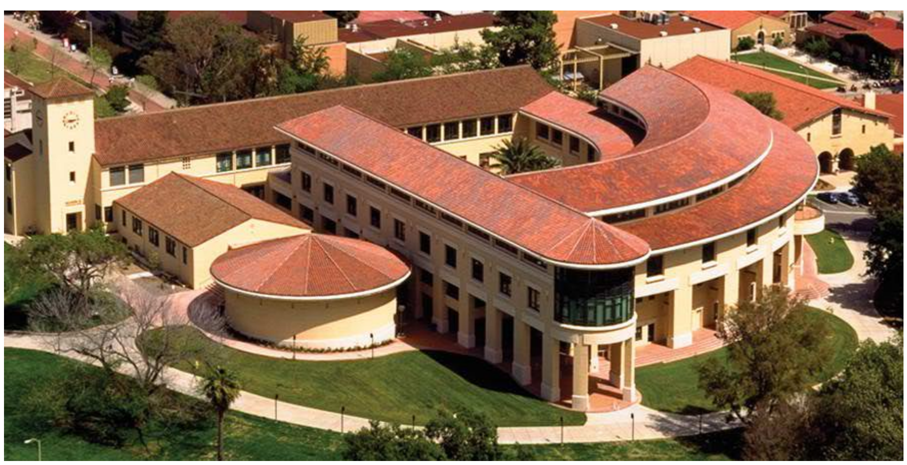
2015 Central Coast Economic Forecast



BEACON ECONOMICS

2015 Central Coast Economic Forecast

Presented by Beacon Economics

This publication was prepared by:

Beacon Economics

Christopher Thornberg
Founding Partner
5777 West Century Blvd., Suite 895
Los Angeles, California 90045
310.571.3399
Chris@BeaconEcon.com

Jordan G. Levine
Economist & Director of Economic Research
5777 West Century Blvd., Suite 895
Los Angeles, California 90045
424.646.4652
Jordan@BeaconEcon.com

For further information about this publication, or about Beacon Economics, please contact:

Victoria Pike Bond
Director of Communications
Beacon Economics, LLC
415.457.6030
Victoria@BeaconEcon.com

Rick Smith
Director of Business Development
Beacon Economics, LLC
858.997.1834
Rick@BeaconEcon.com

Or visit our website at www.BeaconEcon.com.

Contents

,

U.S. Forecast

by Christopher Thornberg
Beacon Economics

Contents

Don't Mind the Market

I was recently reminded that I have my own personal economic confidence indicator—my phone. When things are calm it is quiet. But when it starts to ring off the hook I know that people are starting to worry. This is what happened when the U.S. financial markets began to swoon recently. They have since recovered much of their lost ground, but the damage is done. The dip has reaffirmed to many the ongoing fragility of the current economic expansion.

I couldn't disagree more. While all eyes have been focused on global equity markets a slew of new economic data has been coming out that points to a healthier U.S. economy. The U.S. Bureau of Economic Analysis recently revised 2nd quarter growth to 3.7% –substantially higher than their initial reading. Other data points to acceleration in the pace of construction, industrial production, and business investment. Consumer spending is growing at a solid pace and employment growth is on track to add 2.6 million jobs this year, interest rates remain low, and bank delinquency rates continue to fall. Add it all up and the nation's economy could end up growing by 3% this year—the best since the start of the recovery.

In short, not only does the U.S. economy not look fragile, it looks increasingly able to weather whatever storm is unleashed in Asia by a slowing Chinese economy. Here are the big things the Beacon Economics is currently tracking.

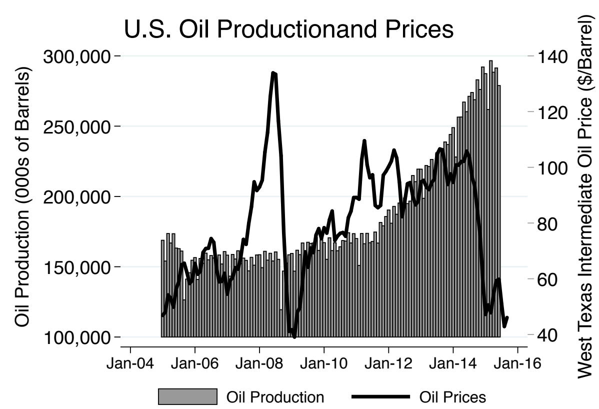
Not only does the U.S. economy not look fragile, it looks increasingly able to weather whatever storm is unleashed in Asia.

Top Positive Trends

Low Commodity Prices: The collapse in oil prices last year caused a sharp pullback in oil exploration in the first half of 2015. The good news for the second half of the year is that spending on new wells has hit bottom and will no longer act as a drag on the economy.

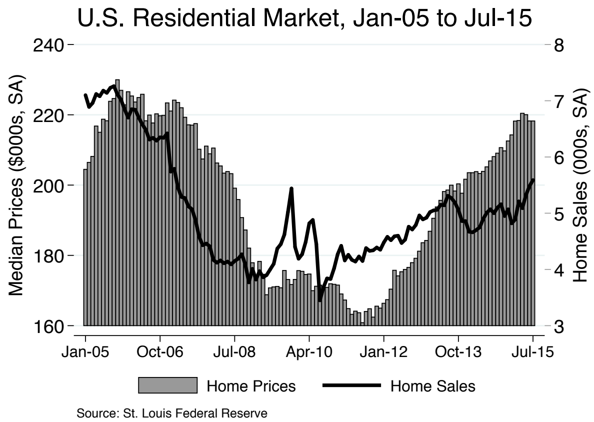
The better news is that the positive impacts that result from lower commodity prices will continue to bolster economic activity. Households will continue to save at the pump, corporate profits will be bolstered by cheaper input prices, and inflation will continue to stay in check. Now if only airplane ticket prices would start to fall.

Beacon Economic doesn't expect to see commodity prices rising anytime soon. Many point to slow growth in the Chinese economy as the reason for cheaper prices, but this is only one driver. The more important (and longer lasting) reason is excess capacity in the commodity industries—such as the near doubling of US oil production in recent years. Indeed, U.S. oil production continues to rise despite the slowing of new well creations due to fracking technology.



Source: St. Louis Federal Reserve and U.S. EIA

Rebounding Housing Market: The 2014 slow down in the U.S. housing market recovery is now officially history. Existing home sales in July hit their second highest level since the markets began their collapse in 2006. Home price appreciation is also starting to accelerate fairly uniformly across all major markets in the nation. And the market still has plenty of headroom due to low interest rates—affordability today is still considerably better than it was in 2001 and 2002.



The improved housing market will have several positive influences on the U.S. economy. For homeowners it will continue to add to household balance sheets and spur consumer spending. It will also create some lift for the weak pace of single-family home construction. It also means that local governments will see their revenue bases expand—helping to ease some of the ongoing budgetary problems that are hampering critical infrastructural investments.

Europe: The political drama that played out recently in Greece over the latest bailout and the ongoing tragedy of refugees trying to get onto that continent have grabbed most headlines regarding the EU lately. These issues have largely overshadowed the positive economic news coming from the old world. Industrial production is on the rise, and GDP and employment growth figures for the 2nd quarter looked promising for many counties including Spain, France, and Italy. Bank balance sheets are being repaired and credit seems to be flowing again, and worries about deflation are waning. In short—the EU looks to be firmly in recovery mode.

Additionally, the economic gains in Europe have increased demand for U.S. products enough to offset most of the negative impact from depreciation of the Euro vis-à-vis the U.S. dollar. We expect the European Central Bank (ECB) to ease off their quantitative easing program late in the year, relieving some of the upward pressure on the dollar.

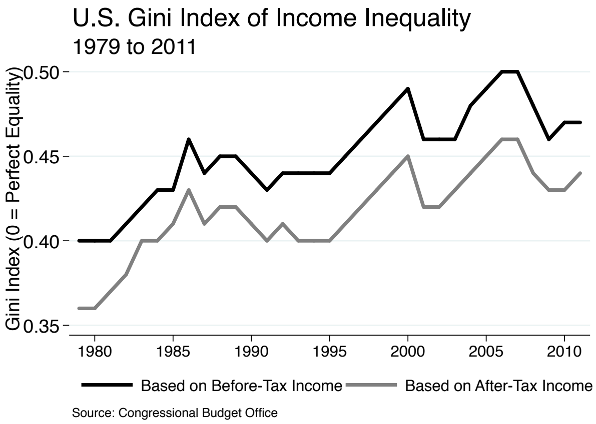
As for Greece, the threat of a new default (or the fact that they didn't default in the end) really didn't mean much for world financial markets. Most Greek debt is now held by government entities such as the International Monetary Fund or the ECB. And while that nation is currently struggling to form a new government after the last one failed to extract new concessions in the bailout negotiations, there is still some good news on the ground: In the second quarter Greece managed a very healthy 0.8% growth rate.

Top Negative Trends

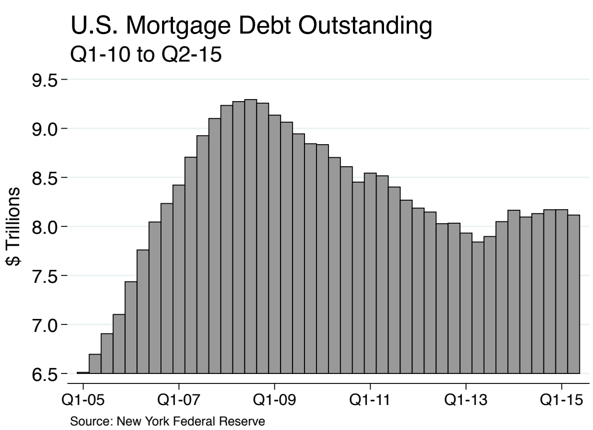
Rising Economic Inequality: The recovery of the U.S. economy over the past few years has not lifted all boats equally. Big moves in the financial markets have primarily benefitted the wealthiest households in the nation. Average wages have been rising, but median wages have not—suggesting that income gains are happening mainly among skilled workers. In other words, the long-term trend of rising inequality is at play again after a brief respite in the midst of the 'Great Recession'.

The reasons include increased global trade and technological change—forces that will not be reversed anytime soon. The way to deal with issues of inequality has to be through changes in tax policy. Unfortunately the political climate in Washington DC suggests this is unlikely to happen. The ongoing lack of movement has led to a wave of ill-advised policies at the local level—such as the increasing use of minimum wages despite a plethora of studies that show these policies to be ineffective in dealing with issues of poverty and income inequality.

The way to deal with issues of inequality has to be through changes in tax policy.



Mortgage Credit: While there are some positive numbers coming out of the nation's housing market, the pace of new home construction remains very depressed relative to long run trends. Holding back the potential of the market are new rules that have severely limited the ability of many borrowers to get credit –excepting those with relatively high credit scores.



This is a classic example of the law of unintended consequences. Policymakers who wanted to exclusively blame the lending system for the massive wave of foreclosures that followed the housing market crash put these rules in place to 'protect' borrowers in the future. But in the end they have only prevented many buyers who had the most to gain from investing in housing during this brief window of affordability from doing so. And there is little sign of any thaws in the market—sales are rising, but mortgage credit is not.

The Markets: I have written repeatedly in recent months that Beacon Economics does not believe the markets have gone into 'bubble' mode. Valuations appear to make sense given high corporate profits and low interest rates. So what of the recent swoon in prices? Not much there, actually. And the rapid recovery in prices that has already occurred (as of this writing), back this up.

But there is still cause for concern. The markets turned highly volatile for almost no reason. U.S. data continues to look better. The Chinese economy does look like it is weakening somewhat, but that is nothing new. We have been tracking China's slowdown for months. Moreover, the United States has limited exposure to China. It is true that Chinese equity markets have been tumbling in recent weeks, but only after a year plus of clearly unsustainable gains. To have the Chinese exchanges get back to reasonable valuations should be good news, not bad.

So what drove such a violent (if short lived) decline in the market? The scary part is—we don't know. Dark pools, high speed trading, and the proliferation of electronic exchanges have caused the market to grow increasingly out of sync with the real world. Instead, the markets look more and more like a group of hyperactive first graders drinking espresso and playing full contact musical chairs.

It is unclear if regulators have the motivation or capability to get in front of this problem. As such these episodes may become increasingly frequent. And while volatility may benefit traders, it hurts investors.

U.S. Historical Table

United States	Q1-2013	Q2-2013	Q3-2013	Q4-2013	Q1-2014	Q2-2014	Q3-2014	Q4-2014	Q1-2015	Q2-2015
National Real GDP ($ Bill.,SAAR)	15,476.20	15,521.40	15,638.40	15,784.50	15,749.60	15,929.00	16,096.80	16,181.20	16,208.70	16,286.31
Growth (%,SAAR)	1.90	1.10	3.00	3.80	-0.90	4.60	4.30	2.10	0.60	2.30
Real Personal Consumption ($ Bill.,SAAR)	10,518.20	10,554.30	10,598.90	10,690.40	10,724.70	10,826.30	10,918.60	11,033.30	11,081.20	11,161.41
Real Investment ($ Bill.,SAAR)	2,505.10	2,537.20	2,619.70	2,647.10	2,630.50	2,709.50	2,758.10	2,772.50	2,830.20	2,818.60
Real Government Expend. ($ Bill.,SAAR)	2,878.80	2,864.10	2,848.10	2,828.50	2,828.40	2,836.50	2,849.20	2,839.00	2,838.50	2,842.60
Real Net Exports ($ Bill.,SAAR)	-425.90	-434.20	-428.30	-381.50	-434.00	-443.30	-429.10	-463.60	-541.20	-536.30
Total Nonfarm Empl. (Mill, SA)	135.54	136.10	136.64	137.30	137.84	138.64	139.38	140.23	141.01	141.61
Growth (%,SAAR)	2.10	1.65	1.60	1.94	1.60	2.33	2.16	2.46	2.24	1.71
Unemployment Rate (%,SA)	7.73	7.53	7.23	6.97	6.63	6.20	6.07	5.70	5.57	5.40
CoreLogic Home Price Index (SA)	156.06	160.50	163.78	167.01	170.26	171.20	171.88	174.69	178.17	180.93
Growth (%,YoY)	7.82	9.23	9.58	9.70	9.10	6.67	4.95	4.60	4.64	5.69
Personal Income ($ Trill.)	13.89	14.03	14.14	14.22	14.43	14.61	14.77	14.96	15.07	15.22
Growth (%,SAAR)	-11.37	3.91	3.21	2.41	6.12	5.06	4.51	4.99	3.22	3.90
Savings Rate (%)	4.08	4.35	4.48	3.87	4.41	4.27	4.10	4.11	4.53	4.21
Tax Rate (%)	11.81	11.98	11.84	11.93	12.03	12.00	12.13	12.29	12.60	12.65

U.S. Forecast Table

United States	Q3-2015	Q4-2015	Q1-2016	Q2-2016	Q3-2016	Q4-2016	Q1-2017	Q2-2017	Q3-2017	Q4-2017
National Real GDP ($ Bill.,SAAR)	16,398.38	16,515.69	16,630.90	16,760.57	16,883.14	17,009.05	17,142.61	17,270.86	17,399.58	17,532.36
Growth (%,SAAR)	2.78	2.89	2.82	3.16	2.96	3.02	3.18	3.03	3.01	3.09
Real Personal Consumption ($ Bill.,SAAR)	11,253.34	11,344.52	11,421.52	11,485.04	11,550.80	11,629.95	11,719.40	11,796.80	11,883.26	11,972.49
Real Investment ($ Bill.,SAAR)	2,844.27	2,868.39	2,900.90	2,942.54	2,973.96	3,000.67	3,032.08	3,069.38	3,100.86	3,134.48
Real Government Expend. ($ Bill.,SAAR)	2,846.63	2,858.05	2,872.75	2,889.08	2,905.74	2,919.66	2,933.03	2,943.29	2,951.84	2,959.82
Real Net Exports ($ Bill.,SAAR)	-545.86	-555.27	-564.27	-556.09	-547.36	-541.23	-541.91	-538.61	-536.38	-534.42
Total Nonfarm Empl. (Mill, SA)	142.24	142.91	143.60	144.32	145.05	145.81	146.60	147.38	148.16	148.94
Growth (%,SAAR)	1.80	1.88	1.95	2.02	2.05	2.12	2.18	2.15	2.14	2.13
Unemployment Rate (%,SA)	5.30	5.25	5.24	5.25	5.26	5.28	5.29	5.30	5.31	5.31
CoreLogic Home Price Index (SA)	183.57	186.11	188.33	190.34	192.13	193.74	195.23	196.59	197.83	198.94
Growth (%,YoY)	6.80	6.54	5.71	5.20	4.67	4.10	3.66	3.29	2.96	2.69
Personal Income ($ Trill.)	15.39	15.57	15.71	15.85	16.03	16.20	16.40	16.60	16.80	17.01
Growth (%,SAAR)	4.58	4.86	3.58	3.54	4.56	4.48	4.83	4.98	4.97	5.00
Savings Rate (%)	4.08	4.16	4.15	4.14	4.23	4.23	4.23	4.24	4.25	4.26
Tax Rate (%)	12.65	12.63	12.61	12.60	12.59	12.59	12.59	12.60	12.60	12.60

Forecasts by Beacon Economics

California Forecast

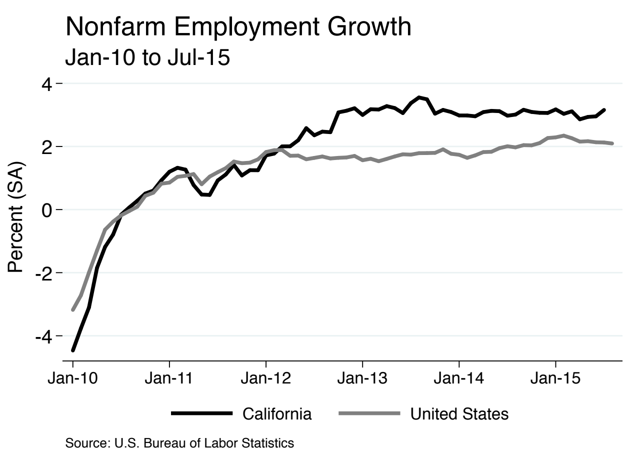
by Jordan G. Levine

Contents

Top Positive Trends

California Still Outpacing the U.S.: While trouble has plagued the international economy in recent months, domestic economic activity continues to move ahead robustly – and that is particularly true in California. Over the past year, the Golden State has been one of the brightest spots in the United States economy.

- June 2015 marked the 40th consecutive month that California has outpaced the nation overall in terms of nonfarm job growth. Real state GDP increased by 2.8% last year compared with 2.4% growth in the nation overall.
- With a 3.1% expansion through the mid-point of 2015, California's labor market is growing half-again as fast as the nation's as a whole.
- Over the past 12 months California has been the 5th fastest growing state in the nation and the single largest source of new U.S. jobs, with more than 461,000 positions created as of June 2015.



Importantly, the state's current employment expansion is broad based in terms of both geographies and industries.

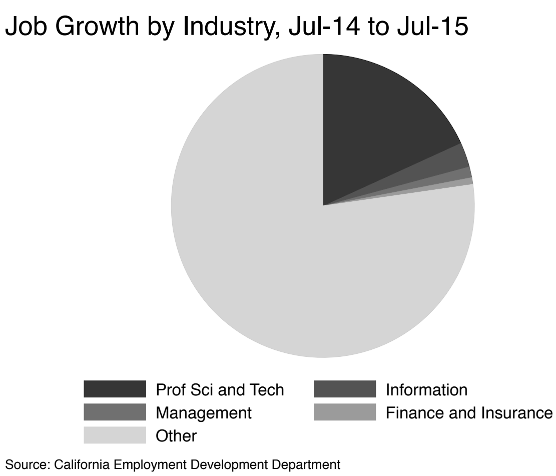
California Employment Growth

Location/Industry	Jul-15 (000s)	Change (Y-o-Y) (000s)	Change (Y-o-Y) (Percent)
San Jose	1,064.7	60.4	6.0
San Francisco (MD)	1,055.4	44.8	4.4
Inland Empire	1,336.0	46.9	3.6
San Diego	1,394.8	45.9	3.4
Orange County (MD)	1,545.1	50.0	3.3
Other Bay Area	516.2	14.1	2.8
Central Coast	524.7	14.0	2.7
North Central Valley	1,313.2	34.7	2.7
Los Angeles (MD)	4,326.0	101.3	2.4
South Central Valley	744.4	15.6	2.1
Oakland (MD)	1,089.3	22.7	2.1
Other Southern California	351.4	4.0	1.2
Bakersfield	257.1	1.1	0.4
California	16,149.0	494.2	3.2
Prof Sci and Tech	1,276.4	89.9	7.6
Construction	720.9	48.9	7.3
Admin Support	1,083.5	61.0	6.0
Transport,Warehouse,Util.	545.4	24.8	4.8
Real Estate	277.7	10.8	4.0
Leisure and Hospitality	1,830.3	71.0	4.0
Wholesale Trade	737.5	23.6	3.3
Information	472.0	13.0	2.8
Education/Health	2,491.9	67.2	2.8
Management	230.7	5.8	2.6
Retail Trade	1,672.2	35.3	2.2
Other Services	550.2	8.5	1.6
Government	2,431.1	25.6	1.1
Finance and Insurance	522.4	3.6	0.7
Manufacturing	1,278.2	8.1	0.6
Farm	411.6	0.0	0.0
NR/Mining	29.0	-2.3	-7.3
Total Private	13,717.9	468.6	3.5
Total Nonfarm	16,149.0	494.2	3.2

Source: California Employment Development Department

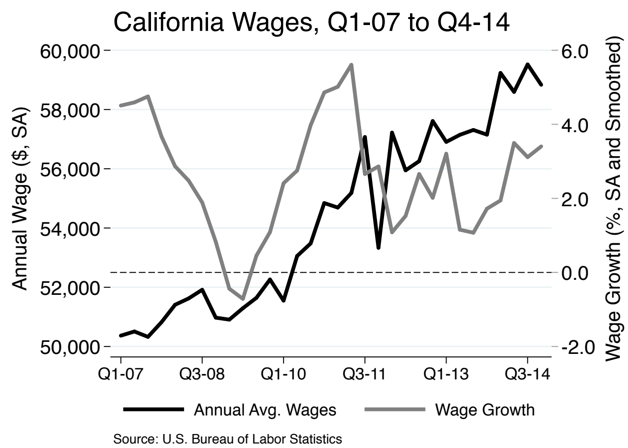
Quality of Jobs improving: Not only has California been generating a significant quantity of new jobs, but the quality of those jobs has been improving as well.

- Professional, Scientific, and Technical Services sector jobs have been the largest contributor to employment growth over the past year, accounting for 77,000 (17%) of the 461,000 nonfarm jobs created during the last 12 months.
- The Professional, Scientific, and Technical Services sector is one of the state's highest-paying sectors with an annual average wage of more than $117,000 as of the end of 2014 (the most recent data available).
- 25,000 additional jobs were created in sectors that have an average annual wage in excess of $100,000 per year. These include the Information (+14,900), Management of Companies (+6,000), and Finance/Insurance (+4,300) sectors.
- Together, these four high-wage sectors account for nearly one out of every four jobs created in California over the past year.



- The number of Californians who are working part time for 'economic' reasons (this means they would prefer to be working full-time but cannot find a position) has fallen by 112,000 over the past 12 months. At the same time, full-time employment has jumped by 470,000.

- In past editions of this report, Beacon Economics has noted a distinct lack of wage growth despite the improving economy. Recently, economic growth has finally given way to a more broad-based improvement in wages. Though no doubt motivated by solid growth in high-wage sectors, the average annual wage for all workers was up 3.4% last year in California. This is a faster rate of growth than in the nation as a whole, where there was a 3.1% increase in wages.



- Improved labor market outcomes have helped motivate previously discouraged Californians to resume their job searches, as evidenced by the labor force which expanded to its highest level on record, 19 million, in June 2015.
- Beacon Economics is forecasting income growth to remain positive throughout 2015 (+3%) as California adds more high-skilled jobs and the economy continues to grow.
- Outside of Mining, every nonfarm employment sector in California added jobs over the past year.
- While some parts of the state are growing faster than others, every region added jobs during the past 12 months.
- San Francisco and San Jose continue to lead the pack in terms of employment gains. Both have averaged growth in excess of 4% so far this year.

- Growth has not been limited to tech-heavy areas of the state. The Inland Empire has climbed to the #3 spot for job growth, expanding its employment base by 3.6% over the last 12 months.

- The state's Farm sector, which has been plagued by drought in recent years, is holding steady with no job losses as of July 2015 relative to the previous year.

Home Sales Finally Coming Around: Past editions of Beaconomics have highlighted weak home sales amidst a backdrop of rising home prices, new construction activity, and gradually improving labor markets. However, 2015 has seen that trend change from one of disappointing sales to one where transactions are once again on the rise.

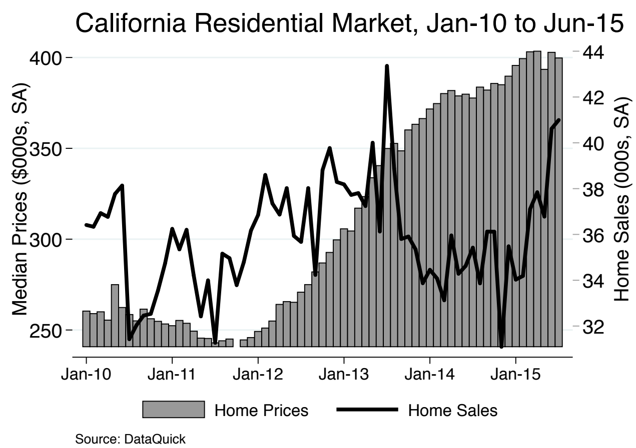
- Through the first half of 2015, sales of existing single-family homes have climbed 9.8% more than at the same point in 2014. To date, nearly 170,000 homes have been sold in California.

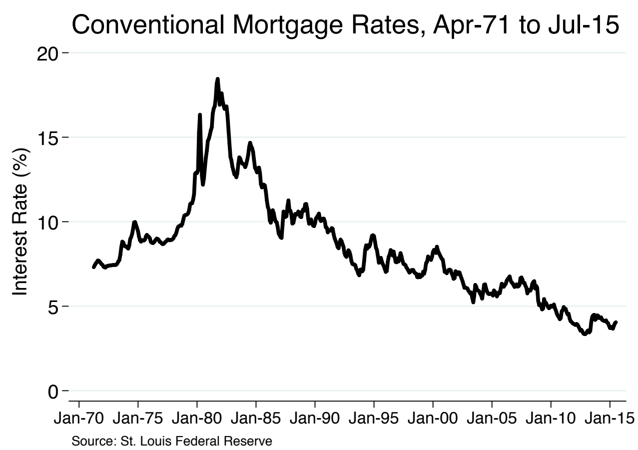
- The median price of a home in the state has risen more than 82% since hitting bottom in early 2009—up to over $400,000, from a low-point of $221,000. This has help existing homeowners rebuild their equity and resell their homes on the secondary market.

- Additionally, CoreLogic reports that currently fewer than 9% of all homes in California have a mortgage that is underwater (worth less than the amount of principal balance outstanding), which should help provide more liquidity to the resale market in the coming years.

- Fueling growth in home sales is the fact that interest rates for a 30-year fixed rate mortgage loan are still hovering near historical lows. The Federal Reserve shows that conventional mortgage rates have dipped below 4% again even as the Fed Policy Committee contemplates raising their target interest rate.

- And, with the exception of the June 2012-June 2013 period, interest rates are lower than they have been at any point since the Fed began tracking mortgage rates in the early 1970s.





- With the economy healing and demand conditions improving, banks have also had a larger appetite for providing mortgage loans. Although much of the activity has been to finance the purchase of condominiums, mortgage lending at FDIC-insured banks increased by roughly 2.4% through the first quarter of 2015. This follows several years of relatively lackluster lending activity in the face of more stringent federal regulations on banks following the financial crisis. In part, this reflects better balance sheets as the New York Fed is reporting mortgage delinquencies dipped below 2% in California at the end of last year.

- As the economy continues to improve and homeowners continue to build equity, Beacon Economics forecasts that home sales will rise at a rate of between 7% and 10% in 2015 and 2016 before cooling to levels that are more in line with historical norms in 2017 and beyond (3% to 5%).

Top Negative/Worrisome Trends

Structural Labor Market Issues: Over the past five years California's economy has made great strides in recovering from the recession. The growth and improvement, however, has not been evenly distributed across all segments of the economy. While California has created a significant number of new high-wage positions in high-skilled sectors and lower wage positions in lower skilled sectors (Tourism and Administrative Support), middle-income industries either remain well below their pre-recession levels or have yet to exhibit any significant growth since the downturn ended.

- Construction jobs have surged since the end of the recession with the sector adding nearly 155,000 positions across the state since 2009. Construction, however, was also one of the hardest-hit sectors, shedding over 330,000 positions. As a result, there are still roughly 180,000 former construction workers who are either currently unemployed or who have changed industries.

- Manufacturing has also disappointed during the current expansion. In the rest of the United States, Manufacturing sector jobs have increased by 8.3% since 2010. Over the same time period in California Manufacturing payrolls have expanded by just a fraction of that amount – 2.9%.

- Skills play a critical role in who has benefitted most from the current economic expansion. During the recession, unemployment rates in California for individuals with a Bachelor's or Graduate degree never rose above 10%. And currently, unemployment rates are significantly lower for those with a Bachelor's degree (3.5%) or a Graduate degree (3.1%) versus those with Some College (6.5%) or a High School Diploma or less (9.4%).

California Employment by Industry
Pre-Recession Peak vs. Current

Industry	Jul-07 (000s)	Jul-15 (000s)	Diff.
Education/Health	1,919.6	2,491.9	572.3
Leisure/Hospitality	1,562.6	1,830.3	267.7
Prof Sci and Tech	1,062.9	1,276.4	213.5
Admin Support	999.7	1,083.5	83.8
Other Services	514.2	550.2	36.0
Logistics	511.7	545.4	33.7
Farm	383.8	411.6	27.8
Management	208.8	230.7	21.9
Wholesale Trade	717.3	737.5	20.2
NR/Mining	26.7	29.0	2.3
Information	474.5	472.0	-2.5
Real Estate	284.2	277.7	-6.5
Retail Trade	1,691.6	1,672.2	-19.4
Government	2,498.0	2,431.1	-66.9
Finance/Insurance	614.2	522.4	-91.8
Construction	899.4	720.9	-178.5
Manufacturing	1,468.8	1,278.2	-190.6
Total Private	12,956.3	13,717.9	761.6
Total Nonfarm	15,454.3	16,149.0	694.7

Source: California Employment Development Department

- Over the past three years wage growth has been robust in high-wage sectors, but has been below average in lower wage industries including Construction, Logistics, Tourism, and Retail. This suggests that income inequality in the state will continue to worsen, which may lead to further political polarization in Sacramento and hinder the state's ability to address long-term challenges.

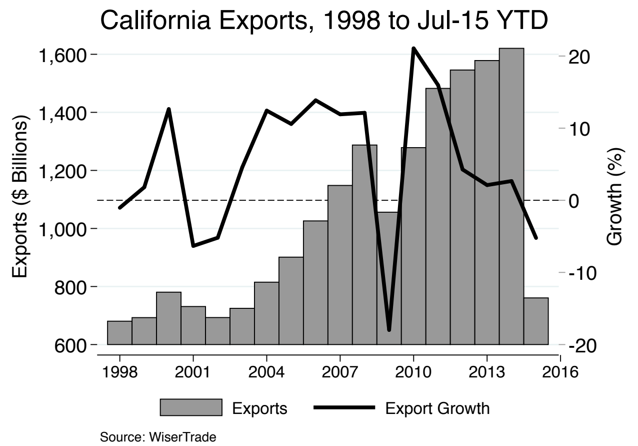
- The good news is the outlook for both Construction and Manufacturing employment in California is positive—both industries are expected to continue adding jobs in 2015 and 2016. However, given the significant losses these two sectors have suffered over the past decade, neither industry is expected to return to their pre-recession employment peak under Beacon Economics' current forecast. This forecast is until 2020 for Construction, and in the case of Manufacturing, the industry may never return to its former peak.

Exports and Troubles Abroad: Recent turmoil in Europe/Greece and the downgraded outlook for Chinese economic growth have reignited speculation about the likelihood of another recession in the near term. While Beacon Economics remains firmly in the "no recession on the horizon" camp, economic woes abroad could impact exports at California air and seaports.

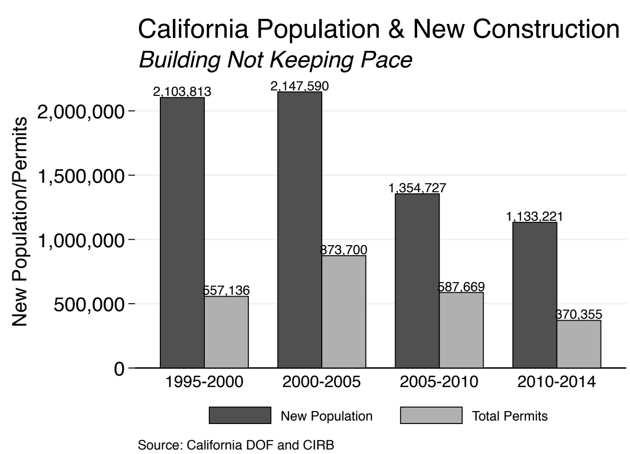
- Through July 2015, loaded containers for export at the Ports of Los Angeles and Long Beach were down 12% over the same time last year. However, import traffic has held relatively steady, which will help provide alternative demand for the state's Logistics industry.

- Also, a slow down in export trade does not necessarily imply a major setback in production in the state. Many of the goods shipped through California's ports are produced out of state and brought in by truck or rail to access overseas markets. It isn't clear whether slowing exports has broader implications for the state's Agriculture or Manufacturing sectors.

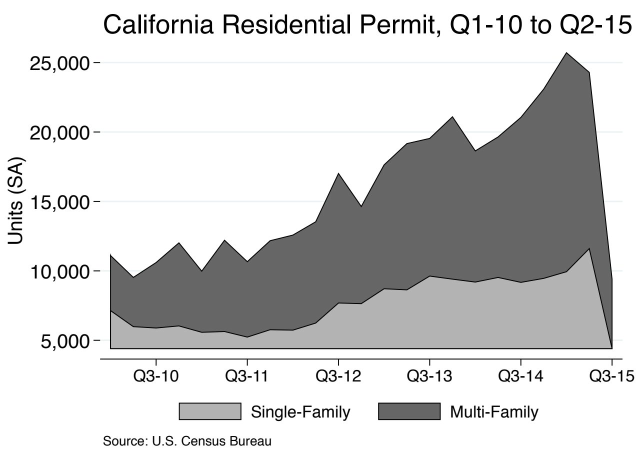
- One thing is clear: The United States has yet to shed its status as a safe haven for foreign currency. As returns in Europe dwindle in response to quantitative easing by the European Central Bank, foreign investors continue to pump money into U.S. bonds. The result has been a dollar that has strengthened over the course of 2015 (+5.5% since December), which has reduced the competitiveness of U.S.-produced goods and services abroad.



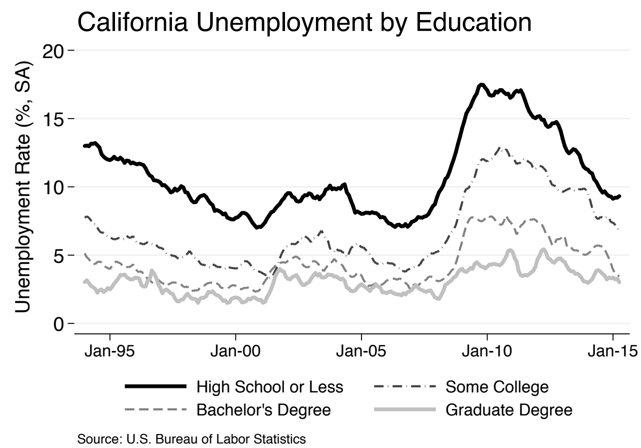
Home Unaffordability: While the cyclical effects of the recession have waned, the recent economic expansion has brought California's structural housing issues to the fore. Chief among these is the state's habitual under-building of new residential units, which has exacerbated the affordability problem over the past 30 years. Home building has simply not kept pace with population growth. Now that home prices are rising again, homes are affordable for a smaller and smaller share of Californians. But given the limited supply, this group still represents a large enough pool of buyers to maintain significant upward pressure on the state's housing market.



- The good news is that home prices, although growing, have yet to reach a level that Beacon Economics would characterize as a bubble. In fact, when taking historically low interest rates into account, financing the monthly payment for a median-priced home in the state requires just 26% of the state's median income compared with more than 50% at the height of the bubble. At Beacon Economics, the running joke is that California is back down to historic levels of *unaffordability*.
- Construction in California is booming. More than 130,000 new residential permits have been issued over the past two years alone. Unfortunately, the state has a deep hole to dig out from, and this new supply has done little to mitigate growth in housing costs, which have been rising at a 6% pace this year.

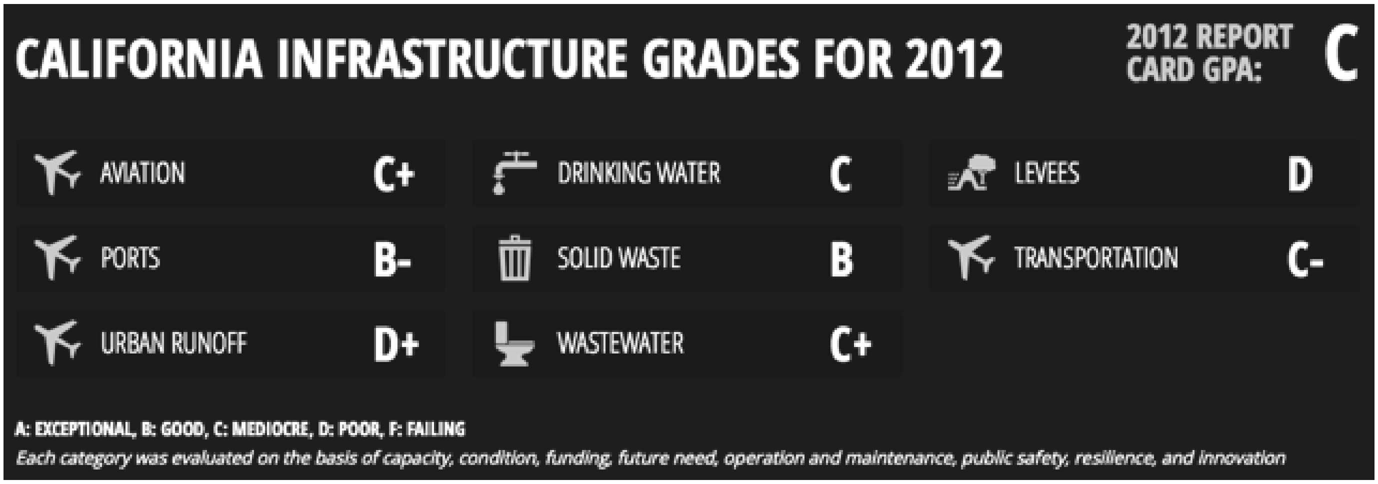


- The rapid growth of high-skilled job sectors poses a challenge—both for the economy in general and for the housing market in particular. High-skilled industries were able to expand at an accelerated pace while there was still slack left in the economy following the recession and there were more workers available to hire. However, as noted above, the market for skilled workers has tightened significantly over the past 5 years.
- Today, there are fewer highly-educated workers available, which is expected to continue driving wage growth. As available labor supply dwindles, this trend will either hinder the economy's ability to grow by exhausting the supply of skilled labor or push home prices higher by attracting more skilled labor to compete for a limited supply of housing in a state already infamous for excessive housing costs. This means a larger share of income will go towards housing for both high- and low-wage workers—a fairly scary scenario given that California is already home to 8 of the 10 most expensive housing markets in the nation.



- California's housing market is expected to remain tight for some time, with home prices continuing to increase. While the state's population grows, the economy heals, and both bank lending and construction increases, the California Environmental Quality Act, Proposition 13, NIMBYism, local zoning/permit regulations, a litany of fees, and compliance-related costs prevent the state's housing supply from rising fast enough to mitigate growth in home prices. The cost of housing in California will remain one of the state's most serious policy challenges for the foreseeable future.

Fiscal Challenges Loom: Governor Jerry Brown has rightly received praise for bringing order back to California's budget. However, that the General Fund has returned to a surplus does little to ease the real fiscal challenges facing the state. Three issues in particular warrant further attention from Sacramento in order



Source: American Society of Civil Engineers

to ensure California's current and robust growth continues in the coming decades.

- Much of the improvement in state revenues is due to the passage of Proposition 30—a voter-approved, temporary, tax increase for the state's top income earners. Governor Brown sold this to Californians as a temporary measure in order to maintain revenues during the worst economic crisis since the Great Depression. However, any reduction in the tax rate would have short-run effects on California's ability to finance its General Fund obligations and that may result in the extension of these initially temporary measures. A recent USC Poll suggests that voters are likely to extend Proposition 30 to provide additional funding for education.[1]
- Of greater concern is that despite the recent surge in revenues, California still faces a mountain of under-funded pension obligations. Although there are deep political divisions to overcome regarding the pension issue, it is clear something has to give: the combined under-funded portions of CalPERS and CalSTRS alone are estimated to be nearly $150 billion. Recent economic growth and stock market gains have done little to alleviate concerns over this controversial aspect of public policy.
- California is way behind on the infrastructure investment it needs to make to ensure future growth and development. The American Society of Civil Engineers (ASCE) gave California a grade of C+ on its infrastructure. While the state has undertaken some infrastructure projects, the ASCE estimates California needs to invest more than $650 billion in new infrastructure over the next 10 years just to raise its infrastructure grade to a B.
- When the next downturn rears its ugly head, California will not have the wherewithal to address long-term issues such as pensions and infrastructure. This is all the more reason to begin to chipping away at these complicated and vital issues now, while that state's economy is booming, rather than kicking the can down the road for future policymakers to address.

[1] https://pressroom.usc.edu/poll-calif-voters-back-extending-proposition-30-to-funnel-more-money-to-public-schools/

State Historical Table

California	Q1-2013	Q2-2013	Q3-2013	Q4-2013	Q1-2014	Q2-2014	Q3-2014	Q4-2014	Q1-2015	Q2-2015
Total Nonfarm Empl. (Mill, SA)	15.02	15.11	15.24	15.36	15.47	15.58	15.71	15.83	15.95	16.04
Growth (%,SAAR)	3.36	2.48	3.49	3.06	2.87	3.03	3.24	3.15	3.01	2.28
Unemployment Rate (%,SA)	9.27	8.90	8.67	8.30	8.00	7.63	7.37	7.17	6.73	6.33
Personal Income ($ Bill)	1,816.45	1,848.27	1,871.83	1,889.91	1,904.04	1,929.85	1,962.53	1,979.24	2,001.09	2,009.38
Growth (%,SAAR)	-13.49	7.19	5.20	3.92	3.02	5.53	6.95	3.45	4.49	1.67
Taxable Sales ($ Bill, SA)	146.90	149.53	147.52	149.94	152.14	155.44	157.55	157.58	157.42	160.25
Growth (%,SAAR)	7.65	7.36	-5.26	6.72	5.99	8.99	5.53	0.08	-0.41	7.39
Single-Family Home Prices ($ 000s, SA)	308.58	336.30	349.88	362.19	368.03	374.95	380.23	382.43	392.22	394.62
Growth (%,SAAR)	16.28	41.08	17.16	14.83	6.60	7.74	5.76	2.33	10.63	2.47
Single-Family Home Sales (000s, SA)	88.04	86.38	86.57	79.43	74.79	78.33	79.53	78.04	79.61	88.49
Growth (%,SAAR)	-9.69	-7.31	0.88	-29.13	-21.39	20.27	6.27	-7.25	8.30	52.62
Single-Family Permits (000s, SA)	8.30	8.71	8.99	9.16	9.13	9.35	9.71	9.74	9.87	9.92
Growth (%,SAAR)	31.43	21.70	13.53	7.67	-1.51	10.00	16.20	1.57	5.51	1.88
Multi-Family Permits (000s, SA)	10.16	10.45	10.97	11.49	11.84	12.38	12.68	12.70	13.31	13.47
Growth (%,SAAR)	34.47	11.93	21.48	20.32	12.87	19.33	10.31	0.43	20.59	5.15
Nonresidential Permits ($ Bill, SA)	4.48	4.73	5.13	5.51	5.57	5.75	5.82	5.77	5.92	5.85
Growth (%,SAAR)	43.54	23.97	38.58	33.45	4.11	14.01	4.50	-3.31	10.72	-4.69
Population (Mill)	38.09	38.16	38.24	38.32	38.41	38.50	38.59	38.69	38.78	38.88
Growth (%,SAAR)	0.79	0.80	0.83	0.86	0.89	0.94	0.97	0.99	1.01	1.03
Net Migration (000s)	11.69	14.01	16.99	20.63	24.93	29.89	33.33	36.13	38.06	40.35
Natural Increase (000s)	62.73	62.22	61.66	61.07	60.44	59.76	59.36	58.91	58.86	58.84

State Forecast Table

California	Q3-2015	Q4-2015	Q1-2016	Q2-2016	Q3-2016	Q4-2016	Q1-2017	Q2-2017	Q3-2017	Q4-2017
Total Nonfarm Empl. (Mill, SA)	16.12	16.20	16.29	16.38	16.47	16.56	16.66	16.76	16.86	16.96
Growth (%,SAAR)	2.07	2.09	2.21	2.20	2.21	2.27	2.33	2.36	2.39	2.40
Unemployment Rate (%,SA)	6.28	6.22	6.15	6.09	6.03	5.98	5.92	5.87	5.82	5.77
Personal Income ($ Bill)	2,034.70	2,062.64	2,083.13	2,101.22	2,125.45	2,151.95	2,178.14	2,205.99	2,234.50	2,263.14
Growth (%,SAAR)	5.14	5.61	4.03	3.52	4.69	5.08	4.96	5.21	5.27	5.23
Taxable Sales ($ Bill, SA)	162.72	164.29	165.76	167.22	168.84	170.68	172.96	175.36	177.69	180.05
Growth (%,SAAR)	6.32	3.90	3.63	3.56	3.93	4.44	5.46	5.67	5.43	5.42
Single-Family Home Prices ($ 000s, SA)	402.67	412.33	424.28	435.26	448.16	461.90	473.18	484.11	493.05	499.83
Growth (%,SAAR)	8.41	9.95	12.11	10.76	12.39	12.84	10.13	9.57	7.59	5.62
Single-Family Home Sales (000s, SA)	91.81	93.09	93.99	94.56	95.32	96.30	96.97	97.43	97.57	97.44
Growth (%,SAAR)	15.86	5.72	3.90	2.46	3.25	4.18	2.79	1.92	0.59	-0.53
Single-Family Permits (000s, SA)	10.60	11.35	12.17	12.97	13.80	14.74	15.63	16.41	17.09	17.65
Growth (%,SAAR)	30.11	31.90	31.96	29.04	28.16	30.07	26.53	21.54	17.57	13.84
Multi-Family Permits (000s, SA)	13.58	13.66	13.72	13.77	13.82	13.89	13.96	14.05	14.15	14.26
Growth (%,SAAR)	3.34	2.24	1.69	1.52	1.57	1.83	2.23	2.57	2.90	3.19
Nonresidential Permits ($ Bill, SA)	5.84	5.87	5.88	5.91	5.95	6.01	6.09	6.18	6.30	6.42
Growth (%,SAAR)	-0.59	2.15	0.55	1.94	3.11	3.91	5.33	6.55	7.33	8.01
Population (Mill)	38.98	39.09	39.19	39.29	39.39	39.49	39.60	39.70	39.80	39.90
Growth (%,SAAR)	1.04	1.05	1.05	1.05	1.04	1.04	1.03	1.03	1.02	1.02
Net Migration (000s)	42.35	43.15	43.54	43.48	43.19	42.67	42.03	41.31	40.52	39.69
Natural Increase (000s)	58.71	58.72	58.61	58.58	58.89	59.24	59.63	60.03	60.47	60.93

Forecasts by Beacon Economics

San Luis Obispo County Forecast

by Eric Meux

Contents

Key Chapter Findings

- The local labor market is on sure footing as total nonfarm employment in San Luis Obispo County is at an all time high and job growth is outpacing the state overall.
- Consumer spending is expected to fuel taxable sales growth in the near term as construction of large scale solar projects, which have boosted spending over the last few years, have begun to wind down.
- The real estate market in the County has transitioned to more sustainable growth over this last year as traditional home sales have begun to take the driver's seat and distressed properties have largely made their way through the system.
- Population growth is slowing and isn't expected to pick up noticeably in the near term, but the local labor force is becoming more skilled as the County's education profile boasts stronger attainment numbers than the state or neighboring counties.

Overview

Over the last year the San Luis Obispo County economy has moved forward on several fronts. Employment levels are at all time highs and home prices are appreciating above historical average rates. Spending in the County has slipped as of late, however this is due to the unwinding of several large scale solar projects that had boosted taxable sales over the last few years. However the underlying fundamentals are sound and tourism related spending remains strong.

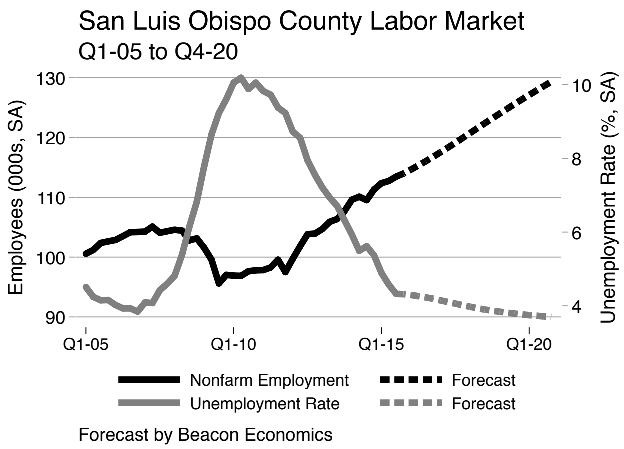
The agriculture industry had a rough year in 2014 as several crops were affected by the drought, and 2015 has not provided any indication of a rebound. Government forecasts of El Niño weather effects are calling for winter rains in Central and Southern California, providing some relief. The future of the industry is heavily dependent on how long the drought lasts. It is important to keep in mind, however that the agriculture industry makes up just 2% of the County's total economic output, and farm payroll employment represents only 3.7% of all jobs. So while the industry is not in the best position due to the current dry spell, it is not expected to significantly impact the broader economy.

Beacon Economics' current forecast strikes an optimistic tone and calls for continued growth in the County's labor market, real estate market, spending, and population growth. Growth rates may not be as robust as they have been in the past, but the current data tells a promising story. Beacon Economics is projecting the County's economy to maintain a steady upward trajectory over the next five years.

Our current forecast strikes an optimistic tone and calls for continued growth in the County's labor market, real estate market, spending, and population growth. Growth rates may not be as robust as in the past, but the current data tells a promising story.

Employment Forecast

The San Luis Obispo County Labor market has continued to trend higher over the past year, and Beacon Economics expects the region's labor market to remain robust over the next five years. Total nonfarm employment is at an all time high, and businesses in the County are adding positions at a faster rate than the state overall. What's more, San Luis Obispo County also boasts a lower unemployment rate than the statewide average. Compared to other job markets in the Central Coast region, San Luis Obispo County falls in the middle of the pack in terms of job growth.



The County's labor market performance over the last year is one of the reasons why Beacon Economics is optimistic about the next five years. The industries leading the employment gains will also be some of the primary drivers of job growth in the future. The Education and Health Care industry has made one of the largest contributions to overall job growth. The County's aging population, as well as overall population growth, will put upward pressure on demand for Health Care industry workers over the next five years.

The Leisure and Hospitality industry also made a solid contribution to overall job growth. As the broader national and state economies continue to move forward tourism will remain strong, and the County is poised to take advantage of that trend. Accommodation and Food Service has been a leading employment sector in some of the coastal communities responsible for much of the increase in countywide employment. Pismo Beach, Morrow Bay, and the City of San Luis Obispo have all seen relatively strong increases in this sector. Hotel revenues are running at record highs, and tourism is expected to remain strong in the coming years.

These leading industries benefit from both internal and external factors, and Beacon Economics is projecting they will continue to drive job growth in the coming years. The current forecast is for total nonfarm employment in the County to reach 120,000 by the end of 2017. In similar fashion expect the unemployment rate to continue to improve and reach 4% by the end of 2017.

Business Activity Forecast

Business activity in San Luis Obispo County has been somewhat mixed this past year, but after digging past the headline numbers for some indicators, such as taxable sales, it is clear the local economy is on sure footing moving forward.

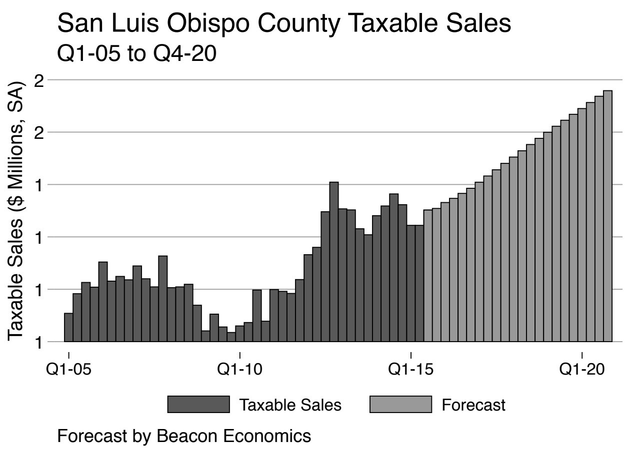
A recent decline in taxable sales in the County is due to the winding down of business spending related to the construction of some large scale solar plants. The Business and Industry taxable sales category was down 33.4% from the second quarter of 2014 to the second quarter of 2015. However, categories more pertinent to the County's key sectors, such as Restaurant and Hotel spending, have shown robust growth. On a regional basis there is strong taxable sales growth in places heavily dependent on tourism, such as Grover Beach, Paso Robles, and Morrow Bay, indicating that the local economy is indeed still firing on the usual cylinders.

Other indicators confirm that business activity in the County is maintaining a steady heading. In 2014 real gross metropolitan product, the broadest measure of goods and services produced in the local economy, increased by 2.5%, despite the winding down of a surge in business spending.

Moving forward, business activity in San Luis Obispo County will be driven more by robust consumer

Other indicators confirm that business activity in the County is maintaining a steady heading. In 2014 real gross metropolitan product, the broadest measure of goods and services produced in the local economy, increased by 2.5%, despite the winding down of a surge in business spending.

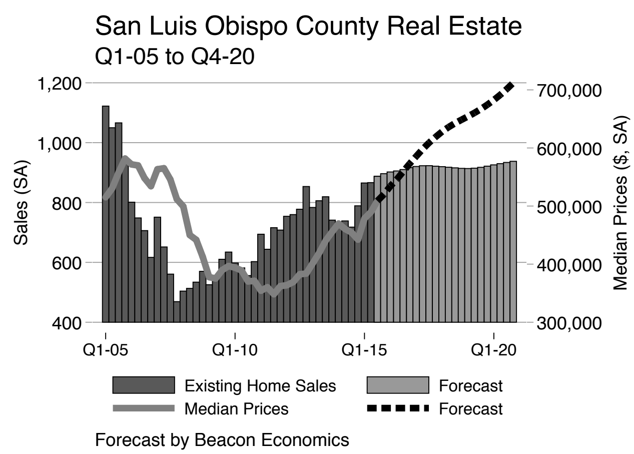
spending than by the recent business spending associated with large scale solar plants. The local tourism industry will continue to be a driver in the local economy, which will attract outside spending into the region, and the wine industry will continue to thrive as global demand for wine rises and recognition of local wines increases. The current forecast calls for taxable sales in the County to grow in the 5-6% range over the next five years and reach $1.5 billion by the end of 2017.



Real Estate Forecast

The real estate market in San Luis Obispo County has cooled somewhat over the last year, but has transitioned to more sustainable trends. The median price for an existing home in the County, for example, stood at $489,000 in the second quarter of 2015, a 6.3% increase over the same time one year prior. This was on par with the 6.4% growth for all of 2014, but noticeably lower than the 14.5% growth from 2012 to 2013.

One reason price growth has moderated is because the inventory of distressed properties in the County has dwindled, the sales of which drove prices sharply higher from the low points reached in the wake of the recession. The current housing market has returned to more of a retail market as more demand is coming from prospective homeowners as opposed to investors looking to scoop up foreclosed properties at bargain prices. This transition can be readily seen in the historical data. Traditional home sales, which nets out sales of distressed properties, have been steadily rising over the last few years and increased by 17.1% in just the first half of 2015 compared to the same time period last year.



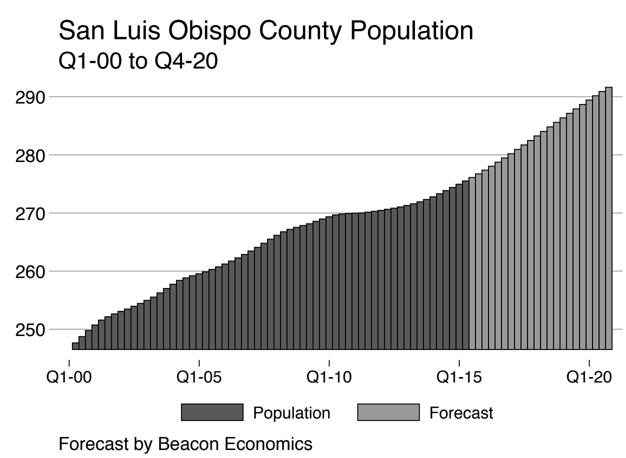
The steadily rising demand for new housing has spurred construction activity for single-family homes. This paints a nice picture for the County overall, but the gains have not been distributed evenly. Only 17 permits have been issued in Paso Robles, for example, which has pushed up home prices due to a more limited supply.

Although home price growth has cooled somewhat recently, Beacon Economics expects the rate of appreciation to pick up again over the next few years. Mortgage rates are at historically low levels, and over the next few years, rates are not expected to move much higher than 5%. Additionally, Beacon Economics does not expect overall inflation to trend much higher than 2%. Put it all together, and the inflation-adjusted annual cost of owning a home will not return to the levels seen during the peak of the last housing bubble, even with relatively strong price growth in the region. The current forecast calls for existing home prices to average 10% growth over the next two years, and then settle down into the 5.5% range thereafter.

Population Forecast

Population in San Luis Obispo County isn't expected to experience much growth over the next five years, but growth is expected to remain positive. In the past, net migration, rather than births, has been one of the primary drivers of population growth. This trend has slowed recently, and San Luis Obispo is now one of the slowest growing regions on the Central Coast.

Although population growth is slowing, the County is also becoming one of the most educated regions on the Central Coast. This will pay dividends in the future as more businesses will be enticed to start up or expand in the County to tap into the more skilled labor force.



San Luis Obispo is currently facing a quantity vs. quality situation when it comes to its population, but the local economy will still benefit. While growth in quantity is slowing, it is expected to remain positive, which will help maintain upward pressure on internal industries such as Education and Health Care Services and Wholesale and Retail Trade. More residents will also raise aggregate spending and provide a larger tax base for local governments. Over the next five years Beacon Economics is forecasting the County's population to grow in the 1% range and reach 290,000 by 2020.

Summary

The current forecast for San Luis Obispo County is quite optimistic and calls for continued growth across different sectors of the local economy. Future employment gains will be driven by both internal and external factors. Population growth will maintain upward pressure on internal industries such as Education and Health Care Services and Wholesale and Retail Trade, and a vibrant tourism industry is expected to attract a steady stream of visitors, which will bolster job gains in the Leisure and Hospitality sector.

Countywide home prices are anticipated to grow in the 10% range over the next two years, fueled by historically low mortgage rates and a tight supply in the local market. Traditional sales from prospective home buyers, as opposed to investors snapping up distressed properties at a discount, will be the primary driver of growth in the local real estate market moving forward.

Spending levels are also expected to trend favorably over the next five years because the underlying consumer trends remain strong. Population growth, while slow, will bolster future spending levels and tourism will continue to bring in outside dollars that will be spent in the local economy. Add it all up and San Luis Obispo County's future looks bright indeed.

Employment

by Brian Vanderplas

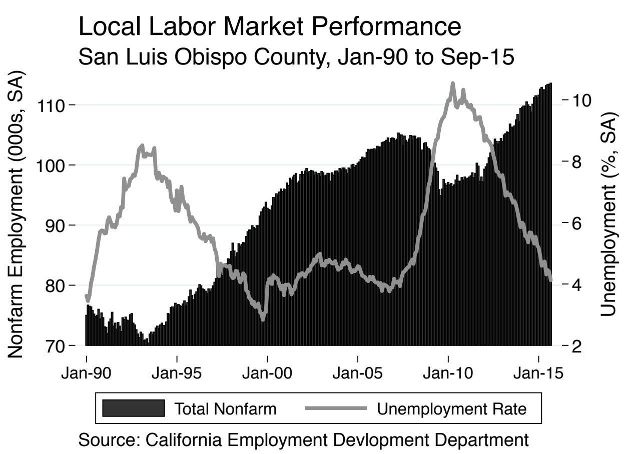
Contents

Key Chapter Findings

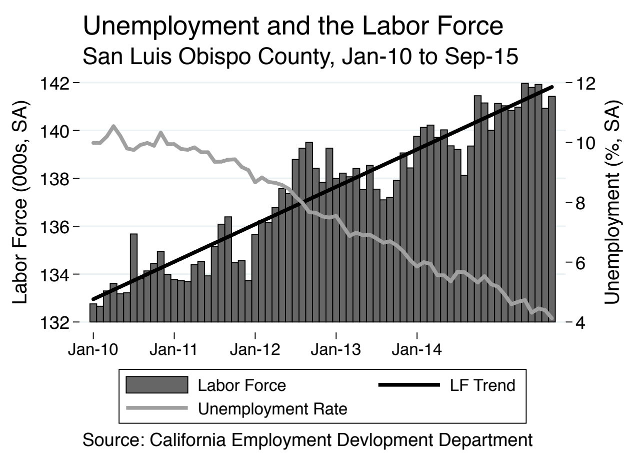
- Total nonfarm employment in San Luis Obispo County increased 3.2%, outpacing the 2.8% mark in the state overall.
- Gain in payrolls have also pushed the unemployment rate down to just 4.1%
- The Natural Resource and Construction sector was responsible for both the most new jobs in the region over the last year and the highest growth in percentage terms.
- From 2013 to 2014, wage growth in San Luis Obispo County came in at just 2.0%.

Overview

San Luis Obispo County has remained one of the bright spots in the Golden State during the current economic expansion. From September 2014 to September 2015, total nonfarm employment in San Luis Obispo County increased 3.2%, outpacing the 2.8% mark in the state overall. In relative terms, the County is in the middle of the pack among its neighbors on California's Central Coast over the last year, when employment growth registered 3.4% in Monterey County, 3.2% in Santa Barbara County, and 1.0% in Ventura County.



The gains in payrolls have also pushed the unemployment rate down to just 4.1% in September 2015, a 1.4 percentage point drop from the same month a year earlier. This is well below the 5.9% mark in the state overall. The driving force behind the drop in the unemployment rate in San Luis Obispo County is an uptick in employment levels for local residents. Household employment grew by 3.0% over the last year, compared to 2.3% in the state overall. What's more, the drop in the unemployment rate in the region came in the face of an expanding labor force, which grew by 1.5% in San Luis Obispo over the last year, compared to 0.8% in the state overall. In other words, the unemployment rate is not falling because of a shrinking labor force; it is falling as the labor force also expands.



In spite of employment gains, the region faces challenges. Chief among them is a shortage in housing in parts of the County. In particular, the northern cities have been plagued by this shortage because of relatively strong population growth and little construction in recent years. Another challenge is home affordability; it is difficult for some firms to recruit individuals to the area given the high price of homes, particularly in the coastal communities. Although local policies can make modest improvements on this front, an increase in the housing supply is also dependent on state regulations (including the California Environmental Quality Act, which has limited development of new housing) and the premium people place on living in San Luis Obispo County.

The Natural Resource and Construction sector was responsible for both the most new jobs in the region over the last year and the highest growth in percentage terms.

San Luis Obispo Employment Growth

Industry	Sept-14	Sept-15	Change	
	(000s)	(000s)	(000s)	(%)
NR/Construction	6,405	7,376	972	15.2
Education/Health	14,650	15,522	872	6.0
Government	21,952	22,427	475	2.2
Leisure and Hospitality	16,790	17,219	430	2.6
Other Services	5,141	5,506	365	7.1
Transport,Warehouse,Util.	4,216	4,507	291	6.9
Wholesale Trade	2,848	3,047	199	7.0
Manufacturing	6,797	6,987	190	2.8
Retail Trade	13,704	13,868	164	1.2
Farm	4,322	4,388	66	1.5
Real Estate	1,834	1,827	-7	-0.4
Information	1,400	1,393	-7	-0.5
Finance and Insurance	2,177	2,071	-105	-4.8
Professional/Business	12,186	11,849	-338	-2.8
Total Private	88,148	91,173	3,025	3.4
Total Nonfarm	110,100	113,600	3,500	3.2

Source: California Employment Development Dept.

Employment by Industry

At the industry level, expansion in San Luis Obispo County has been spread across a variety of sectors. The Natural Resource and Construction sector was responsible for both the most new jobs in the region over the last year and the highest growth in percentage terms. From September 2014 to September 2015, that sector expanded its payrolls by 15.2% (1,000 jobs). An inflow of commercial, residential, and capital improvement projects is helping spur this growth. On the residential side, the Marsh Street Brownstones[2] are under construction in downtown San Luis Obispo; on the commercial side, Tractor Supply Co.'s[3] future home is steadily rising in southwestern San Luis Obispo; and on the capital improvement side, the county has four major projects under construction valued at nearly $100 million. These projects include the Cayucos Pier[4] reconstruction and a new terminal at SBP, the county's regional airport.

Employment in the Education and Health Care sector is also continuing to grow at a robust pace. From September 2014 to September 2015, the sector increased payrolls by 6.0% (900 jobs). Significantly, jobs in this sector tend to be relatively high-paying. As a result, job growth in the this industry not only helps increase local employment levels but also generates additional activity in the region as these workers spend their money at local restaurants and retail establishments. A significant portion of the growth in this industry can be attributed to San Luis Obispo's aging population: 17.6% of San Luis Obispo's population is over the age of 65, compared to 12.9% of the population in the state overall. More important, this number increased by 2.7 percentage points from 14.9% 2009. The continued job growth in the sector shows that the industry will remain in high demand in the years to come.

[2]Danielle Ames "Marsh Street Brownstones under construction in downtown SLO" *The Tribune* October 6, 2015, available at http://www.sanluisobispo.com/news/business/article39080244.html

[3]Cynthia Lambert "Tractor Supply Co. under construction in SLO" *The Tribune* October 9,2015, available at http://www.sanluisobispo.com/news/business/article39090429.html

[4]David Sneed "County in a $100 million building spree" *The Tribune* October 21, 2015, available at http://www.sanluisobispo.com/news/local/article40794849.html

The Leisure and Hospitality sector also expanded its payrolls over the last year, albeit at a more tepid pace than in recent years. Over the last year, the sector increased payrolls by 2.6% (400 jobs), a decline from the 3.5% growth a year earlier. Despite this slowdown in growth, 2015 was a record year for tourism in the region. In each month since July 2014, monthly tourism revenues from local hotels, inns, and other logging has seen between 8% and 20% year-over-year increases.[5] In addition, the growing popularity of San Luis Obispo's wine country and the hiking, biking, and outdoor activities will help this sector see steady gains in the years to come.

Manufacturing was another bright spot for San Luis Obispo County as payrolls expanded by 2.8% (200 jobs) over the last year. In contrast, the state saw Manufacturing sector payrolls decline by 0.3% over the period. A close look at the newly created types of jobs shows how closely the manufacturing sector is linked with the region's farms and vineyards. According to the Quarterly Census of Employment and Wages from the Bureau of Labor Statistics, beverage manufacturing (which includes wineries) is the largest single subsector for Manufacturing in San Luis Obispo County, accounting for nearly one in four positions. More important, employment levels at beverage manufacturing firms are 8.9% higher than they were a year ago and establishment counts are more than 7.7% higher than they were a year ago. The region's farm sector is also doing well;, even with the difficulties imposed by the drought, payrolls rose by 1.5% (100 jobs) over the period.

Growth was not limited to the private sector. Government payrolls continued to rise over the last year as well. From September 2014 to September 2015, government payrolls increased by 2.2% (500 jobs). Most of these gains were concentrated in local government, where payrolls expanded by 3.3% (400 jobs).

[5] Chamber News "Record year for San Luis Obispo tourism" *San Luis Obispo Chamber of Commerce* September 3, 2015, available at https://slochamber.org/record-year-for-slo-tourism/

Although construction has been completed on major solar projects, which were a boon to the region's tax base, local municipalities have continued to see improvement in the underlying tax base, allowing them to bring on additional personnel.

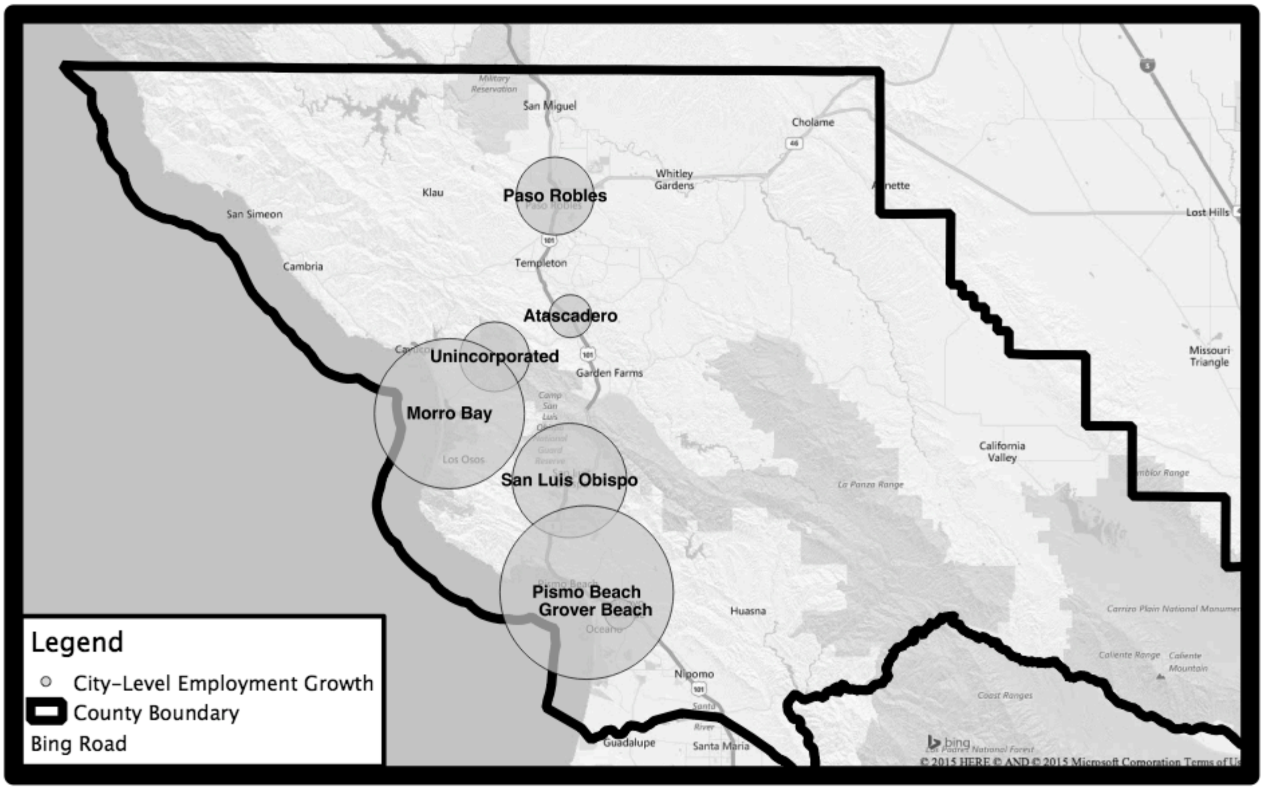
Manufacturing was another bright spot for San Luis Obispo County.

Although the majority of the region's job sectors continued to grow at a robust pace over the year, several sectors in the County saw jobs losses. For example, the Professional and Business Services sector declined 2.8% (-300 jobs) and the Finance and Insurance sector fell 4.8% (-100 jobs) from September 2014 to September 2015.

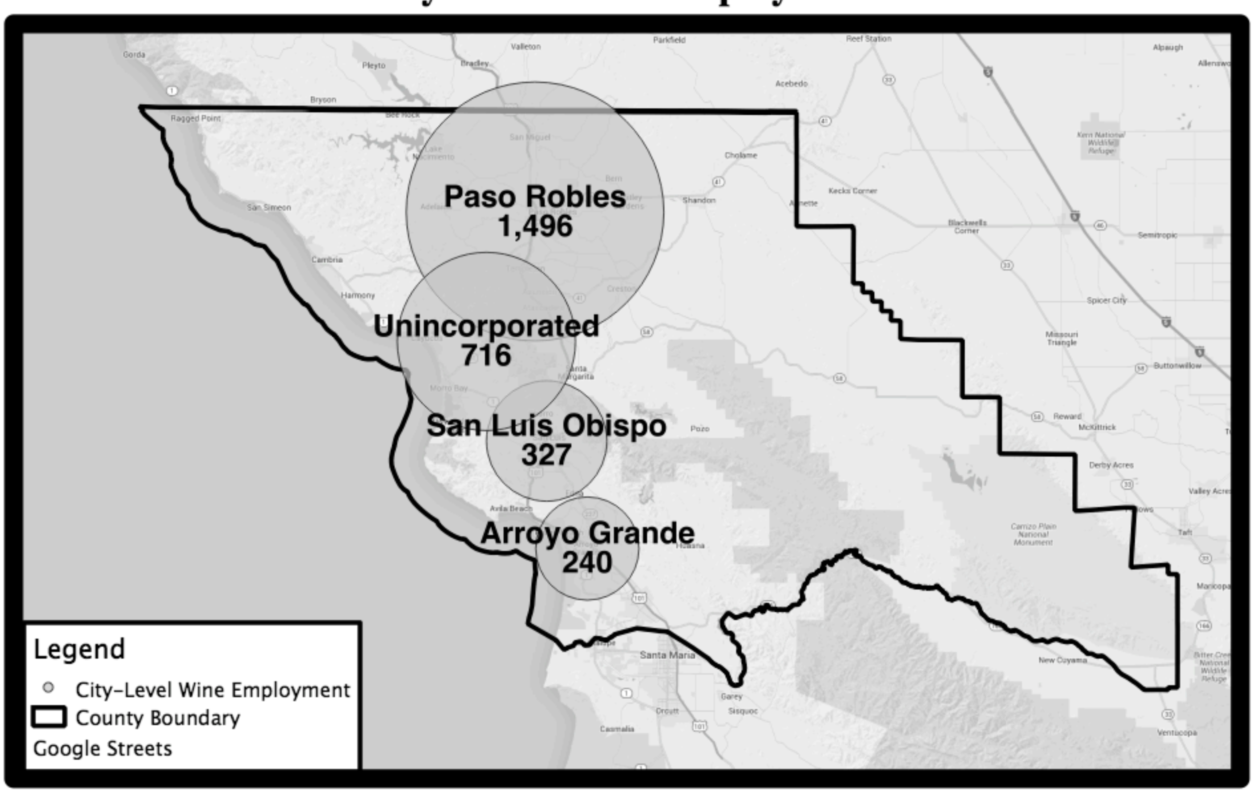
City Labor Markets

Growth has spread across much of the County, with coastal communities leading the way. From the fourth quarter of 2013 to the fourth quarter of 2014 (the most recent estimates available), Pismo Beach increased payrolls by 9.9% (+352 jobs) and Morro Bay increased payrolls by 7.4% (+242 jobs). Growth in these beach towns was driven by the Accommodations and Food sector. Not far behind was the City of San Luis Obispo, which expanded its payrolls by 4.3% (+2,051 jobs) over the period. Growth in the City was driven by the Health Care and Accommodations and Food sectors. With the Manufacturing sector posting gains, Paso Robles also expanded its payrolls at a steady pace over the period, increasing them by 2.0% (+332 jobs). The unincorporated areas of the County saw steady gains as well, increasing payrolls by 1.6% (+298 jobs).

City-Level Employment Growth



City-Level Wine Employment



San Luis Obispo Employment Growth

City	Q4-14 (#)	Change (%)	Change (#)
San Luis Obispo	49,358	4.3	2,051
Pismo Beach	3,902	9.9	352
Paso Robles	16,784	2.0	332
Unincorporated	18,422	1.6	298
Morro Bay	3,518	7.4	242
Atascadero	8,842	0.6	56
Arroyo Grande	8,616	0.3	26
Grover Beach	2,905	-0.6	-18

Source: California Employment Development Dept.

Still, growth was not robust in all parts of the County. Payroll growth over the year in Arroyo Grande and Atascadero came in at a somewhat disappointing 0.3% (+26 jobs) and 0.6% (+5565 jobs) respectively. Weak job growth in Arroyo Grande was driven by job losses in farm payrolls, while the weak growth in Atascadero was driven by declines in state government employment. Grover Beach was the only incorporated city in the County to see payrolls decline over the year, with a decrease of 0.6% (-18 jobs) over the period. Job losses in Grover Beach were a result of year-over-year declines in Health Care and Retail Trade employment.

For the five-year period from 2009 to 2013, the unemployment rate in San Luis Obispo County averaged 8.5%, according to the American Community Survey from the U.S. Census Bureau, though this rate varied across the County. Morro Bay (7.3%) and Pismo Beach (6.9 %) averaged unemployment rates well below the County as whole. However, Grover Beach (9.3%) and Paso Robles (9.4%) averaged higher rates than the county as a whole. Still, even cities with relatively high unemployment rates came in lower than the state (11.5%) overall over the five-year period.

Though accounting for only a small share of the County's jobs, the wine industry plays an integral role in several cities' labor markets. Paso Robles in particular has a heavy concentration in the industry, with wineries accounting for 6.8% of all jobs. What's more, Paso Robles accounts for the majority of the winery employment in the county, 63.1% as of the fourth quarter of 2014. Over the last five years, Paso Robles has seen its share the County's winery employees modestly increase. Other major wine producing cities include Arroyo Grande (13.0%) and San Luis Obispo (11.4%), with other cities and the unincorporated parts of the county accounting for the remaining 12.6% of winery jobs. These jobs play an important role in the region's economy, generating demand for the Tourism industry and the Shipping and Logistics industry.

Paso Robles accounts for the majority of the winery employment in the county.

The Constructions sector also plays an important role in the County's economy with the City of San Luis Obispo and Paso Robles accounting for most the jobs. As of the fourth quarter of 2014, the City of San Luis Obispo and Paso Robles accounted for 26.9% and 25.3%, respectively, of construction positions in the county, and over the past year the City of San Luis Obispo was responsible for more than 90% of the net new positions. The Construction sector is also big in Atascadero and Arroyo Grande but plays a smaller role in the coastal communities.

Business Formation

Along with growing employment levels, business formation in San Luis Obispo County continued to post gains in 2014, with the number of establishments growing across a broad range. According to the Quarterly Census of Employment and Wages, the number of establishments expanded by more than 205 companies in 2014, representing a 2.2% increase from 2013. This pace trails the state overall, where establishment counts increased by 3.0% over the same period.

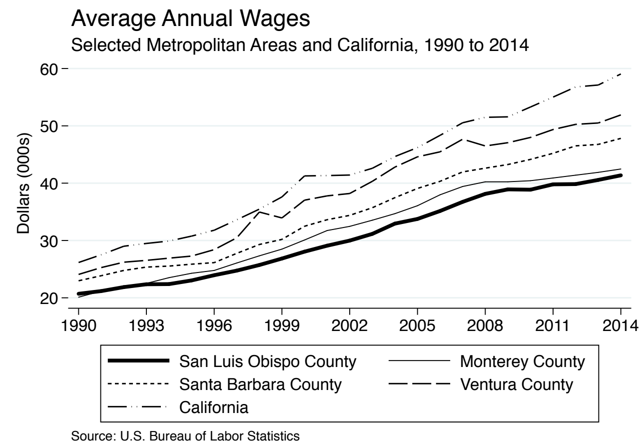
At the industry level, the Health Care and Construction sectors posted the largest gains in 2014, adding a net 94 and 63 firms respectively. In percentage terms, the Mining sector (+20.4%) and the Other Services sector (+1.5%) led the way. These figures should not come as a surprise given the robust growth in the Construction and Health Care industries over the past year. Only a few sectors saw establishment counts fall over the last year, with Retail Trade, Logistics, Management and the Federal Government accounting for a net loss of 10 firms in 2014. Perhaps more important, employment gains in the region were spread across small, mid-sized, and large firms. From 2013 to 2014:

- Firms with up to nine employees increased their payrolls by 3.8% (686 jobs).
- Firms with 10 to 249 employees increased their payrolls by 3.5% (2,030 jobs).
- Firms with 250 or more employees increased their payrolls by 4.8% (551 jobs).

Wages

Although employment growth in San Luis Obispo County continues to be stronger relative to growth in the nation and state overall, wages have grown at a more tepid pace. From 2013 to 2014, wage growth in San Luis Obispo County came in at just 2.0%, compared to 3.1% in the nation and 3.4% in the state overall. Even so, San Luis Obispo was in the middle of the pack along California's Central Coast, outpacing Monterey (1.4%) and trailing Santa Barbara (2.2%), and Ventura (2.8%) Counties.

From an industry perspective, average annual wages increased across the majority of industries in San Luis Obispo County. Leading the way was the Information sector, where average annual wages grew by roughly 7.0% from 2013 to 2014. Not far behind was the Professional, Scientific, and Technical Services sector, in which average annual wages jumped 6.3% over the same period. Perhaps more important, average annual wages grew by 5.2% in the region's Accommodation and Food sector and by 4.0% in the Retail Trade sector, boosting the incomes of a large number of residents who generally earn less than the County average.



Only a few sectors saw average annual wages decline, with the Mining sector (-11.8%), Management sector (-2.1%), Other Services (-0.4%) and the Health Care (-0.3%) sectors posting year-over-year declines in average annual wages. However, this is mainly a reflection of the many jobs added in these sectors that pay wages below the average, not a decline in wages for current employees.

Business Activity

by Rafael De Anda

Contents

Key Chapter Findings

- Consumer spending has demonstrated solid growth over the last three years, though recent figures appear less impressive due to the winding down of major energy projects in the region.
- Recent growth in production from the Real Estate Services, Wine Manufacturing, and Software Publishing sectors is providing a boost to the local economy.
- Tourism is having one of its best years in recent history.

Business Activity Overview

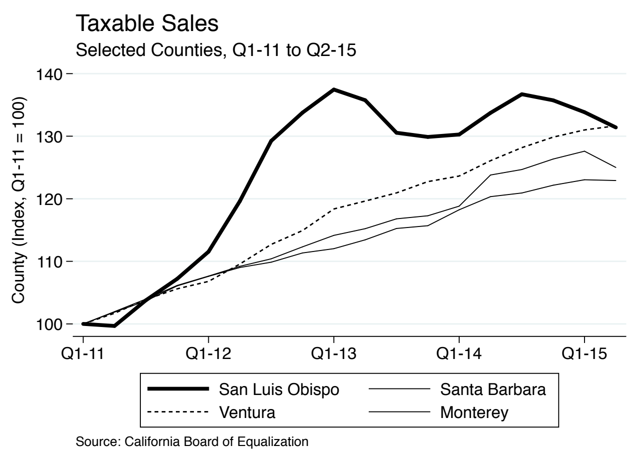
Some of the indicators traditionally used to track businesses activity have lacked significant growth in San Luis Obispo County over the past year. Rarely do these indicators trend counter to the overall positive growth that the local economy is experiencing, but some have temporarily stalled and this chapter will provide a deeper look at what is causing the slowdown. This analysis is intended to help businesses and stakeholders better plan for the future of the local economy.

Some of the stronger growing industries in the San Luis Obispo County economy include Tourism, Real Estate Services, Manufacturing, and Professional and Business Services —much in line with job growth throughout the County. Agriculture and Energy are not providing the same level of contribution they have in years past, however. Overall, Beacon Economics' outlook for local business activity remains positive. Businesses will continue to thrive and Californian's from the north and south will continue to travel to the Central Coast.

Consumer Spending

Taxable sales in San Luis Obispo County were 5.6% lower in the second quarter of 2015 than they were in the second quarter of 2014, after growing by only 1.1% in 2013. Nevertheless, dating back to the first quarter of 2011, taxable sales have grown by over 30% —in line with growth in Ventura County and greater than growth in neighboring Santa Barbara and Monterey Counties.

Earlier in the economic cycle (2011 and 2012), rapid growth was unique to San Luis Obispo County among other Central Coast counties and was attributable to major energy projects that injected the local economy with spending on construction services. This is important to note because the recent lack of growth in taxable sales in San Luis Obispo County, especially relative to the same neighboring counties, should not be considered a lull in growth or a sign of a potential recession. Taxable sales in the first half of 2015 were also impacted by lower prices at the gas pump, which will help spending in other categories to grow in the second half of 2015 and beyond.



Spending in San Luis Obispo County has grown the most at Restaurants and Hotels. Taxable receipts at these establishments in the County were 11.6% higher in the second quarter of 2015 than they were in the second quarter of 2014. Auto and Transportation taxable receipts grew similarly (11.1%). Spending growth in these categories resembles much of the rest of the state. Meanwhile, Business and Industry spending declined by 33.4% and Fuel and Service Stations declined by 12.5%.

Taxable Receipts by Category
Selected Counties and California, Q2-2015

Category	Q2-2015 ($ 000s)	Change (%)
Restaurants and Hotels	1,835	11.6
Autos and Transportation	1,754	11.1
Food and Drugs	767	5.9
General Consumer Goods	2,450	1.0
Building and Construction	1,030	-2.8
Fuel and Service Stations	1,430	-12.5
Business and Industry	1,845	-33.4
San Luis Obispo County Total	12,520	-4.4
Monterey County Total	16,694	5.2
Santa Barbara County Total	10,607	5.1
Ventura County Total	34,955	4.5
California Total	1,610,991	4.9

Source: HdL Companies

Consumer spending throughout cities in San Luis Obispo County reflects how that spending is being distributed by category. Tourist destinations such as the Cities of Grover Beach, Paso Robles, and Morrow Bay experienced the strongest growth in taxable sales over the last two years. Meanwhile, taxable sales in unincorporated portions of the County declined over the past two years (these unincorporated areas are where most of the recently constructed energy projects are located). Yet even without any new major construction in the works, both spending in unincorporated areas and spending on business and industry categorized goods and services are expected to return to normal growth levels by the end of this year. Furthermore, crude oil prices have shown little sign of growth in recent months, which will continue to support consumers at the pump.

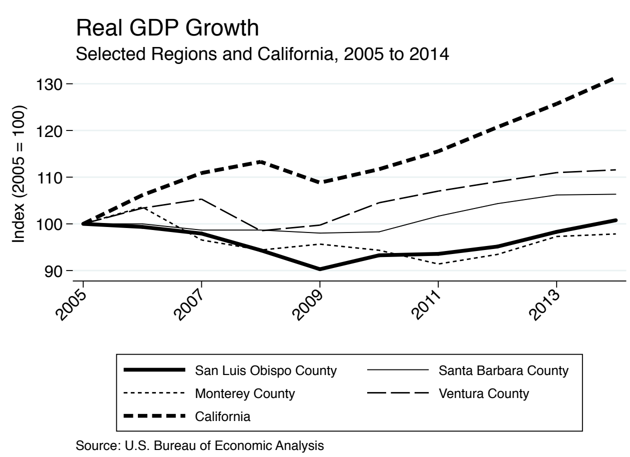
Taxable Sales by City
San Luis Obispo County, Q2-2015

City	Q2-2015 ($ 000s)	1-Yr Chg (%)	2-Yr Chg (%)
Grover Beach	29,683	10.6	24.4
Paso Robles	204,922	6.1	14.2
Morro Bay	38,456	7.1	12.3
Arroyo Grande	77,827	-2.9	7.6
Pismo Beach	61,517	2.5	6.3
Atascadero	81,080	5.9	5.3
San Luis Obispo	352,513	2.5	5.2

Source: California Board of Equalization

Goods and Services Production

Economic activity in San Luis Obispo County, as measured by gross metropolitan product (GMP), experienced decent growth in 2014 (the most recent data available). Production grew by 2.5% over the year, compared to 0.6% in Monterey County, 0.5% in Ventura County, and 0.1% in Santa Barbara County. These Central Coast counties all grew at a slower rate than California as a whole in 2014 (4.5%), a trend that has been consistent over the last three years. In fact, production in San Luis Obispo County has grown by a total of 0.7% since 2005, while production throughout California has grown by 31.3%.



GDP Growth by Sector
San Luis Obispo County, 2013 to 2014

Industry	2014	2013 to 2014		2011 to 2014	
	$ 000s	Change (%)	Contributions to Growth (%)	Change (%)	Contributions to Growth (%)
Real Estate	2,196	1.62	0.30	3.13	0.54
Manufacturing	886	11.03	0.76	3.79	0.26
Prof. Bus. Services.	987	6.93	0.55	2.03	0.17
Trans./Warehousing	1,250	-3.85	0.43	-1.27	0.15
Retail Trade	980	2.19	0.18	1.78	0.15
Information	311	9.89	0.24	5.70	0.13
Construction	647	-3.43	0.20	2.08	0.11
Health Care	862	3.98	0.29	1.23	0.09
Accommodation/Food	547	5.60	0.25	1.71	0.08
Finance/Insurance	348	4.19	0.12	2.45	0.07
Agriculture	238	-7.39	0.16	3.80	0.07
Natural resources and mining	269	-8.81	0.23	3.09	0.07
Other Services	316	4.29	0.11	0.93	0.03
Arts/Ent./Recreation	73	4.29	0.03	-1.52	0.01
Educational Services	33	6.45	0.02	2.00	0.01
Wholesale Trade	414	8.38	0.28	0.15	0.01
Government	1,778	1.83	0.28	-0.02	0.00
All Industry Total	11,840	2.53	2.53	1.54	1.54

Source: U.S. Bureau of Economic Analysis

Economic theory suggests that long-term economic growth occurs through two main channels: population growth and technological growth. San Luis Obispo County, much like the rest of the Central Coast, has experienced little population growth in recent years, which leaves businesses looking to expand with fewer potential workers to hire. Since San Luis Obispo County has a lower birth rate and offers little affordable housing to attract migrants, production growth is entirely dependent on businesses gaining efficiencies by developing new methods of production and utilizing labor to produce goods and services in higher quantity and quality.

Two industries provided half of the overall growth in production since 2011: Real Estate and Manufacturing.

Growth in goods and services produced from 2013 to 2014 in San Luis Obispo County was widespread across many industries. However, two industries have provided half of the overall growth in production since 2011: Real Estate and Manufacturing. While not as large of a contributor to total production due to its smaller size, the Information industry has also been one of the fastest growing industries in the County.

Production in Real Estate includes services from realtors, property managers, and other leasing agencies. Rising asset prices and rents for both residential and non-residential properties have created increased demand for these services. Moreover, recent residential sales transactions have increased in volume and local household formation still has room to grow as many young adults have yet to leave the nest, indicating the demand for Real Estate services will remain strong.

Increased production in the local Manufacturing industry is synonymous with growing production and

Central Coast Hotel Statistics by City and County
January-August Averages

Location	Average Daily Rate			Occupancy Rate			RevPar		
	2015 ($)	1-Year Chg. (%)	3-Year Avg. Chg. (%)	2015 (%)	1-Year Chg. (p.p.)	3-Year Avg. Chg. (p.p.)	2015 ($)	1-Year Chg. (%)	3-Year Avg. Chg. (%)
Pismo Beach	177	6.8	7.0	76.9	-0.8	0.8	136	5.6	8.2
San Luis Obispo	156	5.5	7.7	81.5	3.7	1.7	127	10.6	10.4
Paso Robles	130	3.4	6.1	73.2	2.5	2.5	95	7.0	10.7
North Coastal	159	6.9	6.9	66.7	-3.2	0.7	105	1.6	8.0
San Luis Obispo County	157	5.4	6.1	76.4	1.2	1.4	120	7.1	8.4
Santa Barbara County	167	5.4	0.3	81.2	3.9	1.8	135	10.6	2.7
Ventura County	132	9.7	7.9	77.5	0.6	2.6	101	9.5	10.7

Source: PKF Consulting

sales at local wineries. Demand for wine throughout the world continues to increase and the reputation of wines made in Paso Robles and San Luis Obispo are gaining greater and greater recognition. Wine exports throughout California have grown by 10% year-to-date through August 2015 compared to the same period in 2014, while wine exports in the rest of the nation have fallen by 1.7%. Additionally, local wineries are catering to tourists who tend to spend more freely while on vacation and are likely to enroll in wine club subscriptions. Rather than focus on quantity, which has no doubt been hindered by the recent water shortage, local wineries have collectively focused on quality.

Lastly, Information was one of the fastest growing industries in San Luis Obispo County as measured by the production of goods and services from 2011 to 2014. The growth is attributable to a rise in software publishers such as MINDBODY, which received over $50 million in venture capital in 2014 and raised more than $101 million in its initial public offering in June 2015[6], and Edufii, a company still in its early stages of development that connects coaches with athletes and utilizes digital data tracking[7]. Software publishers also added a significant number of workers as employment at software publishing establishments in San Luis Obispo County grew from 154 jobs to 487 jobs from the first quarter of 2011 to the first quarter of 2015.

Tourism and Hospitality

San Luis Obispo County remains one of the top tourist destinations for residents in both Southern and Northern California. In recent years, some hotels have also started to experience growth in the number of international travelers, who often visit by means of tours buses from Los Angeles and San Francisco. With growth in the number of domestic and international visitors, hotels have been able to raise rates and keep occupancy high.

Through August 2015, average overnight room rates in San Luis Obispo County were 5.4% higher than during the same period in 2014. The steepest rise in prices was in the north coastal region, while prices in Paso Robles grew slightly less. Nevertheless, Paso Robles

[6]For more information, see Lizette Chapman, Mindbody Raises $50M at $450M Valuation; IPO Likely in 2015, *Wall Street Journal*, February 20, 2014, blogs.wsj.com/venturecapital/2014/02/20/mindbody-raises-50m-at-450m-valuation-ipo-likely-in-2015 and *Pacific Coast Business Times*, MindBody IPO Raises $101 Million, June 19, 2015, www.pacbiztimes.com/2015/06/19/mindbody-ipo-raises-101-million

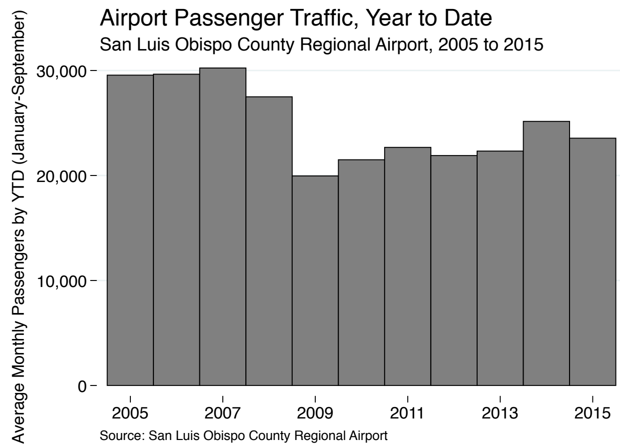
[7]For more information, see www.edufii.com

hotels have experienced strong growth in revenues per available room through 2015 because occupancy grew by 2.5 percentage points. In addition, it should be noted that Paso Robles statistics are skewed due to the addition of various new hotels.

Longer-term hotel statistics also show that San Luis Obispo County hotels are starting to attract guests with a greater willingness to spend, especially relative to hotels in Santa Barbara. Over the last three years, San Luis Obispo County hotels have raised average daily rates by 6.1% per year, while hotels in Santa Barbara County have raised rates by only 0.3% per year.

Over the last three years, San Luis Obispo County hotels have raised average daily rates by 6.1% per year, while hotels in Santa Barbara County raised rates by only 0.3% per year.

The sustained uptick in tourism in San Luis Obispo County (as well as in the broader Central Coast region) has not corresponded with increased airport passenger traffic, however. Passenger traffic out of San Luis Obispo County Regional Airport declined by 6.4% through the first nine months of 2015 relative to the same period one year earlier, after showing moderate growth over the previous five years. The recession led to a steep drop in passenger traffic at the airport, and it has yet to fully recover. Continued promotion of San Luis Obispo County's tourist attractions should help increase passenger traffic. Additionally, the region could benefit from another large convention facility, which would help attract more business-related travel.



Many tourist-heavy economies tend to rely on the *it* factor to attract more tourism and spending. Yet cities in San Luis Obispo County continue to attract overnight guests with varied and authentic amenities, including a wide range of hiking trails, outdoor excursions, horseback riding, mountain biking, coastal scenery, and winery tours and tasting rooms.

Agriculture

by Eric Meux

Contents

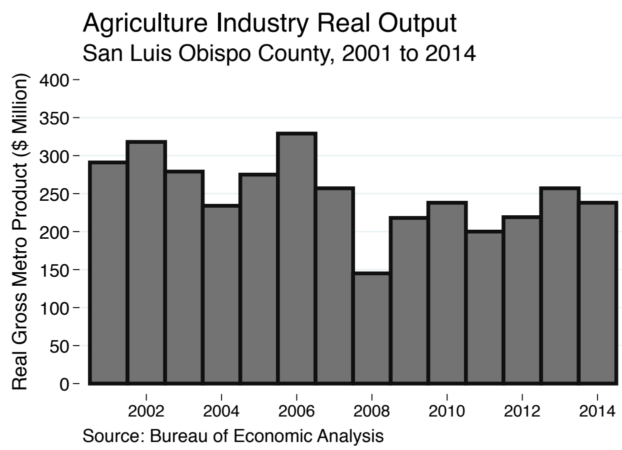
Key Chapter Findings

- Last year the Agriculture industry in the County faced some setbacks. Real industry output decreased by 7.4% while total crop and livestock values decreased by 2.0% over from the prior year.
- Not all was bad news, however. Strawberries took over the number one spot again in terms of crop value in 2014. Bucking the trend in other crops, strawberry prices increased while production held relatively steady.
- The most recent data available at the State and County levels indicate that the broader Agriculture industry has continued to struggle after a down year. However, we have yet to see any evidence that the industry as a whole is on the brink of collapse.
- Heading into the fifth year of drought, California is projected to finally get some relief thanks to El Niño, which will bring more rainfall and help ease parched areas across most of the Golden State.

Overview

After four years of drought, the San Luis Obispo County Agriculture industry has begun to feel enough of the effects to move its aggregated statistics. Although some farmers have felt the brunt of the drought more than others in past years, their troubles had not been enough to move the collective needle. After all, real output for the Agriculture industry in the County had been on the rise since 2011, and 2013 was the 4th consecutive year of record-setting values for crop and livestock products. In 2014, however, there were declines on several fronts. Real output as well as total crop and livestock values fell.

The latest data for 2015 do not paint a much brighter picture, but they also do not point to to a disastrous year for the overall industry. Farm income and agricultural exports at the state level are trending lower, but farm employment in the County is holding steady, and much of the decline on the state level is the result of price effects. The outlook for 2015 is uncertain until further data become available, but the current statistics point to neither a drastic contraction nor strong positive growth in the local industry.



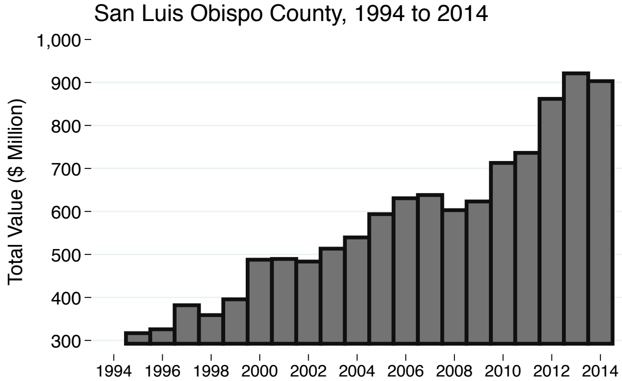
The water situation in the County remains one of the driving factors behind the industry's near-term growth, and there could be some relief this winter. The National Oceanic and Atmospheric Administration (NOAA) Climate Prediction Center is forecasting strong El Niño conditions for Central and Southern California. This will by no means end the drought, however, as El Niño is associated with warm temperatures and thus does not bode well for snowpack in the Sierra Nevada Mountains, the source of much of the state's spring and summer water supply.

Conservation and innovation will be the keys moving forward, and the County has been doing well at the former. Water usage at the County's public facilities and grounds has been reduced by 35% since 2013, surpassing the statewide 25% mandate. In other farm areas, innovations hold promise for bringing more supply on line from an unexpected source. San Francisco based startup company WaterFX has designed a solar-powered desalination plant for the Central Valley. The plant will be processing irrigation runoff from the Valley's naturally salty soil instead of ocean water. Even if the drought ends in the coming year, conservation and innovation should be continuously pursued. The current dry spell will not be the last; it is only a matter of when, not if, it will happen again.

2014 Industry Performance

Last year the Agriculture industry in the County faced some setbacks. During the first years of the drought, the industry overall still saw increases in both real output and nominal crop and livestock values. Real industry output had been on the rise from 2011 to 2013, and total crop and livestock values in the County had increased every year since 2008. In 2014, however, real industry output decreased by 7.4% while total crop and livestock values decreased by 2.0% from the prior year. The statewide industry fared worse as real agricultural output in California declined by 7.3% from 2013 to 2014.

Total Agricultural Commodity Value
San Luis Obispo County, 1994 to 2014



Source: San Luis Obispo County Department of Agriculture

The largest drag on growth in total crop and livestock values came from broad-based losses in the vegetable category. Among the larger vegetable crops by dollar value and harvested acreage, broccoli took the biggest hit as harvested acreage declined 8.1% from 2013 to 2014 and the per-unit price declined 7.7%, resulting in a 10.8% decrease in the total value of broccoli production. Much of the loss in the County's broccoli crop was the result of the Bagrada bug, a pest native to Eastern and Southern Africa that came to California in 2008 and has increased in population since.

San Luis Obispo County Agricultural Categories

Category	2013 ($ Million)	2014 ($ Million)	Annual Growth (%)
Total Value	921.1	903.0	-2.0
Fruit and Nut	468.4	471.4	0.7
Vegetable	237.9	195.3	-17.9
Animal	100.9	135.0	33.9
Nursery	97.7	84.4	-13.6
Field	16.4	16.8	2.7

Source: San Luis Obispo Department of Agriculture

The largest overall declines for vegetable products came from the miscellaneous category, which includes 35 vegetable crops. The total value of this category was $68.8 million in 2014, a decline of $37.6 million, or 35.3%, from the prior year. The losses in the category were much greater than the $18.1- million net decrease across all crop and livestock categories. Increased soil salinity because of the drought resulted in damage to many vegetable crops.

San Luis Obispo County Top Agricultural Commodities

Commodity	2013 ($ Million)	2014 ($ Million)	Annual Growth (%)
Strawberries	171.0	205.8	20.3
Wine Grapes	220.4	203.8	-7.5
Cattle and Calves	96.4	129.6	34.4
Broccoli	64.1	57.2	-10.8
Vegetable Transplants	33.2	33.7	1.6

Source: San Luis Obispo Department of Agriculture

One of the most drastic effects of the drought on the local industry has been in avocado production. Because irrigation water is increasingly scarce, farmers have had to prune or stump a significant share of their orchards. In 2013, production per acre was 4.9 tons, but in 2014 that figure was cut to 2.5 tons per acre. Even though prices increased by 1.7%, the total value of the County's avocado production plummeted 48.7% to $22.7 million. It could be several years, even after the drought eases, before the affected avocado trees return to normal production level.

Wine grapes, the second largest crop by dollar value in 2014, also did not escape the drought. Warmer temperatures brought about an earlier harvest but, although yields were low, quality was high. Prices increased across all varieties, but with decreased production, overall crop value declined 7.5% from 2013 to 2014. Zinfandel grapes saw the most dramatic annual price increase (+11.1%) and drop in production (-30.3%). Cabernet Sauvignon grapes, the largest crop by production level, saw more moderated performance as prices rose by 6.3% and production declined by 8.2%, resulting in a 2.4% decrease to total crop value.

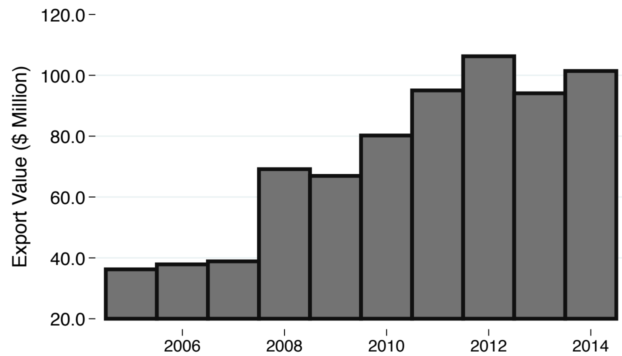
San Luis Obispo County Wine Grapes

Grape Variety	Production 2013 Ton	Production Annual Growth (%)	Prices 2014 $ Per Ton	Prices Annual Growth (%)
White Grapes				
Chardonnay	16,938	-16.9	1,327	6.4
Sauvignon Blanc	6,617	5.4	1,220	6.3
White Wine (Other)	7,034	-15.0	1,293	7.1
Red Grapes				
Cabernet Sauvignon	48,498	-8.2	1,465	6.3
Merlot	21,342	-22.7	1,057	1.5
Pinot Noir	6,423	-5.0	2,683	3.4
Syrah	10,810	-11.7	1,364	5.7
Zinfandel	7,384	-30.3	1,407	11.1
Red Wine (Other)	17,602	-11.2	1,600	7.7

Source: San Luis Obispo Department of Agriculture

Not all was bad news, however. Strawberries took over the number one spot again in terms of crop value in 2014. Strawberries and wine grapes have alternated in the top spot for several years. Bucking the trend in other crops, strawberry prices increased while production held relatively steady. Production of fresh strawberries did decline slightly, by 1.6% from 2013 to 2014, but production of strawberries for processing increased by 30.0%. Although processed strawberries make up a much smaller share of total strawberry production, the production gains were enough to offset the dip in fresh strawberry production. Prices increased for both fresh (18.2%) and processed (19.8%) strawberries, yielding a 20.3% annual increase in the total value of the strawberry crop in 2014.

San Luis Obispo County Crop Exports
2005 to 2014



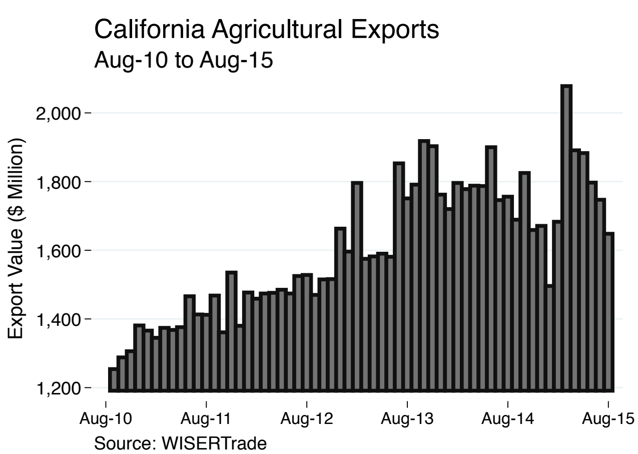
Source: International Trade Administration

Livestock was another category that made headway in 2014, although not necessarily under the conditions many would hope for. The prolonged dry spell has caused many ranchers to trim their herds as rangeland becomes scarcer and prices for feed supplements trend higher. Sales of cattle spiked in 2014, when the total number sold was 120,000, up from 105,000 in 2013. Cattle prices were higher as well, pushing the total value of sales to $129.6 million, a 34.4% increase over the prior year.

Another bright spot in 2014 was the increase in the total value of crop exports attributed to the County. According to the U.S. Department of Commerce International Trade Administration, the value of crop exports totaled $101.4 million in 2014, a 7.8% increase over 2013. In contrast, statewide crop exports were down 1.4% in 2014. The U.S. Bureau of Labor Statistics' estimate of crop export prices was down 8.4% in 2014, which indicates that crop exports attributed to San Luis Obispo County in 2014 increased in real terms, not just in higher prices.

2015 Industry Outlook

The most recent data available at the State and County levels indicate that the broader Agriculture industry has continued to struggle after a down year. However, we have yet to see any evidence that the industry as a whole is on the brink of collapse. On the state level, the broader industry is certainly having a rough year. Farm earnings as well as the value of agricultural exports are down year-to-date, but some of this is the result of price effects. Although this is little consolation to farmers facing declining revenues, it does point out that in real terms, the situation is not as bad as the nominal statistics suggest.



For the first half of 2015, farm earnings in the State, a figure that includes both proprietor income and employee compensation, were down 6.6% compared to the first half of 2014. This drop was caused entirely by a 12.2% drop in farm proprietor income. The year-to-date decline in farm earnings is noticeably higher than the 1.1% decline for all of 2014. Much of the decline, however, is probably the result of the lower prices farmers have faced.

The latest data for 2015 do not paint a much brighter picture, but they also do not point to a disastrous year for the overall industry.

According to the U.S. Bureau of Economic Analysis, overall industry prices for Agriculture at the national level were 16.1% lower from the first quarter of 2014 to the first quarter of 2015, a substantially sharper decline than the 0.1% dip for all of 2014.

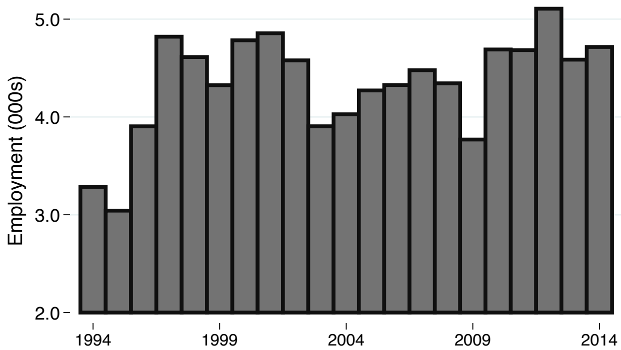
California's agricultural exports were also down year-to-date, and prices again were the main culprit. Through August, the total value of the state's agricultural exports was down 1.7% compared to the same year-to-date period in 2014. Beacon Economics' agricultural export price index for California was down 15.5% over the same period, led lower by falling prices for meat, dairy, and other animal product exports.

California Agricultural Exports Through August 2014

Commodity	2014 YTD ($ Million)	YTD Growth (%)
Total Agricultural Exports	13297.18203	-1.74
Wine	971.943957	10.04
Strawberries	264.300033	-3.81
Beef	172.187048	-22.90636153
Cauliflower and Broccoli	67.064031	-6.31
Avocados	36.350535	4.83

Source: WISERTrade

One of the primary drags on state export growth has been dairy products, which were down by 40.0% year-to-date. Given that dairy products are not a major agricultural product in San Luis Obispo County, however, the state's numbers should not be interpreted as weakness for the County's output. On the contrary, the state export numbers for particular crops hold promise for the local industry's performance in 2015. State-level wine exports were up 10.0% year-to-date, indicating that international demand remains strong for California wine. State strawberry exports, however, were down 3.8%, and prices again appear to be the culprit. Export price data specifically for strawberries are not available, but domestic prices suggest that the nominal decline in export prices is not indicative of a decline in real terms. The U.S. producer price index for strawberries was down 27.4% over the same period.



Another indication that the local Agriculture industry overall is not facing a dramatic decline is that farm payroll employment has remained steady. For the year-to-date period ending in September, the number of employees on farm payrolls averaged 4,733, according to the California Employment Development Department, which is exactly the average number of farm payroll employees during the same year-to-date period in 2014. So although the local industry has certainly been affected by the drought, the latest data suggest that 2015 will not be much worse than 2014.

The Drought Situation

Heading into the fifth year of drought, California is projected to finally get some relief thanks to El Niño. The National Oceanic and Atmospheric Administration (NOAA) Climate Prediction Center is forecasting strong El Niño conditions, which will bring more rainfall and help ease parched areas across most of the Golden State.

Unfortunately, the increased precipitation is not projected to reach all parts of the state. Central and Southern California will benefit the most, which bodes well for San Luis Obispo County. Northern California, however, is expected to see drought conditions intensify because the warmer temperatures that are expected to bring more rainfall to Central and Southern California are forecast to bring dry conditions to the northern parts of California and Nevada and all of Oregon and Washington.

As good as the prospect of increased rainfall is, it will not be enough to break the drought. The state would need two to three times its average annual precipitation in order to replenish its reservoirs. What's more, El Niño's warmer temperatures can reduce the snowpack in the Sierra Nevada Mountains, from which California receives much of its water supplies for the spring and summer seasons.

Ultimately, water conservation is going to be the name of the game for the foreseeable future, and San Luis Obispo County has been doing a great job so far. As noted above, water use at the County's public facilities and grounds has been reduced by 35% since 2013, surpassing the statewide 25% mandate. The County has achieved this through retrofitting buildings with low-flow fixtures, repairing leaks, updating standards for plumbing facilities in new construction, and using water monitoring systems to regulate irrigation at County parks and grounds.[8]

Innovation will also play a big role for the drought. WaterFX, a San Francisco based startup company, has a design for a large desalination plant in the Central Valley. As noted above, desalination plants are typically associated with ocean water, but WaterFX

[8]Andrew Leviakis, "San Luis Obispo County reduces water consumption at public facilities", KSBY 6 News, October 30, 2015, available at http://www.ksby.com/story/30094474/san-luis-obispo-county-reduces-water-consumption-at-public-facilities

is focusing on irrigation runoff in the Central Valley that farmers typically have to pay to get rid of. Central Valley soil contains more natural salt than soil in other areas, so irrigation run off is bad for local land and wildlife. The desalination plant will run on solar power, reducing its carbon footprint.

Residential Real Estate

by Alan Hooper

Contents

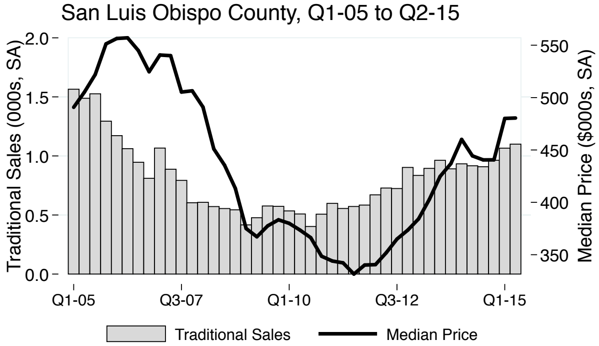
Key Chapter Findings

- The housing market in San Luis Obispo County has returned to a sustainable pattern of growth over the last year. Home prices grew at a relatively moderate pace (8.1%) from the second quarter of 2014 to the second quarter of 2015, while sales activity surged midway through the year.
- Supply concerns are developing in the northern sub-region of the County. Construction has failed to keep up with population growth in Paso Robles and neighboring cities.
- Construction activity in the County continues to grow; the number of single-family construction permits is up 11.0% through the second quarter of 2015.
- San Luis Obispo County is home to one of the fastest-growing rental markets in California. The cost of rent has increased 5.0% from the second quarter of 2014 to the second quarter of 2015, while many of the new units completed during this time have been quickly rented.

Housing Market Overview

The housing market in San Luis Obispo County has slowly but surely returned to a more sustainable pattern of growth. The rate of price appreciation has come down to more reasonable levels after several years of double-digit growth. Home prices grew 8.1% from the second quarter of 2014 to the second quarter of 2015. At the same time, sales activity in the County started to gain momentum through the first half of 2015. Traditional home sales, which do not include distressed property sales, are up a whopping 17.1% year-to-date and are as high as they have been at any point in the last eight years.

Res. Real Estate Prices and Traditional Sales
San Luis Obispo County, Q1-05 to Q2-15



Note: Traditional Sales are estimated by subtracting foreclosures from total sales.
Source: DataQuick

More important, defaults and foreclosures in the region have returned to pre-recession levels and are no longer driving trends in the residential market. What we are seeing now is a traditional retail market driven by growing consumer demand for housing. There are, however, growing concerns about the housing supply in particular regions of the County.[9] San Luis Obispo has long been able to avoid the major supply constraints that have arisen in other parts of California, where decades of under-building have strained the existing housing stock and placed upward pressure on prices. However, pockets of under development have popped up throughout the County in recent years.

One factor driving these supply issues has been the uneven rate of population growth throughout the County. Around 1,570 new households moved into the County between 2007 and 2013, while only 276 housing units were added to the existing stock of housing during that period. Many households have also been migrating north within the County, leaving cities near San Luis Obispo for Paso Robles. Accordingly, most of this shortage is confined to the northern subregion of the County. There have been 358 fewer hous-

[9]Julie Lynem, "Median home price: What can you buy around SLO County?", *The Tribune*, March 21, 2015

Sub-Regional Housing Shortage
San Luis Obispo County, 2007-10 to 2011-13

Location	New Households	Change in Housing Stock	Housing Shortage
Atascadero	797	276	521
Paso Robles	453	95	358
San Luis Obispo	-1,091	-1,177	86
San Luis Obispo County	1,569	276	1,293

Source: American Community Survey 3-Year Estimates

Sub-Regional Housing Stock Change by Type
San Luis Obispo County, 2007-10 to 2011-13

Location	Housing Stock	Change in Housing Stock	
		Single-Family	Multi-Family
Atascadero	11,209	-229	505
Paso Robles	11,331	-356	451
San Luis Obispo	17,477	-612	-565
San Luis Obispo County	106,769	-1,833	2,109

Source: American Community Survey 3-Year Estimates

ing units added in Paso Robles than new households entering the region since the 2007-10 period. Construction activity has been unable to keep pace with the rate of population growth in the City, as developers in this sub-region have had to wrangle with political constraints, water well offset policies[10], and a lengthy environmental review process. Such policies have greatly reduced the number of units developers have been permitted to construct in recent years.

A similar shortage has developed in Atascadero, though this shortage has come about for a different reason: There is very little land available for additional housing development to compensate for the City's growing population. This has greatly hindered construction in the very regions where new housing is in high demand, a trend that will ultimately lead to a rapid run-up in prices as new households compete for a relatively small pool of available housing.

The stock of single-family housing in the County...has decreased by more than 1,800 units since the 2007-10 period, and more than 2,100 multi-family units have been built in their place.

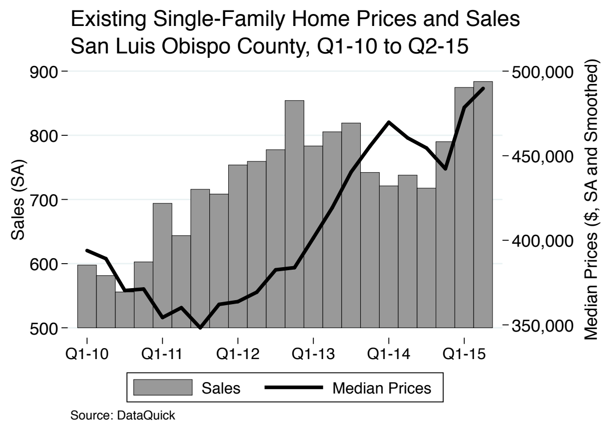
While the overall housing stock in these sub-regions continues to lag behind population growth, an interesting trend has started in recent years. The stock of single-family housing in the County, which is the majority of the housing stock in the region, has decreased by more than 1,800 units since the 2007-10 period, and more than 2,100 multi-family units have been built in their place. A significant portion of this shift has occurred in Atascadero and Paso Robles, which account for nearly one-third of the decline in the single-family housing stock and almost half of the growth in the multi-family stock. The primary issue with this trend is that many of these units are not in the retail housing market but are rental properties. Although landlords benefit from the growing rental market in the County, prospective homebuyers will struggle to find affordable housing.

[10]David Sneed, "Water conservation program adopted by SLO County supervisors," *The Tribune*, October 27, 2015.

Single-Family Housing Market

Prices and Sales

After a year marked by a drastic slowdown in both sales and prices, the market for existing single-family homes in San Luis Obispo County started to rebound in 2015. The distressed property sales that had previously driven residential market trends have been flushed through the system, alleviating the excessive rates of price appreciation observed in the County during 2013 and early 2014. Accordingly, the median sales price for existing single-family homes in San Luis Obispo County increased by "only" 6.4% from the second quarter of 2014 to the second quarter of 2015. In fact, price appreciation in the County was the highest in the Central Coast; price appreciation in Ventura County (4.5%), Santa Barbara County (2.2%), and Monterey County (5.4%) continued to decelerate through mid-2015 as these regional markets are trending back to normal at a slower rate than San Luis Obispo County.



Price appreciation in the County has been strongest near the coast, while growth elsewhere in the County has been sporadic. The market for existing single-family homes in Arroyo Grande and Grover Beach has been driven by a lack of construction activity in recent years, resulting in the strongest rates of price appreciation in the County. Prices grew 9.0% to $634,000 in Arroyo Grande from the second quarter of 2014 to the second quarter of 2015 and 10% to $425,000 in Grover Beach during this time period. Price appreciation was also strong in Paso Robles, mainly because of the rapid influx of new households. At the same time, overall price growth was affected by declines in Atascadero and the City of San Luis Obispo because of a shift in the mix of homes sold.

A positive sign for the market for single-family homes in the County has been the magnitude of the rebound on the sales front. More than 1,700 existing single-family homes have been sold through the second quarter of 2015, a 20.5% increase over the number of sales at this time last year. Additionally, the jump in home sales reverses the downward trend observed from the fourth quarter of 2013 to the fourth quarter of 2014. The fact that sales and prices both grew is a testament to the strength of demand for housing in the region. Interest rates are at near record lows,

Existing Single-Family Home Prices (SA)
By Region, Q2-15

Location	Median Price Q2-15 ($)	1-Year Chg (%)
Central California		
San Luis Obispo	490,000	6.4
Santa Barbara	460,000	9.1
Monterey	442,000	6.1
Southern California		
Los Angeles*	507,000	7.3
Orange County*	660,000	4.4
San Diego*	502,000	6.3
Inland Empire*	280,000	7.0
Ventura*	547,000	6.6
Northern California		
San Francisco*	1,083,000	16.4
Oakland*	565,000	7.4
San Jose*	849,000	9.6
Sacramento*	271,000	5.7
Other Northern California*	404,000	9.2
State of California	395,000	5.2

Source: DataQuick
*Average Regional Price

while incomes in the region continue to grow, further strengthening the financial position of many prospective homebuyers in the region. Demand for housing in the County is so strong that recent homes for sale averaged just 36.2 days on the market in August 2015, according to data provided by the California Association of Realtors. However, the previously discussed supply issues that are developing in many parts of the County will continue to dictate market trends in these regions.

A positive sign for the market for single-family homes in the County has been the magnitude of the rebound on the sales front.

The city-level sales figures are sending out mixed signals as factors driving trends in the northern part of the County have started to diverge from the rest of the County. As previously noted, the rapidly growing population in Paso Robles and other northern cities has spurred the 31.8% growth year-to-date of existing single-family home sales. Sales are also up in the

San Luis Obispo County Residential Real Estate, by City (SA)

Existing Single-Family Home Median Prices*			
Location	Q2-14 ($)	Q2-15 ($)	Change (%)
Arroyo Grande	582,000	634,000	9.0
Atascadero	416,000	409,000	-1.6
Grover Beach	387,000	425,000	10.0
Paso Robles	375,000	401,000	6.9
San Luis Obispo	659,000	608,000	-7.8
San Luis Obispo County	461,000	490,000	6.4
Residential Sales			
Location	2014 YTD	2015 YTD	Change (%)
Arroyo Grande	83	81	-2.2
Atascadero	98	99	0.7
Grover Beach	26	24	-10.3
Paso Robles	144	189	31.8
San Luis Obispo	84	102	21.9
San Luis Obispo County	1,459	1,758	20.5

Source: DataQuick
*Prices have been rounded to the nearest thousand

City of San Luis Obispo, though this increase is the result in part of the decline in prices during this period, as homes there are relatively more affordable than they have been in previous years. Additionally, sales have slumped in the cities where price appreciation has been greatest. Sales are down 2.2% through the second quarter of 2015 in Arroyo Grande and down 10.3% in Grover Beach during this period.

New Homes and Construction

On the surface, it appears that construction activity has continued to gain steam in San Luis Obispo County as 345 permits were issued for single-family construction in the first half of 2015, up nearly 11.0% from this time last year. However, relatively few of these permits have been issued in the regions where supply concerns are greatest. Only 104 permits for single-family construction have been issued in Paso Robles over the last two and a half years, with only 17 of them issued during the first half of 2015. In this instance, the rate of population growth has greatly exceeded the amount of construction activity in recent years. This trend will continue to drive prices up as people continue to migrate to the northern sub-region of the County. There will soon be growing construction activity in other parts of the County. The San Luis Obispo City Council recently approved the development of the Righetti Ranch and Jones Ranch subdivisions, which will bring 286 single-family homes and 84 multi-family units to the southeastern edge of the City.[11]

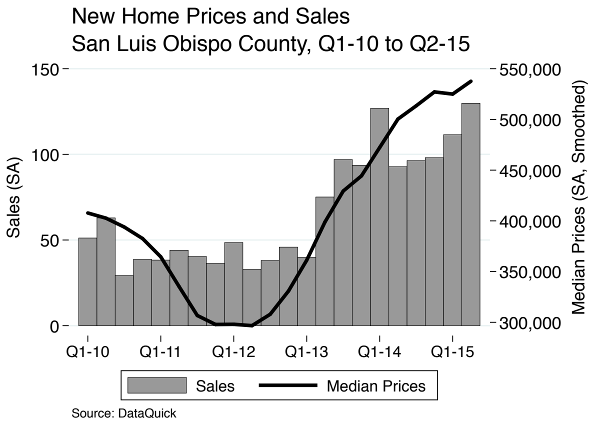
Single-Family Construction Permits in San Luis Obispo County Year-to-date 2012, 2013, and 2014

Location	Permits			Average Permit Value ($ thousands)		
	2013	2014	2015	2013	2014	2015
Arroyo Grande	8	9	10	222.5	324.4	315.1
Atascadero	36	80	35	158.9	205.8	154.5
Grover Beach	1	5	12	340.3	208.4	204.0
Morro Bay	15	2	10	186.8	266.9	268.7
Paso Robles	35	13	17	298.8	331.9	294.3
Pismo Beach	6	22	33	401.6	362.5	347.7
San Luis Obispo	27	32	74	258.4	257.4	252.7
County Unincorporated Area	133	148	154	354.7	395.6	419.5

Source: CIRB
Note: Year-to-date through June.

Although there may be concerns in certain regions of the County, demand for housing continues to grow. Newly constructed homes, which are typically sold at a premium, are selling at a rapid clip. Through the second quarter of 2015, 241 new homes were sold, a 9.8% increase from the previous year. At the same time, price appreciation has cooled slightly. The median sales price for new homes grew 7.4% to $537,600 from the second quarter of 2014 to the second quarter of 2015, a far cry from growth rates in excess of 20% observed during 2013 and early 2014. Ultimately, the recent rate at which these homes have been sold is a testament to the strong demand for housing in San Luis Obispo County.

[11] Cynthia Lambert, "Proposed 370-home development moves forward after 17 years," *The Tribune*, May 23, 2015.



The geographical disparity between where people are moving and where homes are being built will continue to dictate market trends in the years ahead. As more people move into the northern part of the County, supply concerns will become even more worrisome. The rate of price appreciation will start to pick up again, driving many potential homeowners into the rental market or out of the region entirely. This will ultimately have an unintended consequence for the region: Businesses will find it difficult to attract the talent needed to grow as potential employees will struggle to find suitable housing in the region.

Multifamily Housing Market

Existing Condominiums

The multi-family market remains a relatively small component of the overall housing market in San Luis Obispo County. Accordingly, the indicators we have observed in recent quarters have been rather choppy. The rate of price appreciation has jumped around over the past several quarters because of the heavy influence of a shifting sales mix from quarter to quarter. Indeed, the median sales price for an existing condominium in the County fell 7.8% from the second quarter of 2014 to the second quarter of 2015, after posting a gain of 19.5% year-over-year during the previous quarter. Nonetheless, condominiums in San Luis Obispo County are affordable relative to condominiums elsewhere in the Central Coast—the price of a condominium in the County is 27.2% less than the median-priced condominium in Santa Barbara County and nearly 4% less than the median-priced condominium in Monterey County.

As prices continue to rise, condominium sales in the County have started to fall. In fact, condominium sales dipped 7.8% through the second quarter of 2015, with only 240 total sales during this time period. Other areas throughout the Central Coast have seen activity in this market pick up in 2015, with sales activity growing 17.1% in Santa Barbara County and 23.2% in Ventura County. That being said, the condominium market is a much bigger component of the overall housing market in these two regions than it is in San Luis Obispo County, where condominium sales accounted for only 12% of the total home sales through the second quarter of this year. Overall, the movements observed in this market segment during recent quarters do not indicate a shift in the broader housing market.

Multifamily Construction Permits in San Luis Obispo County
Year to Date 2012, 2013, and 2014

Location	Permits			Average Permit Value ($ thousands)		
	2013	2014	2015	2013	2014	2015
Atascadero	39	20	28	110.8	97.8	153.9
Paso Robles	80	0	59	145.9	0.0	151.0
San Luis Obispo	12	6	49	90.6	194.9	223.1
County Unincorporated Area	2	7	2	253.8	88.9	112.5

Source: CIRB
Note: Year-to-date through June.

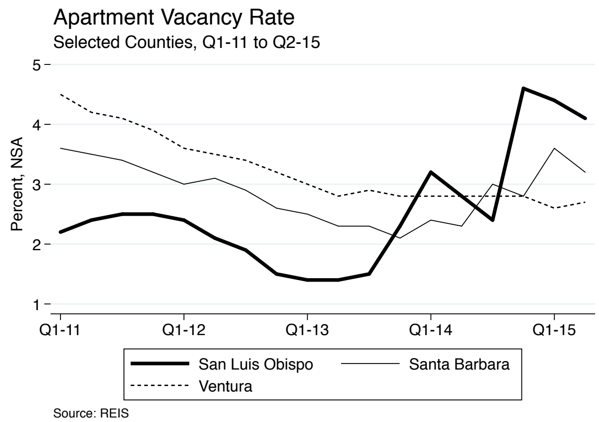
Although current trends in the multi-family sector have been shaky, multi-family construction activity in the County is on the rise. Construction activity really started to pick up during the third quarter of 2014, with that momentum carrying over into the first half of 2015. Through the second quarter of this year, permits were issued for 138 multi-family units, compared to 33 at this time last year. In fact, we have not observed this much activity on the multi-family front in the County since the onset of the recession. The current trend toward multi-family housing may seem perplexing given the turbulent market trends we have seen over the past year. However, what we are seeing is a result of persistently strong growth in the region's rental market.

Rental Market

The rental market in San Luis Obispo County has started to heat up as many potential homebuyers find themselves unable to purchase homes in some regions. The average cost of rent rose 5.0% to $1,033/month from the second quarter of 2014 to the second quarter of 2015, making it one of the fastest-growing markets in the state. Despite the rapid run-up of rents, rental units in the County remain far more affordable than they are elsewhere on the Central Coast. The average rental cost in the County is 26% less than in Santa Barbara County and 33% less than in Ventura County. Beyond the growing supply concerns discussed throughout this chapter, the region's affordability advantage has been a major factor boosting demand for rental units.

The average cost of rent rose 5.0% to $1,033/month from the second quarter of 2014 to the second quarter of 2015, making it one of the fastest-growing markets in the state.

Many of the multi-family housing units constructed in recent years are rentals, as indicated by the jump in the apartment vacancy rate in the County. The vacancy rate is up 1.3 percentage points to 4.1% from the second quarter of 2014 to the second quarter of 2015, because of a significant increase when new stock was added to the market during the fourth quarter of 2014. The vacancy rate has trended back down since then, which affirms our position on the growing demand for rental units in the County. One issue, though, is that demand appears to be outpacing the supply of rental units in the County. Every time new units have become available over the last two years, the vacancy rate has immediately begun to trend down as single-family supply concerns have led a growing number of prospective homebuyers to turn to the rental market.



Supply concerns in certain areas of the County, particularly in the north, will continue to dictate trends in the region's rental market. The current supply response in these sub-regions leaves much to be desired, which indicates that demand for rental units throughout San Luis Obispo County will continue to grow. The growing number of multi-family units under construction will mitigate rent growth to some extent, though recent trends have demonstrated that these units will not remain on the market for long. Accordingly, the rental market in the County will continue to post healthy gains.

2015 Commercial Real Estate

by Steve McCarty and Steve Davis

Stafford McCarty Commercial Real Estate

Contents

Key Chapter Findings

- Active commercial markets.
- New commercial construction underway.
- Strong interest in mixed use.
- Redevelopment projects starting construction.

The Residential Market—A Brief Overview

San Luis Obispo

There continues to be confidence in residential property in San Luis Obispo. Total single family unit sales were up a tick from 259 single family units in 2014 to 283 units in 2015 and the correlating median price moved from $654,500 to $667,000. This translates to a 1,704 square foot median home in San Luis Obispo selling for approximately $391 per square foot. As noted last year San Luis Obispo has passed the 2008 pre-recession high point in both volume and value. The balance of the County is catching up but not with the same velocity.

North County

In North County 2015 unit sales (1,138 units) are slightly above 2014 (1,032) unit sales. Median prices, however, moved from $375,000 to $404,500 and sold in a similar time frame of 35 to 40 days on the market. As a note of comparison, a 1,704 square foot home sells in North County for an average of $237 per square foot, highlighting the premium in housing prices paid to live in the City of San Luis Obispo.

Housing Projects in San Luis Obispo

San Luis Obispo, known for slow housing growth, is leading the Central Coast in production and diversity of offerings.

- Sierra Meadows on Prado Road is actively moving through phases of single-family detached homes.
- ROEM Development in conjunction with the Housing Authority is nearing the finishing stage of a housing project on South Street.
- Brownstones on Marsh is now under construction with a price for downtown residential in the $1,800,000 range.
- The Terraza project at Bridge Street with 18 residential homes and eight live work loft units is under construction.
- The Avivo Townhome project is in full construction and currently is in its second phase.

There are other projects that have been proposed through the years but were mothballed during the economic slow down. These projects have been reworked and are now in various stages of approval and construction. Some are mixed use redevelopment and some are more typical single-family residential and multi-family projects.

These projects include:

- Pacific Courtyards
- Chinatown—under construction

Residential Unit Sales, 3rd Quarter Annual Data

Variable	2008	2009	2010	2011	2012	2013	2014	2015
San Luis Obispo								
# Units Sold	159	163	191	215	273	282	259	283
Median Price ($)	635,000	569,000	550,000	535,000	535,000	618,500	654,500	667,000
North County								
# Units Sold	638	702	698	892	991	1,045	1,032	1,138
Median Price ($)	390,000	340,000	296,000	270,000	305,000	355,000	375,500	404,500

Note: Comparative data is for the first three quarters of each year
Source: Central Coast Regional Multiple Listing Service;
Compilation by Stafford McCarty Commercial Real Estate

- Monterey Place
- The reworking of the Dalidio project (now San Luis Ranch) to provide more housing and less commercial space
- Wingate Homes, Righetti Ranch, the Jones Property, and West Creek—all in the Orcutt Area Specific Plan
- Avila Ranch South of the SLO County Airport
- Toscano off of Prado Road

Above is a summary of unit sales from 2008 through 2015 in San Luis Obispo and North County.

The recovery of the housing market is well under way. The new home construction market, which had been noticeably absent, is ramping up on the Central Coast. If this residential growth continues, the spill over effects on demand for home interiors, appliances, furniture, etc., will create increased demand for commercial real estate products.

Commercial Markets

The commercial markets are active. Land sales for mixed-use redevelopment□primarily residential over retail□in the urban cores has picked up. Ironically, at the peak of the market, this product type was difficult to finance as it was yet unproven in the Central Coast area. It will be interesting to see how this approach plays out, as not much of this residential over retail has actually been brought to market.

Commercial Markets in San Luis Obispo

Across all real estate sectors, we are seeing the available inventory shrink to very low levels. There is a vibrancy in San Luis Obispo with restaurants, expanding tech, and real estate and its supporting businesses filling past vacancies.

Several large projects have grabbed recent headlines: The San Luis Ranch Project (formerly the □Dalido Ranch□ annexation), is still pushing forward and the Froom Ranch Project on Los Osos Valley Road is now starting the annexation process. Other commercial projects that have been in the planning stages are now under construction. They include Tractor Supply and the University Square make-over, to name a few.

Redevelopment

Numerous parcels have been purchased in downtown San Luis Obispo and plans are in various stages of approval. PB Group closed on the former Foster's Freeze, Feathers Salon, and a Heritage Oaks Bank Building—as well as two parcels adjacent to Coast National Bank. Both of these acquisitions provide for redevelopment

Commercial Vacancy Rates (%), San Luis Obispo City Metropolitan Area, 2014

Property	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Industrial/Warehouse	6.4	4.0	4.3	2.3	5.4	6.1	9.1	8.7	4.5	1.9	3.1	2.3
Retail Functioning	2.2	1.7	1.8	1.4	3.0	5.6	5.1	3.4	3.7	1.8	2.7	1.3
Office Functioning	5.4	3.2	4.7	3.5	6.1	9.7	12.6	11.6	8.6	6.5	7.5	5.3

Source: Stafford McCarty Commercial Real Estate

between Higuera and Marsh Streets. These sales were in the $100 to $150 per square foot range and three to four story mixed use and small studio apartments are in the planning stages. The mid 500 Higuera block mobile home park was purchased, the old coaches removed, and plans are moving forward to install new modular houses. The building formerly occupied by CCS, in the 600 block of Higuera Street, continues to be renovated and will eventually house SLO Brew. Progress can be seen on the Chinatown Project with new foundations and steel in the air.

Several downtown improved property and land transactions include:

- 1234 Broad Street (9,000 sq. ft. building shell w/o parking)—$2,000,000 ($222 per sq. ft.)
- 1511 Monterey (2,400 sq. ft.)—$725,000 ($302 per sq. ft.)
- 590 Marsh Street (13,329 sq. ft. small restaurant improvement to be demolished)—$2,000,000 ($159 per sq. ft.)

New Construction on Raw Land

Specialty Construction is still doing site work on their approximately 6.16 acre site on Buckley Road for a three building project. The project was originally being built for lease but now the marketing has opened up and these buildings could also be purchased. They also have a ten-acre parcel on the market east of the subject site on Buckley Road.

Small lots, roughly a half-acre in size, have sold for approximately $18 per square foot on Earthwood Lane. This is the high watermark on price with other Industrial and CS zoned land at approximately $10 to $15 per square foot on offerings and appraisal discussions. Prices can be higher if the parcels have a retail presence or the potential to be rezoned for a more profitable use.

New Construction—Investment vs. Owner Users

Over the last few years, the most concentrated new development has been the East Airport lots, located in the County, adjacent to the City of San Luis Obispo. Now with most of the parcels sold, the majority of the sales have gone to owner users and the balance have been built-out by investors with a tenant in tow (government or high tech). Just north, but in the City, there continue to be three large projects approved but waiting for tenants.

Building in the City of San Luis Obispo vs. the County

The continuing issue in local development is building fees, which in the City of San Luis Obispo can be $17 to $25 per square foot of building area. This, on top of the relatively high cost of the ground, makes many speculative projects non-starters.

The County, on the other hand, can have building fees in the $8 per square foot range making the economics look affordable. However, building in the County can be resource constrained. Projects can be limited to size and/or the number employees by the availability of water and septic capacity.

Retail

Retail vacancy has dropped again, now down to 1.33% from an already low percentage of 2.7%, in 2014. This equates to approximately 55,500 square feet vacant in a market with a base inventory of approximately 4,164,000 square feet. A smattering of only 4,817 square feet of new construction was added to the base inventory this past year. Retail, as indexed in our summary table, has been a strong performer over the past year, having the lowest vacancy of any market sector.

Office

For 2015, the office base inventory is approximately 2,804,000 square feet. Vacancy has turned around, dipping to 5.3%, down slightly from 7.45% last year. Total available office inventory in San Luis Obispo is approximately 148,770 square feet.

There is an interesting shift occurring in the office market. There are many smaller units (1,500 to 2,500 square feet) available, but not much larger office space of 5,000 square feet and up. We see large users looking for office space, but in this market there is no inventory of any significant size, leaving only new construction with corresponding rents for over $2.00 per square foot NNN.

For the office sector we have seen the following market responses to demand:

New construction. Offices and an adjacent parking structure were built for MindBody as a build to suit; there was no existing inventory available in the market to meet their requirements.

Absorption of older inventory. The last large "second generation" space sold was the approximately 19,800 square foot former SESLOC Credit Union building selling to the non-profit Pathpoint for approximately $3,275,000 or $164 per square foot.

Speculative office product is being built. There is an approximately 7,300 square foot building that is nearly complete, and foundation work has started on a second building of similar size, at the San Luis Obispo Airport Business Center.

Industrial

The vacancy rate for industrial product has decreased to 2.27%, down slightly from 3.14% in 2014. Available manufacturing inventory is approximately 86,575 square feet with a total base of industrial inventory at approximately 3,841,000 square feet.

Functional industrial space has all but disappeared. There is currently only one vacant space for lease in the market over 10,000 square feet that is truly warehouse/manufacturing space. Several speculative projects are available for sale, but with the price of new construction and less expensive industrial space in other communities, tenants have been difficult to find.

Quoted industrial rents are approximately $.90 to $1.25 per square foot NNN. The following noted sales went quickly into escrow:

- 699 Clarion Court (7,971 sq. ft.)—$1,795,000 ($225 per sq. ft.)
- 695 Clarion Court (6,506 sq. ft.))—$1,250,000 ($192 per sq. ft.)

A handful of industrial condominiums have sold, selling in the $120 to $176 per square foot range for 1,200 to 2,500 square feet. Smaller industrial units are in high demand and are quickly snapped up when they come to market.

The former SLO Motorsports building on South Higuera Street was purchased a couple of years ago for a hotel but the owner decided not to build and it was resold to John Kings operation for $180 per square foot of building. Speculation is that it will be a new craft beer related enterprise.

Downtown San Luis Obispo

The younger workforce is eating out and restaurants are reaping the benefits. Bloomberg Business reports that sales at restaurants and bars overtook spending at grocery stores in March 2015 for the first time ever, according to U.S. Commerce Department data. While many lament the loss of mom and pop retailers downtown and their replacement by restaurants, this trend may bode well for the new mix of retail and restaurants in San Luis Obispo.

There continues to be a large spread in rents in downtown SLO. Second and third generation rates are typically $1.75 to $2.00 per square foot while remodeled buildings have asking rents between $2.00 and $3.50 per square foot. In the core blocks of downtown, rents can be as high as $4.50 per square foot. As vacancy tightens, lessors are getting higher renewal rents. Higher rents continue to make it difficult for "mom and pop" retailers to compete for downtown space with larger regional or national retailers.

Commercial Markets in Paso Robles and North County

Although the market overall has been performing well in 2015, there has been a dearth of new buildings. Within the City of Paso Robles, Firestone Walker Brewery added about 14,000 square feet to its facility. And that was the new, "finaled" construction in the City. Looking ahead, there have been sales in the industrial parcels north of Golden Hill Road, and a sale on Commerce we would expect building plans to follow.

Retail

There was a touch more inventory in the Paso Robles retail market in 2015 with approximately 127,726 square feet. With no new inventory added this last year, the base holds at approximately 4,646,000 square feet. The vacancy rate is 2.75% for 2015, which is, for all purposes, minimal. Recent land sales downtown evince values of $34 to $50 per square foot.

Office

There is confidence in Paso Robles commercial space. In 2015 there is approximately 32,320 vacant square feet of space, down from approximately 61,500 vacant square feet last year. This has cut the vacancy rate almost in half, to 7.48%. No additional inventory was added this last year and the base remains the same at 431,996 square feet.

Sesloc Federal Credit Union sold its downtown prime corner building on a quick sale to Founders Bank. There were multiple offers on the 2,196 square foot free-standing corner building which sold for $376 per square foot. A well-appointed 2,264 square foot Vine Street Victorian home converted to an office sold for $405 per square feet. An antidotal note: As one would expect, correlating office rates for well-located spaces have shot up. The former Union Bank space in the heart of downtown is asking $2.95 per square foot. This high rate is rent territory for this community. We expect more to follow in the key located smaller property offerings. On the flip side, the story for mid-block, non-downtown Spring Street modest offices, are rental rates at about half of these values.

Manufacturing

The industrial sector added modest inventory of approximately 65,778 square feet in 2015 with a base inventory of approximately 3,353,428 square feet. Most of this inventory was in Templeton on the edge of Paso Robles. There is almost no inventory of industrial space – only 37,941 square feet at the time of this reporting in 2015.

Commercial Vacancy Rates (%), Paso Robles Metropolitan Area, 2014

Property	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Industrial/Warehouse	10.7	3.5	5.0	2.8	7.5	13.2	8.0	7.7	6.5	5.7	3.6	1.1
Retail Functioning	< 1.0	< 1.0	< 1.0	< 1.0	2.2	4.1	4.5	3.5	4.8	3.3	2.6	2.8
Office Functioning	1.8	1.2	5.2	5.6	7.7	24.1	17.5	18.4	18.3	6.6	14.3	7.5

Source: Stafford McCarty Commercial Real Estate

Industrial vacancy has become even more skinny since last year's 3.62% and now is approximately 1.1%, which is amazingly low.

There have been active industrial parcel sales in the northern industrial area at Golden Hill that demonstrate values of about $4.00 to $5.00 per square foot for two to three acres. Asking rates are approximately $6.00 to 8.00 per square foot for the finished parcels. Smaller industrial condos are selling in the $100 to $140 per square foot range depending on interior finish.

Wineries keep driving inventory needs as they fill existing inventory and apply for additional expansion. Bensen Cellers absorbed multiple 10,000 square foot buildings on Limestone in Templeton. San Antonio Winery is under construction on two Wisteria parcels of 85,951 square feet. Speculative buildings are being erected by Cornerstone Development along Ramada Drive, and are leasing before being completed to wine support industries such as Tapp Labels and Scott Labs.

Hotels in San Luis Obispo and North County

With both rack rates and occupancy increasing, hoteliers are scrambling to get new product on line. The proposed number of new rooms is staggering.

Hotel projects on the books in San Luis Obispo include:

The historic Motel 6 site on the north end of town, plans for a hotel project behind Pappy McGregor's restaurant, a hotel at the north end of Calle Joaquin, the San Luis Ranch project which is slated to entitle approximately 200 rooms, the Chinatown and Garden Street downtown projects both have hotels as part of their plans, and the quaint Granada Hotel is looking to expand their number of rooms.

In North County, the behemoth number of hotel rooms proposed has grown even larger. Noting the completed Ayers project of 225 rooms and the La Quinta 37 room expansion project, planning applications have been *approved* for approximately 600 rooms, with applications *submitted* for another 124 rooms, and *long range proposals* for an additional 600 rooms. As an index of how much the area has transformed into a destination, ten to fifteen years ago the business community was trying to figure out how to get people to stay the night in the existing hotels as the overnight stays leaked to the coastal area.

A Note on Agricultural Impacts

With all the talk about viticulture and related industries, berries are still a large part of San Luis Obispo County's agricultural picture. Los Primos purchased a 129.4 acre south county strawberry ranch for $6.25M, or approximately $49,000 per plantable acre. Ranches in the Santa Maria Valley have been selling in the $55,000 per acre range.

Demonstrated values for smaller North County cabernet vineyards (extracted values to compensate for other improvements on the property) include: 24.77 acres sold for $36,612 per acre, a recent sale on San Marco Road, and an east side sale at $30,200 per acre for approximately 64 acres.

Many new industrial buildings, which have been added to the inventory in recent years, have been absorbed by wineries or craft beer operations.

Ground water management decisions: The County of San Luis Obispo finally has imposed conservation restrictions mandating conservation off-sets to balance new demand in the Paso Robles and Nipomo basins. The effects and complexities of this decision will come to light over the next years as it is enforced.

Commercial Investments

The investment market in the Central Coast is active with both on market and off-market sales occurring. We are seeing downward pressure on cap rates as more investors discover the Central Coast and invest here. Properties in good areas continue to sell. Low interest rates are also working to keep cap rates low.

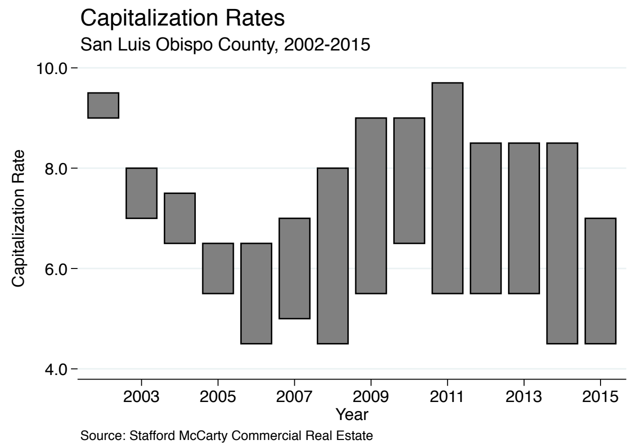
The investment sales selected below demonstrate the range in the present market on the Central Coast:

- 560 Higuera (12,017 sq. ft.)—$2,950,000 ($245 per sq. ft.; Cap 6.1)
- 102 Cross Street (17,400 sq. ft.)—$3,225,000 ($185 per sq. ft.; Cap 6.5)
- 142 Cross Street (12,585 sq. ft.)—$2,075,000 ($164 per sq. ft.; Cap 6.75)
- 205 Oak Hill Niblick (12,385 sq. ft.)—$3,850,000 ($310 per sq. ft; Cap 7.4)

There remains a strong market group of buyers seeking multi-family investments, (apartments). These are still in the sub five capitalization rates ranges.

In evaluating a property, appraisers typically apply a 5% vacancy factor to income. We are seeing this vacancy factor being pushed down to 3%. This in turn drives the net income calculation for the property higher and provides more value to the property. If lenders and appraisers were forced to pick a single cap rate for our market, we would see them start with a 6.5.

Following are capitalization rate ranges evinced over the last fourteen years for our market area:



To illustrate the capitalization influence on valuation, let us assume a commercial building produces a net income to the investor of $100,000 per year. The declining market cap rates would correlate to the approximate purchase prices according to the following years:

Cap Rates and Implied Value

Year	Cap Rate Range Low	Cap Rate Range High	Implied Asset Value ($)
2003	7.0	8.0	1,428,000
2004	6.5	7.5	1,538,000
2005	5.5	6.5	1,818,000
2006	4.5	6.5	2,222,000
2007	5.0	7.0	2,000,000
2008	4.5	8.0	2,000,000
2009	5.5	9.0	1,818,000
2010	6.5	9.0	1,538,000
2011	5.5	9.7	1,818,000
2012	5.5	8.5	1,818,000
2013	5.5	8.5	1,818,000
2014	4.5	8.5	1,818,000
2015	4.5	7.0	1,428,000

Source: Stafford McCarty Commercial Real Estate.

Conclusions

The post recession economy has finally reached the Central Coast markets. Almost all areas are improving; purchase prices as well as rents are rising. Housing around San Luis Obispo is active and carries an aura of excitement. The planning back-logs remain significant. Mixed use in the downtown cores is trending upward. Paso Robles, once skipped over for overnight stays, has become a destination. There is growing confidence in owning commercial real estate. Long-term money is down right cheap, if you can qualify. Values are near where they were prior to the recession and rents are catching up. With new construction, there are new high water marks being set. And everyone is keeping a watchful eye on interest rates—a potential game changer.

Demographics

by Erica Halie Comp

Contents

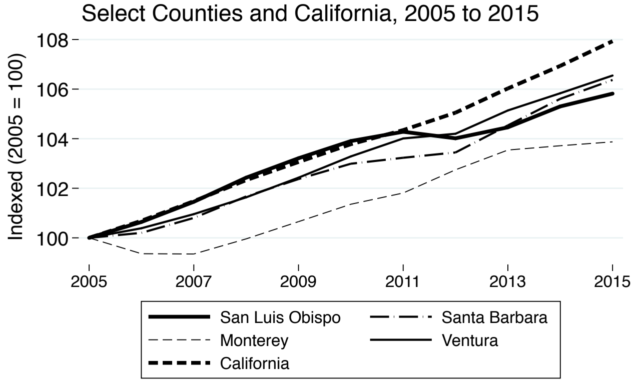
Key Chapter Findings

- The demographic makeup of San Luis Obispo County has changed slightly over the past year.
- The population of San Luis Obispo County continues to be one of the slowest growing on the Central Coast, but is becoming wealthier and more educated.
- Most of the population growth that has occurred in San Luis Obispo County has come from net migration rather than natural increase (births over deaths).
- Incomes in San Luis Obispo County continued to grow at a robust pace in 2014.
- In 2014, 80.3% of the San Luis Obispo County population had an Associate's Degree, Bachelor's Degree, or Graduate Degree compared to 61.3% in California.

Population Growth

Population growth in San Luis Obispo County began slowing in 2011 and has been outpaced by other Central Coast counties and by California as a whole since then. From 2005 to 2015, the population of San Luis Obispo County grew at an average annual rate of 0.58% compared to 0.79% in California, 0.65% in Ventura County, 0.64% in Santa Barbara County, and 0.38% Monterey County.

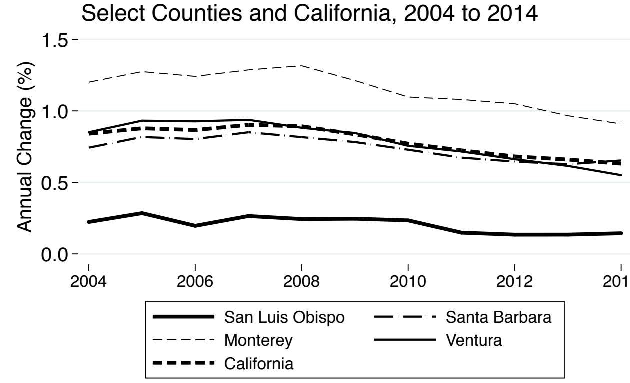
Population (Indexed)
Select Counties and California, 2005 to 2015



Source: CA Department of Finance

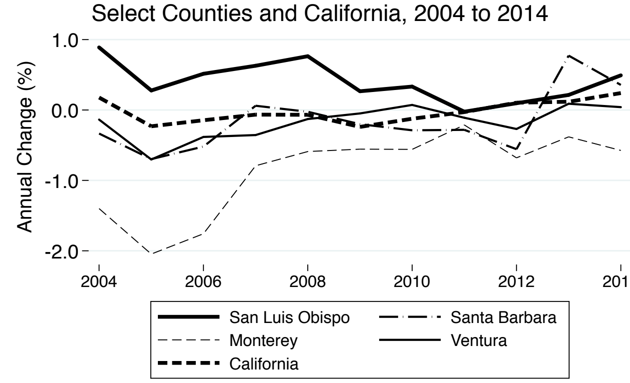
Of the 5.8% population growth that has occurred in San Luis Obispo County, most is derived from net positive migration rather than natural increase (births over deaths). From 2004 to 2014, natural increase as a share of total population averaged 0.20%–the lowest on the Central Coast–while net migration averaged 0.40%–the highest on the Central Coast.

Natural Increase as Percent of Total Population
Select Counties and California, 2004 to 2014



Source: California Department of Finance

Net Migration as Percent of Total Population
Select Counties and California, 2004 to 2014



Source: California Department of Finance

Central Coast Counties and California Population by Educational Attainment, 2014

Educational Attainment	San Luis Obispo (%)	Monterey (%)	Santa Barbara (%)	Ventura (%)	California (%)
Less than HS Diploma	10.8	29.3	19.4	16.5	17.9
HS Diploma or GED	18.8	22.0	18.6	19.4	20.9
Some College or Assoc. Degree	46.5	25.6	29.9	32.6	29.5
Bachelor's Degree	20.3	13.2	19.7	19.9	20.0
Graduate or Professional Degree	13.5	9.9	12.3	11.8	11.8

Source: U.S. Census, 2014 American Community Survey

The number of people migrating to San Luis Obispo County has been increasing for a variety of reasons. First, employment opportunities are not just growing in the public sector any longer, but have spread to occurring in the private sector (please see detailed discussion in the Employment chapter of this report).

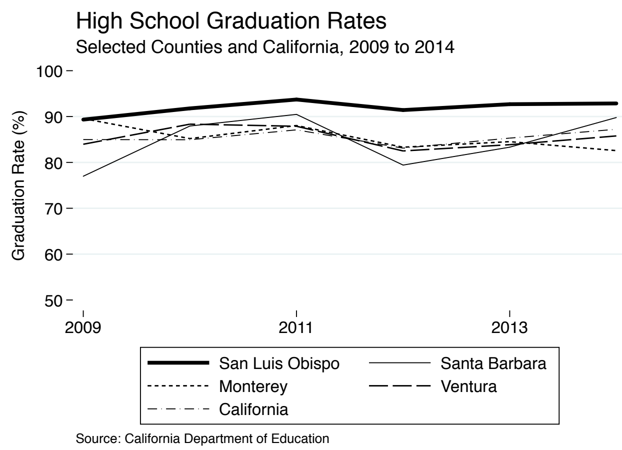
Paso Robles, the "wine country" of the Central Coast, has seen its population expand by 9.5% over the past ten years, making it one of the fastest growing cities in the region.

Second, agriculture, specifically viticulture, is doing well in San Luis Obispo County and in response, people are flocking to the area. Paso Robles, the "wine country" of the Central Coast, has seen its population expand by 9.5% over the past ten years, making it one of the fastest growing cities in the region.

Third, people are moving to San Luis Obispo County to take advantage of California Polytechnic State University's unique and renowned scientific and technical educational offerings. These include degree programs in food and environmental sciences, engineering, architecture, environmental design, and agriculture. As technology transforms and plays a bigger part in our everyday lives, more people are seeking to acquire greater human capital and skills in scientific and technological fields. And once these individuals graduate, many may stay in the area to work and live.

Education & Income

The population of San Luis Obispo County is becoming one of the most educated and wealthiest on the Central Coast as indicated by improving educational attainment, income, and poverty data.



For the fifth year in a row, San Luis Obispo County had the highest high school graduation rate and the largest share of population with higher education on the Central Coast. From 2009 to 2014, the high school graduation rate has averaged 92.0% in San Luis Obispo County compared to 85.4% in California, 85.5% in Monetary County, 84.6% in Santa Barbara County, and 85.4% in Ventura County. As of 2014, 80.3% of the population had either an Associate's Degree, Bachelor's Degree, or Graduate Degree in San Luis Obispo County compared to 61.3% in California, 48.7% in Monetary

Degrees Awarded by Central Coast Counties, 2014

Field of Degree	San Luis Obispo Share (%)	Rest of Central Coast Share (%)
Education	12.1	7.7
Business	10.8	16.3
Science and Engineering Related Fields	10.1	7.5
Social Sciences	9.9	10.4
Biological, Agricultural, and Environmental Sciences	9.7	6.9
Engineering	6.9	8.3
Liberal Arts and History	6.6	7.2
Psychology	6.6	5.5
Other	6.2	4.9
Literature and Languages	5.3	6.2
Communications	5.2	4.4
Visual and Performing Arts	4.2	5.2
Physical and Related Sciences	2.9	4.3
Computers, Mathematics and Statistics	2.3	4.0
Multidisciplinary Studies	1.1	1.0

Source: U.S. Census, 2014 American Community Survey

County, 61.9% in Santa Barbara County, and 64.3% in Ventura County.

For the fifth year in a row, San Luis Obispo County had the highest high school graduation rate and the largest share of population with higher education on the Central Coast.

Furthermore, San Luis Obispo County is one of the areas on the Central Coast that is producing the greatest number of pupils with degrees in high skilled and in-demand fields such as education, business, science, engineering, technology, and mathematics.

Cal Poly reported in its Fall 2014 *Fact Book* that the number of Master's degrees awarded grew 8.4% over the past five years to 516 and the number of Bachelor's degrees grew 1.2% to 4,115.

At the graduate level, in the last five years, degrees in Architecture and Environmental Design grew 13.8% and constituted 7.9% of total graduate degrees awarded in 2014, Business degrees grew 51.4% and comprised 20.5% of all graduate degrees awarded, and Science & Mathematics degrees grew 5.9%, making up 17.2% of total graduate degrees awarded. These subjects are the fastest growing and most popular graduate fields of study at Cal Poly.

Among undergraduates, in the last five years the number of Agriculture, Food, and Environmental Sciences degrees awarded grew 9.2% and comprised 22.2% of total undergraduate degrees awarded in 2014. The number of Engineering degrees grew 14.2% and made up 23.8% of total undergraduate degrees, and Science & Mathematics degrees grew 10.6%, comprising 14.9% of total undergraduate degrees. These subjects are the fastest growing and most popular undergraduate fields of study at Cal Poly.[12]

The skills, experience, and knowledge San Luis Obispo County residents are obtaining from higher education

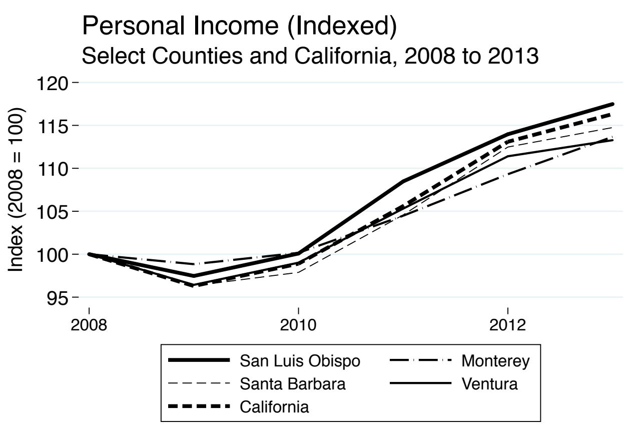
[12]The Office of Institutional Research, "Cal Poly Fall 2014 Fact Book", Cal Poly San Luis Obispo, October 13, 2015, available at http://content-calpoly-edu.s3.amazonaws.com/ir/1/documents/fall2014fb.pdf.

Central Coast and California Median Household Income

Area	2009 ($)	2013 ($)	2014 ($)	5 Yr Chg (%)	YoY Chg (%)
California	58,931	60,190	61,933	5.1	2.9
Monterey County	58,448	57,052	57,864	-1.0	1.4
San Luis Obispo County	56,661	58,158	63,474	12.0	9.1
Santa Barbara County	59,051	62,421	63,833	8.1	2.3
Ventura County	71,723	77,363	75,449	5.2	-2.5

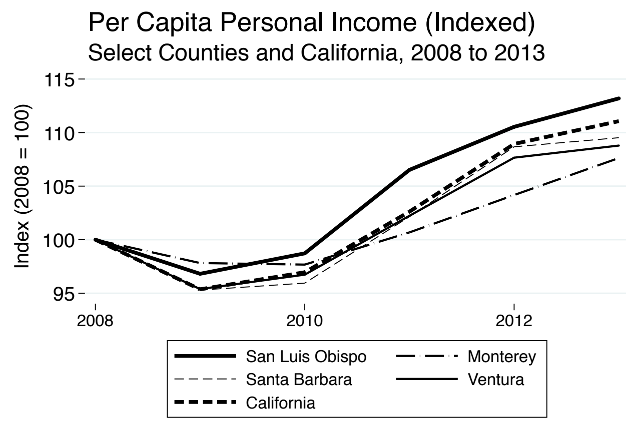
Source: U.S. Census, 2014 American Community Survey

training in in-demand and specialized fields translates into higher income. Personal income and personal income per capita is growing faster in San Luis Obispo County than it is in California or other areas of the Central Coast. Over the past five years, personal income has grown 17.4% in San Luis Obispo County compared to 16.3% in California, 14.7% in Santa Barbara County, 13.2% in Ventura County, and 13.6% in Monterey County. Over those same five years, personal income per capita has increased 13.2% in San Luis Obispo County, 11.1% in California, 9.5% in Santa Barbara County, 8.7% in Ventura County, and 7.6% in Monterey County.



Source: U.S. Bureau of Economic Analysis

The U.S. Census American Community Survey estimates that median household income in San Luis Obispo County is one of the highest and fastest growing on the Central Coast. As illustrated in the table above, median household income in San Luis Obispo County has grown 12% over the past five years and 9.1% over the past year.



Source: U.S. Bureau of Economic Analysis

Conclusion

Over the past year, the population in San Luis Obispo County continued to grow slowly as the quality of life for County residents continued to improve through higher levels of education, employment, and income. Into the future, San Luis Obispo County's productivity and economic activity stand to gain tremendously from its increasingly educated, high skilled, and well-paid labor force.

Data Sources

The creation of this report would not have been possible without numerous public and private sources of data. We would like to acknowledge those sources here.

Bureau of Transportation Statistics

California Air Resources Board

California Association of Realtors

California Board of Equalization

California Dept. of Education

California Dept. of Finance

California Dept. of Justice

California Employment Development Dept.

California New Car Dealers Association

California State Controller

California State Franchise Tax Board

California State Legislative Analyst's Office

CB Richard Ellis

Central Coast Major Listing Service

Construction Industry Research Board

CoStarr/The London Group

DataQuick Information Systems

Federal Reserve Economic Data (FRED)

Fiserv Lending Solutions

Grubb & Ellis

Hanley Wood Market Intelligence

HousingTracker.net

Marcus & Millichap

Mortgage Bankers Association

National Science Foundation

NOAA National Weather Service

Property & Portfolio Research

RealFacts

Research and Development (RAND)

S&P Case Shiller

Texas Transportation Institute

U.S. Census Bureau, American Community Survey

U.S. Census Bureau, Longitudinal Employment - Housing Dynamics

U.S. Dept. of Commerce, Bureau of Economic Analysis

U.S. Dept. of Labor, Bureau of Labor Statistics

U.S. Dept. of Transp., Research and Innovative Technology Administration

WISERTrade.org

Acknowledgments

Beacon Economics Chapter Authors/Research Staff

Dr. Christopher Thornberg, Principal

Jordan G. Levine, Economist & Director of Economic Research

Eric Meux, Senior Research Associate

Dustin Schrader, Public Policy Manager

Rafael De Anda, Research Project Manager

Brian Vanderplas, Senior Research Associate

Alan Hooper, Senior Research Associate

Erica Halie Comp, Research Associate

Guest Authors

Steve Davis, Stafford McCarty Commercial Real Estate

Steve McCarty, Stafford McCarty Commercial Real Estate

Document Format and Editing

Bettina Nicely Johnson, Copy Editor

About Beacon Economics

Beacon Economics, LLC is a leading provider of economic research, forecasting, industry analysis, and data services. By delivering independent, rigorous analysis we give our clients the knowledge they need to make the right strategic decisions about investment, growth, revenue, and policy. Learn more at **www.BeaconEcon.com**.

Services

- Economic, revenue and occupational forecasting
- Economic impact analysis
- Regional economic analysis
- Economic policy analysis
- Real estate market analysis
- Industry and market analysis
- EB-5 Economic analysis
- Public Speaking
- Expert Testimony

Contacts

- **Sherif Hanna**
  Managing Partner
  (424) 646-4656
  Sherif@BeaconEcon.com
- **Victoria Pike Bond**
  Director of Communications
  (415) 457-6030
  Victoria@BeaconEcon.com
- **Rick Smith**
  Director of Business Development
  (858) 997-1834
  Rick@BeaconEcon.com