

COMPREHENSIVE HOUSING MARKET ANALYSIS

Santa Cruz-Watsonville, California

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

As of July 1, 2019

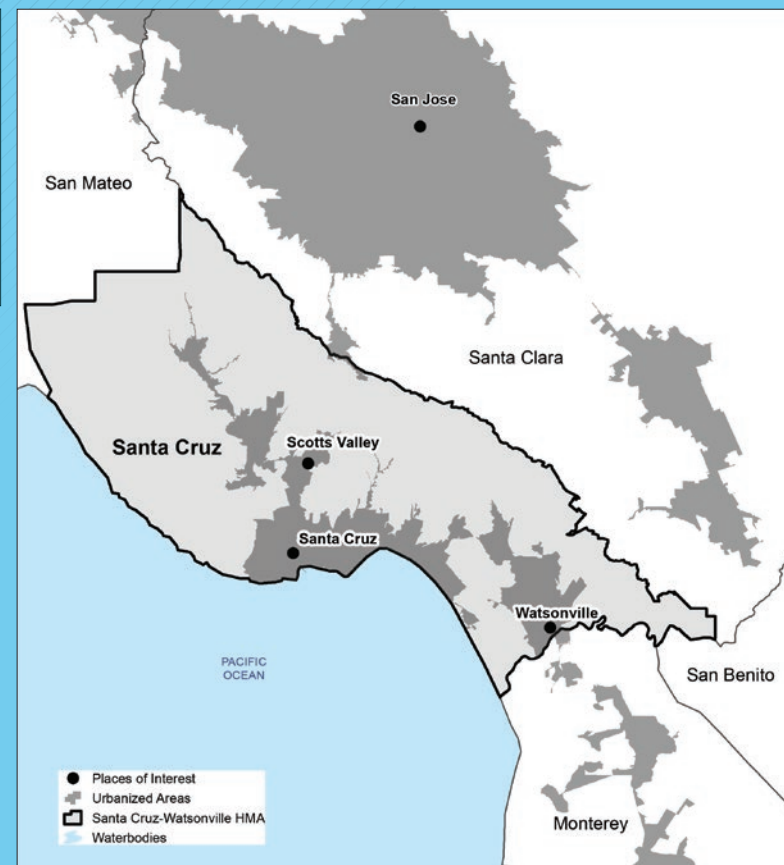


Executive Summary

Housing Market Area Description

The Santa Cruz-Watsonville Housing Market Area (hereafter, Santa Cruz HMA) is coterminous with Santa Cruz County. The HMA is located 30 miles southwest of the San Jose-Sunnyvale-Santa Clara Metropolitan Statistical Area (hereafter, San Jose MSA), frequently referred to as Silicon Valley. The current HMA population is estimated at 274,600.

The Santa Cruz HMA is home to the University of California, Santa Cruz (UC Santa Cruz). The presence of the university, a highly educated workforce, and proximity to Silicon Valley have contributed to several startup tech firms emerging in the HMA since 2010. Tourism is also a major industry, as the HMA is a popular vacation destination because of the presence of both the Santa Cruz mountains and the Pacific Ocean.



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



Strong. Nonfarm payrolls have increased each year since 2011, and expanded by an average of 2,100 jobs, or 2.3 percent, a year from 2011 through 2015.

Job growth has continued but moderated during the past 2 years. During the 12 months ending June 2019, nonfarm payrolls in the HMA increased by 800 jobs, or 0.8 percent, to 103,500 jobs, after a similar increase during the previous 12 months. The government, professional and business services, and manufacturing sectors led growth. During the next 3 years, nonfarm payroll growth is expected to average 0.7 percent annually.

Sales Market



Extremely Tight. Home sales prices during the 12 months ending April 2019 were up approximately 7 percent from a year earlier.

The sales housing market is extremely tight, with a 0.1-percent vacancy rate, down from 1.6 percent in 2010. During the 12 months ending May 2019, the average existing home price was up nearly 7 percent from a year earlier, to \$846,800. New home sales accounted for only 2 percent of total sales, and the average new home sales price fell almost 12 percent to \$858,700 as new developments tended to consist of smaller townhomes further from the most desirable neighborhoods. During the next 3 years, demand is expected for 730 new sales units; the 60 homes currently under construction will meet part of the demand.

Rental Market



Extremely Tight. The current overall rental vacancy rate is estimated at 1.9 percent, down from 3.5 percent in 2010.

During the second quarter of 2019, the apartment vacancy rate remained relatively unchanged at 1.7 percent, compared with 1.6 percent during the second quarter of 2018. During the next 3 years, demand is expected for 570 new rental units in the HMA; the 130 units currently under construction will meet a portion of the demand during the forecast period.

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3-Year Housing Demand Forecast

	Sales Units		Rental Units	
	Total Demand			
Santa Cruz HMA	730		570	
	Under Construction	60	130	

Notes: Total demand represents estimated production necessary to achieve a balanced market at the end of the forecast period. Units under construction as of July 1, 2019. The forecast period is July 1, 2019, to July 1, 2022.

Source: Estimates by the analyst



Economic Conditions

Largest sector: Government

The publicly funded UC Santa Cruz is the largest employer in the HMA, with approximately 8,575 faculty and staff as of the fall 2018 term.

Primary Local Economic Factors

With the presence of the UC Santa Cruz campus, the HMA economy depends on the government sector. UC Santa Cruz enrolled nearly 17,800 students during the fall 2018 term and has an annual economic impact of \$1.3 billion on the regional economy (Choose Santa Cruz). The university was ranked third in the nation in research influence, as measured by the number of times its faculty's published work is cited by scholars worldwide (*Times Higher Education*). The County of Santa Cruz and the City of Santa Cruz, with 2,438 and 870 employees, were the second and third largest employers in the HMA, respectively (Table 1).

The government sector accounted for 22 percent of all nonfarm jobs in the HMA during the 12 months ending June 2019 (Figure 1). In addition to government, the wholesale and retail trade and the leisure and hospitality sectors are also important to the local economy. With numerous tourist attractions, including the Santa Cruz Beach Boardwalk, the Santa Cruz mountains and redwood forests, and the Santa Cruz World Surfing Reserve, the HMA attracts 3 to 4 million visitors a year (Choose Santa Cruz).

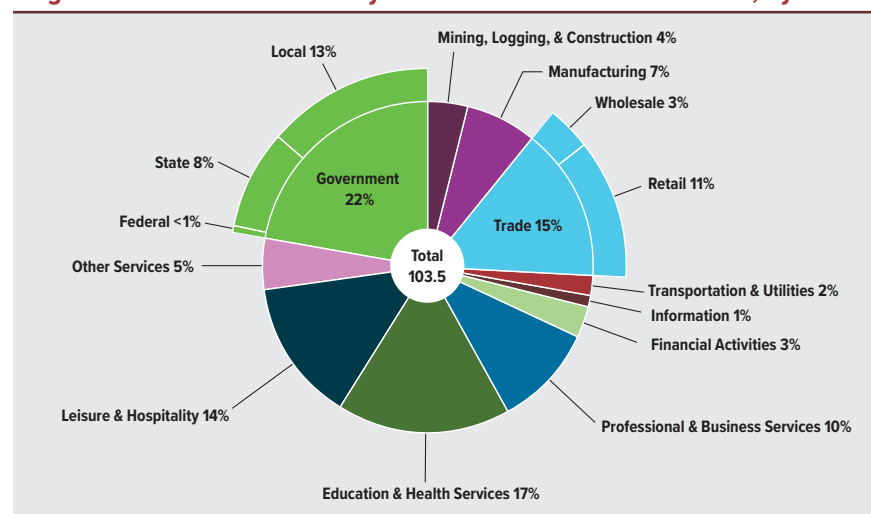
Table 1. Major Employers in the Santa Cruz HMA

Name of Employer	Nonfarm Payroll Sector	Number of Employees
University of California at Santa Cruz	Government	8,569
County of Santa Cruz	Government	2,438
City of Santa Cruz	Government	870
Poly Inc	Professional & Business Services	529
Santa Cruz Beach Boardwalk	Leisure & Hospitality	347
Costco Wholesale Corporation	Wholesale & Retail Trade	314
New Teacher Center	Education & Health Services	211
Looker Data Sciences	Professional & Business Services	209
Santa Cruz Nutritionals	Manufacturing	200
Crow's Nest Restaurant	Leisure & Hospitality	194

Note: Excludes local school districts.

Source: Santa Cruz Economic Development Department

Figure 1. Current Nonfarm Payroll Jobs in the Santa Cruz HMA, by Sector



Notes: Nonfarm payroll is in thousands. Percentages may not add to 100 percent due to rounding.

Source: U.S. Bureau of Labor Statistics

Economic Periods of Significance

2001 Through 2007

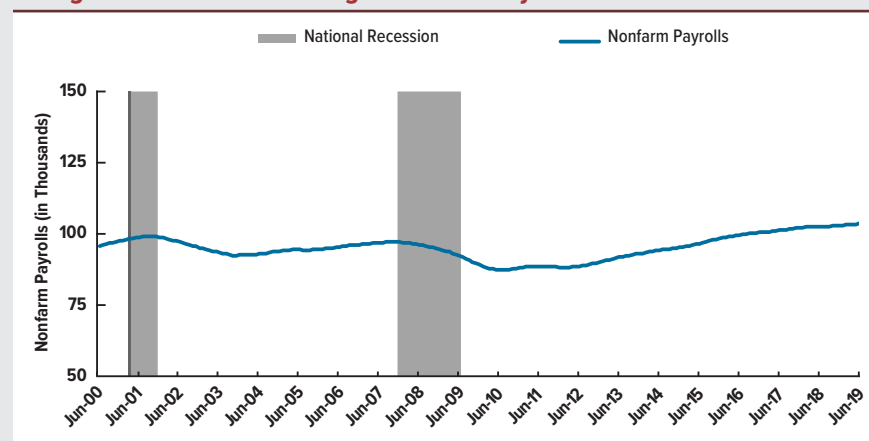
The HMA experienced job losses during the recession that followed the bursting of the dot-com bubble in 2000. Although losses were greatest in Silicon Valley, the Santa Cruz HMA was also affected because it had a significant technology industry due to its proximity to San Jose. During 2001 through 2003, nonfarm payrolls declined by an average of 1,700 jobs, or 1.7 percent, a year; the greatest losses occurred in the professional and business services and the manufacturing sectors, where payrolls fell by 900 and 800 jobs, or 8.4 and 9.5 percent, a year, respectively. Tech jobs in the HMA peaked at almost 9,000 in 2000; a number cut by almost one-half by 2007 (Beacon Economics, LLC).

The HMA subsequently added jobs during the next 4 years; from 2004 through 2007, nonfarm payrolls in the HMA increased by an average of 1,100 jobs, or 1.2 percent, a year, slightly higher than the average rate of 1.0 percent annually for the nation. Gains in the government, professional and business services, and education and health services sectors led job growth in the HMA during the period, with average annual additions of 500, 300, and 300 jobs, or 2.4, 2.7, and 2.1 percent, respectively.

2008 Through 2010

The current period of economic expansion followed 3 years of significant job losses caused by the Great Recession (Figure 2). From 2008 through 2010, nonfarm payrolls decreased by an average of 3,000 jobs, or 3.2 percent, a year, compared with an average decline of 1.4 percent annually for the nation. During the period, the largest declines in the HMA occurred in the mining, logging, and construction; the wholesale and retail trade; and the government sectors, which posted average annual losses of 800, 800, and 700 jobs, or 17.8, 5.0, and 3.1 percent, respectively. The education and health services sector was the only sector to add jobs from 2008 through 2010, expanding by an average of 500 jobs, or 3.3 percent, annually during the period. Figure 3 shows sector growth from 2001 to the current date in the HMA.

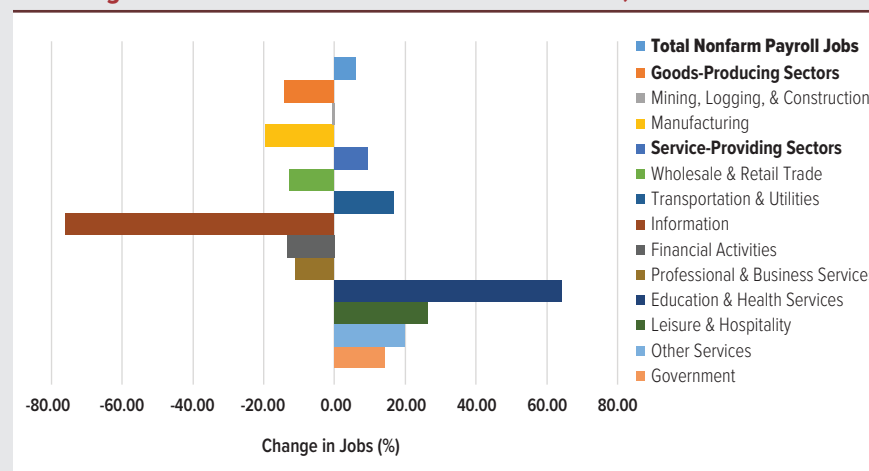
Figure 2. 12-Month Average Nonfarm Payrolls in the Santa Cruz HMA



Note: 12-month moving average.

Sources: U.S. Bureau of Labor Statistics; National Bureau of Economic Research

Figure 3. Sector Growth in the Santa Cruz HMA, 2001 to Current



Note: The current date is July 1, 2019.

Source: U.S. Bureau of Labor Statistics

2011 Through Current

The economy in the Santa Cruz HMA has expanded since 2011, but the rate of job growth began to slow in 2016, partly because of a tight labor market and reduced net in-migration. From 2011 through 2015, payroll growth averaged 2,100 jobs, or 2.3 percent, a year, and by 2015, nonfarm payrolls surpassed the prerecession peak of 97,100 jobs, which occurred in 2007. Since 2016, however, nonfarm payroll growth has slowed to an average of 1.1 percent, or 1,100 jobs, a year. Five sectors have led job growth during this period: the government, leisure and hospitality, education and health services, professional and business services, and other services sectors, each of which added an average of 200 to 300 jobs annually. During the 12 months ending June 2019, nonfarm payrolls increased by 800 jobs, or 0.8 percent to 103,500 (Table 2).

Several high-tech firms in the professional and business services sector have created a variety of engineering jobs in the HMA, and engineering graduates

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

	12 Months Ending June 2018	12 Months Ending June 2019	Absolute Change	Percentage Change
Total Nonfarm Payroll Jobs	102.6	103.5	0.8	0.8
Goods-Producing Sectors	11.7	11.9	0.2	2.0
Mining, Logging, & Construction	4.5	4.5	-0.1	-1.3
Manufacturing	7.2	7.5	0.3	4.1
Service-Providing Sectors	90.9	91.5	0.6	0.7
Wholesale & Retail Trade	15.5	15.4	-0.1	-0.9
Transportation & Utilities	1.6	1.6	0.1	5.4
Information	0.7	0.6	-0.1	-13.8
Financial Activities	3.6	3.6	0.0	0.0
Professional & Business Services	10.2	10.4	0.2	2.2
Education & Health Services	17.9	17.9	0.0	-0.1
Leisure & Hospitality	14.4	14.5	0.1	0.6
Other Services	5.1	5.3	0.1	2.8
Government	22.0	22.3	0.3	1.4

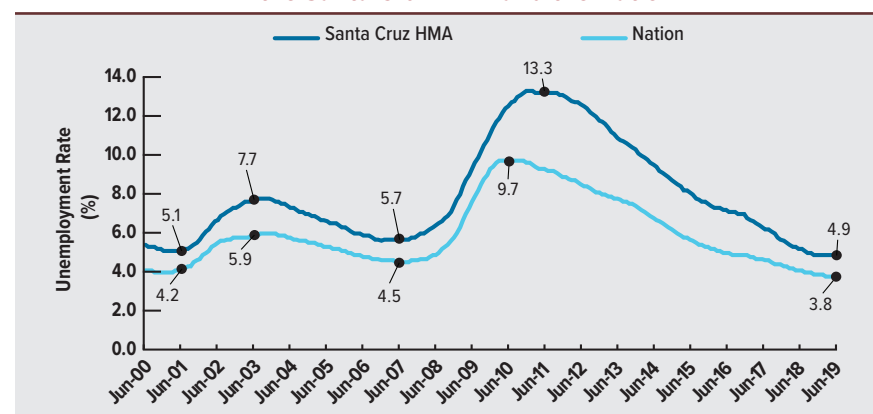
Notes: Based on 12-month averages through June 2018 and June 2019. Numbers may not add to totals due to rounding. Data are in thousands.
Source: U.S. Bureau of Labor Statistics

from UC Santa Cruz and migrants or commuters from San Jose are helping to fill those jobs. During 2017, venture capital deals totaling \$200 million were made in the Santa Cruz HMA—a record high. New jobs include 50 openings at data analytics company Looker Data Sciences (recently acquired by Google LLC); 30 openings at Amazon Web Services, Inc.; and 30 openings at productOps, Inc., a client-based tech solutions company. The HMA has about 5,000 tech jobs in 650 tech firms (Beacon Economics, LLC).

Current Conditions—Unemployment

The unemployment rate averaged 4.9 percent during the 12 months ending June 2019, down from the 5.3-percent rate during the previous 12 months and is currently at its lowest level since 2000 (Figure 4). By comparison, the national unemployment rate was 3.8 percent during the most recent 12-month period. The unemployment rate in the HMA was 5.1 percent during 2001, just before the bursting of the dot-com bubble and rose to 7.7 percent by 2003. The subsequent recovery and housing market boom resulted in the unemployment rate falling to 5.7 percent by 2007, before reaching a peak of 13.3 percent in 2011.

Figure 4. 12-Month Average Unemployment Rate in the Santa Cruz HMA and the Nation



Source: U.S. Bureau of Labor Statistics

Commuting Patterns

Both sales and rental housing are relatively more affordable in the Santa Cruz HMA when compared with neighboring metropolitan areas, and this has had a sizeable impact on commuting patterns. As a result, 20 percent of workers living in the HMA in 2015 commuted to jobs in the San Jose-Sunnyvale-Santa Clara metropolitan area, and 10 percent commuted to jobs in the San Francisco-Oakland-Hayward metropolitan area (U.S. Census, 2015 OnTheMap). Commutation rates have remained relatively stable since 2010 but represent a slightly higher proportion of residents commuting out of the HMA compared with 2005 (Table 3).

Table 3. Santa Cruz HMA Resident Jobs by Place of Work, 2005, 2010, and 2015

Place of Work	Metropolitan Statistical Area	2005 (%)	2010 (%)	2015 (%)
	Santa Cruz-Watsonville	61	56	54
	San Jose-Sunnyvale-Santa Clara	18	19	20
	San Francisco-Oakland-Hayward	8	9	10
	Salinas	7	7	7
	Other	6	9	9

Note: "Other" is the sum of all other metropolitan areas with significant commutation into/out of the HMA.
Source: U.S. Census, 2010 and 2015 OnTheMap

Employment Forecast

Job growth is expected to continue in the Santa Cruz HMA during the next 3 years, but at a slower rate compared with growth since 2010, as real estate costs continue to rise, and net in-migration of skilled labor needed for startup growth declines. Nonfarm payrolls are expected to increase by an average of 730 jobs, or 0.7 percent, annually.

Population and Households

Current population: 274,600

Population growth has been stagnant since 2015 as rising home prices and limited housing options have resulted in average net out-migration of 890 people annually.

Local Geography and Recent Migration Flows

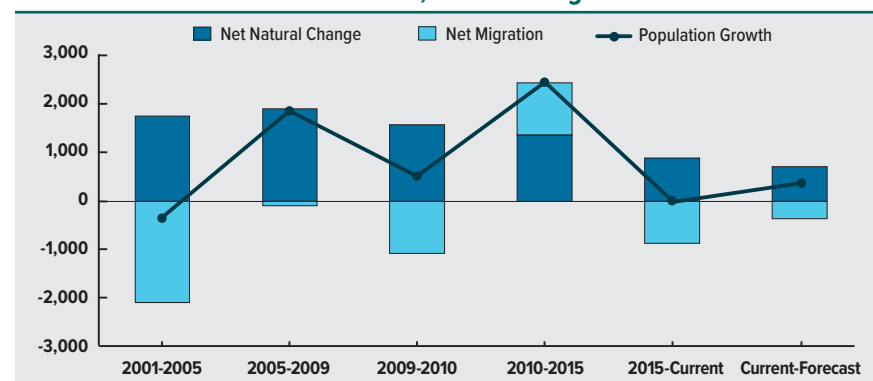
Because of the limited amount of developable land in the HMA, a combined 59 percent of all population growth between 2000 to 2017 has occurred in the cities of Santa Cruz and Watsonville (2010 and 2017 American Community Survey [ACS], 5-year). Table 4 shows population and household growth in the HMA since 2000. Increasing housing costs and concerns about affordability have resulted in net out-migration since 2015. From 2010 to 2015, net in-migration averaged 1,100 people a year, accounting for 43 percent of the increase in population (Figure 5). During 2012 to 2016, most movers originated from relatively higher-cost housing metropolitan areas such as San Jose-Sunnyvale-Santa Clara, San Francisco-Oakland-Hayward, Los Angeles-Long Beach-Anaheim, and Salinas (which includes the Monterey Peninsula), although some residents relocated from less expensive areas such as Sacramento-Roseville-Arden-Arcade (Table 5).

Table 4. Santa Cruz HMA Population and Household Quick Facts

Population Quick Facts		2010	Current	Forecast
	Population	262,382	274,600	275,600
	Average Annual Change	680	1,325	340
	Percentage Change	0.3	0.5	0.1
Household Quick Facts		2010	Current	Forecast
	Households	94,355	98,200	98,600
	Average Annual Change	320	420	140
	Percentage Change	0.3	0.4	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 current date is July 1, 2019, and the forecast date is July 1, 2022.
Sources: 2000 and 2010—2000 Census and 2010 Census; current and forecast—estimates by the analyst

Figure 5. Components of Population Change in the Santa Cruz HMA, 2001 Through the Forecast



Note: Net natural change and net migration totals are average totals over the time period.
Sources: State of California, Department of Finance; current to forecast—estimates by the analyst

Table 5. County-to-County Migration Flows in the Santa Cruz HMA, 2012–2016

Into the HMA	San Jose-Sunnyvale-Santa Clara	4,213
	San Francisco-Oakland-Hayward	2,928
	Los Angeles-Long Beach-Anaheim	2,064
	Sacramento--Roseville--Arden-Arcade	989
	Salinas	882
Out of the HMA	San Francisco-Oakland-Hayward	2,341
	San Jose-Sunnyvale-Santa Clara	2,260
	Salinas	1,430
	Los Angeles-Long Beach-Anaheim	1,002
	Sacramento--Roseville--Arden-Arcade	710

Sources: U.S. Census Metro-to-Metro Migration Flows; 2012–2016 American Community Survey, 5-year data

A growing number of high-income households have moved into the HMA since 2010; 15 percent of all households had incomes of \$200,000 or greater in 2017, up from an inflation-adjusted 10 percent in 2010 (2010 and 2017 ACS, 1-year estimates and estimates by the analyst). A significant proportion of those new high-income households is from the neighboring San Jose-Sunnyvale-Santa Clara metropolitan area, where the median income in 2017 was 49 percent higher,

and home prices are significantly higher, than in the Santa Cruz HMA. Net in-migration from San Jose increased 27 percent between the 2010-to-2014 and 2012-to-2016 periods (U.S. Census Metro-to-Metro Migration Flows).

Because the HMA absorbed an inflow of high-income households, and because there was limited construction activity during this same period, housing costs in the HMA began to increase, which led many residents to migrate out of the HMA. Since 2015, the population has been relatively unchanged as average annual net natural change (resident births minus resident deaths) of 870 people has been offset by average net out-migration of 890 people.

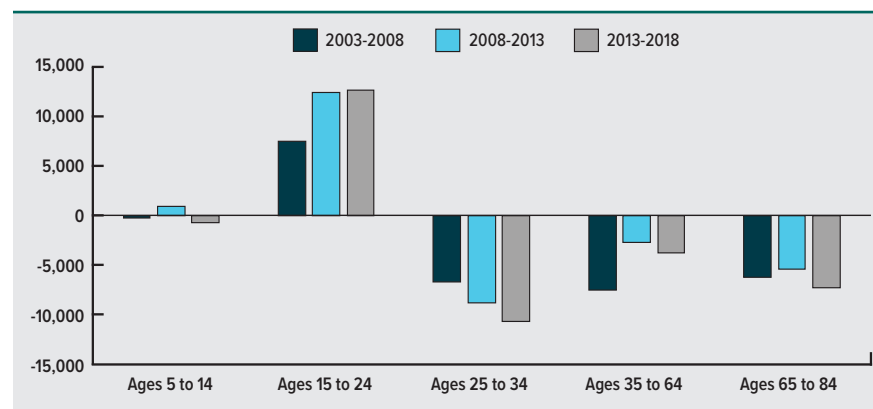
Population and Migration Trends: 2000s

From 2001 to 2005, the population in the HMA declined by an average of 360, or 0.1 percent, annually. Lasting effects of the dot-com bust prompted net out-migration of an average of 2,100 people annually during this period. Although economic conditions fluctuated between growth and decline from 2005 to 2009, a period that included both the peak in the national housing boom and the start of the home foreclosure crisis, population growth remained relatively steady. The HMA added an average of 1,800 people, or 0.7 percent, annually, and net out-migration was minimal, averaging 100 people annually. The population growth rate slowed from 2009 to 2010, to an increase of 510 people, or 0.2 percent, with net out-migration totaling 1,075 people.

Student Enrollment and Migration Trends

Migration by age group in the HMA (Figure 6) is typical for an HMA with a large university presence, with higher levels of net in-migration of college-age people. However, rising enrollment at UC Santa Cruz has not generally followed the overall trends in net in-migration in the HMA, indicating that an increasing number of students are coming from within the HMA. Net in-migration among people aged 15 to 24 remained similar during the 2008-to-2013 (roughly corresponding to the period of high net in-migration and population growth) and the 2013-to-2018 periods. Meanwhile, net out-migration increased during the 2013-to-2018 period compared with the 2008-to-2013 period for all other age groups (State of California, Department of Finance Population Estimates; California Vital Statistics Program; and estimates by the analyst).

Figure 6. Annual Net Migration for Selected Age Groups in the Santa Cruz HMA



Sources: State of California, Department of Finance Population Estimates; California Vital Statistics Program; estimates by the analyst

Enrollment at UC Santa Cruz expanded significantly between the two periods. From 2008 to 2013, fall semester enrollment averaged about 15,700 students, or average annual growth of 0.7 percent (Figure 7). Enrollment growth rose to an average annual increase of 2.5 percent from 2013 to 2018, a period roughly corresponding to overall net out-migration.

Figure 7. UC Santa Cruz Student Enrollment Trends

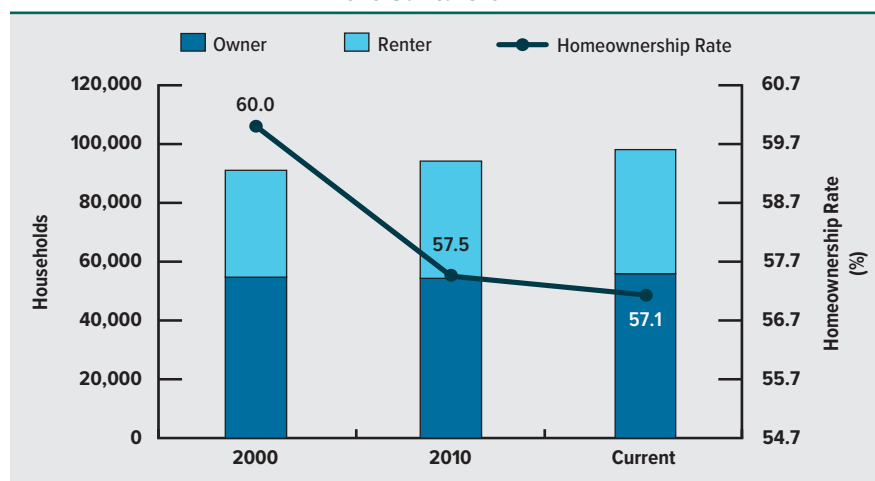


Source: University of California, Santa Cruz

Household Trends

The number of households is estimated at 98,200 as of July 1, 2019, including approximately 56,100 owner households and 42,100 renter households (Figure 8). Since 2010, the number of households has increased by an average of 420, or 0.4 percent, annually, slightly below the 0.5-percent rate of population growth. From 2000 to 2010, the number of households increased by an average of approximately 320, or 0.3 percent, annually, the same rate as population growth.

Figure 8. Households by Tenure and Homeownership Rate in the Santa Cruz HMA



Sources: 2000 and 2010—2000 Census and 2010 Census; current—estimates by the analyst

Forecast

During the forecast period, population growth is expected to average 0.1 percent, or 340 people, a year, a slower pace compared with the 0.5-percent rate since 2010. Net out-migration is likely to continue, and all the population growth is expected to result from net natural change. The number of households is expected to increase at an average of 0.1 percent, or 140, annually during the forecast period, compared with the 0.4-percent rate since 2010.

Home Sales Market Conditions

Market Conditions: Extremely Tight

Despite slowing job growth and net out-migration since 2015, historically sluggish home construction activity has resulted in extremely tight home sales market conditions.

Current Conditions

The home sales market in the Santa Cruz HMA is extremely tight with an overall estimated vacancy rate of 0.1 percent, down from 1.6 percent in April 2010 (Table 6). Despite recent net out-migration and slowing economic growth, the sales market remains tight because of low housing production. The HMA is located between the Pacific Ocean to the west and the Santa Cruz mountains to the east, which reduces the amount of developable land. In addition to topographical restraints, residential development has been clustered in small urbanized areas such as the cities of Santa Cruz, Scotts Valley, and Watsonville because development in many other areas has significant opposition from the community.

Table 6. Home Sales Quick Facts in the Santa Cruz HMA

Home Sales Quick Facts	Santa Cruz HMA		Nation
	Vacancy Rate	0.1%	NA
	Months of Inventory	2.7	3.3
	Total Home Sales	2,800	6,034,000
	1-Year Change	-12%	-5%
	New Home Sales Price	\$858,700	\$381,400
	1-Year Change	-12%	1%
	Existing Home Sales Price	\$846,800	\$290,700
	1-Year Change	7%	3%
	Mortgage Delinquency Rate	0.4%	1.4%

NA = data not available.

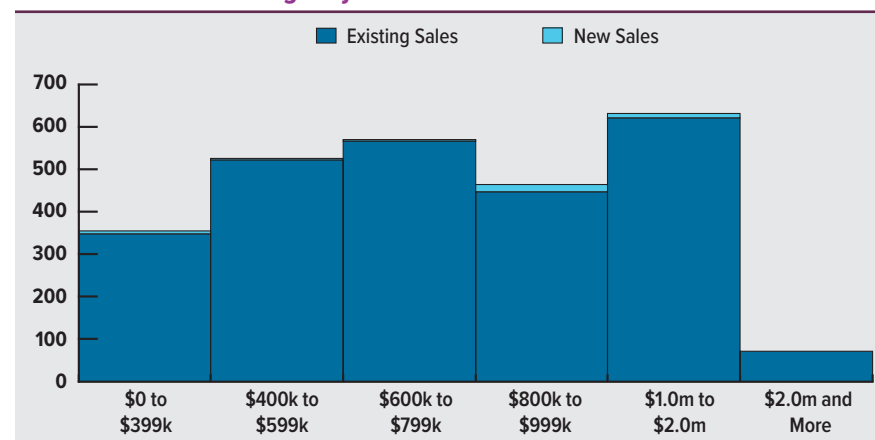
Notes: Vacancy rate is as of the current date; home sales and prices are for the 12 months ending May 2019, and months of inventory and mortgage delinquency data are as of May 2019. The current date is July 1, 2019. Source: CoreLogic, Inc., with adjustments by the analyst

Therefore, demand is greatest for existing homes, particularly in lower price ranges, where a limited for-sale inventory exists. As of May 2019, a 2.7-month supply of existing homes was available for sale, up from a 2.1-month supply a year earlier, but down from a high of 30.9 months in October 2008 (CoreLogic, Inc.).

Home Sales and Prices

During the 12 months ending May 2019, new and existing home sales totaled 2,800, down 12 percent from a year ago but 34 percent higher than the low of 2,125 sales during the same 12-month period in 2008, near the start of the Great Recession (CoreLogic, Inc., with adjustments by the analyst). An influx of high-income households into the HMA, combined with low levels of available inventory, have resulted in relatively high home sales prices and positive year-over-year price appreciation every year since 2013. The average sales price was \$847,000 during the 12 months ending May 2019, a 6-percent increase from the previous 12-month period. Approximately one-fourth of all sales during the 12 months ending May 2019 were homes priced between \$1 million and \$2 million (Metrostudy, A Hanley Wood Company; Figure 9).

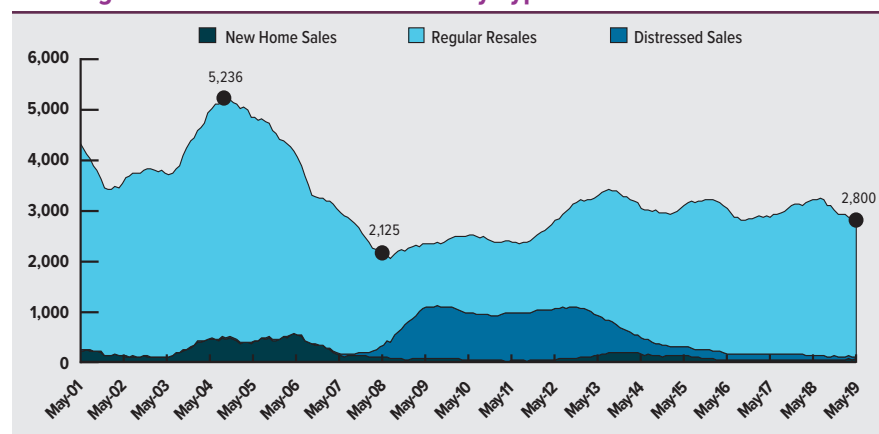
Figure 9. Share of Sales by Price Range During the 12 Months Ending May 2019 in the Santa Cruz HMA



Source: Metrostudy, A Hanley Wood Company

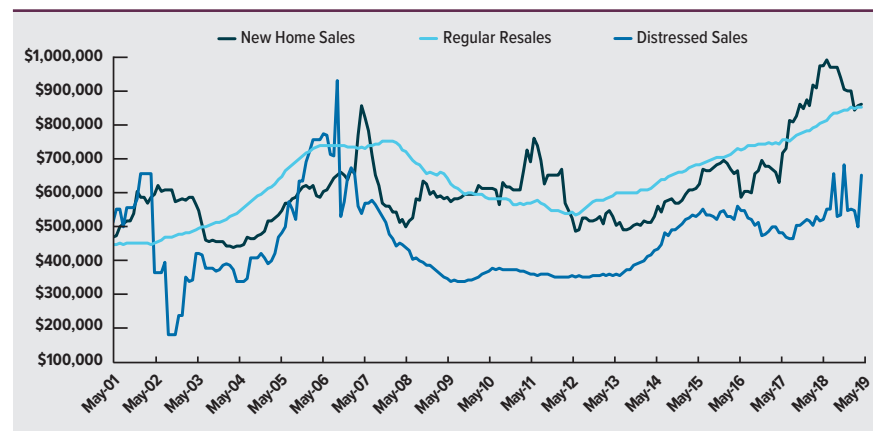
While home sales were weak from 2001 through 2005, a period that included the recovery from the dot-com bust, and averaged a 2-percent decline per year, average home sales prices rose an average of 11 percent per year during the period (CoreLogic, Inc., with adjustments by the analyst). From 2006 through 2008, however, the sales market softened, and home sales declined an average of 20 percent a year, while the average sales price declined an average of 7 percent a year. An increasing number of distressed home sales (real estate owned [REO] and short sales) were added to the for-sale inventory during the period. Distressed sales accounted for 7 percent of total existing sales during the 2006-through-2008 period, and the average number of distressed sales tripled every year (Figure 10). By comparison, distressed sales during the 2001-through-2005 period accounted for less than 1 percent of total home sales. Total home sales increased an average of 9 percent annually from 2009 through 2012, due in part to the absorption of distressed inventory as well as an average 3-percent decline in sales prices annually. The influx of higher-income residents and the reduction in distressed inventory, which reduced the number of homes available for sale at more affordable price ranges, has led to an average decline of 1 percent annually in home sales from 2013 through 2018. Meanwhile, the average sales price has increased 9 percent annually during the same period (Figure 11).

Figure 10. 12-Month Sales Totals by Type in the Santa Cruz HMA



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

Figure 11. 12-Month Average Sales Price by Type of Sale in the Santa Cruz HMA



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

Delinquent Mortgages

The rate of seriously delinquent mortgages (90 or more days delinquent or in foreclosure) or in REO status in the Santa Cruz HMA peaked in January 2010 at 6.6 percent, compared with an 11.4-percent rate statewide and an 8.6-percent rate nationwide (CoreLogic, Inc.). The rate of seriously delinquent loans and REO properties in the HMA has fallen consistently since reaching its peak and was only 0.4 percent in May 2019, compared with a 0.7-percent rate statewide and a 1.4-percent rate nationwide.

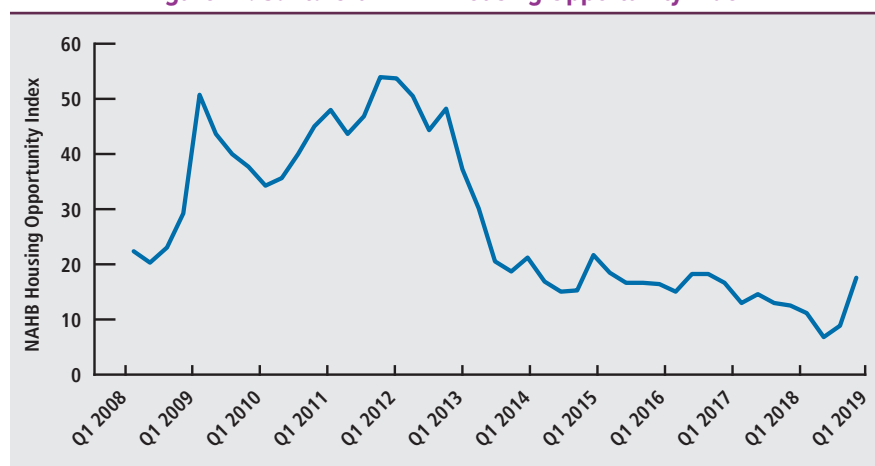
Housing Affordability

Homeownership in the Santa Cruz HMA is very expensive, and the affordability of buying a home in the HMA has declined. From 2009 through 2012, for-sale housing was relatively affordable as many distressed properties were added to the market and listed for sale at a discount. That excess inventory has since been absorbed, and high demand from in-migrants, primarily from San Jose, has put upward pressure on sales prices. The National Association of Home

Builders (NAHB)/Wells Fargo Housing Opportunity Index (HOI) for the HMA, which represents the share of homes sold that would have been affordable to a family earning the local median income, was 17.3 during the first quarter of 2019, up from 12.2 during the first quarter of 2018 (Figure 12). Despite the recent increase in affordability, the Santa Cruz HMA was the 7th least affordable metropolitan area in the nation during the most recent quarter. By comparison, the San Jose-Sunnyvale-Santa Clara metropolitan area was the 5th least affordable market. After reaching a high of 54.0 during the fourth quarter of 2011, the index for the HMA declined to 48.3 in the fourth quarter of 2012, as the excess inventory of distressed sales was absorbed. From 2013 to 2014, sales housing affordability declined precipitously, and the index dropped from 37.1 during the first quarter of 2013 to 15.0 by the fourth quarter of 2014. Sales housing affordability had continued to decline, but at a slower pace, since 2014, before the most recent increase during the first quarter of 2019.

Rising home sales prices have acted as a barrier to entry into homeownership, which is particularly pronounced for heads of households aged 35 to 44

Figure 12. Santa Cruz HMA Housing Opportunity Index



NAHB = National Association of Home Builders. Q1 = first quarter.
Source: NAHB/Wells Fargo

years, a prime age cohort for first-time home buyers. From 2000 to 2010, the homeownership rate in the HMA declined by 0.6 percentage point to 59.4 percent as a result of both the dot-com bust and the Great Recession. As economic conditions began to improve, however, the homeownership rate rose by 2.8 percentage points to 62.2 percent by 2017. Unlike the trend in the overall HMA, homeownership for heads of household aged 35 to 44 years declined significantly as affordability concerns limited the ability of this group to purchase a house; from 2010 to 2017, the homeownership rate of this age group declined by 6.3 percentage points to 48.6 percent in 2017, compared with a decline of 1.6 percentage points from 2000 to 2010 (Table 7). Nationwide, the homeownership rate for this same prime age cohort was 57.5 percent during 2017 after declining by 4.8 percentage points, from 2010 to 2017. Despite the improvement in economic conditions recently, high sales prices and rapid price appreciation have priced out potential new homeowners in the HMA.

Table 7. Homeownership Rates by Age of Householder

	Santa Cruz HMA			Nation		
	2000 (%)	2010 (%)	2017 (%)	2000 (%)	2010 (%)	2017 (%)
Householder Age 25 to 34 Years	30.3	19.9	26.6	45.6	42.0	38.2
Householder Age 35 to 44 Years	56.5	54.9	48.6	66.2	62.3	57.5
Total Households	60.0	59.4	62.2	66.2	65.1	63.9

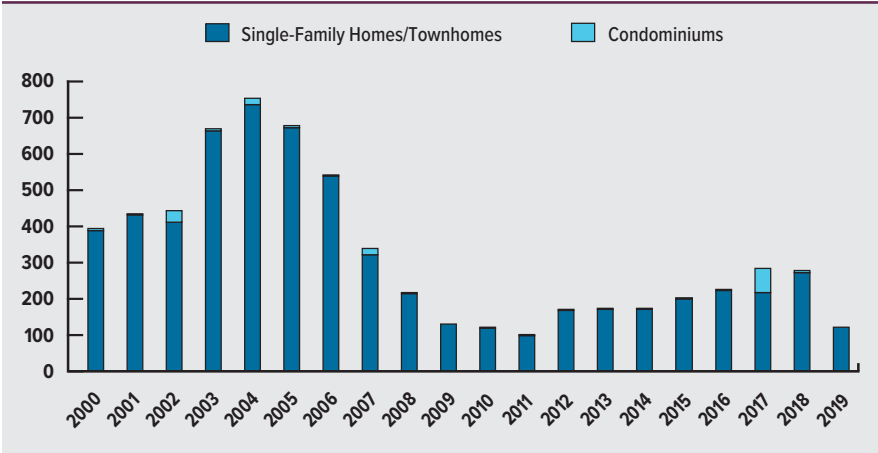
Sources: 2000 and 2010 Decennial Census; 2017 American Community Survey, 1-year estimates

Sales Construction Activity

New home construction activity, as measured by the number of homes permitted, has increased every year since reaching a low in 2011, although it remains below the levels reached during the dot-com bust recession. During the 12 months ending June 2019, 130 homes were permitted, up slightly from the 125 homes during the previous 12-month period (preliminary data). Construction of new homes averaged 180 homes annually from 2007 through 2011, when

developers scaled back activity as a result of the Great Recession (Figure 13). From 2012 through 2017, an average of 210 homes was permitted annually, representing an average increase of 11 percent annually from 2013 through 2017. Though home construction increased from 2012 through 2017 compared with 2007 through 2011, it remained significantly below building levels during the housing boom of the mid-2000s. From 2003 through 2006, an average of 660 homes was permitted annually, higher than the average of 430 homes permitted from 2000 through 2002, when the HMA economy was weak from the dot-com bust.

Figure 13. Average Annual Sales Permitting Activity in the Santa Cruz HMA



Notes: Includes single-family homes, townhomes, and condominiums. 2019 includes data through June 2019. Sources: U.S. Census Bureau, Building Permits Survey; 2000 through 2017—final data and estimates by the analyst; 2018 and 2019—preliminary data and estimates by the analyst

New Construction

Given the high cost of construction and limited amount of developable land, much of the for-sale housing units currently under way are townhomes or developments with a small number of single-family homes. The largest project currently under way is The Grove Townhomes in the city of Scotts Valley, which is expected to include 50 townhomes once complete. Ten of the townhomes are available for sale, and another 11 will be completed soon, during the fourth phase of construction; the other 29 townhomes have either been sold or are reserved. Prices start in the high \$700,000s for three- and four-bedroom homes.

Forecast

During the next 3 years, demand is expected for 730 new sales units in the Santa Cruz HMA (Table 8). The 60 homes currently under construction will meet a portion of the demand. Sales demand is expected to moderate to the forecast date, as job gains and population growth continue to slow.

Table 8. Demand for New Sales Units in the Santa Cruz HMA During the Forecast Period

Sales Units	
Demand	730 Units
Under Construction	60 Units

Source: Estimates by the analyst

Rental Market Conditions

Market Conditions: Extremely Tight

Low levels of apartment and dormitory completions at UC Santa Cruz have resulted in extremely tight rental housing market conditions.

Current Conditions and Recent Trends

Rental housing market conditions in the Santa Cruz HMA are extremely tight, with an overall estimated rental vacancy rate of 1.9 percent, down from 3.5 percent in April 2010 (Table 9). Rising for-sale home prices and growing enrollment at UC Santa Cruz have contributed to strong rental demand since 2010. Seventy percent of renter-occupied units in the HMA are in single-family homes, mobile homes, townhomes, and two- to four-unit structures (2017 ACS 1-year estimates). The remainder of the rental inventory consists of apartments in structures with five or more units.

Table 9. Rental and Apartment Market Quick Facts in the Santa Cruz HMA

Rental Market Quick Facts		2010 (%)	Current (%)
	Rental Vacancy Rate	3.5	1.9
	Occupied Rental Units by Structure		
	Single-Family Attached & Detached	54	43
	Multifamily (2–4 Units)	17	24
	Multifamily (5+ Units)	25	30
	Other (Including Mobile Homes)	4	3
Apartment Market Quick Facts		Current	YoY Change
	Apartment Vacancy Rate	1.7%	0.1
	Average Rent	\$2,348	1%

YoY = year over year.

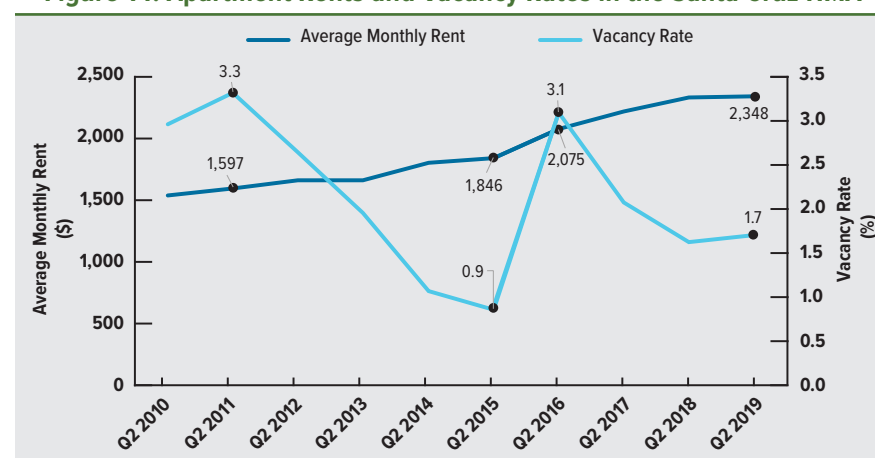
Notes: The current date is July 1, 2019. Current data for “occupied rental units by structure” are 2017 American Community Survey, 1-year data, most recent data available.

Sources: American Community Survey, 1-year data; apartment data—RealPage, Inc.

Apartment Market Conditions

The apartment market is also extremely tight, with a 1.7-percent vacancy rate as of the second quarter of 2019, up slightly from the 1.6-percent rate during the second quarter of 2018 (RealPage, Inc.). The apartment market has been tight since 2010 and, aside from a few anomalous quarters, the apartment vacancy rate has averaged 2.5 percent during this period while year-over-year rent growth has been steady at an average of around 5 percent (Figure 14).

Figure 14. Apartment Rents and Vacancy Rates in the Santa Cruz HMA



Q2 = second quarter.
Source: RealPage, Inc.

Student Housing

UC Santa Cruz students represent an estimated 2,850 renter households, or almost 7 percent of renter households in the HMA. Many apartments in the HMA are in downtown Santa Cruz, near the UC Santa Cruz campus, while single-family home rentals are more prevalent further from campus. Two of the most recently completed developments are the 87-unit Five55 Pacific Apartments and the 54-unit The Terrace at 445 Main Apartments, both of which opened in 2018. Rents at the two developments range from \$1,650 to \$2,580 for studio units, from \$1,950 to \$3,025 for one-bedroom units, and \$2,550 for two-bedroom units.

Construction of dormitories has lagged enrollment growth in the HMA, and no new dormitories have been constructed since at least 2000. Two projects that will add a significant number of beds are in the pipeline, however. Construction is currently under way at the Kresge College residence halls at the UC Santa Cruz campus, which will hold 550 to 575 beds when complete. The project will tear down 368 existing beds for a net addition of between 182 and 207 beds. Construction is expected to be completed by the fall of 2019. In addition, the Student Housing West development is planned and is expected to result in housing for 3,000 students at two different sites on the campus once complete. The Heller site will be located on the west side of campus and include 2,900 new apartment and community-living style beds (in which rooms consist of beds, a small study space, and bathroom with large communal kitchens and living spaces located elsewhere in the building), which will replace an existing 200-unit family student housing complex and childcare facility. The Hagar site is located at the southern end of campus and will include approximately 140 housing units for student families and a childcare center. The development has been approved by the UC Regents, but an estimated construction timeline is not yet available.

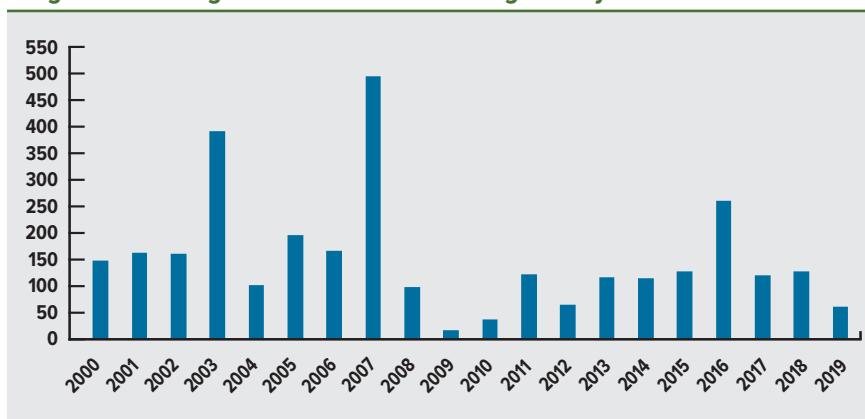
Rental Permitting Activity

During the 12 months ending June 2019, approximately 130 rental units were permitted, relatively unchanged from a year earlier (preliminary data, with estimates by the analyst). For context, two peaks occurred in 2003 and 2007, when almost 400 and 500 rental units were permitted, respectively. Permitting declined to a low during 2009 and 2010, when an average of only 30 units was permitted annually. As the economy recovered and then began to expand, rental permitting activity increased to an average of 110 units from 2011 through 2015, before reaching 260 units in 2016. Rental permitting has since declined back down to an average of about 120 units annually since 2017 (Figure 15).

Housing Affordability: Rental

Rental affordability in the Santa Cruz HMA has trended downward since 2015, with rent growth outpacing income growth. The median monthly gross rent in the HMA rose almost 17 percent from \$1,442 in 2015 to \$1,680 in 2017. During the same period,

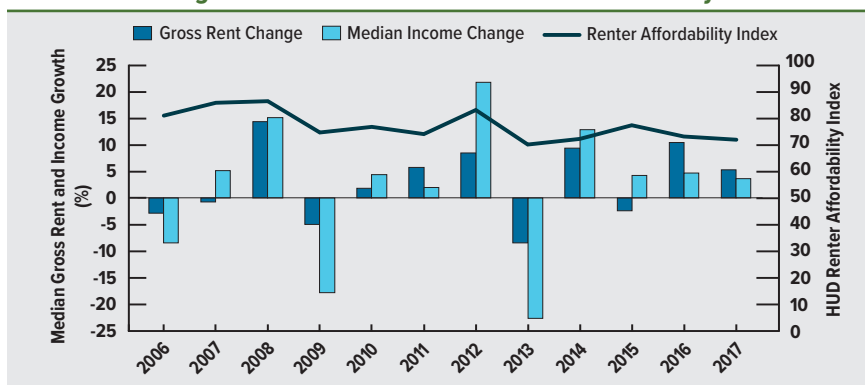
Figure 15. Average Annual Rental Permitting Activity in the Santa Cruz HMA



Notes: Includes apartments and units intended for rental occupancy. 2019 includes data through June 2019. Sources: U.S. Census Bureau, Building Permits Survey; 2000 through 2017—final data and estimates by the analyst; 2018 and 2019—preliminary data and estimates by the analyst

the median household income for renter households increased only 9 percent from \$44,600 to \$48,500. As a result, the HUD Rental Affordability Index, a measure of median renter household income relative to qualifying income for the median-priced rental unit, has declined from 77.4 in 2015 to 72.1 in 2017 (Figure 16).

Figure 16. Santa Cruz HMA Rental Affordability



Source: American Community Survey, 1-year data

Additionally, the percentage of cost-burdened households in the HMA is higher than for the nation. During the 2011-through-2015 period, an estimated 25.6 percent of all renter households in the HMA were cost burdened, spending between 30 and 49 percent of their income on rent, while 31.4 percent were severely cost burdened, spending more than 50 percent of income toward rent (Table 10). By comparison, the proportions of renter households nationwide that were cost burdened and severely cost burdened were 22.0 and 23.8 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), 22.2 percent were cost burdened, but most households at these income levels, or 59.8 percent, were severely cost burdened. By comparison, nationwide, 25.7 percent of lower-income renter households were cost burdened, and 50.2 percent were severely cost burdened.

Table 10. Percentage of Cost-Burdened Renter Households by Income, 2011–2015

	Cost Burdened		Severely Cost Burdened	
	Santa Cruz HMA	Nation	Santa Cruz HMA	Nation
Renter Households with Income <50% AMFI	22.2	25.7	59.8	50.2
Total Renter Households	25.6	22.0	31.4	23.8

AMFI = area median family income.

Note: “Cost-burdened” households spend between 30–49 percent of their income on rent and “severely cost-burdened” households spend over 50 percent of their income on rent.

Sources: Consolidated Planning/CHAS Data; 2011–2015 American Community Survey, 5-year estimates; huduser.gov

To address the severe affordability issues that the HMA is experiencing, the Santa Cruz City Council adopted several recommendations by their Housing Blueprint Subcommittee in June 2018. Recommendations were focused on three main themes: community engagement, housing protection, and housing

production, with the most recommendations surrounding increasing the supply of housing. These include modifying zoning and code requirements to facilitate greater production of accessory dwelling units, updating parking standards to reduce or remove overall residential parking requirements, and adopting a 15-percent inclusionary zoning requirement for new downtown rental units and a 10-percent requirement for the city overall (City of Santa Cruz).

The Low-Income Housing Tax Credit (LIHTC) program is the primary source of funding for new affordable rental housing in the nation. From 2010 to 2017, approximately 200 LIHTC units were placed in service in the HMA, with almost all units reserved for households with incomes at or below 60 percent of the median family income (MFI; \$73,620 for a family of four in 2019). By comparison, from 2000 through 2009, 1,200 LIHTC units were placed in service in the HMA, again with almost all units for households with incomes at or below 60 percent of MFI and no units reserved for seniors. Approximately 100, or one-half of all LIHTC units placed in service in the HMA since 2010, are in the city of Watsonville. Recently completed LIHTC projects include the 40-unit St. Stephens Senior Housing in the city of Santa Cruz, which was placed in service in 2016.

In addition to LIHTC, income eligible residents may qualify for project-based rental assistance (PBRA) or housing choice vouchers (HCV) through the local public housing authority (PHA). The PHAs in the HMA administered approximately 4,250 HCVs in 2018 (Picture of Subsidized Households). Some HCV holders report difficulty in obtaining a suitable unit at affordable rents. The waitlist for HCV was opened for 3 months at the end of 2018 for the first time in 7 years, and applicants who are currently receiving vouchers applied approximately 9 years ago or longer (Housing Authority of the County of Santa Cruz). Nearly 5,750 subsidized units through PBRA and other programs are within the Santa Cruz HMA. The number of households that are receiving federal rental assistance or that have an HCV in the HMA has increased 4.3 and 6.1 percent, respectively, since 2010 (Table 11). To address the growing number of assisted

households with rising costs, the (inflation-adjusted) rent subsidy from HUD increased 4 percent since 2010 in the HMA; during the same time, the (inflation-adjusted) tenant contribution for HCV increased 13.4 percent. By comparison, the total number of assisted and voucher households expanded by respective averages of 4.5 and 11.6 percent nationwide, while the inflation-adjusted HUD subsidy declined 1.8 percent and the inflation-adjusted tenant contribution increased 0.8 percent since 2010.

In the Santa Cruz HMA, approximately 2,320 people were homeless in 2018, and of those individuals, nearly 77 percent were unsheltered homeless (2018 Point-in-Time Count). This number is higher than the 69 percent of homeless persons in California that were unsheltered.

Forecast

During the next 3 years, demand is expected for an additional 570 rental units (Table 12). The 130 units currently under construction are expected to meet a portion of demand. Rental demand is expected to be greatest during the first year of the forecast period and gradually slow as economic growth tempers and population growth slows.

Table 11. Picture of Subsidized Households in the Santa Cruz HMA and the Nation, 2018

	Santa Cruz HMA	Santa Cruz HMA Change Since 2010 (%)	National Count	National Change Since 2010 (%)
Total Assisted Households (2018)	5,754	4.3	4,628,247	4.5
Total Housing Voucher Households (2018)	4,262	6.1	2,276,722	11.6
Average HCV Tenant Monthly Contribution	\$627	13.4	\$379	0.8
Average Monthly HUD Subsidy	\$1,389	4.0	\$793	-1.8

HCV = housing choice voucher.

Note: Dollar changes are inflation-adjusted using the Consumer Price Index for All Urban Consumers (CPI-U).

Source: Assisted Housing: National and Local (huduser.gov)

Table 12. Demand for New Rental Units in the Santa Cruz HMA During the Forecast Period

Rental Units	
Demand	570 Units
Under Construction	130 Units

Note: The forecast period is July 1, 2019, to July 1, 2022.

Source: Estimates by the analyst

Terminology Definitions and Notes

A. Definitions

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.
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 U.S. Census Bureau.
Building Permits	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.
Distressed Sales	Short sales and real estate owned (REO) sales.
Seriously Delinquent Mortgages	Mortgages 90+ days delinquent or in foreclosure.

Home Sales/ Home Sales Prices	Includes single-family homes, townhomes, and condominium sales.
Rental Market/ Rental Vacancy Rate	Includes apartments and other rental units such as single-family homes, multifamily homes, and mobile homes.
Forecast Period	7/1/2019–7/1/2022—Estimates by the analyst
Cost Burdened	Spending more than 30 percent of household income on housing costs.
Inclusionary Zoning	An affordable housing tool that links the production of affordable housing to the production of market-rate housing, either requiring or encouraging new residential developments to make a certain percentage of the housing units affordable to low- or moderate- income residents (NYU Furman Center).

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 February 28, 2013.
2.	Urbanized areas are defined using the U.S. Census Bureau's 2010 Census Urban and Rural Classification and the Urban Area Criteria.
3.	The census tracts referenced in this report are from the 2010 Census.



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.
Cover Photo	iStock

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