U.S. Housing Market Conditions website in that it is based on combined rent and utilities expenditure.
Source: American Community Survey, 1-year data

median renter household income declined nearly 3 percent from $53,335 to $51,765. As a result, the HUD Gross Rent Affordability Index, a measure of median renter household income relative to qualifying income for the median-priced rental unit, declined from 101.6 in 2016 to 78.2 in 2019. The index, however, is higher than the recent low of 73.7 in 2011.

Renter Cost Burdens

The percentage of cost-burdened households in the HMA is higher than for the nation. During the 2013-through-2017 period, an estimated 22.8 percent of all renter households in the HMA were cost burdened—spending between 30 and 49 percent of their income on rent—while 26.7 percent were severely cost burdened, spending more than 50 percent of income toward rent (Table 8). By comparison, the proportions of renter households nationwide that were cost burdened and severely cost burdened were 21.8 and 22.9 percent, respectively. Cost burdens are also particularly notable for lower-income renter households in the HMA. For renter households with incomes less than 50 percent of the Area Median Family Income (AMFI), 20.6 percent were cost burdened, but most households at these income levels, or 61.4 percent, were severely cost burdened. By comparison, nationwide, 25.6 percent of lower income renter households were cost burdened, whereas 50.1 percent were severely cost burdened.

Table 8. Percentage of Cost-Burdened Renter Households by Income in the San Luis Obispo HMA and the Nation, 2013–2017

	Cost Burdened		Severely Cost Burdened	
	San Luis Obispo HMA	Nation	San Luis Obispo HMA	Nation
Renter Households with Income <50% HAMFI	20.6	25.6	61.4	50.1
Total Renter Households	22.8	21.8	26.7	22.9

HAMFI = HUD area median family income.
Note: "Cost-burdened" households spend between 30 and 49 percent of their income on rent, and "severely cost-burdened" households spend more than 50 percent of their income on rent.
Sources: Consolidated Planning/CHAS Data, 2013–2017 American Community Survey, 5-year estimates (huduser.gov)

Homelessness

Approximately 1,500 people throughout the HMA were homeless in 2019 (Point-in-Time Count). Of the number of people who were homeless in the HMA, approximately 79 percent were unsheltered, compared with approximately 72 percent in California and 37 percent throughout the nation, Puerto Rico, and the United States territories.

Policy Initiatives

To address homelessness and housing affordability issues in the HMA, several local and statewide policy initiatives are in place. The county of San Luis Obispo has adopted an inclusionary housing ordinance; it requires that residential developments with two or more units, mixed-use developments, subdivisions of land, or commercial developments of 5,000 square feet or more in size reserve a portion of units for exclusive occupancy of moderate-, low-, or very low-income households. However, developers can evade the requirement by paying an in-lieu-of fee. The ordinance only applies to developments located in the inland portions of the county. In addition, affordable housing incentives are available to developers in the city of San Luis Obispo. Those incentives include residential density bonuses, fee reductions or waivers, city installation of off-site improvements, direct city financial assistance, subdivision, zoning, or other exceptions to city standards, among others.

Affordable Housing Options: LIHTC, PBRA, HCV

The low-income housing tax credit (LIHTC) program is the primary funding source for new affordable rental housing in the nation. From 2000 through 2009, 730 new LIHTC units were placed in service in the HMA—an average of approximately 75 units annually. Since 2010, 360 new LIHTC units—or an average of

35 units annually—have been placed in service in the HMA. Of those placed in service since 2010, approximately 63 percent have been in the city of Paso Robles and 17 percent in the city of San Luis Obispo. In addition to LIHTC, income-eligible residents may qualify for project-based rental assistance (PBRA) or housing choice vouchers (HCVs) through the local public housing authority (PHA). The PHAs in the HMA administered 2,515 HCVs in 2020 (Table 9). The waitlists for HCVs and public housing in the HMA are currently closed, with a waiting time of approximately 2 to 5 years. There are 2,785 subsidized units through PBRA and other programs (Picture of Subsidized Households). The number of households that have an HCV in the HMA has increased 38.5 percent since 2010. The increase in assisted households has occurred as an inflation-adjusted rent subsidy from HUD has increased 9.1 percent since 2010; during the same time, the inflation-adjusted tenant contribution for HCVs declined 6.1 percent. By comparison, the total number of voucher households in the nation increased 13.4 percent since 2010, whereas the inflation-adjusted HUD subsidy increased 0.4 percent, and the inflation-adjusted tenant contribution declined 0.2 percent.

Rental Construction Activity

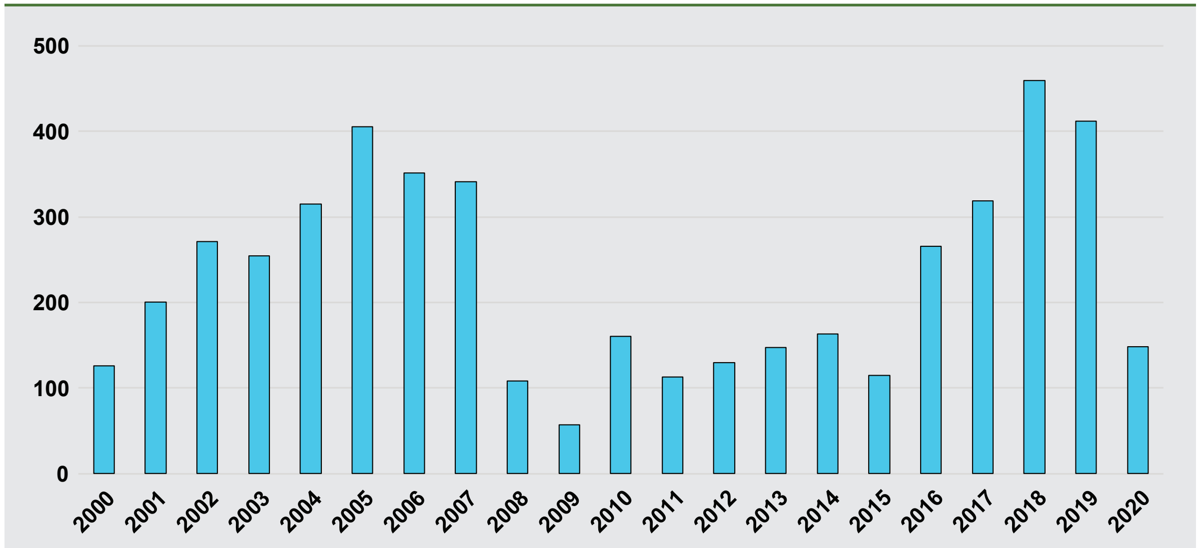
In recent years, rental construction activity—as measured by the number of rental units permitted—has surpassed the high levels reached during the mid-2000s (Figure 16). From 2001 through 2005, rental construction activity increased by an average of 55 units, or 26 percent, a year to a peak of 410 units in 2005 before slowing to an average of 350 units a year during 2006 and 2007. Because of the Great Recession, builders drastically scaled back the level of construction activity. During 2008

Table 9. Picture of Subsidized Households in the San Luis Obispo HMA and the Nation, 2020

	San Luis Obispo HMA	San Luis Obispo HMA Change Since 2010	National Total	National Change Since 2010
Total Assisted Households (2020)	2,860	15.4%	4,599,832	3.9%
Total Housing Voucher Households (2020)	2,515	38.5%	2,313,166	13.4%
Average HCV Tenant Monthly Contribution	$447	-6.1%	$386	-0.2%
Average Monthly HUD Subsidy	$970	9.1%	$834	0.4%

HCV = housing choice voucher.
Note: Dollar changes are inflation-adjusted using the Consumer Price Index for All Urban Consumers (CPI-U).
Source: HUD Picture of Subsidized Households

Figure 16. Average Annual Rental Permitting Activity in the San Luis Obispo HMA



Notes: Includes apartments and units intended for rental occupancy. Data for 2020 are through December 2020.
Sources: U.S. Census Bureau, Building Permits Survey; 2000 through 2019—final data and estimates by the analyst; 2020—preliminary data and estimates by the analyst

and 2009, the number of rental units permitted averaged only 85 units annually. Construction activity remained relatively low from 2010 through 2015, averaging 140 units a year. The overall period of low construction activity contributed to the tightening of the rental market. By 2016, construction began to increase notably, rising by an average of 110 units, or 59 percent, annually from 2016 through 2018. Despite the population decline in 2019, rental construction activity remained relatively high, although it declined slightly to 410 units. During 2020, approximately 150 rental units were permitted, down from 410 units permitted a year earlier (preliminary data, with estimates by the analyst).

New Construction

Rental developments under construction are concentrated in the city of San Luis Obispo, with additional units underway in the city of Atascadero. 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 during the fourth quarter of 2021. In addition, the 96-unit Twin Creeks Apartments is under construction in the city of San Luis Obispo, with an expected completion date in 2022. In the city of Atascadero, Emerald Ridge, a 208-unit townhome-style apartment community, is currently under construction and will include 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 Emerald Ridge development, which will include 36 units, is expected to be completed during the summer of 2021. Construction of the next 72 units during the second phase is expected to start after the first phase is complete. The third and final phase will include the remaining 100 units and is expected to be complete by 2024 or 2025. 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.

Forecast

During the 3-year forecast period, demand is estimated for 680 new rental units in the HMA (Table 10). The 330 units under construction are expected to satisfy a portion of the demand. Demand is expected to be relatively steady throughout the forecast period. Apartment market conditions may ease during the first year with the absorption of units underway.

Table 10. Demand for New Rental Units in the San Luis Obispo HMA During the Forecast Period

	Rental Units
Demand	680 Units
Under Construction	330 Units

Note: The forecast period is January 1, 2021, to January 1, 2024.
Source: Estimates by the analyst

Terminology Definitions and Notes

A. Definitions

Building Permits/ Permitting/ Permitted	Building permits do not necessarily reflect all residential building activity that occurs in an HMA. 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.
Cost Burdened	Spending more than 30 percent of household income on housing costs.
Demand	The demand estimates in the analysis are not a forecast of building activity. They are the estimates of the total housing production needed to achieve a balanced market at the end of the 3-year forecast period given conditions on the as-of date of the analysis, growth, losses, and excess vacancies. The estimates do not account for units currently under construction or units in the development pipeline.
Forecast Period	1/1/2021–1/1/2024—Estimates by the analyst.
Home Sales/ Home Sales Prices	Includes single-family, townhome, and condominium sales.
Net Natural Change	Net natural change is resident births minus resident deaths.
Other Vacant Units	In this analysis conducted by the U.S. Department of Housing and Urban Development (HUD), other vacant units include all vacant units that are not available for sale or for rent. The term therefore includes units rented or sold but not occupied; held for seasonal, recreational, or occasional use; used by migrant workers; and the category specified as "other" vacant by the Census Bureau.

Regular Resales	**These are existing home sales that exclude distressed home sales.**
Rental Market/ Rental Vacancy Rate	**Includes apartments and other rental units such as single-family, multifamily, and mobile homes.**
Seriously Delinquent Mortgages	**Mortgages 90+ days delinquent or in foreclosure.**

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.**
2.	**Urbanized areas are defined using the U.S. Census Bureau 2010 Census Urban and Rural Classification and the Urban Area Criteria.**

C. Additional Notes

1.	**The NAHB Housing Opportunity Index represents the share of homes sold in the HMA that would have been affordable to a family earning the local median income, based on standard mortgage underwriting criteria.**
2.	**This analysis has been prepared for the assistance and guidance of HUD in its operations. The factual information, findings, and conclusions may also be useful to builders, mortgagees, and others concerned with local housing market conditions and trends. The analysis does not purport to make determinations regarding the acceptability of any mortgage insurance proposals that may be under consideration by the Department.**
3.	**The factual framework for this analysis follows the guidelines and methods developed by the Economic and Market Analysis Division within HUD. The analysis and findings are as thorough and current as possible based on information available on the as-of date from local and national sources. As such, findings or conclusions may be modified by subsequent developments. HUD expresses its appreciation to those industry sources and state and local government officials who provided data and information on local economic and housing market conditions.**

D. Photo/Map Credits

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