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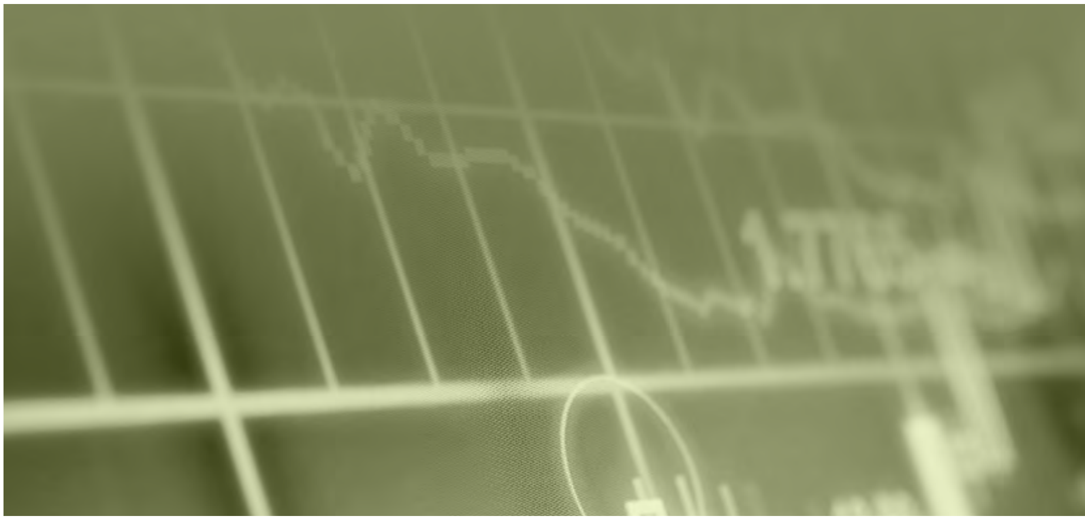

PREPARED FOR

CENTRAL COAST ECONOMIC FORECAST

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The Central Coast Economic Forecast thanks its many supporters:

2016
Central Coast Economic Forecast

Presented by Beacon Economics

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U.S. Forecast

by Christopher Thornberg

Beacon Economics

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The National Outlook

There is little doubt that the health of the real economy (not the economy that is politically imagined) plays a critical role in election outcomes. A healthy economy favors incumbents, while a down economy favors challengers (It's the economy, stupid!). During this year's tumultuous election, the role of the economy really turned into a non-issue, despite the fact it was a centerpiece of the presidential debates. This is because the United States continues to be in the midst of a steady, if mediocre, economic expansion, with little sign of change in that general direction in the near term.

On one hand the U.S. economy has been growing at a below average pace—particularly during the last few quarters when the economy was barely averaging 1% growth. This clearly supports Republican presidential nominee Donald Trump's dystopian view that regulations and trade are slowly throttling American productivity. On the other hand, the nation is currently in the midst of its seventh year of economic expansion, with little sign that that trend is anywhere close to ending. Labor markets are at full employment and asset prices are at or near record high levels. And there was no October surprise—the initial read on growth in the 3rd quarter came in at a steady 3% after a weak first half of the year. Advantage—no one.

The 3rd quarter bounce wasn't as newsworthy as it seems on the surface. As Beacon Economics has argued over the past year, the low headline numbers have been driven in part by a selloff in inventories and a growing trade deficit. Growth in domestic final demand, while slowing, has still been in the 2% range over the year. The 3rd quarter saw a reversal of this trend. Almost half of the nation's growth was driven by a surge in exports and a buildup in inventories. Final demand growth was below 1.5%, lining 2016 up to be the weakest year for domestic spending since 2013.

Contributions to Real GDP Growth

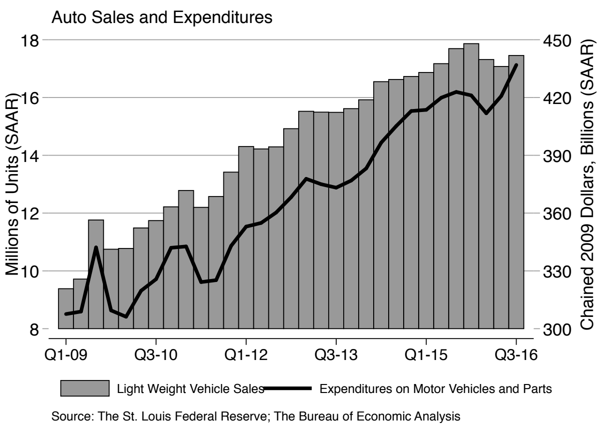
Category	2015 I	2015 II	2015 III	2015 IV	2016 I	2016 II	2016 III
GDP Growth	2.0	2.6	2.0	0.9	0.8	1.4	2.9
Final Demand	2.64	3.2	3.09	1.71	1.2	2.38	1.46
Personal consumption	1.63	1.94	1.81	1.53	1.11	2.88	1.47
Gross investment	1.62	0.18	0.35	-0.39	-0.56	-1.34	0.52
Nonresidential	0.18	0.21	0.49	-0.43	-0.44	0.12	0.15
Residential	0.43	0.49	0.43	0.4	0.29	-0.31	-0.24
Change inventories	1.01	-0.52	-0.57	-0.36	-0.41	-1.16	0.61
Net exports	-1.65	-0.08	-0.52	-0.45	0.01	0.18	0.83
Exports	-0.78	0.37	-0.36	-0.34	-0.09	0.21	1.17
Imports	-0.87	-0.44	-0.16	-0.11	0.09	-0.03	-0.34
Government	0.45	0.57	0.34	0.18	0.28	-0.3	0.09
Federal	0.13	0.01	0.06	0.25	-0.1	-0.02	0.17
State and local	0.32	0.56	0.27	-0.07	0.39	-0.28	-0.08

Source: Bureau of Economic Analysis

The sources of slowing have shifted from consumers to business investment. Consumer spending, despite a slower 3rd quarter, remains one of the bright spots and sources of momentum in the U.S. economy. The slowing in the 3rd quarter seems to be mainly a function of regression to the mean after a huge 2nd quarter for growth. Credit continues to flow, incomes are rising at a good (not great) pace, and savings rates remain stable. The result? Consumer spending hit an all-time high level in the 3rd quarter. This may seem out of step with the rhetoric leading up to the election (Americans hurt by trade, families with no raise in 15 years, etc.) but this is because the rhetoric has been based on bad data and even worse theories about the true state of the U.S. economy. When properly and thoroughly accounting for sources of income, the data shows that Americans still remain at the top of the global consumption heap—consuming individually 4 times more than the global average.

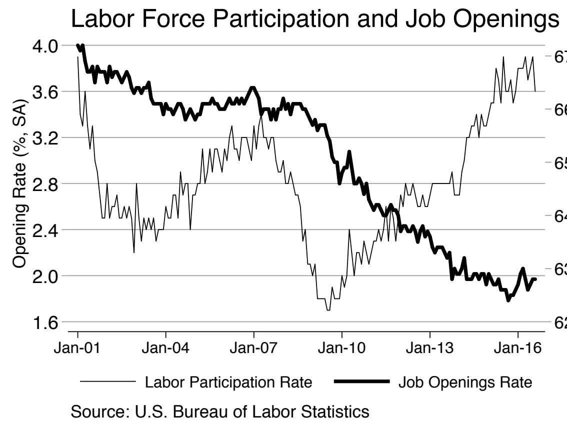
Consumer spending, despite a slower 3rd quarter, remains one of the bright spots and sources of momentum in the U.S. economy.

There has been a shift in spending, however. One notable shift is in the auto industry, which has seen sales plateau in the 17 million annual range—although cheap gas is encouraging the purchase of larger and more luxurious vehicles. At the same time, spending on other durables continues to rise. There really are only so many cars Americans need—and the glut is being seen in a sharp fall in the relative price of used cars over the last year.

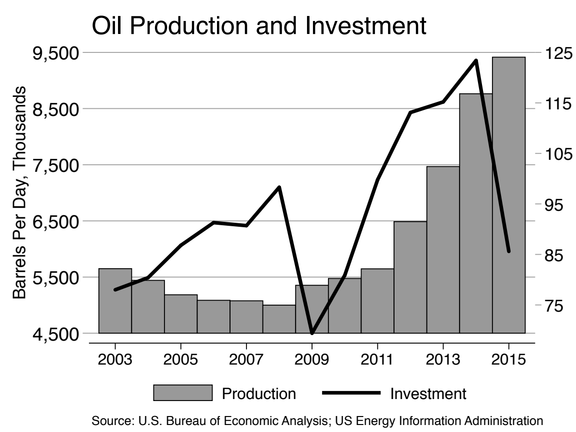


There has been a modest slowing in job growth, but this is not due to a lack of demand for workers —the U.S. Bureau of Labor Statistics has estimated that the job openings rate remains at an all-time high level. Rather, the tight labor market is making it more difficult for employers to find the right employee. The U.S. work participation rate has stopped falling—a very good sign since the aging of the nation's workforce suggests it should continue to fall. People are being drawn back into the labor market in a significant way for the first time in a decade. And, as noted, wages are rising. But before pulling out the wage-inflation boogey man, keep in mind that the pace of real wage growth is still less than 3% in real terms. The economic pendulum is finally swinging back towards the worker—but very slowly.

The drag in business investment stems largely from the commodity glut and the sharp declines in oil and natural gas exploration. Direct spending in the oil and gas industry dropped by over $100 billion. The supply chain effects are long in this very capital intensive industry and once multiplier effects are included, the industry's price collapse shaved almost a full percentage point off overall GDP growth in the last two years despite causing job growth to slow imperceptibly. For example, the Mining sector lost 100,000 jobs, less than one-quarter of the new jobs added in the Healthcare sector.



And the oil and gas glut is still with us. Oil production in the United States is still greater than 8.5 million barrels per day, and there are record stocks of oil inventories, not to mention drilled but uncompleted wells. But with pace of business spending now at a record low level, the drag on the economy is removed—you can't drop below zero!



There have been other relatively minor issues as well. Exports were a big source of growth and driver of business investment up until the end of 2014. But the global economic slowdown caused export growth to reverse itself. Today, the global economy is back on better footing, and the dollar has come off its high from the start of the year. One result was that 3rd quarter GDP numbers showed a huge surge in exports above the 4th quarter 2014 peak. This is based on two months of data and September's figures may diminish the solid outlook—but it looks as if exports will yet again become part of the growth equation for the U.S. economy into 2017.

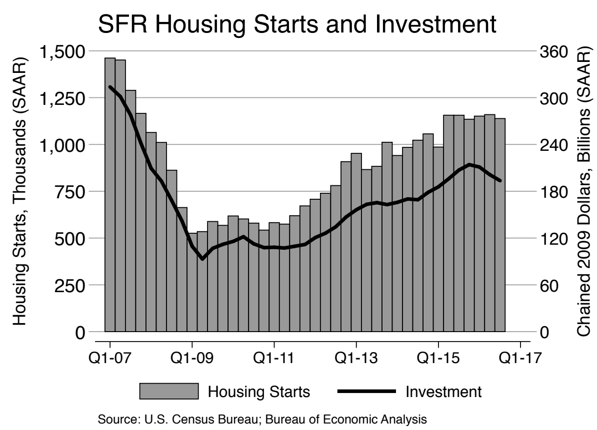
This shouldn't be a surprise. The global economy is not doing great, but things aren't as bad as some fear. China is still trying to figure out what is wrong with their economy—but 'wrong' is a relative term. Whether the economy is growing at 6% plus, as claimed, or is more likely in the 3% to 4% growth range, most economists believe China is still expanding. Exports and manufacturing activity have stabilized, as have foreign reserves. Internal demand is still strong. China won't likely shift global trends in either direction over the next two years. And despite all the preposterous panic over the Brexit, overall, both the UK and Europe have overcome their divorce announcement, and seem to be doing fine.

The one surprising shift in the economy over the last few quarters is on the residential investment side—specifically as it relates to single family homes where spending has fallen since the peak in the 4th quarter of 2015, reducing the overall pace of GDP growth by a small amount over the year. This is the first time this has happened since the housing market collapse that began before the Great Recession. But that is where any similarity between today's housing market and the one that led up to the recession ends.

At first blush there is little reason for any major decline in residential spending. Home prices are still affordable given rising incomes and very low interest rates. There isn't a glut of properties on the market either—single family vacancies have been steadily dropping for years and the pace of new construction is still well below what housing analysts suggest is a sustainable pace. And 2015 saw the first big uptick in years of households that own their own property.

Home prices are still affordable given rising incomes and very low interest rates

The mystery deepens when we consider that even current indicators such as housing starts don't seem to line up with U.S. Bureau of Economic Analysis data. Starts have averaged almost 770,000 per quarter (SAAR) this year, above the 755,000 pace in the 4th quarter of last year.



This seeming contradiction can be traced back to mortgage credit problems that continue to negatively influence the housing recovery. Prior to Dodd-Frank, families with credit scores below 720 still had opportunities to buy homes through a variety of higher interest rate mortgage products. Dodd-Frank sought to push the liability of a foreclosure from the borrower to the lender and the net result has been a sharp reduction in credit accessibility to these lower credit score households. This has held down the pace of new building, homeownership, and house sales—a problem that explains the overall softness of the market.

For those with a higher credit score, credit has been cheap and incomes and wealth have been rising sharply. The market has responded by producing a large amount of high end housing—too much high end housing. This high end glut has been in the works for a while. Data from the Case Shiller Index shows home price growth for high end housing lagging low end price growth in all the major markets in the United States. Moreover, as price growth has been slowing in high end markets, in many places, prices are actually accelerating at the low end.

Case-Shiller Tiered Home Prices
Year-over-Year Growth (SA)

MSA	Time Period	Growth by Price Tier (%) Low	Middle	High
Atlanta	2014-2015	9.8	7.2	5.0
	2015-2016	8.2	7.2	3.8
Miami	2014-2015	12.4	8.5	5.9
	2015-2016	15.9	7.9	4.8
Denver	2014-2015	17.3	12.1	7.5
	2015-2016	13.9	9.9	6.7
Phoenix	2014-2015	8.9	6.1	3.2
	2015-2016	10.9	7.4	3.1
Chicago	2014-2015	5.2	3.0	0.2
	2015-2016	9.9	6.0	3.1
Wash DC	2014-2015	2.8	0.9	1.0
	2015-2016	4.7	3.4	1.3
Los Angeles	2014-2015	8.7	6.6	5.3
	2015-2016	9.6	6.6	4.8
San Francisco	2014-2015	12.0	11.2	10.2
	2015-2016	10.6	6.4	5.7

Source: Bureau of Economic Analysis

The shakeout on the high end will be minimal, and Beacon Economics expects housing to start contributing to growth again in 2017. But until the U.S. Congress moves to reform Dodd-Frank, the market will continue to underperform to the detriment not only of GDP growth, but also to the detriment of many families who deserve a chance at home ownership but are being denied by a set of rules based largely on political partisanship rather than on a real effort to find solutions to what happened a decade ago.

Finally, there is the question of the Fed and interest rates. There seems to be almost universal agreement that the Fed will vote to raise the Federal Funds rate in their last meeting of the year—not unlike in 2015. This is sure to be big news when and if it happens.

But if the Fed does tighten, it is strictly for political, not economic reasons. With little sign of inflation, normal money supply growth, a slowed pace of asset price appreciation, a slower growing than normal economy, and a dollar that has appreciated from where it was a couple years ago, there is no real reason for the Fed to tighten. And tightening can actually hurt. With 10-year treasuries still well below a 2% yield, the resultant compression in the yield curve will simply put more stress on bank financials. At a minimum this will slow lending. On the other hand, a flat yield curve can cause banks to seek other sources of profits, such as fees. Consider the recent Wells Fargo debacle as one example of how this could go wrong.

Ultimately, the Federal Funds rate is simply not a tool for economic policy in a low real interest rate/low inflation world. The Fed and the business press should stop paying so much attention to it until one of these two factors changes.

U.S. Historical Table

United States	Q2-2014	Q3-2014	Q4-2014	Q1-2015	Q2-2015	Q3-2015	Q4-2015	Q1-2016	Q2-2016	Q3-2016
National Real GDP ($ Bill.,SAAR)	15,928.40	16,122.40	16,216.50	16,300.00	16,404.80	16,485.40	16,519.80	16,553.60	16,611.10	16,732.90
Growth (%,SAAR)	4.04	4.96	2.36	2.08	2.60	1.98	0.84	0.82	1.40	2.97
Real Personal Consumption ($ Bill.,SAAR)	10,813.30	10,912.90	11,036.40	11,102.40	11,181.30	11,255.90	11,319.30	11,365.20	11,484.90	11,545.80
Real Investment ($ Bill.,SAAR)	2,717.50	2,776.30	2,794.10	2,860.80	2,867.70	2,882.20	2,865.40	2,841.50	2,783.80	2,805.50
Real Government Expend. ($ Bill.,SAAR)	2,825.10	2,842.60	2,840.00	2,858.00	2,880.70	2,894.40	2,901.70	2,913.20	2,900.90	2,904.50
Real Net Exports ($ Bill.,SAAR)	-427.50	-409.40	-454.00	-521.20	-524.90	-547.10	-566.60	-566.30	-558.50	-522.90
Total Nonfarm Empl. (Mill, SA)	138.57	139.32	140.10	140.83	141.48	142.15	142.87	143.53	143.98	144.59
Growth (%,SAAR)	2.32	2.18	2.26	2.10	1.87	1.91	2.05	1.86	1.27	1.69
Unemployment Rate (%,SA)	6.17	6.13	5.70	5.57	5.40	5.17	5.00	4.93	4.87	4.93
CoreLogic Home Price Index (SA)	164.50	165.73	167.97	170.25	172.05	173.31	175.87	178.28	181.02	183.50
Growth (%,YoY)	5.96	4.57	4.15	4.13	4.59	4.57	4.71	4.72	5.22	5.88
Personal Income ($ Trill.)	14.72	14.93	15.11	15.19	15.40	15.56	15.69	15.74	15.89	16.05
Growth (%,SAAR)	6.53	5.81	4.88	2.13	5.81	4.07	3.49	1.28	3.95	3.89
Savings Rate (%)	4.99	5.04	4.91	4.84	5.02	5.13	5.27	5.39	4.81	5.10
Tax Rate (%)	12.00	12.13	12.29	12.60	12.69	12.67	12.76	12.81	12.57	12.57

U.S. Forecast Table

United States	Q4-2016	Q1-2017	Q2-2017	Q3-2017	Q4-2017	Q1-2018	Q2-2018	Q3-2018	Q4-2018	Q1-2019
National Real GDP ($ Bill.,SAAR)	16,814.12	16,919.09	17,033.08	17,152.87	17,273.54	17,395.36	17,517.00	17,640.74	17,766.96	17,894.03
Growth (%,SAAR)	1.96	2.52	2.72	2.84	2.84	2.85	2.83	2.86	2.89	2.89
Real Personal Consumption ($ Bill.,SAAR)	11,615.79	11,681.45	11,763.80	11,860.14	11,960.80	12,063.13	12,166.10	12,270.38	12,376.87	12,483.88
Real Investment ($ Bill.,SAAR)	2,813.10	2,856.63	2,896.87	2,933.73	2,969.12	3,004.30	3,038.07	3,071.89	3,105.61	3,138.82
Real Government Expend. ($ Bill.,SAAR)	2,918.34	2,926.19	2,934.10	2,942.12	2,950.26	2,958.49	2,966.78	2,975.18	2,983.59	2,992.19
Real Net Exports ($ Bill.,SAAR)	-533.11	-545.18	-561.70	-583.12	-606.64	-630.56	-653.96	-676.70	-699.11	-720.86
Total Nonfarm Empl. (Mill, SA)	145.26	145.95	146.68	147.45	148.26	149.09	149.95	150.82	151.70	152.59
Growth (%,SAAR)	1.86	1.93	2.02	2.12	2.20	2.27	2.31	2.34	2.36	2.37
Unemployment Rate (%,SA)	4.94	4.91	4.88	4.84	4.81	4.77	4.75	4.72	4.70	4.66
CoreLogic Home Price Index (SA)	185.80	187.88	189.78	191.52	193.12	194.63	196.06	197.42	198.73	200.02
Growth (%,YoY)	5.65	5.38	4.84	4.37	3.94	3.60	3.31	3.08	2.90	2.77
Personal Income ($ Trill.)	16.23	16.43	16.64	16.86	17.08	17.31	17.54	17.77	18.01	18.26
Growth (%,SAAR)	4.79	5.02	5.14	5.27	5.36	5.42	5.47	5.51	5.54	5.55
Savings Rate (%)	5.10	5.13	5.14	5.16	5.18	5.20	5.22	5.24	5.26	5.28
Tax Rate (%)	12.57	12.57	12.57	12.57	12.58	12.58	12.58	12.58	12.58	12.59

Forecasts by Beacon Economics

California Forecast

by Robert Kleinhenz

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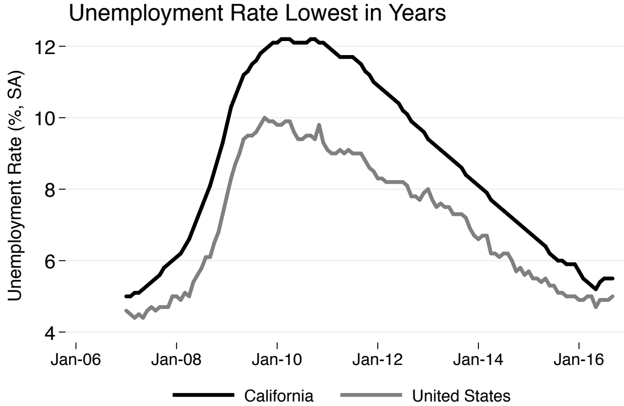
California Overview

California has stayed on course with a solid economic performance through the first three quarters of 2016 despite slower growth nationally. The state outdistanced the nation in terms of economic growth and job creation, although the pace of growth in both California and the United States has been somewhat slower than last year. Virtually every industry in the state continues to add jobs and the unemployment rate is lower than a year ago. All in all, the statewide economy is poised for continued growth over the next several quarters, outpacing most other states in the nation.

California's job market has been impressive over the past four years, with wage and salary (nonfarm) job growth that has exceeded the nation's each year since 2012. In 2015, the state's 3.0% growth rate placed it among the top 10 states in the nation. Through September of this year, nonfarm jobs grew at 2.6%, compared to 1.8% nationally. The state unemployment rate dropped below 6% late last year, moving sideways in the mid-5% range for much of the year as sustained job growth and wage gains have drawn more people into the labor force.

Unemployment Rate Lowest in Years



Source: California Employment Development Department

Virtually every industry in the state continues to add jobs in yearly terms. Health Care and Social Assistance have led the way with the largest absolute job gains in the state. Significant contributions have also come from Leisure and Hospitality, Professional, Scientific, and Technical Services, and Construction, illustrating the breadth of job gains throughout the private sector of the economy. Every private sector industry in the state added jobs with the exception of Manufacturing, which lost 17,500 jobs on a base of 16.6 million. Government also was also among those industries seeing large absolute gains, with most of the increase occurring in state and local government. Many of these same industries led the state in terms of percentage gains, although Private Education Services outpaced all other sectors with a 6.7% year-to-year gain. Last but not least, California's farm employment is on track to hit its highest level in over a dozen years, despite the state's prolonged drought.

Industry Job Gains Continue

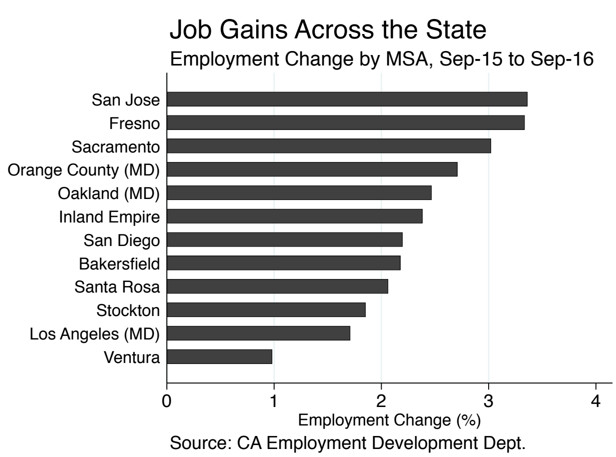
Location/Industry	Sep-16 (000s)	Change (Y-o-Y) (000s)	(Percent)
Total Nonfarm	16,549.6	379.8	2.3
Prof Sci and Tech	1,274.3	55.8	4.6
Leisure and Hospitality	1,906.7	66.3	3.6
NR/Construction	794.4	27.4	3.6
Admin Support	1,093.2	33.1	3.1
Information	502.8	14.4	2.9
Health Care	2,196.4	61.8	2.9
Government	2,527.1	56.3	2.3
Wholesale Trade	739.2	14.1	1.9
Management	235.2	4.4	1.9
Transport,Warehouse,Util.	573.2	10.3	1.8
Financial Activities	812.4	9.0	1.1
Retail Trade	1,689.8	16.4	1.0
Other Services	554.5	4.4	0.8
Manufacturing	1,278.1	-17.5	-1.4

Source: California Employment Development Department

In addition to steady job gains, spending activity statewide, as measured by taxable sales, has been growing steadily over the last few years. Following an increase of over 4% last year, taxable sales were up by over 2% through the first half of 2016, with the busy holiday season still ahead. Not unlike the nation, the consumer sector accounts for most of the spending activity in the state. Taxable receipts on consumer goods accounted for 60% of total taxable receipts last year, and saw a modest 1.0% gain in the first half of this year. Taxable receipts by businesses registered a 3.6% increase over the same period, providing further evidence of the strength of the state's industries.

In addition to steady job gains, spending activity statewide, as measured by taxable sales, has been growing steadily over the last few years.

Regional economies across the state have grown over the last several quarters, with job gains that have varied from location to location. Over the past two years, economic growth has spread inland from coastal counties. Many parts of the state have hit new records for employment, and unemployment rates have declined to their lowest in several years. Smaller regions may lead the state in terms of percentage job gains, but Los Angeles County routinely adds by far the largest absolute number of jobs from one month to the next, followed by the Inland Empire, Orange County, and San Diego County in the south. The Silicon Valley (San Jose-Santa Clara), San Francisco, and Sacramento routinely post the largest gains among metro areas in the northern part of the state.



The housing sector is important in its own right as a driver of the state economy but it also serves as a gauge of the state's economic health. The picture for housing has been mixed since the recession, with prices advancing modestly despite many hurdles that have limited sales activity. Outside of the San Francisco Bay Area, home prices have yet to surpass their pre-recession peaks. Demand for homes has been sustained by continued low interest rates, but at the same time has been impeded by limited inventories, high underwriting standards, and large down payment requirements. On the supply side, current homeowners have seen little reason to move and list their homes for sale, resulting in existing home supply that is well below long-run norms.

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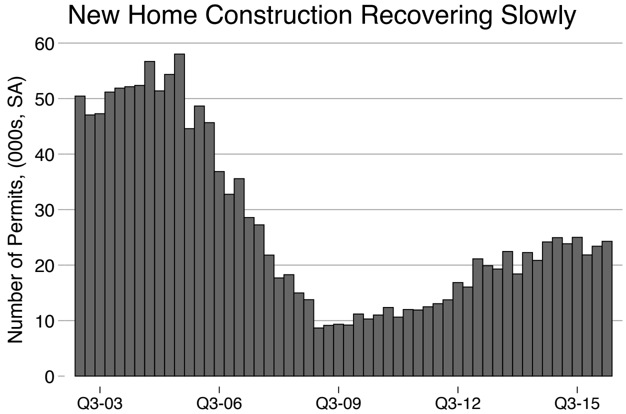
Home Prices Up Modestly

State/Region	Median Prices ($) Sep-16	YTY Growth (%) Prices	Sales
California Existing SFR	514,320	6.1	0.8
Los Angeles MSA	463,330	5.1	2.8
Inland Empire	319,350	10.2	8.1
S.F. Bay Area	770,150	4.9	-2.1

Source: California Association of Realtors

Meanwhile, new home construction has struggled to advance since the recession, with permit levels that remain well below the long-run average, mainly because of a very slow rebound in single-family home construction. Through the first half of 2016 in California, total housing permits were 2.0% behind last year, with a 10.6% decline in multi-family activity nearly offset by a much welcome 9.0% increase in single-family activity.

New Home Construction Recovering Slowly



Source: Construction Industry Review Board

If there is any part of the residential market that is bursting at the seams, it is the market for rentals. Throughout many metro areas of the state, high demand for apartments has driven vacancy rates down and rents up. Rents continue to head north despite a significant increase in multi-family construction over the last three years, the implication being that new supply has barely put a dent in the state's chronic and long-standing shortage of units.

Demand for rentals has been strong in part because the market for owner-occupied homes has faced impediments (mentioned above). The homeownership rate was 53.2% in the 3rd quarter of this year, the lowest in over thirty years. This seems counterintuitive, given that the monthly payment for a typical home is well below its peak, owing to below-peak prices and historically low mortgage rates. However, would-be buyers in California face significant hurdles in the form of high down payments and underwriting requirements that are very tight by historic standards.

On the nonresidential side of real estate, market conditions reflect the improvement seen across the sectors and regions of the statewide economy. For both office and retail, vacancy rates have edged down quarter by quarter in the metro areas of the state, while lease rates have risen. Office lease rates in the San Francisco Bay Area, Los County, and Orange County have led the way in terms of increases. At the same time, industrial vacancy rates in Los Angeles County are among the lowest in the nation, having declined steadily in recent quarters, while lease rates have been climbing by low single-digit yearly percentages.

Demand for homes has been sustained by continued low interest rates, but at the same time has been impeded by limited inventories, high underwriting standards, and large down payment requirements.

Looking out over rest of 2016 and into 2017, the state's economic engine will chug along. While growth may occur at a somewhat slower pace than in recent years, it should be noted that the U.S. economic expansion is approaching seven and a half years in length, making it one of the longest on record. Businesses and households exercised greater caution in this expansion compared to previous cycles, but California's economy has consistently outperformed all but a few states around the nation. The Tech sector continues to impress, not just in the Silicon Valley/San Francisco Bay Area but also elsewhere in the state. Economic growth nationally will continue to drive the state's Tourism and Goods Movement industries, while Health Care and Retail activity will see further gains as households across the state benefit from job growth and wage gains.

California continues to face nagging policy problems, not the least of which is housing. Rising home prices and rents mean that the state is not producing enough housing. This is not exclusively a low-income problem, but one that extends to middle-income households as well. In many parts of the state, rent as a share of income exceeds the 30% threshold that is considered to be the norm. Meanwhile, in the market for owner-occupied homes, a household must earn at least $100,000 annually in order to afford the payment on a median priced home in California. This has ramifications for employers who find it increasingly difficult to hire and retain qualified employees. Solutions will be hard to come by, but must include reducing the permitting and regulatory burdens associated with construction costs, and possibly, tax reform.

State Historical Table

California	Q1-2014	Q2-2014	Q3-2014	Q4-2014	Q1-2015	Q2-2015	Q3-2015	Q4-2015	Q1-2016	Q2-2016
Total Nonfarm Empl. (Mill, SA)	15.42	15.53	15.63	15.76	15.86	15.97	16.15	16.23	16.30	16.42
Growth (%,SAAR)	2.90	2.84	2.53	3.48	2.60	2.64	4.62	2.14	1.74	2.94
Unemployment Rate (%,SA)	8.00	7.60	7.30	7.00	6.70	6.37	6.03	5.90	5.53	5.30
Personal Income ($ Bill)	1,926.13	1,960.84	1,999.98	2,024.74	2,054.27	2,097.20	2,118.91	2,144.29	2,151.48	2,172.06
Growth (%,SAAR)	5.68	7.40	8.23	5.04	5.96	8.63	4.21	4.88	1.35	3.88
Taxable Sales ($ Bill, SA)	150.65	152.89	155.53	156.63	158.15	160.71	161.51	162.39	163.52	162.63
Growth (%,SAAR)	2.06	6.09	7.09	2.85	3.94	6.63	2.03	2.19	2.83	-2.17
Single-Family Home Prices ($ 000s, SA)	367.66	374.27	380.99	382.79	391.76	393.38	395.89	403.96	409.55	416.70
Growth (%,SAAR)	5.77	7.39	7.38	1.90	9.71	1.66	2.58	8.40	5.65	7.17
Single-Family Home Sales (000s, SA)	75.57	77.81	78.58	78.99	80.58	88.24	89.48	83.21	83.67	86.20
Growth (%,SAAR)	-21.30	12.35	4.02	2.11	8.28	43.81	5.75	-25.23	2.25	12.63
Single-Family Permits (000s, SA)	9.15	9.48	9.19	9.26	10.17	11.03	10.76	10.59	11.43	11.69
Growth (%,SAAR)	-18.56	14.80	-11.42	3.09	45.52	38.22	-9.44	-6.23	35.86	9.14
Multi-Family Permits (000s, SA)	9.37	12.67	11.51	15.10	14.66	12.58	14.08	11.70	12.06	12.31
Growth (%,SAAR)	-73.86	234.23	-31.86	196.53	-11.15	-45.82	57.06	-52.32	12.74	8.49
Nonresidential Permits ($ Bill, SA)	4.97	6.44	6.40	5.94	5.55	5.51	6.19	6.29	6.38	6.51
Growth (%,SAAR)	-53.97	181.83	-2.74	-25.83	-23.84	-2.78	59.75	6.73	6.03	8.12
Population (Mill)	38.63	38.73	38.81	38.90	38.99	39.07	39.15	39.24	39.33	39.41
Growth (%,SAAR)	0.94	0.94	0.93	0.91	0.89	0.86	0.86	0.87	0.88	0.90
Net Migration (000s)	26.16	25.67	24.49	22.62	20.04	16.76	15.65	14.97	14.57	14.94
Natural Increase (000s)	64.09	64.46	64.87	65.32	65.81	66.34	67.79	69.68	71.59	73.51

State Forecast Table

California	Q3-2016	Q4-2016	Q1-2017	Q2-2017	Q3-2017	Q4-2017	Q1-2018	Q2-2018	Q3-2018	Q4-2018
Total Nonfarm Empl. (Mill, SA)	16.51	16.61	16.71	16.82	16.92	17.03	17.15	17.26	17.38	17.49
Growth (%,SAAR)	2.26	2.33	2.44	2.58	2.59	2.65	2.68	2.69	2.71	2.71
Unemployment Rate (%,SA)	5.50	5.49	5.45	5.41	5.35	5.30	5.26	5.22	5.18	5.14
Personal Income ($ Bill)	2,195.34	2,218.36	2,246.11	2,274.89	2,304.08	2,334.85	2,366.73	2,399.40	2,432.98	2,467.44
Growth (%,SAAR)	4.36	4.26	5.10	5.22	5.23	5.45	5.57	5.64	5.72	5.79
Taxable Sales ($ Bill, SA)	165.27	166.86	169.11	171.63	174.03	176.67	179.31	181.99	184.70	187.43
Growth (%,SAAR)	6.66	3.90	5.50	6.09	5.73	6.19	6.13	6.09	6.10	6.03
Single-Family Home Prices ($ 000s, SA)	427.13	437.89	447.79	457.29	466.28	474.08	480.35	486.48	491.87	496.75
Growth (%,SAAR)	10.40	10.46	9.36	8.75	8.10	6.86	5.40	5.20	4.51	4.03
Single-Family Home Sales (000s, SA)	87.62	88.75	89.73	90.62	91.44	92.21	92.93	93.63	94.30	94.96
Growth (%,SAAR)	6.78	5.24	4.50	4.02	3.67	3.40	3.19	3.03	2.91	2.80
Single-Family Permits (000s, SA)	12.48	13.33	14.11	14.87	15.49	16.06	16.69	17.00	17.42	17.76
Growth (%,SAAR)	30.09	30.09	25.67	23.29	17.78	15.43	16.73	7.61	10.36	7.98
Multi-Family Permits (000s, SA)	12.38	12.49	12.56	12.66	12.66	12.68	12.82	12.70	12.75	12.76
Growth (%,SAAR)	2.54	3.48	2.36	3.09	0.07	0.53	4.56	-3.60	1.57	0.18
Nonresidential Permits ($ Bill, SA)	6.49	6.57	6.63	6.68	6.74	6.78	6.82	6.86	6.90	6.94
Growth (%,SAAR)	-1.00	4.76	3.48	3.46	3.30	2.65	2.47	2.38	2.22	2.13
Population (Mill)	39.50	39.60	39.69	39.78	39.88	39.98	40.07	40.17	40.27	40.37
Growth (%,SAAR)	0.92	0.93	0.95	0.96	0.96	0.97	0.98	0.98	0.99	0.99
Net Migration (000s)	15.28	14.77	14.53	14.20	13.94	13.70	13.48	13.26	13.04	12.82
Natural Increase (000s)	75.47	77.16	78.79	80.25	81.45	82.61	83.68	84.67	85.58	86.43

Forecasts by Beacon Economics

San Luis Obispo County Forecast

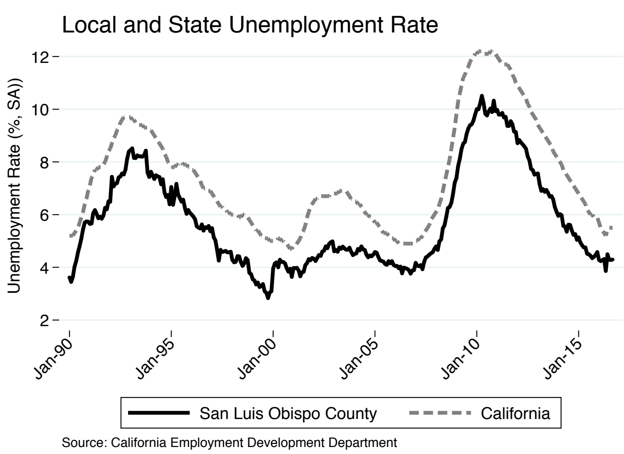
by Justin Niakamal

Contents

Key Chapter Findings

- The economy of the County of San Luis Obispo continues to put its best foot forward, and current economic indicators suggest that the economy will continue to grow in coming years.
- The local labor market is in good shape, with total wage and salary (nonfarm) employment in the County hitting all-time highs in four successive years.
- Expansion of employment in Leisure and Hospitality and growth in Restaurants and Hotels spending demonstrate that tourism is a key driver for growth in the County's economy.
- The housing market in the County of San Luis Obispo has continued to experience price appreciation despite volatility of sales activity. Underlying these trends have been constraints on supply and demand throughout the state, and a number of anti-development policies aimed at addressing the countywide water shortage have limited the number of new housing units. These factors will exert further upward pressure on home prices.

Overview



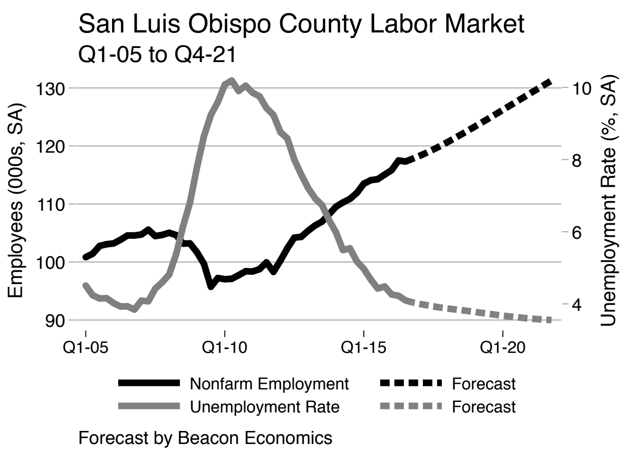
The County's economy has maintained an upward trajectory over the last year, with economic indicators generally trending in the right direction. Beacon Economics expects the economy to stay on course as it moves through 2017. Employment levels are at all-time highs, the unemployment rate is at its lowest since before the Great Recession, and home prices continue to appreciate above historical average rates. Growth in sales tax receipts at the region's restaurants, grocery stores, and department stores suggests that local incomes continue to grow, fueling local spending. Additionally, increases in the migration of people near retirement age to the County will create additional spending that will help support the region while imposing little additional burden on the region's public services.

Despite challenges presented by the drought, the County's important agriculture sector has weathered the storm (or lack thereof) by most measures.

Despite challenges presented by the drought, the County's important agriculture sector has weathered the storm (or lack thereof) by most measures. Crop values are considerably higher than they were before the recession, and farm employment was higher in August 2016 than in January 2014, when Gov. Jerry Brown officially declared a state of emergency because of the drought. That's not to say that there are no challenges facing the agriculture industry. Looking ahead, the industry as a whole must take careful stock of its water use in order to navigate the next dry spell. Overall, the local economy, including Agriculture, is expected to exhibit positive growth in the next couple of years as the County's underlying fundamentals remain intact.

Employment Forecast

One clear sign of strength in the County economy is the region's job growth. Employment has remained on a steady upward trajectory, setting record highs virtually each month. Job counts in the County officially surpassed their pre-recession peak and have continued to rise for the last three and a half years. Leisure and Hospitality has been the largest contributor to the County's overall job growth in the last year. As of August 2016, this industry added more than 700 jobs to the County economy, accounting for 27% of the overall gains in payrolls in that period.



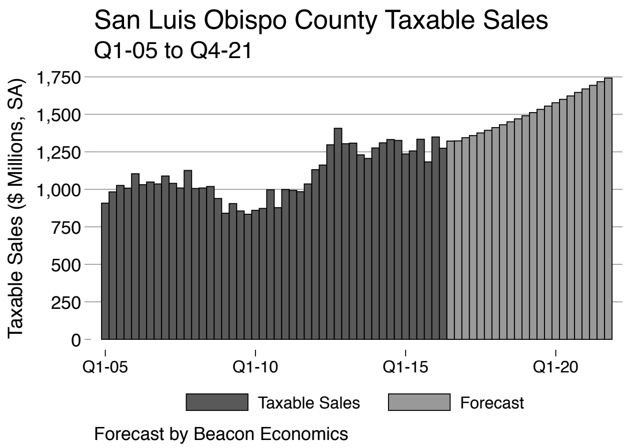
Beacon Economics' forecast calls for between 1.8% and 2.3% job growth over the next few years. Although the rate is slower than what is being forecast for the state overall, it is important to keep in mind that the County's nonfarm employment and its local unemployment rate have recovered all of the ground lost during the Great Recession. Its labor market performance is one of the key reasons Beacon Economics remains optimistic about the next five years. An increasing labor force is a clear indication that pessimism in the wake of the recent recession has turned to optimism. The industries leading the employment gains will play an important role in shaping future growth.

Strong growth is expected to continue in the Tourism sector, which will drive job growth in the Leisure and Hospitality sector. Other industries leading employment gains will also be among primary growth catalysts. Information, Construction, and Education and Health Services have made large contributions to overall job growth. Education and Health Services employment will continue to play important roles as the County's aging population drives demand for health-related services.

Although it's not a part of the current five-year forecast, a sensitive long-run issue is the closure of the Diablo Canyon Power Plant. It has long been a part of the local economy, but it is scheduled to close in several years, with the decommissioning extending several years beyond that date. The utility has indicated that its employees should expect to receive severance compensation, which will cushion the blow to the local economy. But local government agencies, communities, and businesses throughout the County also stand to lose a large source of property taxes, spending power, the utility's charitable support, and other benefits from the plant and its workers. One of the biggest concerns for stakeholders throughout the County is that there is no definitive timeline for the closure, making it hard to plan. As the situation develops, Beacon Economics will be keeping a close eye on the closure and will continue to assess how it will affect the local economy.

Business Activity Forecast

Business activity in the County has relayed mixed signals over the last year. Top-level indicators show an improved business climate across San Luis Obispo County, but there are potential impediments to growth on the horizon. Taxable sales surged into double-digit territory over the last couple of years, in part because of two large local solar projects constructed in the last couple of years: the California Valley Solar Ranch and the Topaz Solar Farm. Despite a winding down of earlier projects, business activity in the San Luis Obispo economy remains strong.



Headline figures for consumer spending in San Luis Obispo show declines across two major categories in particular: Business and Industry and Fuel and Service Stations. After accounting for these categories, consumption activity for the County shows an increase relative to taxable sales over the same period in 2015. Spending declines at Fuel and Service Stations are attributable to the expansion of shale oil extraction that has reduced oil prices across the nation in the last couple of years. The decline in Business and Industry spending is not necessarily a cause for concern. Historically, that has been the most volatile spending category in the County, and its recent decline probably reflects its year-to-year variability rather than a contraction.

Beacon Economics remains optimistic about business activity in the County of San Luis Obispo in the coming years, but the region does face a number of issues that could ultimately dictate the pace of expansion. For example, throughout the County but especially in the northern area, concerns about access to fresh water are limiting home construction, which would ultimately constrain its ability to supply affordable housing for the region. This would have the short-term effect of limiting construction, thus limiting available housing for the workforce and making it difficult for local companies to attract highly skilled labor over the longer term.

The consumer will also play an important role in shaping business development in the County. Beacon Economics' forecast calls for taxable sales to grow between 3.9% and 5.8% over the next few years. Consumer spending in the region has been one of the more stable economic trends in the region. Increased employment in Leisure and Hospitality and spending growth in Restaurants and Hotels demonstrate that tourism remains a key player in the region's economy. Consumption activity and tourism provide numerous benefits to the County's economy, but multiple hotel and other commercial projects have met staunch opposition by residents who seek to preserve the character of their community. Tourism and commercial real estate are significant drivers of economic activity, and the County of San Luis Obispo will need to put measures in place to help offset potential losses.

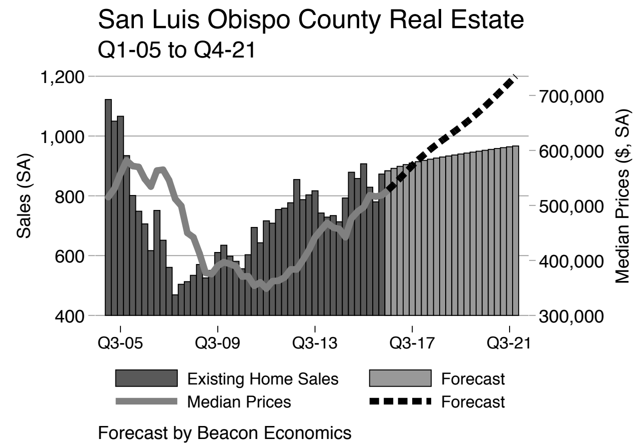
Real Estate Forecast

Trends observed in the County of San Luis Obispo residential real estate market have been uneven since last year's transition to a more traditional homebuyer's market. Home prices have continued to appreciate, with the median price for an existing single-family home growing 6.1% to $518,000 in the second quarter of 2016, on par with rates of appreciation observed in the region over the last two years. At the same time, sales activity has fallen behind a weak showing in the first quarter of 2016. Sales are down almost 5.0% through the second quarter of 2016.

Underlying these uneven trends has been the divergence of supply and demand for housing. Demand has been bolstered by the improved state of local household finances, coupled with interest rates that remain near record lows. Supply has been hindered by the proliferation of anti-development policies aimed at addressing the County's severe water shortage. Many of these policies limit or ban housing construction, thus limiting the pace at which new units are added to the region's housing stock. As a result, the influx of new households into the region has begun to outstrip new stock, driving concerns about a housing shortage.

In the context of this supply shortage, Beacon Economics expects that home prices in the County will continue to appreciate at a solid clip. Mortgage rates remain near record lows and are not expected to increase by much over the near term. The current forecast calls for existing home prices to continue to grow around 6% to 7% for much of the next five years.

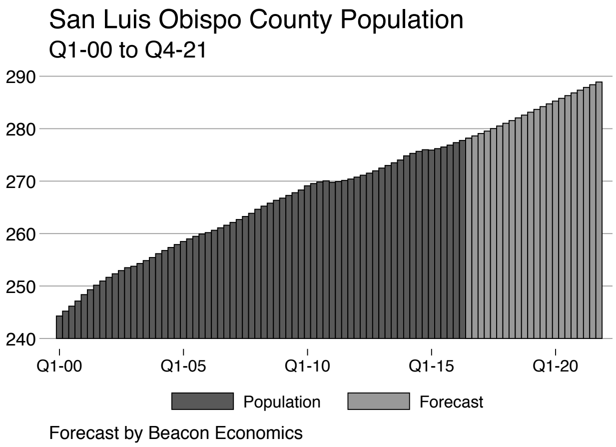
The effects of these anti-development policies can be seen in current construction trends, as the pace of residential housing construction has fallen off over the last two years. This has occurred during a period when construction activity has already fallen behind the formation of new households in the region. Single-family housing construction is down 20.6% through August 2016, and the number of multifamily housing units permitted for construction increased during this period. The increase, however, is largely the result of a large batch of units permitted for construction in Pismo Beach, where a home building moratorium will hinder future construction.



In the context of this supply shortage, Beacon Economics expects that home prices in the County will continue to appreciate at a solid clip. Mortgage rates remain near record lows and are not expected to increase by much over the near term. The current forecast calls for existing home prices to continue to grow around 6% to 7% for much of the next five years. The pace of sales activity will be buoyed by strong demand for housing in the County, though anti-development policies will put a crimp in overall growth. Accordingly, the current forecast projects that sales volume will fall slightly through the end of 2016 and will then increase by around 1% per year in the longer term.

Population Forecast

Over the course of the next five years, population in San Luis Obispo is expected to grow at a modest pace. Population growth in the County is contingent on two factors: natural increase and net positive migration. Historically, net migration has been one of the larger drivers in the region. Beacon Economics' forecast for the County of San Luis Obispo suggests that the growth rate will advance at a slower pace because of the population's age and the declining birth rate prevalent throughout the County, which will continue to be one of the slower-growing regions on the Central Coast in the coming years.



Although a declining birth rate coupled with an aging population has set the stage for slow population growth, the County of San Luis Obispo continues to be one of the most educated regions on the Central Coast. In the longer term, an educated population base will benefit the region as more businesses expand and economize on the more skilled labor force.

Summary

By all accounts, prospects for the economy of the County of San Luis Obispo County are good. The major economic indicators are trending in the right direction, and Beacon Economics' outlook for the region remains positive. Business activity, employment, and home prices have continued to grow over the last five years and are headed in the right direction. Tourism, Agriculture, and Leisure and Hospitality appear to be in good shape and will help drive local economy forward as outside dollars enter and circulate within the local economy. Total nonfarm employment peaked during mid-2007, as it did in the rest of California and the nation. By February 2013, the County of San Luis Obispo recovered all of the jobs lost in the Great Recession and veered from recovery to expansion. Given the County's 45 months of record-setting employment payrolls, Beacon Economics anticipates a continuing of this trend. Taken altogether, the County's future looks solid.

Employment

by Brian Vanderplas

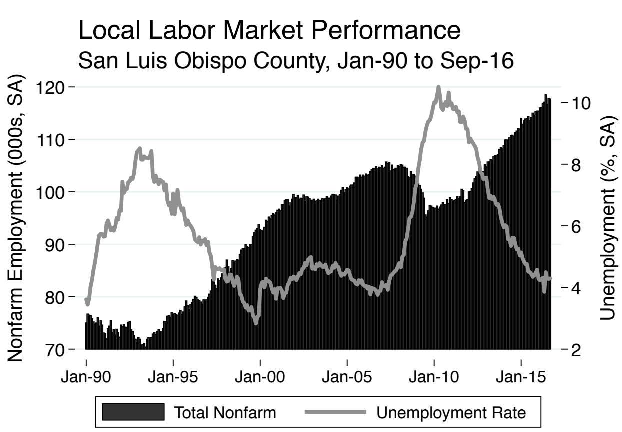
Contents

Key Chapter Findings

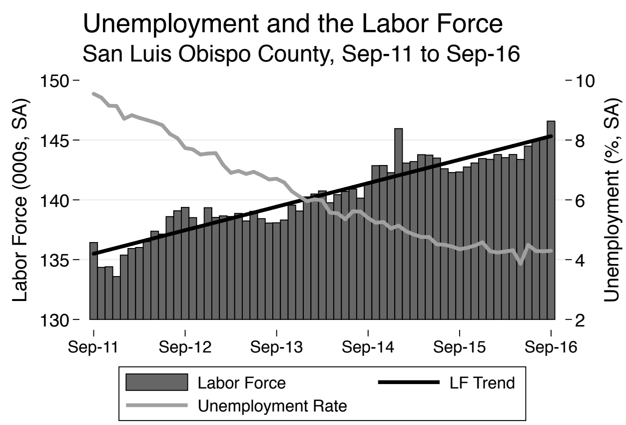
- County payroll employment expanded by 2.3% (2,700 jobs) from September 2015 to September 2016, matching the state's overall pace.
- The gains in payroll jobs have also helped to keep the unemployment rate stable at 4.3%— well below the 5.5% mark in the state overall.
- Manufacturing is also a continuing bright spot for San Luis Obispo County, as payrolls expanded by 2.6% (200 jobs) over the last year.
- From 2014 to 2015, wages in San Luis Obispo County grew by an average of 4.2%, trailing the 4.5% growth in the state overall.

Overview

Although San Luis Obispo County's labor markets grew at a modest pace compared to recent years, their expansion this year was nonetheless respectable. Indeed, County payroll employment expanded by 2.3% (2,700 jobs) from September 2015 to September 2016, based on the Current Employment Statistics from the U.S. Bureau of Labor Statistics, matching the state's overall pace. In addition, the region has retained its position as the leader in growth along California's Central Coast, with Monterey County (0.1%), Santa Barbara County (2.0%), and Ventura County (1.0%) all growing at a more tepid pace over the last year.



Source: California Employment Devlopment Department



Source: California Employment Devlopment Department

The gains in payroll jobs have also helped to keep the unemployment rate stable at 4.3%— well below the 5.5% mark in the state overall. More importantly, the County's unemployment rate remained stable despite significant growth in its labor force, which increased by 3.0% (4,300) from September 2015 to September 2016, outpacing the 2.0% growth in the state overall over the same period. This uptick in the County's labor force was offset by a similar uptick in household employment, which grew by 3.0% (4,100) over the last year. San Luis Obispo County's unemployment rate also remains lower than that in Monterey County (7.3%), Santa Barbara County (4.9%), and Ventura County (5.4%).

While we anticipate that the labor markets in San Luis Obispo will continue to grow in the coming years, the region does face challenges going forward. Affordability for workforce housing remains an ever-present issue in the County, with builders facing water constraints and moratoriums on new developments, particularly in North County. Local companies are also finding it difficult to offer wages comparable to those offered in the Bay Area and Southern California. As a result, San Luis Obispo is having some difficulty attracting high-skilled talent to the area. These headwinds are making it difficult for firms to attract the talent they need in order to grow their business in San Luis Obispo County.

Affordability for workforce housing remains an ever-present issue in the County

In the coming years, the region will face another significant challenge: the closing of the Diablo Canyon nuclear power plant. While the facility will not officially close until 2025, the shutdown will bring sweeping changes to San Luis Obispo County's economy. Indeed, the plant employs nearly 1,500 with an average annual salary of over $150,000, according to 2014 figures. Additionally, in property taxes alone, schools and other agencies are set to lose about $26.8 million in annual revenue once the plant closes. However, these jobs loses will not be immediate. The plant will still employ a significant contingent of engineers and other workers during the plant's decommissioning phase. However, it will ultimately take a strong collaboration between the private and public sectors to help mitigate these significant losses in tax revenues in San Luis Obispo County.[1]

[1] Stephanie Finucane, Kaytlyn Leslie, and David Sneed "What Diablo Canyon's closure will mean for SLO County's economy" *The Tribune* June 21, 2016 available at http://www.sanluisobispo.com/news/local/article85204657.html

Employment by Industry

In terms of industry, the current labor market expansion spans a variety of sectors in San Luis Obispo County. The Leisure and Hospitality sector was responsible for the most new jobs in the region over last year, increasing payrolls by 4.1% (700 jobs) from September 2015 to September 2016. This should not come as a surprise given the region's growing status as a prime tourist destination for California residents, as well as for a growing number of international visitors and visitors for other states in recent years. Indeed, revenue per available unit was up across all regions in San Luis Obispo County during the first seven months of 2016, according to PKF consulting. In addition, when the county attracts more visitors, it is not just a boon for the region's hotels; travelers also spend money at local restaurants, retail establishments and other venues, which should help support continued employment growth in the coming years.

The Leisure and Hospitality sector was responsible for the most new jobs in the region over last year

The County's Education and Health Care sector is also continuing to expand at a robust pace. From September 2015 to September 2016, the sector increased payrolls by 3.9% (600 jobs). A significant portion of the growth in this industry can be attributed to San Luis Obispo's aging population: 18.1% of San Luis Obispo's population is over the age of 65, compared to 13.3% of the population in the state overall. Additionally, this number increased 3.0 percentage points from 15.1% in 2010. Perhaps more importantly, as the County's population continues to age, this sector should see continued to strong demand for Health Care related jobs in the coming years. These new jobs will provide solid employment opportunities for local residents, and may also help attract new residents to the area in the years to come.

San Luis Obispo Employment Growth

Industry	Sept-16 (000s)	Change (000s)	(%)
Total Nonfarm	117.7	2.7	2.3
Farm	5.0	0.2	3.1
Government	23.6	0.3	1.1
Leisure and Hospitality	18.6	0.7	4.1
Education/Health	15.2	0.6	3.9
Retail Trade	14.3	0.2	1.3
Professional/Business	12.3	-0.4	-3.3
Manufacturing	7.3	0.2	2.6
NR/Construction	7.2	0.5	7.5
Other Services	6.2	0.4	7.4
Transport,Warehouse,Util.	4.3	0.1	1.8
Wholesale Trade	2.9	-0.0	-0.3
Finance and Insurance	2.3	-0.0	-0.2
Real Estate	2.0	0.1	5.3
Information	1.6	0.1	6.3

Source: California Employment Development Dept.

The Natural Resource and Construction sector also had a strong year, building on its gains from 2015. From September 2015 to September 2016, the sector expanded by 7.5% (500 jobs). The inflow of commercial and residential projects is helping fuel this growth. On the Residential side, the 500-700-home Avila Ranch Project and the 500-home San Luis Ranch Project are helping drive growth in the sector.[2] On the commercial side, Garden Street Terraces downtown broke ground late last year, and the redevelopment of a former aircraft maintenance facility, as well as the development of a new passenger terminal at the San Luis Obispo Regional Airport, are helping fuel demand for construction jobs in the region. [3][4]

[2]Peter Johnson "Breaking ground: SLO City Council candidates talk about the city's housing crunch" *New Times SLO* October 19, 2016 available at: http://www.newtimesslo.com/news/14512/breaking-ground-slo-city-council-candidates-talk-about-the-citys-housing-crunch/

[3]Cynthia Lambert "Garden Street Terraces to break ground in downtown San Luis Obispo" emptyThe Tribune December 10, 2015 available at: http://www.sanluisobispo.com/news/business/article49135830.html

[4]"San Luis Obispo County Regional Airport (Sbp) Abuzz with Construction" available at: http://www.slocounty.ca.gov

Manufacturing is also a continuing bright spot for San Luis Obispo County, as payrolls expanded by 2.6% (200 jobs) over the last year. In contrast, Manufacturing sector payroll levels have fallen by 1.4% in the state overall. A close look at the types of newly created jobs shows how closely the manufacturing sector is linked to 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 Manufacturing subsector in San Luis Obispo County, accounting for nearly one in four positions. Employment levels at beverage manufacturing firms were also up for the year, increasing employment counts by 3.7% from the first quarter of 2015 to the first quarter of 2016. Perhaps more importantly, the region's Farm sector also remains strong despite the continued difficulties imposed by the drought, with payrolls rising by 3.1% (200 jobs) over the last year.

Manufacturing was another bright spot for San Luis Obispo County

Growth in the County's labor markets was not limited to the private sector. Local Government also helped boost the region's payroll figures over the last year. From September 2015 to September 2016, Local Government increased payrolls by 2.9% (400 jobs). With local municipalities continuing to see their finances improve, many cities are bringing on additional personnel to accommodate the region's growing population and economic development. However, Federal and State Government employment fell in the County during the last year, decreasing by 0.2% and 1.1%, respectively.

While the payrolls in the majority of San Luis Obispo County's sectors expanded over the year, jobs did in some sectors. For example, the Professional and Business Services sector declined by 3.3% (400 jobs), while the Wholesale Trade sector (-0.3%) and the Finance and Insurance sector (-0.2%) also shed positions over the last year. Despite continued declines in the Professional and Business sector, there is some cause for optimism in the region. Several of San Luis Obispo County's tech firms recently made Inc. magazine's 5,000 list, which ranks the fastest growing companies in America. These firms include Land Gorilla, which makes software that helps construction lending, and protects involved parties from the risks of traditional loan management practice; Hathway, which specializes in taking disconnected, unoptimized digital properties and turning them into integrated services; and IQMS, which develops manufacturing and planning software.[5] In addition, Mindbody Inc., a San Luis Obispo company which sells business management software for clients in the Health Care and Wellness industry, posted first-quarter revenue as up 44%.[6]

San Luis Obispo Employment Growth

City	Q4-15 (#)	Change (%)	Change (#)
San Luis Obispo	51,140	2.1	1,070
Unincorporated	17,222	2.9	485
Atascadero	9,231	4.1	365
Grover Beach	3,325	10.1	305
Arroyo Grande	9,008	3.4	290
Paso Robles	17,433	1.1	195
Morro Bay	3,643	4.7	165
Pismo Beach	3,903	2.7	100

Source: California Employment Development Dept.

City Labor Markets

Growth was spread across all corners of San Luis Obispo County over the past year. From the fourth quarter of 2014 to the fourth quarter of 2015, the City of San Luis Obispo was responsible for the highest number of new jobs in the County over the last year, increasing payrolls by 2.1% (1,070 jobs).[7] In percentage terms, Grover Beach led the way, increasing payrolls by 10.1% (305 jobs). The Coastal Communities also had a strong year, with payrolls increasing by 3.4% in Arroyo Grande (290 jobs), 4.7% in Morro Bay (165 jobs), and 2.7% in Pismo beach (100 jobs). The more inland regions of the County also posted solid gains for the year, with payrolls increasing by 2.9% in the unincorporated areas of the County (485 jobs), 4.1% in Atascadero (365 jobs) and 1.1% in Paso Robles (195 jobs).

Growth was spread across all corners of San Luis Obispo County over the past year

For the five-year period from 2011 to 2015, the unemployment rate in San Luis Obispo County averaged 8.0%, according to the American Community Survey from the U.S. Census Bureau, though this rate varied across the County.[8] Atascadero (5.4%) and Pismo Beach (6.4%) had average unemployment rates well below the County average, but Grover Beach (9.9%) averaged higher unemployment rates than the County as a whole. Still, the unemployment rates across San Luis Obispo's incorporated cities came in lower than the statewide rate of 11.0% over the five-year period.

Business Formation and Size

Along with the gains in the region's labor markets, business formation in San Luis Obispo continued to

[5]Danielle Ames "6 SLO County companies make Inc. magazine's 5000 'fastest-growing' list" emptyThe Tribune September 1, 2016 available at: http://www.sanluisobispo.com/news/business/article99368387.html

[6]Sandra Duerr "MindBody reports first-quarter revenue up 44 percent" *The Tribune* Mat 3, 2016 available at: http://www.sanluisobispo.com/news/business/article75442802.html

[7]City-level employment data is based upon data for which the latest available period is the fourth quarter of 2015.

[8]City-level unemployment rate data is based upon data which the latest available period is the five-year period from 2011-2015.

post gains in 2015, with the number of establishments growing across a broad range of sectors during the year. According to the Quarterly Census of Employment and Wages, the number of establishments expanded by more than 238 companies in all of 2015, representing an annual 2.5% increase relative to all of 2014. This pace trails the state overall, where establishments increased by 2.9% over the same period.

At the industry level, the Health Care sector posted the largest gains for all of 2015, adding 43 firms. The Real Estate and Construction sectors also posted sizable gains in the number of establishments for all of 2015, with both sectors growing by 36 firms relative to 2014. In percentage terms, the Real Estate sector (+9.7%) and the Arts and Entertainment sector (6.0%) led the way. These figures should not come as a surprise given the continued growth in Health Care and Construction over the past year.

San Luis Obispo County's mid-size and large firms drove employment gains in the region. From 2014 to 2015:

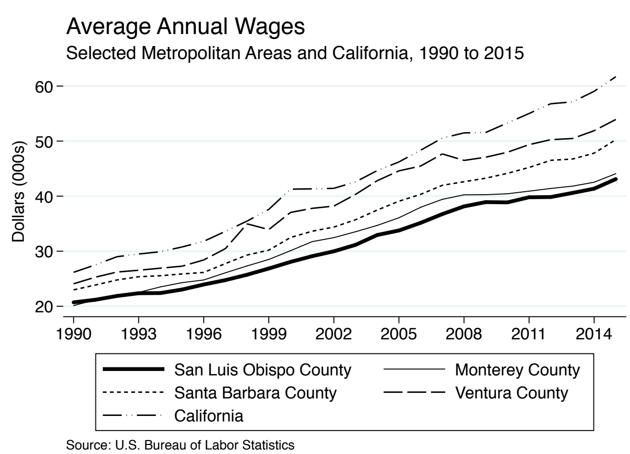
- Firms with up to 9 employees increased payrolls by 0.1% (16) jobs
- Firms with 10 to 249 employees increased payrolls by 3.2% (1,906) jobs
- Firms with 250 or more employees increased payrolls by 8.5% (1,030) jobs

Wages

While employment growth in San Luis Obispo County matched the pace of growth in the state, wages have grown at a slightly slower pace. From 2014 to 2015, wages in San Luis Obispo County grew by an average of 4.2%, trailing the 4.5% growth in the state overall. Even so, wage growth in the County did outpace the 3.1% mark set in the nation and was in the middle of the pack along California's Central Coast, outpacing Monterey County (3.7%) and Ventura County (3.9%), but trailing behind Santa Barbara County (5.1%).

Average annual wages increased across the vast majority of industries in San Luis Obispo County

From an industry standpoint, average annual wages increased across the vast majority of industries in San Luis Obispo County. Leading the way was the Arts & Entertainment sector, where average annual wages grew by a sizable 37.3% from 2014 to 2015. This follows the sizable gains in the regional output levels for this sector in San Luis Obispo County, but may also indicate increased full-time hiring. Other sectors posting sizable increases in average annual wages include the Utilities sector and the Information sector, which posted 13.2% and 12.5% increases, respectively, from 2014 to 2015. Average annual wages were also on the rise in the regions fastest-growing sectors, with the Accommodation and Food sector posting a 5.8% increase and the Health Care sector posting a 5.7% increase.



At the City level, wages were up across the majority of the County's cities in 2015. Arroyo Grande led the way in terms of growth in average annual wages for the year in San Luis Obispo County, with average annual wages increasing by 6.5% to $41,060 from the fourth quarter of 2014 to the fourth quarter of 2015. Not far behind was Pismo Beach, where average annual wages increased by 5.7% to $31,420 over the same period. The City of San Luis Obispo continues to lead the way in average annual wages for workers, with workers earning an annual average wage of $50,850 in the fourth quarter of 2015. Wages were also up in the City of Luis Obispo for the year, rising by 4.0% over the last year. Still, wages were not up in all corners of San Luis Obispo County, with wages falling in Morro Bay (-2.3%) and in Grover Beach (-0.1%).

Business Activity

by Brian Vanderplas

Contents

Key Chapter Findings

- While the headline figure appears to show that consumer spending in the region is declining, the bulk of the spending that helps drive new jobs and economic activity in the region is still on the upswing.
- There was widespread growth in the production of goods and services in San Luis Obispo County between 2014 and 2015.
- Passenger traffic through San Luis Obispo Regional Airport increased 15.6% through the first eight months of 2016 relative to the same period one-year earlier.

Business Activity Overview

Top-level indictors for business activity in San Luis Obispo County suggest that 2015 and 2016 were a mixed bag. Local spending, which is tracked by both taxable sales from the California Board of Equalization and taxable receipts from HdL, was down in several areas, most notably for Business and Industry spending, and spending at Fuel and Service Stations. While the headline figure appears to show that consumer spending in the region is declining, the bulk of the spending that helps drive new jobs and economic activity in the region is still on the upswing, most notably spending in Autos and Transportation and in Restaurants and Hotels.

Still, Production continued to grow steadily in San Luis Obispo County in 2015, with production levels rising by 2.6% in real terms relative to 2014. The driving force behind these gains came from the region's Tech industry and Hospitality industry. The region's draw as a tourist destination is continuing to grow, with revenue per available unit up across the board in San Luis Obispo County during the first seven months of 2016. Perhaps more importantly, when San Luis Obispo draws more leisure travelers to the region, it is not just a boon to the region's hotels; travelers also spend money at local tourist attractions, restaurants, and retail establishments, which should help sustain growth in the coming years.

While we anticipate that business activity will continue to grow in the coming the years, the region does face headwinds. Builders are facing water constraints and moratoriums on new developments, particularly in North County. This has compounded the County's problem of insufficient affordable workforce housing. Additionally, local companies are finding it difficult to offer comparable wages to those offered in the Bay Area. As a result, San Luis Obispo is having some difficulty in attracting high-skilled talent. The pending closure of the Diablo Canyon nuclear power plant will also be a challenge to the region during the coming years. Indeed, as the plant generates over $1 billion of estimated economic activity each year, the County will need to put measures in place to help mitigate the impact of the plant's closure on the local economy. However, these loses will not be immediate. The plant will still employ a significant contingent of engineers and other workers during the plant's decommissioning phase.[9]

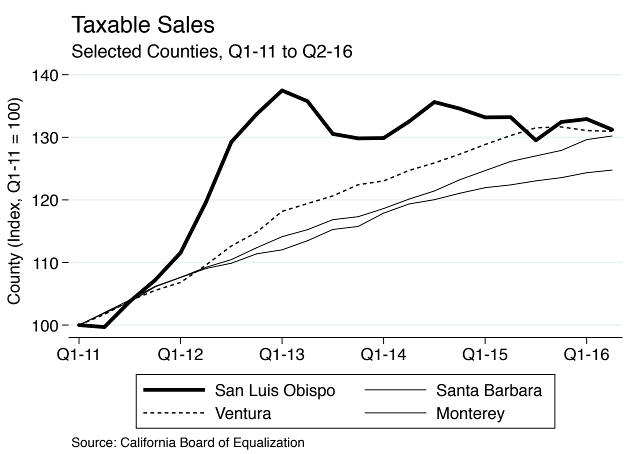
Local Spending

Taxable sales in San Luis Obispo County fell by 1.5% from the second quarter of 2015 to the second quarter of 2016. While the region has seen solid growth in employment levels in recent years, taxable sales have

[9] Stephanie Finucane, Kaytlyn Leslie, and David Sneed "What Diablo Canyon's closure will mean for SLO County's economy" *The Tribune* June 21,2016 available at http://www.sanluisobispo.com/news/local/article85204657.html

been slower to gain traction. The primary driving force behind this is a decline in business-to-business spending; most notably, the completion of major solar projects in the County's unincorporated areas have cut down this type of spending. Still, while the headline figure appears to show that consumer spending in the region is declining, the bulk of the spending that helps drive new jobs and economic activity in the region is still on the upswing.

Spending in San Luis Obispo County has grown most for Autos and Transportation. Taxable receipts at these establishments in the County were 5.9% higher in the second quarter of 2016 relative to the second quarter of 2015. Restaurants and Hotels sales also expanded significantly over the past year, increasing by 3.6%. Taxable receipts growth in these categories mirrors that in the rest of the state. However, taxable receipts in Business and Industry decreased by 7.7% from the second quarter of 2015 to the second quarter of 2016 in San Luis Obispo, while the state saw a 1.9% increase over the same period.



In addition, taxable receipts at Fuel and Service Stations continue to decline, falling by 13.5% from the second quarter of 2015 to the second quarter of 2016. Unlike the declines in Business and Industry spending, this trend was similar to the overall state trend; taxable receipts in this category fall by 16.1% over the period statewide. The driving force behind the decline in the price of oil has been the explosive growth of oil production in the United States over the past five years, as shale oil extraction through fracking has finally become widely adopted. The United States is now producing almost twice as much as it did five years ago, and has become the largest producer in the world, generating 20% more crude oil per day than Saudi Arabia and Russia. In short, the world is going to have plenty of oil for a long time to come, and prices should remain low with healthy levels of oil supply on the market.

Taxable Receipts by Category
Selected Counties and California, Q2-2016

Category	Q2-2016 ($ 000s)	1-Yr Chg (%)
Autos and Transportation	1,843	5.9
Restaurants and Hotels	1,845	3.6
Building and Construction	1,198	1.2
Food and Drugs	755	0.2
General Consumer Goods	2,448	0.2
Business and Industry	1,628	-7.7
Fuel and Service Stations	1,250	-13.5
San Luis Obispo County Total	12,484	-0.4
Monterey County Total	17,225	4.7
Santa Barbara County Total	10,728	3.1
Ventura County Total	34,619	-1.0
California Total	1,626,417	1.9

Source: HdL Companies

Consumer spending across the County's cities was a mixed bag in 2016. Taxable sales in the County's largest cities, San Luis Obispo and Paso Robles, grew at a solid pace in 2016, expanding by 2.3% and 4.9%, respectively, from the second quarter of 2015 to the second quarter of 2016. In contrast, some of the County's smaller cities saw taxable sales fall in 2016, with Morro Bay (-7.4%) and Atascadero (-2.7%) both seeing declines in taxable sales for the year. However, the region's unincorporated areas were primarily responsible for the overall declines in taxable sales for the County. Indeed, taxable sales in San Luis Obispo's unincorporated areas dipped 8.6% over the period, fueling the overall decline in taxable sales for the region. As mentioned in earlier, the driving force behind this decline continues to be the winding down of the major solar power plants in the region, largely construction ending at the Topaz Solar Farm and California Valley Solar Ranch.

Taxable Sales by City
San Luis Obispo County, Q2-2016

City	Q2-2016 ($ 000s)	1-Yr Chg (%)	2-Yr Chg (%)
Grover Beach	30,360	2.6	16.0
Paso Robles	215,619	4.9	10.0
Pismo Beach	63,187	1.7	4.0
San Luis Obispo	360,360	2.3	2.3
Atascadero	78,043	-2.7	1.7
Arroyo Grande	78,691	1.2	0.1
Morro Bay	35,702	-7.4	-1.9

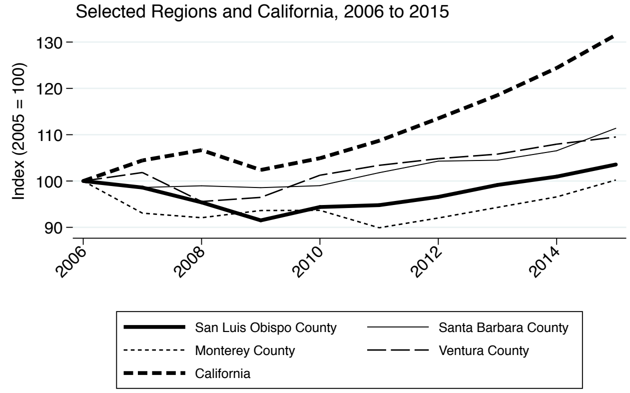
Source: California Board of Equalization

While we anticipate that taxable sales will continue to grow in the coming years, the region does face headwinds. With lower birth rates and little affordable housing in the county, population growth will lag behind that in other parts of the state, and thus, consumer spending will not rise as rapidly. In addition, the region's growing tourism industry is facing headwinds. First, multiple hotel and other commercial projects have faced significant opposition in recent years, including the Shell Beach Road Hotel in Pismo Beach, and the Justin Winery clearing Oak Trees for a Vineyard in Paso Robles. Second, builders are facing water constraints and moratoriums on new developments, particularly in North County. Consequently, the NIMBYs that are driving the affordability problems in the region's residential market are also hindering expansion in an industry that is eager for growth. This will not only limit job gains in the Hospitality industry, but will also constrain growth in other parts of the economy that are connected to the industry.

Production

The economic expansion in San Luis Obispo County continued in 2015. Economic activity in San Luis Obispo County expanded by 2.6% from 2014 to 2015, compared to 3.8% in Monterey County, 1.4% in Ventura County, and 4.5% in Santa Barbara County. However, San Luis Obispo and the bulk of the other counties along California's Central Coast trailed behind the state overall in this regard, where economic activity grew by 4.1% over the period. Moreover, since 2005, economic activity in San Luis Obispo County has expanded by just 2.9% in real terms, compared to 16.0% in the state of California.

Real GDP Growth
Selected Regions and California, 2006 to 2015



Source: U.S. Bureau of Economic Analysis

There was widespread growth in the production of goods and services in San Luis Obispo County between 2014 and 2015. The Professional and Business Service sector accounted for the largest share of growth in the County; production in this sector grew 9.4%, accounting for nearly 30% of the County's growth for the year. This sector includes Professional, Scientific, and Technical Services and Management, which employs numerous high-skilled individuals. Similarly, the Information sector, another high-skilled sector in the County, also had a strong year, expanding by 10.4% for the year and accounting for 10% of County's production growth. More importantly, these high-skilled sectors will play a pivotal role in the County's growth pattern moving forward, and continued growth will

GDP Growth by Sector
San Luis Obispo County, 2014 to 2015

Industry	2015 $ 000s	2014 to 2015 Change (%)	2014 to 2015 Contributions to Growth (%)	2012 to 2015 Change (%)	2012 to 2015 Contributions to Growth (%)
Prof. Bus. Services.	1,037	9.39	0.76	5.55	0.44
Manufacturing	886	3.50	0.25	6.58	0.43
Information	341	10.36	0.27	18.10	0.36
Natural resources and mining	451	11.63	0.40	11.01	0.33
Health Care	877	4.03	0.29	3.30	0.23
Retail Trade	980	2.62	0.21	2.25	0.18
Accommodation/Food	562	3.31	0.15	4.06	0.18
Wholesale Trade	416	6.94	0.23	4.76	0.15
Arts/Ent./Recreation	122	69.44	0.42	23.15	0.15
Other Services	326	6.89	0.18	2.89	0.08
Trans./Warehousing/Utilities	1,242	-0.64	-0.07	0.57	0.06
Government	1,796	2.05	0.31	0.28	0.04
Construction	685	-0.15	-0.01	0.75	0.04
Educational Services	27	-12.90	-0.03	-2.30	-0.01
Finance/Insurance	320	0.31	0.01	-0.51	-0.01
Real Estate	2,030	-4.56	-0.82	-1.74	-0.33
All Industry Total	12,071	2.58	2.58	2.41	2.41

Source: U.S. Bureau of Economic Analysis

be necessary to attract talent from the Bay Area and Southern California. However, local companies are finding it difficult to offer comparable wages to those offered in the Bay Area.

The Professional and Business Service sector accounted for the largest share of growth in the County

San Luis Obispo County's wine industry also contributed to the region's production growth in 2015. Indeed, despite the drought, the County's Natural Resource and Mining sector expanded by 11.6% from 2014 to 2015, accounting for over 15% of the growth in the region for the year. In addition, the sectors interconnected to the region's wine industry also had as strong year in 2015. For example, the Manufacturing sector expanded by 3.5% from 2014 to 2015, accounting for nearly 10% of the growth in the County for the year.

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. This trend has helped drive growth in the County's Leisure and Hospitality industry. Goods and services production in the Accommodation sector expanded by 3.3%, and that in the Arts, Entertainment and Recreation sector expanded by a substantial 69% over the year. Together, the Accommodation sector and the Arts, Entertainment and Recreation sector accounted for over 20% of output growth in the County for the year.

Local consumers also helped drive growth in the County over the year, with the Retail Trade and Wholesale Trade sectors both having strong years in 2015. The Retail Trade sector expanded by 2.6% over the year, while the Wholesale Trade sector expanded by 6.9%. Together, these two sectors accounted for 17% of the production growth in the County for the year. With wages rising steadily in the County, con-

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

Location	Average Daily Rate			Occupancy Rate			RevPar		
	2016 ($)	1-Year Chg. (%)	3-Year Avg. Chg. (%)	2016 (%)	1-Year Chg. (p.p.)	3-Year Avg. Chg. (p.p.)	2016 ($)	1-Year Chg. (%)	3-Year Avg. Chg. (%)
Pismo Beach	178.61	5.49	15.5	74.39	0.1	0.0	132.86	5.6	15.7
San Luis Obispo	159.46	6.02	19.7	76.45	-4.2	4.2	121.90	0.5	19.7
Paso Robles	131.49	2.19	15.4	71.01	0.1	4.1	93.37	2.3	20.3
North Coastal	158.08	1.90	15.1	66.57	1.2	-3.2	105.24	3.8	12.5
San Luis Obispo County	158.35	4.41	14.5	73.19	-1.2	1.6	115.89	2.7	15.0
Santa Barbara County	176.59	2.75	6.8	76.97	-0.8	3.7	135.92	1.7	10.4
Ventura County	139.08	8.32	22.7	81.63	5.3	8.6	113.54	15.9	35.9

Source: PKF Consulting

tinued growth is expected in these consumer-driven sectors in the coming years.

A handful of sectors did see a pullback in production in 2015. Declines were most pronounced in Real Estate sector production, which fell by 4.6%. Educational Services (-12.9%) and Transportation and Warehousing and Utilities (-0.6%) all declined. While water constraints will impede growth in coming years, we anticipate that the region will continue to grow at stable levels over the next year.

Hospitality and Tourism

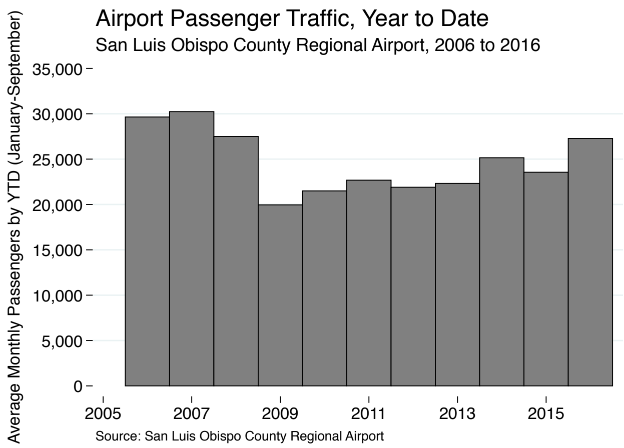
San Luis Obispo County remains one of the top tourist destinations for residents of both Southern California and Northern California. What's more, the reach of San Luis Obispo's tourism industry should further grow in the coming years; the County's international draw is growing, and Alaska Airlines plans to expand routes from San Luis Obispo Regional Airport to Seattle over the next year. In addition, with new 4-star hotel stock coming online the region will be able to attract additional higher income visitors.

Through July 2016, average daily rooms rates in San Luis Obispo County were 4.4% higher than they were during the same period in 2015. Room rates rose most steeply in the City of San Luis Obispo and Pismo Beach, rising 6.0% and 5.5%, respectively. Room rates in Paso Robles and along San Luis Obispo's northern coast have grown more modestly, going up 2.2% and 1.9%, respectively.

Occupancy rates were more of a mixed bag in 2016; depending on the area, rates would either rise, fall, or stay the same. Indeed, occupancy rates in the City of San Luis Obispo dropped significantly through July 2016, falling by 4.1 percentage points, relative to the same period in 2015. Nevertheless, the uptick in the area's room rates offset much of this decrease, so revenue per available unit was up across the board in San Luis Obispo County during the first seven months of 2016. Pismo Beach lead the way with a 5.6% increase in revenue per available unit relative to the same period in 2015, while the North Coast (+3.8%), Paso Robles (+2.3%) and San Luis Obispo (+0.5%) grew more modestly over this period.

Revenue per available unit was up across the board in San Luis Obispo County during the first seven months of 2016.

Perhaps more importantly, when San Luis Obispo draws more leisure travelers to the region, it is not just a boon for hotels; travelers also spend money at local tourist attractions, restaurants and retail establishments. This is evident in the 5.0% increase in Leisure and Hospitality employment from August 2015 to August 2016, the 10.7% increase in Leisure and Hospitality sector production levels from 2014 to 2015, and the 3.6% increase in taxable receipts at Restaurants and Hotels from the second quarter of 2015 to the second quarter of 2016.



The sustained uptick in tourism in San Luis Obispo County (as well as the broader Central Coast) has also corresponded with increased airport traffic. Passenger traffic through San Luis Obispo Regional Airport increased 15.6% through the first eight months of 2016 relative to the same period one-year earlier. Alaska Airlines' recently announced plans for a new route from San Luis Obispo Regional Airport to Seattle in April 2017, and the continued demand for the region's tourist attractions, mean that airport traffic should continue to grow into 2017. More importantly, these additional travelers should help further grow the region's Leisure and Hospitality sector in 2017, although growth could be limited by water constraints and moratoriums on new developments.

Beacon Economics

Agriculture

by Jordan Giali

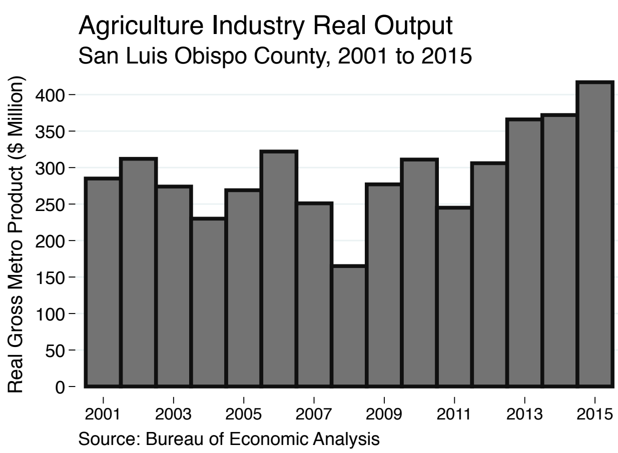
Contents

Key Chapter Findings

- San Luis Obispo County's agriculture industry had an outstanding year in 2015, with record economic output. Commodity values, however, continued to decline as water conditions only marginally improved.
- Compared with last year, state agricultural exports declined in 2016. Low prices and yields, coupled with the strength of the dollar, are largely to blame.
- The number of local vineyards remains the same, while wineries increased slightly from last year.
- With El Niño having brought less rainfall than predicted, San Luis Obispo County faces yet another year of drought, leading farmers to continue cutbacks in water use.

Overview

Despite a disappointing El Niño that failed to ameliorate the statewide water shortage, San Luis Obispo County's agriculture industry remains robust. There were declines on several fronts, including total crop and livestock values, but the county's production levels remain strong. Indeed, real agricultural industry output reached a record high in 2015, and revised data for 2014 show significant improvement upon last year's preliminary estimates, implying that real output has grown every year since 2011.



The latest statewide data for 2016, however, indicate that California's agricultural industry is facing headwinds. Cattle and calves, especially, have sustained major decreases in production. On the other hand, key crops such as strawberries have benefitted from the dry weather.

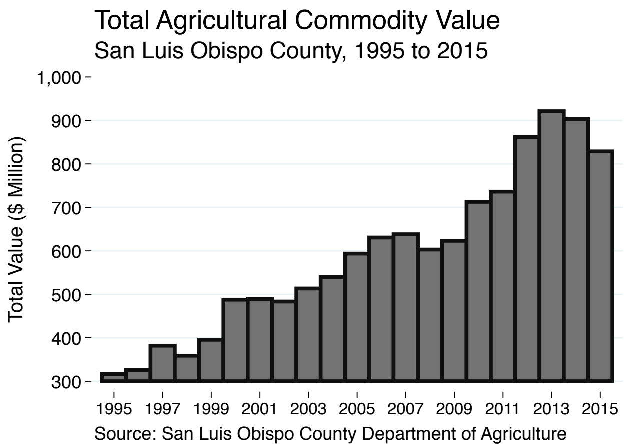
Overall, the state will continue to be in a drought for the near future. This means tighter water restrictions for all Californians, farmers included. However, with decent amounts of rainfall in 2015, growers will be able to continue pumping out groundwater and tapping reservoirs, but this is only postponing the inevitable. Ultimately, farmers will need to find ways to be innovative in their water usage.

2015 Industry Performance

Over 2015, the San Louis Obispo County agriculture industry enjoyed record performance in terms of real economic output. With over $417 million in output, the industry continued its upward swing following the recession. This amounted to a 12.1% annual rate of growth—a tremendous leap from the 1.6% increase that 2014 posted. The county's growth is reflective of California's agriculture industry in general, whose output grew 13.7% last year.

Over 2015, the San Louis Obispo County agriculture industry enjoyed record performance in terms of real economic output.

On the other hand, total commodity values for the county decreased about 7.9%, going from $900 million in 2014 to $829 million in 2015. This is the second year of declining values for the county, falling from a record year in 2013. Most of these losses came from the fruit and nut and animal categories. These declines largely stem from wine grapes and cattle commodities, which plummeted 28% and 49%, respectively. Although the vegetable category saw growth, broccoli crops had a major drop of 16.4% from 2014 to 2015, following a 10.8% decrease from 2013 to 2014. Drought conditions are largely to blame for these losses.



San Luis Obispo County Agricultural Categories

Category	2014 ($ Million)	2015 ($ Million)	Annual Growth (%)
Total Value	900.1	828.8	-7.9
Fruit and Nut	468.5	428.3	-8.6
Vegetable	195.3	214.1	9.6
Nursery	84.4	100.1	18.7
Animal	135.0	70.7	-47.7
Field	16.8	15.6	-7.2

Source: San Luis Obispo Department of Agriculture

In contrast, strawberries benefitted from the dry weather conditions, chalking up a record $223 million in 2015 and making up 27% of overall county crop value.[10] Additionally, vegetable transplants saw a strong 12% increase in value, going from about $34 million in 2014 to about $38 million in 2015. With tougher water restrictions put in place by Gov. Jerry Brown, many growers have turned to transplants to reduce irrigation needs.

San Luis Obispo County Top Agricultural Commodities

Commodity	2014 ($ Million)	2015 ($ Million)	Annual Growth (%)
Strawberries	205.8	222.6	8.2
Wine Grapes	203.8	146.4	-28.1
Cattle and Calves	129.6	66.0	-49.1
Broccoli	57.2	47.8	-16.4
Vegetable Transplants	33.7	37.7	12.0

Source: San Luis Obispo Department of Agriculture

San Luis Obispo County Wine Grapes

Grape Variety	Production 2015 Ton	Production Annual Growth (%)	Prices 2015 $ Per Ton	Prices Annual Growth (%)
White Grapes				
Chardonnay	12,518	-26.1	1,397	5.3
Sauvignon Blanc	3,719	-43.8	1,299	6.5
White Wine (Other)	4,889	-30.5	1,398	8.1
Red Grapes				
Cabernet Sauvignon	30,656	-36.8	1,545	5.5
Merlot	17,564	-17.7	1,053	-0.4
Pinot Noir	3,976	-38.1	2,990	11.4
Syrah	6,550	-39.4	1,413	3.6
Zinfandel	6,431	-12.9	1,480	5.2
Red Wine (Other)	12,478	-29.1	1,664	4.0

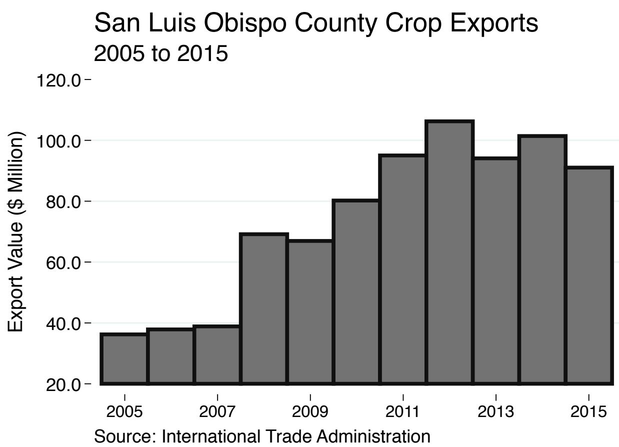
Source: San Luis Obispo Department of Agriculture

As mentioned, wine grapes experienced a significant loss in 2015. In total, the county had a $57 million drop in crop value from the year before, mostly because of bad growing conditions caused by the drought and other weather complications. All varieties of wine grape sustained significant drops in total volume produced. Production of Cabernet Sauvignon, which typically yields the most volume, was slashed by a third, going from 48,000 tons in 2014 to just 31,000 in 2015.

[10] "2015 Annual Report." *San Luis Obispo County Department of Agriculture Weights and Measures.* `http://www.slocounty.ca.gov/Assets/AG/croprep/2015+Crop+Report/2015_Crop_Report.pdf`

Other varieties were hit relatively worse, including Sauvignon Blanc, whose yield fell from 6,600 to 3,700 tons over the same time period—a 44% decrease.

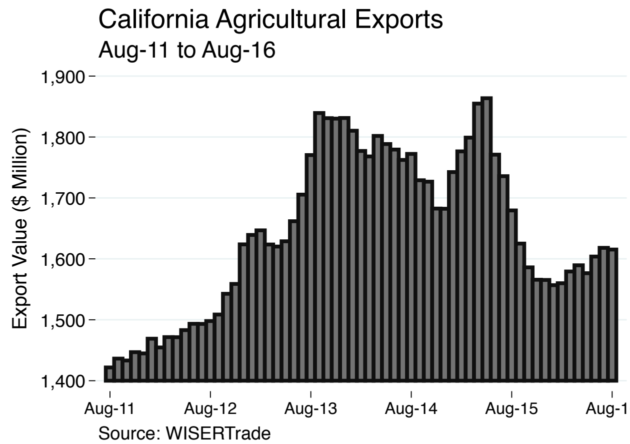
Regarding exports, the county experienced a 10.2% decrease from 2014 to 2015, falling from $101 million to $91 million. Although this was partially due to a slight decrease in international shipments which have been affected by the strength of the U.S. dollar, the bulk of the decrease was in domestic exports. This is not necessarily a huge loss for the county, however, as it does not rely on exports for growth in its agricultural industry. Indeed, many of the crops that San Luis Obispo County grows are consumed right here in the state.



2016 Industry Outlook

California agricultural exports have taken a major hit so far this year, with almost 10% less being exported compared with last year. However, when compared to the beginning of 2016, exports are up 3.8%, increasing from $1.56 billion in January to $1.62 billion in August.

Dragging down export values were massive slowdowns in production of wine, strawberries, cauliflower and broccoli. Lower prices for some crops were also to blame, especially strawberries. According to the U.S. producer price index, strawberries are down 31.4% this year compared with 2015. Other exports, such as beef, had a price increase that was driven by increased demand. This explains the 10.2% growth in the value of beef exports despite slashed cattle production. By the same token, avocados saw a 17.8% increase—a major improvement over the last few years.



State farm earnings have also posted significant losses this year, continuing the trend from 2015. Year to date, earnings dropped 16.3%—much of this having to do with lower commodity prices as well as decreases in farm proprietors' income.

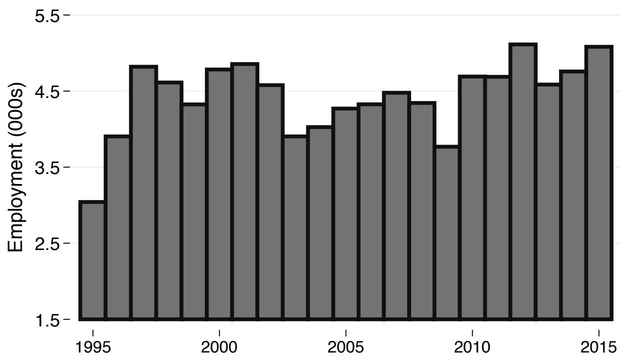
California Agricultural Exports Through August 2016

Commodity	2016 YTD ($ Million)	YTD Growth (%)
Total Agricultural Exports	11,944.7	-9.8
Wine	960.4	-0.9
Strawberries	245.5	-7.1
Beef	189.8	10.2
Cauliflower and Broccoli	65.1	-2.9
Avocados	42.8	17.8

Source: WISERTrade

Farm employment in San Luis Obispo County has remained relatively static compared with recent years. After the trough of the recession in 2009, farm payrolls have hovered around the 4,800 mark. So far in 2016, the average number of employees has been about 5% higher than post-recession figures, with about 5,050 on the books. This indicates overall stability for the agriculture industry for all of 2016.

San Luis Obispo County Farm Employment
1995 to 2015



Source: California Employment Development Department

The latest data from the Quarterly Census of Employment and Wages show that the number of vineyards in the county was unchanged from last year, with 50 establishments. Vineyards in the county totaled 81 in late 2001 and subsequently fell in number as water became scarcer. The number of vineyards has stabilized at current levels over the last three years, perhaps indicating a new normal for the county.

...wineries experienced slight growth over the last year, going from 120 to 124 establishments, a 3.3% increase.

Additionally, wineries experienced slight growth over the last year, going from 120 to 124 establishments, a 3.3% increase. Wineries are an important component of the county's tourism industry, bolstering consumer spending and thus fiscal revenue for the local government. In fact, vineyards and wineries made up over $900 million in value added to the region, while also providing 28% of property tax revenue.[11]

The Drought Situation

El Niño fell short of expectations and failed to deliver enough rainfall to end California's drought last year. Indeed, most of its rainfall landed in the northern part of the state, with little relief brought to the Central Coast. Scientists are now forecasting El Niño's counterpart, La Niña, for this winter. La Niña typically results in cooler ocean temperatures and drier winters, which ultimately means less rainfall for the state. Accordingly, water will continue to be a major problem for farmers, resulting in significant crop and livestock losses.

The good news is that mountain snowpack levels are just about back to average levels, and major reservoirs contain more than two-thirds more water than a year ago. Also, as mentioned elsewhere in this report, voluntary and mandatory conservation efforts along with fewer housing and hotel developments have led to less water being used in many areas of San Luis Obispo County.

Additionally, the California Department of Water Resources recently approved the establishment of a new groundwater sub-basin in Atascadero. This will create a separation with the Paso Robles basin on the Rinconada Fault, and thus aid officials in water sustainability practices.

But regardless of the water that Californians have been saving, the state appears to be in conservation mode for the long haul. Earlier this year, Gov. Brown converted many temporary water restrictions into permanent limitations. What this means for farmers is more reductions in irrigated land usage. Indeed, Central Valley farmers left fallow more than 522,000 acres in 2015.[12] By all indications, 2017 will see farmers pumping more groundwater and using the partially refilled reservoirs to grow crops.

[11] "The Economic Impacts of the San Luis Obispo County and Paso Robles AVA Wine Industry." University of California Agricultural Issues Center.

[12] "California Keeps On Farming, With or Without Water." Bloomberg. Oct. 5, 2016. https://www.bloomberg.com/view/articles/2016-10-05/california-keeps-on-farming-with-or-without-water

Residential Real Estate

by Alan Hooper

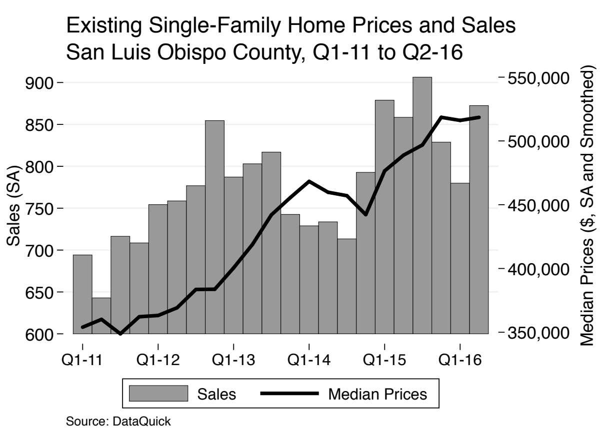
Contents

Key Chapter Findings

- The pace of price appreciation in San Luis Obispo County picked up significantly through much of 2015 before cooling down in 2016, with the median price for an existing single-family home growing 6.1% to $518,000 between the second quarter of 2015 and the second quarter of 2016.
- Sales activity reached a post-recession high through the first three quarters of 2015, buoyed by resurgent demand, but fell off significantly over the following two quarters. Existing single-family home sales are down almost 5% year-to-date.
- The cost of rent in the County increased 4.2% to $1,102 between the second quarter of 2015 and the second quarter of 2016, while the apartment vacancy rate has trended down to 4.1% during this time period.
- The proliferation of antidevelopment building moratoria aimed at addressing the County's water shortage have contributed to the slowdown in construction activity observed in many parts of the County over the past two years. These supply constraints, coupled with resurgent homebuyer demand are driving forward-looking concerns about a shortage of available housing in the region.

Trends Analysis

Single-Family Housing



The pace of activity in San Luis Obispo County's market for existing single-family homes has been uneven over the past year. Sales activity reached a post-recession high through the first three quarters of 2015, buoyed by resurgent demand, but fell off significantly over the following two quarters. The most recent quarter of data reflects a sizable uptick, though overall sales in the existing single-family market are down almost 5% year-to-date.

Existing Single-Family Home Prices (SA)
By Region, Q2-16

Location	Median Price Q2-16 ($)	1-Year Chg (%)
Central California		
San Luis Obispo	518,000	6.1
Santa Barbara	475,000	1.3
Monterey	512,000	16.0
Southern California		
Los Angeles*	540,000	6.7
Orange County*	696,000	5.3
San Diego*	530,000	5.9
Inland Empire*	299,000	7.0
Ventura*	577,000	5.4
Northern California		
San Francisco*	1,128,000	4.6
East Bay*	603,000	6.8
San Jose*	913,000	7.4
Sacramento*	298,000	10.5
Other Northern California*	433,000	8.0
State of California	417,000	5.9

Source: DataQuick
*Average Regional Price

At the same time, the pace of price appreciation picked up significantly through much of 2015 before cooling down in 2016, with the median price for an existing single-family home in the County growing

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

Location	Q2-15 ($)	Q2-16 ($)	Change (%)
Existing Single-Family Home Median Prices*			
Arroyo Grande	627,000	631,000	0.6
Atascadero	411,000	466,000	13.4
Grover Beach	423,000	450,000	6.3
Paso Robles	403,000	424,000	5.2
San Luis Obispo	618,000	708,000	14.5
San Luis Obispo County	489,000	518,000	6.1

Location	2015 YTD	2016 YTD	Change (%)
Residential Sales			
Arroyo Grande	80	101	26.2
Atascadero	99	83	-16.3
Grover Beach	25	40	61.0
Paso Robles	191	202	6.1
San Luis Obispo	101	112	10.4
San Luis Obispo County	1,737	1,652	-4.9

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

6.1% between the second quarter of 2015 and the second quarter of 2016. By comparison, home price growth in the County has exceeded the statewide average (5.9%) and is on par with growth rates observed in many of Southern California's major metropolitan areas. Looking locally, price growth lagged behind Monterey County (16.0%) and outpaced Santa Barbara County (1.3%), though home prices in San Luis Obispo County, at $518,000, are among the highest in the Central Coast.

The slowdown of price appreciation observed in recent quarters reflects uneven growth throughout the disparate cities in the County. Price appreciation was strongest in communities nearer to the County's job centers, though there have been some signs of urban sprawl as sales activity has picked up in North County. The median price for an existing single-family home in the City of San Luis Obispo, for instance, surged 14.5% to $708,000 in the second quarter of 2016, the fastest rate observed in the County. Similarly, home prices grew 13.4% in Atascadero after falling during the previous year, though this may be due to a shifting sales mix with sales declining over the course of 2016. Further north, sales and prices alike grew at a solid clip in Paso Robles through the second quarter of 2016, as many households had been priced out of the market in the County's more expensive locales like Arroyo Grande and the City of San Luis Obispo.

Price appreciation was strongest in communities nearer to the County's job centers, though there have been some signs of urban sprawl as sales activity has picked up in North County.

Single-Family Construction Permits in San Luis Obispo County
Year-to-date 2014, 2015, and 2016

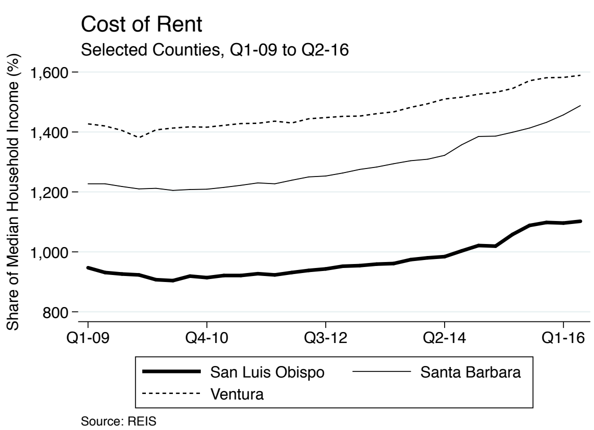
Location	Permits 2014	Permits 2015	Permits 2016	Average Permit Value ($ thousands) 2014	2015	2016
Arroyo Grande	9	10	8	324.4	315.1	118.9
Atascadero	90	35	21	210.7	154.5	212.9
Grover Beach	5	21	20	208.4	220.5	200.1
Morro Bay	3	11	11	228.0	262.8	312.1
Paso Robles	20	20	20	294.6	304.9	361.3
Pismo Beach	24	33	37	359.4	347.7	387.2
San Luis Obispo	32	74	36	257.4	252.7	257.6
County Unincorporated Area	182	179	151	391.9	427.7	438.9
San Luis Obispo County	365	383	304	322.4	336.6	361.7

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

While the steady-to-strong rates of price appreciation observed in the major cities indicate strong housing demand overall in San Luis Obispo County, there are signs of weakness regarding housing supply. To this end, single-family housing construction has declined almost ubiquitously throughout the County, driven by the antidevelopment policies discussed at greater length later in this section. Only 304 single-family housing units were permitted for construction in the County through August 2016, a 20.6% decline from the same period last year. Oddly enough, Pismo Beach was the only area in the County where single-family construction has increased through the year, indicating that developers in the City have responded to a moratorium on vacant parcel construction by shifting their focus towards replacing existing single-family stock with new units. Nonetheless, construction trends indicate that additions to the County's single-family housing stock will struggle to keep pace with the number of potential homebuyers looking to move into the region.

Multifamily Housing

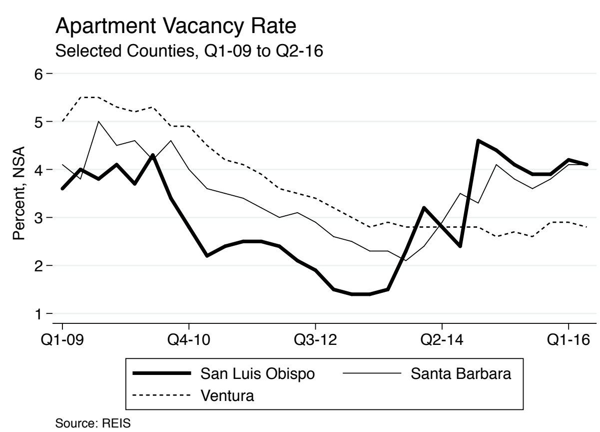
Although the for-sale multifamily housing market remains a relatively small component of the overall market in San Luis Obispo County, activity in this market segment started to pick up in the first half of 2016. Sales of existing condominiums, which account for less than 10% of all home sales in the County, grew 22.5% through the second quarter of 2016, while the median price grew a solid 8.7% between the second quarter of 2015 and the second quarter of 2016. However, the movements in this market segment do not accurately reflect the overall trends in the County's multifamily housing market, as the bulk of multifamily housing activity is concentrated in the region's rental market.



Indeed, the rental market in San Luis Obispo County extended the momentum generated in 2015 into the first half of 2016, as many potential homebuyers continued to find themselves priced out of home ownership. Accordingly, the cost of rent surged 7-8% in 2015, and has continued to grow at a solid clip in 2016. To this end, the cost of rent in the County increased 4.2% to $1,102 between the second quarter of 2015 and the second quarter of 2016. Despite these rapid gains, the relative affordability of rental units in San Luis Obispo County has remained steady. In fact, the average rental cost in the County is 26% lower than that in Santa Barbara County and 30.1% lower than that in Ventura County—an affordability advantage that has further bolstered demand for rental units in the San Luis Obispo region.

...the cost of rent surged 7-8% in 2015, and has continued to grow at a solid clip in 2016.

While rents are affordable relative to other regions in the Central Coast, it is important to note that the rapid run-up in rents observed over the past few years has increased the rent burden faced by many households in San Luis Obispo County. Over half (52.5%) of renter households in the County spend 30% or more of their income on rent according to the 2015 American Community Survey.[13] More troubling is the fact that 26% of renter households are spending 50% or more of their income on rent. While this is in-line with the regional and statewide averages, the disproportionate amount of income spent on rent in the County is indicative of both the strong demand for rental units and the tight supply of housing.



[13] The consensus threshold for affordable housing is defined as a household spending less than 30% of their income on housing.

Another indication of the strong demand for rental housing in San Luis Obispo County is the prolonged period of low vacancy rates despite further additions to the rental housing stock. The vacancy rate ticked up two years ago as new units came online, reaching a post-recession high of 4.6% at the end of 2014. Vacancies have since trended back down, standing at 4.1% in the second quarter of 2016, as many of these newly constructed housing units have been quickly absorbed.

Although the apartment vacancy rate in San Luis Obispo County is among the highest in the Central Coast, the rental markets are considerably tighter in the County's inland communities. The vacancy rates observed in the cities of San Luis Obispo, Atascadero, and Paso Robles fall well below the regional average, compared to the large amount of vacant units in coastal communities like Morro Bay and Pismo Beach. One factor driving this disparity is the relatively large number of secondary vacation homes along the coast that are counted as vacant housing units. Another factor is that these inland communities are closer in proximity to the County's jobs centers, and thus are more attractive to households moving into the region for employment purposes. Taken together, it is clear that demand for rental housing in the County, the inland areas in particular, has been strong several years running.

The vacancy rates observed in the cities of San Luis Obispo, Atascadero, and Paso Robles fall well below the regional average, compared to the large amount of vacant units in coastal communities like Morro Bay and Pismo Beach.

The multifamily segment of construction activity also provides a positive near-term outlook in the context of a growing shortage of available housing, particularly in Pismo Beach. 202 multifamily housing units were permitted for construction in the County through August 2016, due in large part to 112 permits issued in Pismo Beach as developers in the City have been able to push through legacy projects and replace older stock with new units. However, the pace of multifamily housing construction has languished elsewhere in the County, and the longer-term outlook is a matter of concern, given the proliferation of antidevelopment policies implemented in response to the County's severe water shortage. These policies raise further concerns regarding the region's housing supply shortage, especially when the pace of construction activity has already struggled to keep pace with renter household formation. Accordingly, the San Luis Obispo County rental market is on-track for continued rent growth and declining vacancies, as the limited number of rental units that are actually built will be quickly absorbed by the continued influx of new households into the region.

Multifamily Construction Permits in San Luis Obispo County
Year to Date 2014, 2015, and 2016

Location	Permits			Average Permit Value ($ thousands)		
	2014	2015	2016	2014	2015	2016
Atascadero	34	28	60	107.2	153.9	138.6
Pismo Beach	0	12	112	0.0	140.3	150.3
San Luis Obispo	14	49	18	187.4	223.1	722.2
County Unincorporated Area	7	2	12	88.9	112.5	230.1
San Luis Obispo County	83	150	202	107.6	177.6	202.5

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

Structural Overview

Residential real estate markets across California have undergone a significant structural shift over the past 16 years, driven largely by an influx of new households across the state in conjunction with an incredibly tumultuous economic environment. San Luis Obispo County is no different; roughly 14,000 new households entered the region at a time when its housing market was extremely volatile. At the beginning of this time period starting in 2000 single-family home ownership in San Luis Obispo built to unsustainable levels, while

Housing Stock and Tenure Changes
San Luis Obispo County, 2000-2015

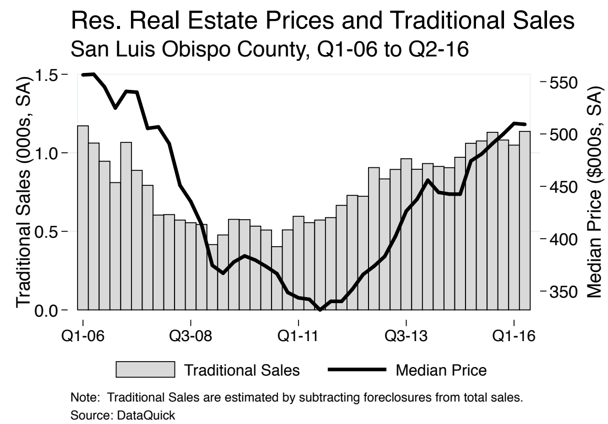
Time Period	Homeowner Change		Rental Change	
	Households	Stock	Households	Stock
2000-06	5,054	6,404	4,781	5,916
2007-10	-1,221	2,397	-1,141	1,053
2011-15	2,979	1,020	3,545	2,134
Cumulative Total	6,812	9,821	7,185	9,103

Source: American Community Survey.

the County also experienced a sizable uptick in renter household formation between 2000 and 2006. The ensuing collapse of the housing market pushed many of these newly formed households out of the County. The recovery that followed has placed a greater emphasis on the region's rental market in the context of a burgeoning shortage of housing supply.

At first glance, the addition of new owner-occupied and renter units to the housing stock appears to have kept pace with the formation of new households in San Luis Obispo County. However, this is largely due to overbuilding in the years preceding the Great Recession, when 12,320 new units were added to the region's housing stock compared to 9,935 new households. The surplus housing stock further increased when over 2,300 households exited the county at the time the Great Recession's contractionary effects were most acute. However, many of these surplus housing units are used as secondary homes. Nearly 70% of the vacant stock in the County is vacant for seasonal and recreational purposes, which indicates that many of these excess units are not actually available for purchase or rent.

Since the housing market recovery began in 2011, this trend has quickly reversed as resurgent homebuyer demand has outstripped new additions to the County's housing stock. Demand has rebounded strongly behind growing household incomes, and has been further bolstered by a prolonged period of record-low interest rates. To wit, nearly 3,000 new homeowner households have formed in the County between 2011 and 2015—nearly triple the number of housing units added to the homeowner stock of housing. As a result, home prices surged 10-20% during this time period, with growth rates peaking in the latter half of 2013 through the first half of 2014.



Rapidly growing home prices, however, have given rise to growing affordability concerns as an increasing proportion of potential homebuyers have been priced out of owning a home in San Luis Obispo County. Instead, many of these households have turned to the region's rental market, which has long been dominated in places like the City of San Luis Obispo by students enrolling at Cal Poly San Luis Obispo.[14] To this end, over 3,545 new renter households formed in the County between 2011 and 2015, outpacing the 2,134 new rental units added to the region's stock during this time period.

Constraints to Growth

Although the overbuilding observed between 2000 and 2010 contributed to some remaining slack in the County of San Luis Obispo's housing stock, the County is now facing a situation where the demand and supply of housing in the region will continue to head in opposite directions. The state of local household finances has strengthened further in 2016, while credit con-

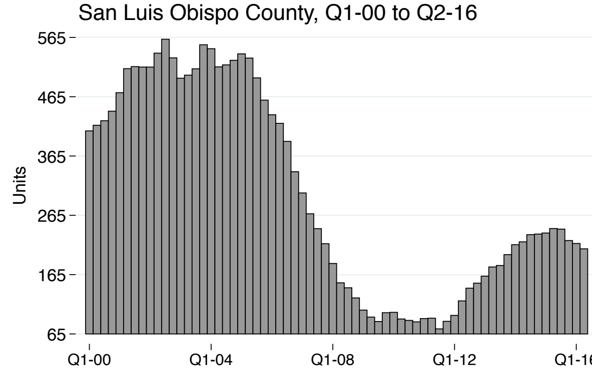
[14]Rebecca Juretic, "Tenants feel the squeeze in SLO County's tight rental market," *The Tribune*. http://www.sanluisobispo.com/news/local/article108574762.html

straints affecting a sizable segment of potential homebuyers will continue to diminish over the next year.[15] However, new home construction in the County has remained well below the pre-recession average over the last five years. Moreover, the pace of housing construction slowed down during the second half of 2015, and has fallen further through the second quarter of 2016. The continued divergence of these trends has further strained the County's housing stock, and has driven forward-looking concerns about a shortage of available housing in the region.

Underlying these concerns in San Luis Obispo County is the growing debate regarding the balance between new housing development and countywide land and water conservation efforts. Water conservation efforts, in particular, have risen to the forefront of public discourse as a statewide drought has significantly compromised the health of the County's water supply. Local residents, who have born the brunt of voluntary and mandatory conservation efforts enacted over the last few years, have taken issue with the continued development of new housing units in areas where they will place further strain on the region's precarious water supply.[16] To this end, local policymakers have opened the floor for debate, and in several cases, adopted measures that limit new housing developments in order to enhance water conservation efforts (see *Policy Brief* below for more information).

The rising tide of antidevelopment sentiment and policies is one of the biggest factors contributing to the slowdown in construction activity observed in many parts of the County over the past two years. However, considered from the perspective of long-term economic growth, this approach may prove imprudent. These policies limit the amount of developable land, in addition to constraining the number of housing units that can be constructed on a given parcel. At a time when demand for housing in the County has regained its footing, these policies will ultimately exacerbate supply constraints over the longer term. Accordingly, trends in the region's housing market may start to mirror those observed in the state's urban cores, where severe housing supply shortages have resulted in significant affordability issues. As home prices rise in the region, local establishments will find it difficult to attract the talent needed for sustained economic growth, thus hindering the pace of new job creation.

Housing Units Permitted for Construction
San Luis Obispo County, Q1-00 to Q2-16



Source: CIRB

...policies that place future economic growth at risk, like home building moratoria, will not be viable in the long term.

This does not mean that the widespread concern among citizens and policymakers regarding the County of San Luis Obispo's water supply are without merit. In fact, effective and comprehensive solutions to these issues are vital to the region's long-term economic growth prospects. However, policies that place future economic growth at risk, like home building moratoria, will not be viable in the long term.

[15]Households with foreclosed mortgages originating with government-sponsored lenders Fannie Mae and Freddie Mac had to wait 7 and 5 years, respectively, before becoming eligible for a new loan. The first wave of affected households passed this threshold around 2015, and more of these households should regain access to this major source of mortgage lending through 2017.

[16]Chris McGuinness, "Wet work: Are building moratoriums the answer for SLO's drought-parched South County?" *New Times SLO.* http://www.newtimesslo.com/news/14311/wet-work-are-building-moratoriums-the-answer-for-slos-droughtparched-south-county/

Instead, policymakers could pave the way for developers to replace older housing units with modern, water-efficient units. Moreover, greater resources could be expended on finding new sources of water in the region. This could mean further investment in desalination plants, the development of a system similar to Orange County's Groundwater Replenishment System, or the use of bladder dams in rivers. Whatever the case may be, local policymakers must make a concerted effort to move away from these antidevelopment policies, and towards long-term solutions to the water shortage, in order to sustain economic growth.

Policy Brief

Arroyo Grande: The Arroyo Grande City Council voted to enact additional water restrictions on existing residents, while delaying a moratorium on new housing construction.[17] The delay of this building moratorium has paved the way for construction of nearly 90 new homes at the Cherry Avenue, Courtland and Grant developments.[18]

Morro Bay: The Morro Bay City Council denied a building moratorium that the Neighborhood Compatibility Coalition (NECCO) proposed in April 2015. NECCO requested a 45-day moratorium to allow time for the establishment of an ordinance addressing concerns about the size, bulk, and scale of new single-family housing developments.[19]

Nipomo: In 2015, the Nipomo Community Services District board of directors enacted a policy to halt new applications for water services. However, this policy allowed applications to be processed for construction projects that were in progress at the time of the policy's implementation.[20]

Paso Robles Basin: The San Luis Obispo County Board of Supervisors adopted a countywide water conservation program in October 2015 that replaces an emergency ordinance for the Paso Robles Basin and expands its reach to the Nipomo Mesa. The main feature of the program specifies that "new uses of groundwater in the Paso Robles and Nipomo Mesa areas must be offset by an equal amount of conservation."[21]

Pismo Beach: Pismo Beach became the first of the Five Cities municipality to enact a building moratorium in response to the drought when the City Council imposed a three-tiered system of building restrictions at the end of 2015. The first tier of restrictions is currently in effect; halting new developments on vacant parcels, and placing requirements on owners of existing buildings before they can redevelop; they must prove that their reconstruction would not lead to an increase in water demand.[22]

San Luis Obispo: A number of major developments in the City of San Luis Obispo (Avila Ranch and San Luis Ranch) have sparked concern amongst local residents about future water needs. Although some resident groups have called for a temporary building moratorium, the issue has not been placed on a future agenda for discussion.[23]

[17] Karen Velie, "Less water for AG residents, more for developers," *Cal Coast News*. https://calcoastnews.com/2016/10/less-water-ag-residents-developers/

[18] Chris McGuinness, "Wet work: Are building moratoriums the answer for SLO's drought-parched South County?" *New Times SLO*. http://www.newtimesslo.com/news/14311/wet-work-are-building-moratoriums-the-answer-for-slos-droughtparched-south-county/

[19] Nick Wilson, "Morro Bay council rejects building moratorium proposed by residents' group," *The Tribune*. http://www.sanluisobispo.com/news/local/article39523152.html

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Commercial Real Estate

by Steve McCarty and Steve Davis
Stafford McCarty Commercial Real Estate

Contents

Issues of the Year

- Active commercial markets.
- San Luis Obispo is under construction.
- Strong interest in mixed use.

San Luis Obispo County is seeing confidence in commercial real estate and residential development. The following is a break out of the County's market sectors and regions.

The Residential Market—A Brief Overview

San Luis Obispo

San Luis Obispo is producing a wide range of housing products from small, subsidized housing to downtown brownstones selling for over $2,000,000. Total single family unit sales were virtually the same in 2015 (283 single family units) and 2016 (286 units in 2016), and the correlating median price went from $667,000 to $705,000. This translates to a 1,772 sq. ft. median priced home in San Luis Obispo selling for just under $400 per sq. ft. The surrounding market areas, from Santa Maria in the south to Paso Robles in the north, have not shared in the same economic recovery as San Luis Obispo, but are starting to gain momentum.

North County

In the North County the market volume was slightly lower this year than last (1,137 units sold in 2015 compared to 1,088 units in 2016), but values have risen. The median price has grown to $250 per sq. ft. for a 1687 sq. ft. home. The median price increased from $404,500 in 2015 to $422,421 in 2016 and homes sold in a similar amount of time, averaging 35 to 40 days on the market in both years. Although the price per sq. ft. in Paso Robles is less than in San Luis Obispo, the prices in Paso Robles are rising at a faster rate. As an additional note of comparison, the median home price in Santa Maria is just over $200 per sq. ft. This is evinced by the jammed north and south traffic corridors into job rich San Luis Obispo during the mornings and evenings—workers will commute to purchase a home they can afford.

Housing Related Projects in San Luis Obispo

San Luis Obispo, long known for its slow growth approach, is now seeing many residential projects coming on the market, with more breaking ground and more still making their way through planning.

Projects at, or near completion:

- The Avivo Town Home project has completed its building east of Sacramento Street and is in full construction of its final phase west of Sacramento Street.
- HASLO is completing construction of its affordable housing units on Humbert and Victoria.
- Sierra Meadows on Prado Road is actively moving through phases of single-family detached homes.
- The Terraza project at Bridge Street, with 18 residential homes and eight live/work loft units, is under construction.
- Coastal Community Builders has completed their SLO Terrace construction and sold 12 of their 17 units.

On-going projects include:

- Pacific Courtyards is currently under construction.
- Chinatown is currently under construction.
- The Dalidio project, now known as San Luis Ranch, is continuing to rework its entitlements for more housing and less retail.

Residential Unit Sales, 3rd Quarter Annual Data

Variable	2009	2010	2011	2012	2013	2014	2015	2016
				San Luis Obispo				
# Units Sold	163	191	215	273	282	259	283	286
Median Price ($)	569,000	550,000	535,000	535,000	618,500	654,500	667,000	705,000
				North County				
# Units Sold	702	698	892	991	1,045	1,032	1,138	1,088
Median Price ($)	340,000	296,000	270,000	305,000	355,000	375,500	404,500	422,421

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

- Wingate Homes, Righetti Ranch, the Jones Property, and West Creek—all located in the Orcutt Area Specific Plan—are proceeding.
- Avila Ranch, south of the SLO County Airport, is continuing through planning.
- Toscano, off of Prado Road, is under construction.

Above is a summary of housing unit sales from 2008 through 2016 in San Luis Obispo and North County.

Commercial Markets

There is strong confidence in real estate as outlined in the following sections broken out by regions and market segments.

...we are starting to see speculative building to meet the backlog of demand. Wineries, craft beer, new retail downtown, mixed use—it is all happening simultaneously.

Commercial Markets in San Luis Obispo

There is a vibrancy about San Luis Obispo with new construction and revitalization projects occurring throughout the City. Over the past few years, much of the new commercial construction in town has been completed in the East Airport area, currently part of the County with its lower fee structure. As confidence in the economy has increased, we have seen buildings constructed for owners/users themselves and/or build to suits for particular tenants. More recently we are starting to see speculative building to meet the backlog of demand. Wineries, craft beer, new retail downtown, mixed use—it is all happening simultaneously.

Retail

Retail vacancy increased this last year due to a few large spaces that came on the market—former Forever 21 and Staples—otherwise it remains very strong. Present vacancy stands at 5.62%, up from the previously low percentage of 1.33%, in 2015. This equates to approximately 234,250 sq. ft. (about half of that is the former Forever 21) vacant in a market with a base inventory of approximately 4,169,000 sq. ft. Retail square footage added virtually nothing to the inventory this last year, however there was a lot of repurposing of existing buildings.

A telling land comparable, 245 Higuera, a lower Higuera midblock location with an older metal build-

Commercial Vacancy Rates (%), San Luis Obispo City Metropolitan Area, 2016

Property	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Industrial/Warehouse	4.0	4.3	2.3	5.4	6.1	9.1	8.7	4.5	1.9	3.1	2.3	1.6
Retail Functioning	1.7	1.8	1.4	3.0	5.6	5.1	3.4	3.7	1.8	2.7	1.3	5.6
Office Functioning	3.2	4.7	3.5	6.1	9.7	12.6	11.6	8.6	6.5	7.5	5.3	3.8

Source: Stafford McCarty Commercial Real Estate

ing, was razed and sold for the purposes of its land, which calculated to approximately $96 per sq. ft.

Revitalization of Retail Centers

San Luis Obispo currently has a number of retail areas that are being rebuilt, revitalized, with some things yet to come.

University Square on Foothill and Santa Rosa has upgraded many of its buildings and created a vibrant tenant mix with new a new grocery, restaurant, pharmacy, and numerous new retail businesses.

Foothill Plaza is in the midst of a makeover with its first phase near completion and its second phase set to start in December. California Fresh Market is scheduled to open soon, providing a full service grocery store on that side of San Luis Obispo.

Chinatown has seen the opening of H&M, Williams Sonoma, Lululemon, and others as part of the first phase of downtown retail development. This project has a larger percentage of national tenants compared to the other revitalized centers.

Tractor Supply on Tank Farm, close to Higuera, has completed construction of its new building and is open for business.

The 95,000 sq. ft. Forever 21 space at Madonna sold at the beginning of the year for $13,650,000, or approximately $144 per sq. ft. This product is presently vacant and its repositioning is still unclear.

Office

The office market segment is exciting and seeing new product. Vacancy has dropped to an historic low of 3.82% for 2016. This is down from 5.3% in 2015. The base inventory is approximately 2,906,000 sq. ft. Presently it is difficult to find any large square footage (greater that 10,000 sq. ft. for our market area), but this will soon change as there are current projects under construction to address the inventory shortage:

The newest inventory on the market is the French Hospital Medical Center, 17,742 sq. ft. adjacent to French Hospital. This, like any new inventory added to the market, will command rents in the $2.00 NNN range. Existing inventory is receiving the benefits from this new benchmark.

The office market is also seeing speculative development, which is addressing the backlog of demand. On Broad Street, two roughly 8,000 sq. ft. buildings have been constructed, with a third 42,000 sq. ft. building also recently breaking ground. Rents for this new office space range from just under $2.00/sq. ft. to up to $2.50/sq. ft., depending on the level of TI allowance. Community West Bank has placed their sign on the San Luis Obispo Airport Business Park location for approximately 5,055 sq. ft., with the balance of the new building taken by The Barre Method. Leases are being negotiated for the second building. And a third building of approx. 21,000 sq. ft. is ready to start when Letters of Interest concretize.

Caltrans is set to occupy the retrofitted van and storage building on South Higuera and relocate from the Atoll Business Park.

A number of older homes, with zoning that allows commercial occupancy, or "bungalows" already converted to office use, are still in demand and are selling for $250 to $550 per sq. ft. These are typically in the 1,200 sq. ft. to 1,800 sq. ft. size range.

A few noted sales of other more typical offices:

- 225 Prado Road #D (2,257 sq. ft.)—$452,500 ($232 sq. ft.)
- 2420 Broad Street (2,643 sq. ft.)—$910,000 ($344 sq. ft.)
- 1010 Peach Street (8,755 sq. ft.)—$3,800,000 ($434 sq. ft.)
- 711 Tank Farm (24,012 sq. ft.)—$8,350,000 ($348 sq. ft.)

Industrial

The vacancy rate for industrial product has decreased to 1.6%, down from 2.3% in 2015. Scant available manufacturing inventory is approximately 40,500 sq. ft. with the total base of industrial inventory at approximately 3,870,000 sq. ft.

Finding industrial space is difficult as available inventory has all but disappeared. Quoted industrial rents, if you can find spaces, are approximately $.90 to $1.25 per sq. ft. NNN.

In addition, there has been some speculative industrial building on Buckley Road. Two of three proposed buildings have been built and both have been sold in the $200 per sq. ft. range. New construction costs for industrial trigger rents to be over a $1.00 per sq. ft. NNN.

A key 19.6 acre land sale, which can accommodate both industrial and office product on Tank Farm Road, sold for $6.4 million—approximately $7.50 per sq. ft. for the undeveloped land. The new owners are finalizing the tract map for multiple parcels and planning to develop the infrastructure.

Downtown San Luis Obispo

Major projects that have long been in planning are coming to life. The first phase of the Chinatown project is complete and stores are now opening for business. Garden Street Terraces is also under construction.

The City is working on a long-term conceptual plan that will envision how the downtown core, with Mission Plaza as a central element, can become more vibrant and appealing to both residents and tourists alike.

In addition to the retail space at Chinatown, 36 business minded students associated with Cal Poly's Hothouse are living in loft spaces that the University has leased from the Copeland family asset group. The mixed use Pacific Courtyards is under construction. Other mixed use projects at the western end of the City are in the final stages of planning and will soon begin construction.

The City is working on a long-term conceptual plan that will envision how the downtown core, with Mission Plaza as a central element, can become more vibrant and appealing to both residents and tourists alike. The Downtown Association has embarked on an effort to engage both business owners and residents in discussions on key issues such downtown vitality, parking, downtown residences, and of course—funding.

Commercial Markets in Paso Robles and North County

After years of limited sales, all market segments have demonstrated transactions. Properties that have been on the market, some for over 12 months and in and out of escrow, have finally found buyers and closed

Commercial Vacancy Rates (%), Paso Robles Metropolitan Area, 2016

Property	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Industrial/Warehouse	3.5	5.0	2.8	7.5	13.2	8.0	7.7	6.5	5.7	3.6	1.1	9.3
Retail Functioning	< 1.0	< 1.0	< 1.0	2.2	4.1	4.5	3.5	4.8	3.3	2.6	2.8	2.1
Office Functioning	1.2	5.2	5.6	7.7	24.1	17.5	18.4	18.3	6.6	14.3	7.5	9.2

Source: Stafford McCarty Commercial Real Estate

the transactions. Additionally, investment properties with tenants and sustainable income have moved quickly. On the planning books are mixed use projects, mostly retail below with residential above.

Retail

The retail market segment has performed very well year over year. It currently has a base of 4,646,000 sq. ft., and the vacancy rate, an already low 2.75% in 2015, dropped further, to approximately 2.1% in 2016. There is a wide variety of space available, adding up to approximately 97,300 sq. ft. No inventory of any significance was added over the last two years.

A few noted sales:

- 1315-1317 Park (1,575 sq. ft.)—$550,000 ($349/sq. ft.)
- 1436 Spring (3,700 sq. ft.)—$200,000 ($ 54/sq. ft.)
- 2111 Golden Hill (4,000 sq. ft.)—$965,000 ($241/sq. ft.)
- 1240 Spring Street (7,643 sq. ft.)—$2,050,000 ($268/sq. ft.)
- 2727 Buena Vista (19,499 sq. ft.)—$3,750,000 ($166/sq. ft.)

Office

Vacancy in the office sector continues to ebb and flow. For 2016, the vacancy rate increased to 9.2%, up from 7.5% in 2015. Currently, there is approximately 40,200 vacant sq. ft. Minimal office inventory was added this year, creating a base of approximately 438,000 sq. ft.

An interesting comparison is the tale of two cities, San Luis Obispo and Paso Robles:

Retail inventory in Paso Robles only slightly exceeds the square footage in San Luis Obispo (4.6M sq. ft. to 4M sq. ft.), yet office space in San Luis Obispo exceeds that of Paso Robles (2.9M sq. ft. to 438K sq. ft.) by a factor of 6.7 to 1. A cursory explanation: As noted above, San Luis Obispo is the base for many jobs in office spaces, but many workers live outside the City and tend to shop near their residences.

A few noted sales:

- 935 W Riverside #14 (854 sq. ft.)—$160,000 ($187/sq. ft.)
- 1924 Spring Street (1,850 sf. ft.)—$484,500 ($261/sq. ft.)
- 614 13th Street (3,633 sq. ft.)—$850,000 ($234/sq. ft.)

Manufacturing

The industrial sector added modest inventory of approximately 73,500 sq. ft. in 2016, which is slightly more growth than in 2015. This sector now has a base inventory of approximately 3,869,600 sq. ft. And like last year, most of the inventory was added in the "Tin City" submarket in neighboring Templeton.

There is very little space available in this market segment with one exception. Near the end of the reporting period, the Paris Precision building came on the market adding 220,424 sq. ft. and essentially tripling the vacant space in the market. Thus, the vacancy rate for 2016 jumped from 1.1% to 9.3%.

Other than this large asset being on the market, smaller industrial condos have sold, depending on the interior finish, in the $100 to $140 per sq. ft range.

Finished industrial parcels have been selling for around $5.00 per sq. ft. and unfinished zoned land for under $2.00 per sq. ft. Market asking rates are still approximately $6.00 to $8.00 per sq. ft. for the finished parcels. San Antonio's 85,951 sq. ft. winery is nearly complete. Expansion continues in the now firmly established viticulture industry in the region.

Commercial Investments

San Luis Obispo and North County are benefitting from an overall confidence in real estate. Capitalization rates have dropped further and realize the concomitant rise in prices. Listed income properties are going into escrow quickly. We identify two main reasons for this: 1) there is inherent value in existing product, given the high cost of reproduction, and 2) real estate is currently offering diversity and higher returns than the present capital markets.

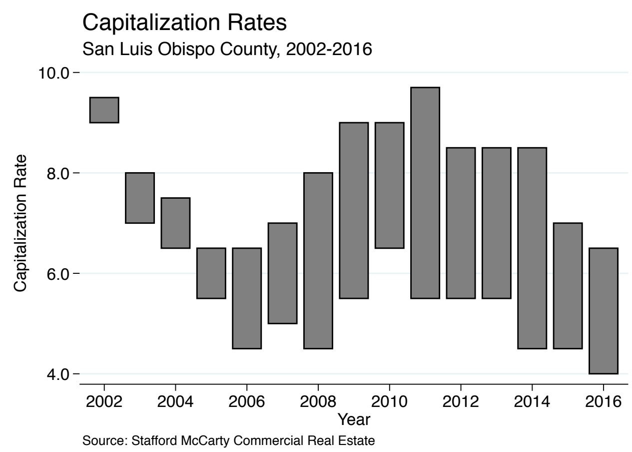
Noted sales clustering in the 6 cap range.

- 862 Meinecke #200 (2,545 sq. ft)—$1,200,000 ($451 per sq. ft., an approx. 6.2 cap)
- 615 Clarion Court (14,000 sq. ft.)—$3,050,000 ($217 per sq. ft., an approx. 6.5 cap)
- 3510 Broad Street (18,758 sq. ft.)—$4,075,000 ($201 per sq. ft., an approx. 6 cap)
- 2915-2921 Union Rd (68,945 sq. ft.)—$6,250,000 ($91 per sq. ft., an approx. 6.5 cap)

Smaller buildings/investments, under 2,000 sq. ft. being sold on caps, are in the 4 to 5's. The above noted, lenders are seeing appraisers impute capitalization rates in the 5's to compensate for rent and debt coverage ratios. Across all other regions in major markets, lenders are even seeing 3's.

A brief note regarding the apartment market: The caps are in the 3 to 4's, demonstrating demand for the submarket type.

Following are capitalization rate ranges evinced over the last fifteen 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 ($)
2002	9.0	9.5	1,100,000
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
2016	4.0	6.5	1,538,000

Source: Stafford McCarty Commercial Real Estate.

Further Notes

Hotels in San Luis Obispo County and North County

This region is preparing to meet growing tourism needs and last year we noted an unprecedented number of new hotel rooms on the books. There has been no backing away from these projects as they move through planning.

Investments in San Luis Obispo County Agriculture

Agriculture is a stable investment attraction. Berry ranches in the County are holding values in the $45,000 to $55,000 per acre range. When talking about vineyard values in North County, it is always an east side/west side conversation. For smaller vineyards (20-80 acres), east side plantable is generally $18,000-$20,000/acre versus west side plantable, which is $35,000-$50,000/acre. Planted east side acres range from $30,000 to $35,000/acre and planted west side acres range from $50,000-$60,000/acre.

After discussion last year regarding ground water management, there are no new plantings on the east side. This action potentially brings monopolistic value effects to the existing vineyard as it basically bars any new competition.

Growth continues in the industry and in its supporting infrastructure. New buildings outside city sphere areas of San Luis Obispo and Paso Robles again have added over 100,000 sq. ft. of wine serving facilities.

Conclusion

It has been a good year as it relates to commercial real estate in San Luis Obispo and North County. Construction is booming and there is confidence in the economy based on the building and expansion in which businesses are willing to invest. Speculative building has started to return to the market place and land that has languished on the market for years is finding new owners.

In addition, this year has quietly seen many more investment transactions than in recent years. This increase in activity has put downward pressure on cap rates and has created broader geographic ranges in which buyers will venture seeking returns. Vacancy rates continue to be low even with new construction taking place. The few sectors with higher vacancy rates in 2016 are typically due to one or two large vacancies influencing the statistics.

...this year has quietly seen many more investment transactions than in recent years.

2017 should continue to be a solid year for commercial real estate in San Luis Obispo and North County.

Demographics

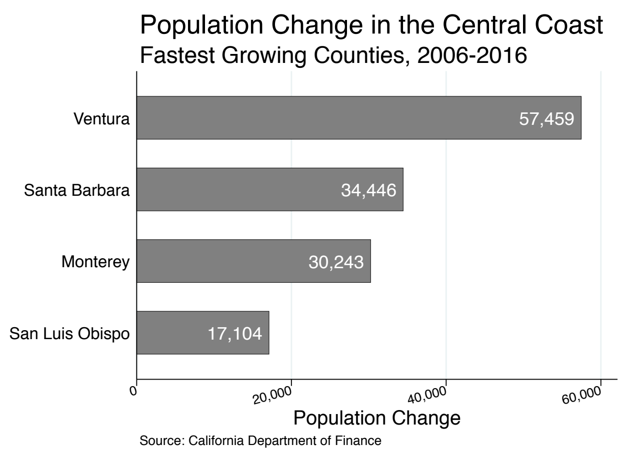
by Justin Niakamal

Contents

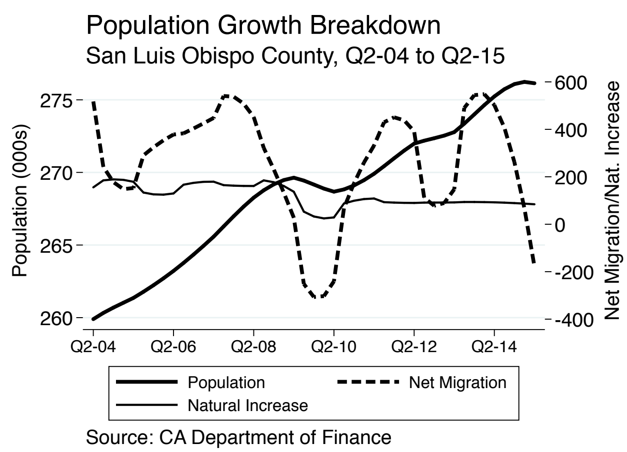
Key Chapter Findings

- Since bottoming out in 2010, the median household income in San Luis Obispo County has increased at a faster rate than that of neighboring counties. From 2010 to 2015, the median income increased an impressive 16.1%, exceeding that of neighboring counties, the state and the nation.
- Educational attainment levels in San Luis Obispo County are substantially higher than in the Central Coast as a whole. In turn, a lower share of San Luis Obispo County residents lacks a high school diploma (9.7%) than in the rest of the region (21.2%).
- Although San Luis Obispo County doesn't have a reputation for diversity relative to many California counties, the distribution of foreign-born residents is much more diverse than in neighboring counties.
- San Luis Obispo County's population is considerably older than its neighbors'. Looking ahead, the aging population will increase demand for health care and supportive services. Caring for the aging population will require a shift in resources.

Population

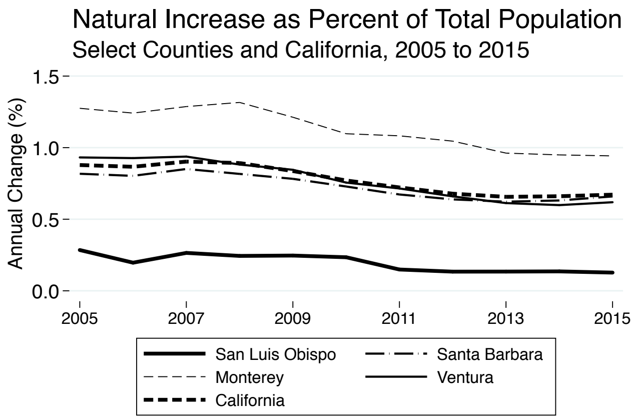


San Luis Obispo County has a growing population, albeit one that is growing more slowly than in some nearby regions. According to the California Department of Finance, the population grew from 276,375 in 2015 to 277,977 in 2016, an increase of 0.6%, lower than the state's growth of 0.9%. San Luis Obispo County grew more slowly than neighboring counties on the Central Coast, with Monterey County growing 1%, Santa Barbara County 0.8%, and Ventura County 0.7%. Moreover, because the county has a lower population base relative to neighboring counties, its absolute gains have also been smaller.

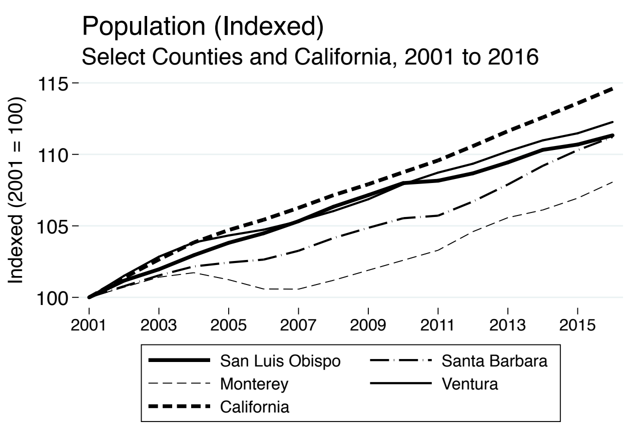


Populations can increase through natural increase or net positive migration. Natural increase is the difference between deaths and births, assuming the latter exceeds the former. Over the last decade, the rate of natural increase has remained relatively flat in the County of San Luis Obispo, averaging less than a quarter of a percent. In 2015, the natural rate of increase was just 0.13%. This means that the natural increase was responsible for a 0.13% increase in the population. Compared with nearby coastal counties, San Luis

Obispo has a relatively low rate of natural increase. California, Ventura County and Santa Barbara County consistently have rates nearing 0.75%, while Monterey County has consistently hovered around 1.0%, although it has declined over the last decade. The reason San Luis Obispo County has a lower natural increase rate is that the birth rate is lower compared with other regions', while the death rate is higher.

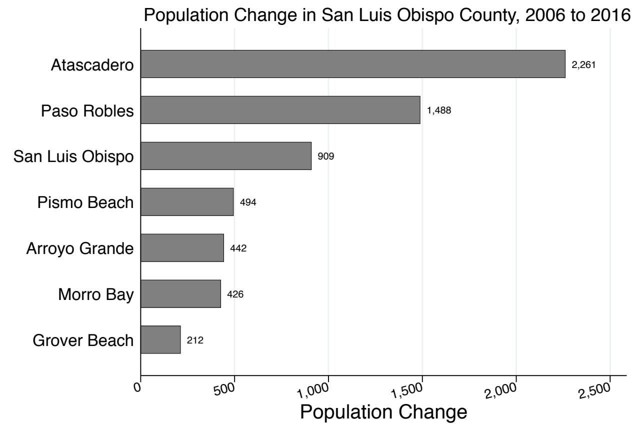


Source: California Department of Finance



Source: CA Department of Finance

The birth rate of a county is affected by the age structure of the population, the race and ethnicity of its residents, household economic characteristics and educational attainment. The death rate is affected by the age structure and the health of the population. The most notable difference between San Luis Obispo County and other local coastal counties is the age structure. Because the age structure affects both the birth and death rate, it has a significant impact on the natural increase.



Source: California Department of Finance

San Luis Obispo Continues to Age

According to the latest data available from the 2015 American Community Survey, the median age in San Luis Obispo County is 38.7, compared with 34.0 in Monterey County, 37.5 in Ventura County and 34.0 in Santa Barbara County. One noticeable difference between San Luis Obispo County and its neighboring counties is the age structure of the population. San Luis Obispo County has a larger share of people beyond childbearing years.

The County of San Luis Obispo has a higher percentage of its population between 60 and 74 and a higher share that is 75 or older compared with neighboring counties, the state and the country as a whole. Combined, these two age groups constitute 25.5% of the population. Although San Luis Obispo County has a much higher share of older residents, it also has the smallest share of young residents. In fact, compared with other Central Coast counties, the state and the nation, San Luis Obispo has a smaller portion of its population between the ages of 5 and 19, and also less than 5 years of age.

Central Coast and Age (Population Shares (%)), 2015

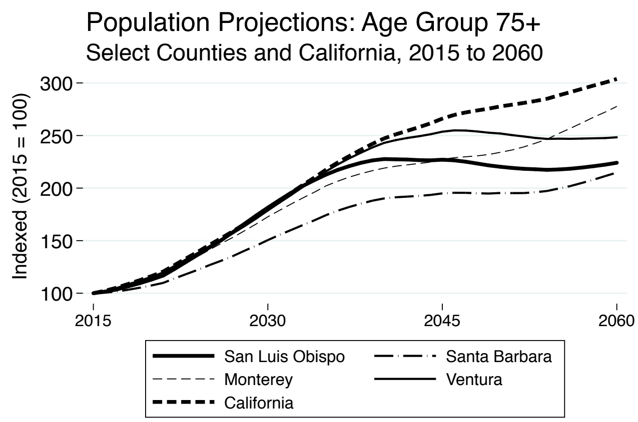
Age	Monterey	San Luis Obispo	Santa Barbara	Ventura	California	United States
Less than 5	7.7	4.9	6.5	6.3	6.4	6.2
5 to 19	21.6	18.1	20.7	20.3	19.6	19.5
20 to 34	22.2	22.3	24.4	20.2	22.3	20.7
35 to 59	31.4	29.2	29.0	33.6	33.0	32.8
60 to 74	11.8	18.1	12.8	13.8	13.1	14.6
75 and Older	5.4	7.4	6.6	5.9	5.6	6.3
Median Age	34.0	38.7	34.0	37.5	36.2	37.8

Source: American Community Survey

Finally, despite the presence of California Polytechnic University, San Luis Obispo (Cal Poly SLO), the age intervals into which college-age individuals typically fall are not noticeably larger than those of the state or nearby counties. Increased enrollments over the next few years could reduce the average age of the county as a whole.

With a large number of baby boomers entering retirement, and the youngest turning 65 by 2029, the aging population will create an increase in demand for health care and supportive services.

According to demographic projections from the California Department of Finance, the County of San Luis Obispo will continue to have an increase in its elderly (age 75 and over) population. Conversely, projections show that the young adult (age 20 to 34) population will not grow at a comparable pace. These projections are based on assumptions that include local age, race, fertility and life expectancy and depict one possible direction of population change.[24] As shown in the graph, the senior population in California and the coastal counties will grow substantially until the last vestiges of the baby boomers reach retirement. This shift in demographics could have a number of implications for the future. With a large number of baby boomers entering retirement, and the youngest turning 65 by 2029, the aging population will create an increase in demand for health care and supportive services. Caring for an aging population will require a shift in resources because of the costs associated with senior healthcare needs. This transition could burden future taxpayers as they provide financial support to the retired population.



Source: California Department of Finance

Diversity in San Luis Obispo

At the broader level, foreign immigration trends have been shifting. Of the foreign-born residents in San Luis Obispo County, a much smaller share was born in Latin America compared with other coastal counties. In fact, as of 2015, only 56.4% of San Luis Obispo's foreign-born residents were originally from Latin America, which was considerably lower than the share in Ventura (66.7%), Santa Barbara (74.6%) and Monterey (80.1%) counties. In fact, a sizable chunk of San Luis Obispo's foreign-born residents are from Asia and Eu-

[24] For more information, visit `http://www.dof.ca.gov/Forecasting/Demographics/Projections/documents/Projections_Methodology_2014.pdf`.

Origin of Foreign-Born Residents, Select Counties 2015

Place of Birth	Ventura (%)	Santa Barbara (%)	San Luis Obispo (%)	Monterey (%)
Africa	1.8	1.1	1.8	0.6
Asia	24.0	15.5	24.0	13.5
Europe	5.6	7.2	12.3	3.9
Latin America	66.7	74.6	56.4	80.1
North America	1.4	1.3	4.6	1.2
Oceania	0.5	0.2	0.9	0.7

Source: American Community Survey

rope. Together, Asian and European born residents constitute 36.3% of San Luis Obispo County's foreign residents. While San Luis Obispo County may not have a reputation for being a diverse county relative to many California counties, the distribution of foreign-born residents is much more diverse than other neighboring counties.

Migration in San Luis Obispo, 2014

Area	Inbound	Outbound	Net
Monterey	0	99	-99
Ventura	291	0	291
Santa Barbara	795	526	269
Out of State	2,491	2,517	-26
Other CA	3,212	2,864	348
Los Angeles	634	254	380
Total	7,423	6,260	1,163

Source: U.S. Census

Migration in San Luis Obispo

As birth rates continue to decline amid the aging population, net migration will become a more important contributor to the change in population. According to the 2014 Public Use Microdata Sample (the latest available as of this writing), net migration in San Luis Obispo County increased by 1,163 people.[25] In recent years, the State of California has experienced slightly negative domestic net migration, meaning that more people are moving from California to other states than moving to California from other parts of the country. (Net domestic outmigration is generally more than offset by international migration, however, resulting in a net increase because of migration flows.) The exodus from the Golden State is partly due to high housing costs.

The latest migration data for the County of San Luis Obispo are mixed. Like the state overall, the county experienced net migration to other states. But San Luis Obispo County was a net importer for residents from Los Angeles, Ventura and Santa Barbara counties as well as other parts of the state.

Educational attainment of San Luis Obispo County's migrants provides an alternate way to gauge nuances in migration patterns. In general, residents who lack bachelor's degrees have a higher propensity to migrate to affordable areas. This should not come as a surprise, given that education is a primary driver of income disparities. In fact, a deeper dive into the data shows that by educational attainment, the County of San Luis Obispo imported nearly 1,400 new residents with graduate degrees. By comparison, the county gained less than 100 new migrants with a high school education or lower.

[25] Does not include members outside of the labor force.

Educational Attainment and Income, 2010-2015

Attainment	Ventura 2015 ($)	Ventura 5-Yr. Grt. (%)	Monterey 2015 ($)	Monterey 5-Yr. Grt. (%)	San Luis Obispo 2015 ($)	San Luis Obispo 5-Yr. Grt. (%)	Santa Barbara 2015 ($)	Santa Barbara 5-Yr. Grt. (%)
Less than HS Graduate or GED	20,827	18.4	20,516	22.1	24,095	41.0	21,224	24.2
High School Graduate or GED	30,520	0.6	28,848	6.8	27,905	11.5	27,150	-9.4
Some College or Associate's Degree	40,056	6.1	36,035	11.8	34,989	9.8	36,397	2.6
Bachelor's Degree	61,899	9.1	51,608	8.5	50,397	-0.1	52,409	4.1
Graduate or Prof. Degree	81,200	-0.0	69,326	-1.0	65,024	-2.9	69,940	6.2

Source: American Community Survey

Median Household Income, 2015

County	Income ($)	5-Yr. Grt. (%)
Monterey	60,494	+10.9
San Luis Obispo	62,648	+16.1
Santa Barbara	63,625	+12.1
Ventura	80,032	+11.4
California	64,500	+11.8
United States	55,775	+11.4

Source: American Community Survey

Income and Education

The increase in net migration is influenced by a number of factors, including the performance of the local economy, affordability and the quality of life. The County of San Luis Obispo has been a success story, providing incentives for residents to move to the county and stay. What's more, household income in San Luis Obispo County has increased at a faster rate than that of neighboring counties. In San Luis Obispo County, as well as in the state and surrounding communities, median household income peaked in 2008. But the median household income dropped from $60,534 in 2008 to $56,661 in 2009. Median household incomes again fell at a faster rate than in the state and surrounding counties the following year. Since bottoming out, San Luis Obispo County has led its neighboring counties in improvement. In fact, from 2010 to 2015, the median household income increased an impressive 16.1%, an increase that was above neighboring counties, the state and the nation.

Higher education levels correlate to higher annual incomes. The median annual income for San Luis Obispo County residents with a bachelor's degree is $50,397, compared with $34,989 for those who have attended college but did not earn a bachelor's degree. Simply completing an undergraduate curriculum is worth over $15,000 a year in earnings. The median earnings for individuals with no high school diploma are just under $24,100, more than $26,000 less per year than the earnings of individuals with bachelor's degrees. This is consistent with the earnings gap in other counties in the Central Coast. The economic value of a better education is tremendous. From another perspective, the cost of lower levels of education is severe.

Educational levels in San Luis Obispo County are substantially higher than elsewhere in the Central Coast.

Educational attainment in San Luis Obispo County is supported by its impressive public education institutions, which include the San Luis Coastal Unified School District, Cuesta College and California Polytechnic State University, San Luis Obispo. In 2015, Cal Poly reported a record number of applicants, with more than 55,000 undergraduates seeking admission for fall.[26] Cal Poly provides a sustainable return on investment. In fact, the median starting salary for 2015 graduates was $56,000.[27]

[26] "Record numbers apply to Cal Poly." *The Tribune*. March 25, 2016.

[27] `http://admissions.calpoly.edu/prospective/CalPoly_2016_Profile.pdf`

Educational levels in San Luis Obispo County are substantially higher than elsewhere in the Central Coast. A lower share of San Luis Obispo County residents lacks a high school diploma (9.7%) than in the rest of the region (21.2%). According to the 2000 census, 26.7% of San Luis Obispo County residents had earned a bachelor's degree or higher. By 2015, the share increased to over 34%, compared with 30.5% in the remainder of the Central Coast. Clearly, educational attainment in San Luis Obispo County has accelerated in both the short and long term. Since 2010, the number of residents with at least a bachelor's degree has increased 3.3 percentage points. The improvements in educational attainment are a great sign for the county and should continue to pull incomes higher in the future, provided local jobs increase.

Central Coast Counties and Population, 2016

Area	Population	1-Yr. Chg.(%)	5-Yr. Chg. (%)
Monterey County	437,178	1.0	4.6
Sand City	381	1.3	13.4
Del Rey Oaks	1,666	0.7	2.1
Carmel-By-The-Sea	3,833	0.2	2.7
Gonzales	8,473	0.7	2.9
King City	14,221	1.5	9.5
Pacific Grove	15,352	0.7	1.5
Greenfield	17,446	2.9	6.2
Marina	20,982	2.4	6.2
Soledad	25,556	3.0	-2.9
Monterey	28,610	0.1	1.9
Seaside	34,071	-0.3	3.6
Salinas	161,042	1.0	6.3
San Luis Obispo County	277,977	0.6	2.9
Pismo Beach	8,181	1.4	6.4
Morro Bay	10,722	0.8	4.1
Grover Beach	13,397	0.4	1.6
Arroyo Grande	17,731	0.3	2.6
Atascadero	30,879	1.6	7.9
Paso Robles	31,398	0.2	5.0
San Luis Obispo	46,117	0.4	2.0
Santa Barbara County	446,717	0.8	5.2
Buellton	4,957	0.4	2.2
Solvang	5,451	1.4	3.7
Guadalupe	7,348	0.6	3.8
Carpinteria	13,928	1.0	6.8
Goleta	31,235	1.8	4.6
Lompoc	44,116	-0.4	4.9
Santa Barbara	93,190	0.2	4.9
Santa Maria	104,404	1.4	4.9
Ventura County	856,508	0.7	3.3
Ojai	7,477	0.4	-0.3
Fillmore	15,529	0.8	2.8
Port Hueneme	22,702	0.8	5.2
Santa Paula	30,752	0.2	4.2
Moorpark	36,715	1.8	5.8
Camarillo	69,924	1.5	5.4
San Buenaventura	108,557	0.5	2.1
Simi Valley	127,167	0.3	1.7
Thousand Oaks	132,365	0.4	3.7
Oxnard	206,997	1.0	3.7

Source: U.S. Census, American Community Survey

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/CoreLogic

Federal Reserve Economic Data (FRED)

Fiserv Lending Solutions

Grubb & Ellis

Hanley Wood Market Intelligence

HousingTracker.net

Marcus & Millichap

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