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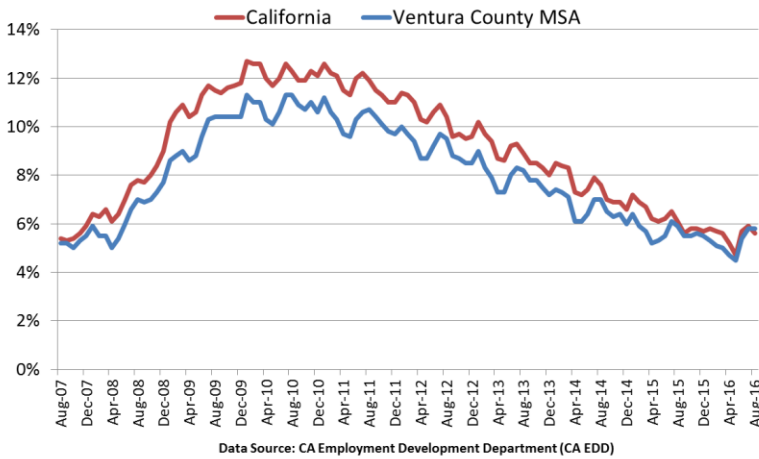
Economic Outlook for Ventura and Santa Barbara Counties

October 14, 2016



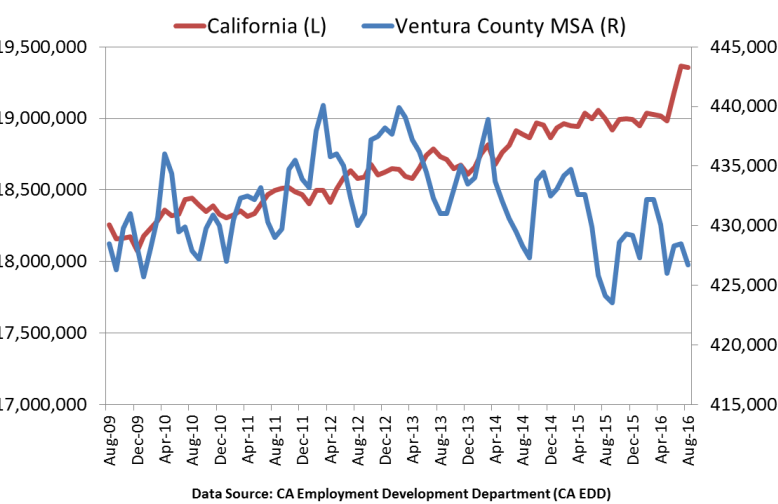
Ventura County's Economic Outlook

Unemployment Rate



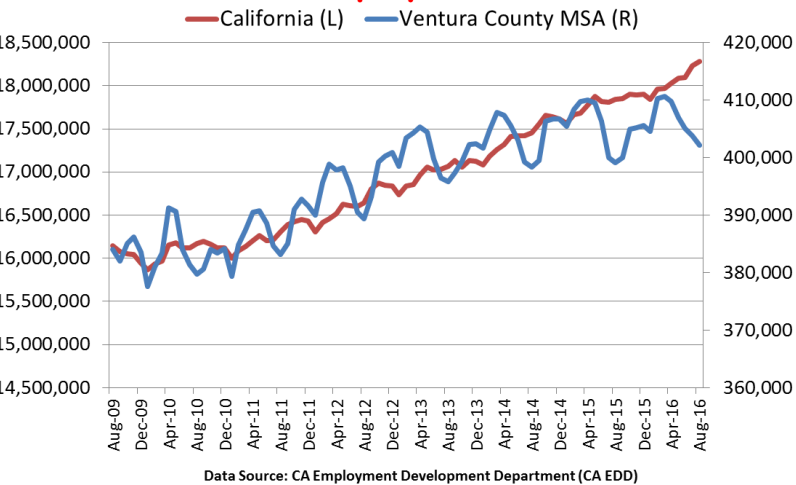
The Ventura County economy is slowing. Although the county's unemployment rate has been on a downward trend and dropped to 5.8% in August, the rate of its decline is slowing and lagging behind the state; compared to a year ago, the county's unemployment rate only declined by 0.1% in August while the statewide average dropped by 0.5%. Consequently, for the first time in 16 years, Ventura County's unemployment rate exceeded the statewide average of 5.6% in August. Moreover, there is also concern that the county's jobless situation may be worse than the unemployment rate indicates due to the downward trend in the county's labor force. In contrast to California's growing labor force, Ventura County's labor force has experienced negative year-over-year growth for most of the last three years.

Labor Force



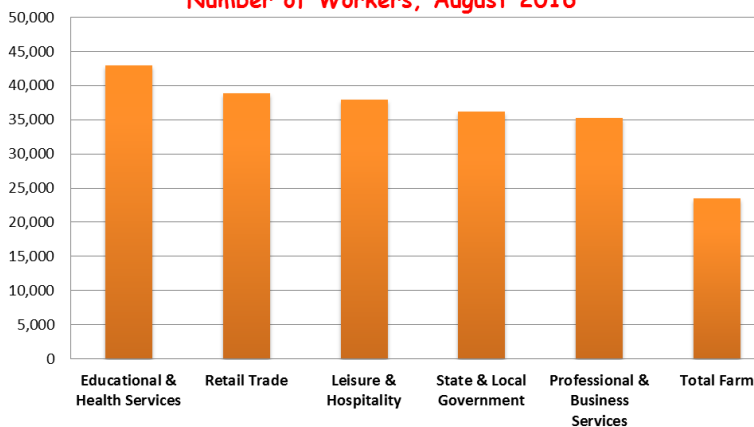
The main culprit of the county's shrinking labor force is the relatively higher cost of living in Ventura County. Home prices in the county are around 24% higher than the statewide average, while the county's very low average apartment vacancy rate of less than 3% has pushed rental prices to a record high. Higher housing costs are largely the result of the county's Save Open Space and Agricultural Resources (SOAR) initiatives, which place stringent regulation on the development of new housing. The escalating issue of poor housing affordability is causing many Ventura County residents to move away, especially those who are having difficulty finding a job. As this occurs, both unemployment and labor force figures decline, reducing the unemployment rate. This is concerning because, while a lower unemployment rate suggests that the jobless situation in the county has improved, the opposite may actually be the case.

Employment



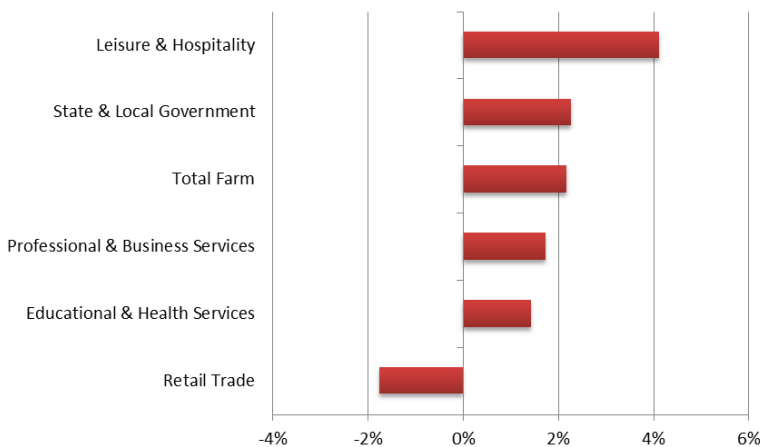
Unfortunately, the higher cost of living is also impacting the structure of Ventura County's labor force; many of the county's recent college graduates, who face an average of \$37,000 in student loan debt, are struggling to get a job that pays enough to afford living in the area. Consequently, an increasing number of these individuals are leaving the county, resulting in a loss of employees that provide new and innovative ways of thinking.

**Ventura County
Top Sectors of Employment
Number of Workers, August 2016**



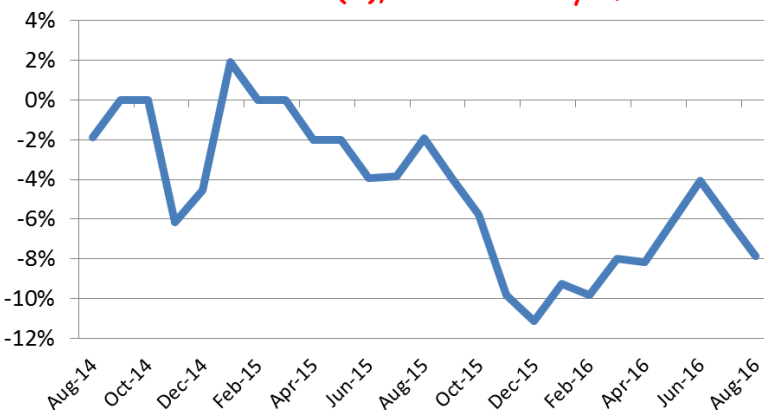
Data Source: CA Employment Development Department (CA EDD)

**Change in Employment by Sector
August 2015 - August 2016
Ventura County MSA**



Data Source: CA Employment Development Department (CA EDD)

**Clothing and Clothing Accessories Stores Employment
Y/Y Growth (%), Ventura County MSA**



Data Source: CA Employment Development Department (CA EDD)

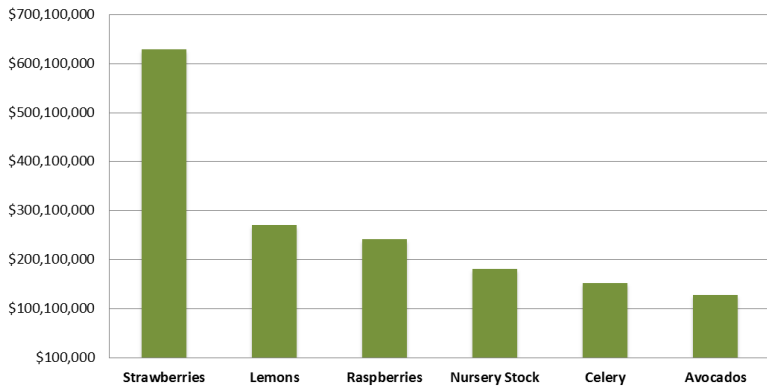
In addition to the worrying trend in the county's labor force, employment growth is also slowing and lagging behind the state; in contrast to California's rising level of employment, Ventura County's employment has experienced negative year-over-year growth during seven out of the last twelve months. The slowing recovery in unemployment, along with a shrinking labor force and slowing employment growth, creates concern that Ventura County's labor market may be headed for a relapse.

Thankfully, employment growth in most of the county's top industries remains upbeat. Workers in Ventura County are concentrated in the Education and Health Services, State and Local Government, Retail Trade, Leisure and Hospitality, Professional and Business Services and Farm sectors. In August, Leisure and Hospitality employment grew the fastest, thanks to the county's robust tourism industry. Ventura County has a strong market for tourists looking for an alternative to the higher priced Santa Barbara region and also benefits from its short distance to Los Angeles County. The tourism industry is expected to remain a key driver to the county's employment growth in the near term.

Unfortunately, employment in the county's Retail Trade sector continues to decline. A downward trend in the county's clothing shop employment, which has experienced negative year-over-year growth since April 2015, appears to be the culprit. This trend is concerning because it suggests that consumer spending, and therefore confidence, in Ventura County is deteriorating. Waning confidence levels are likely the result of the county's escalating issue of poor housing affordability, which is not expected to improve any time soon. As a result, the downward trend in consumer confidence and spending will likely persist in the near term, hurting employment growth in the Retail Trade sector.

Meanwhile, despite experiencing positive year-over-year growth in August, the county's Farm employment growth has been very volatile over the last few years; the record drought is hurting the agriculture industry, with farmers continuing to face rising costs. Ventura County's farming industry is fueled by high-value and water-intensive crops such as strawberries, lemons, and raspberries. Strawberries remain the highest revenue-producing crop, accounting for almost a third of the county's agricultural economy. The drought will continue to increase the cost of water throughout California, threatening the county's \$2 billion agriculture industry.

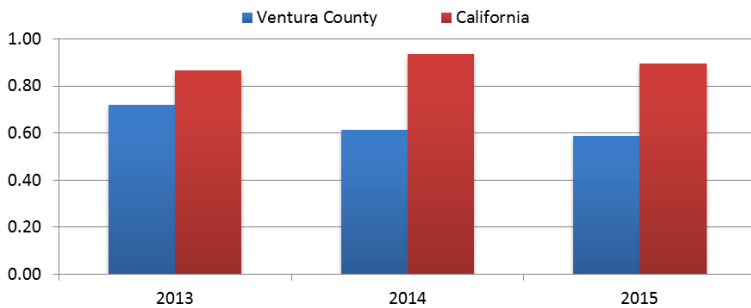
Ventura County Top Revenue-Producing Crops Value in 2014



Data Source: Ventura County's Crop & Livestock Report 2014 (www.ventura.org)

Military defense continues to be a key driver in Ventura County, with the Naval Base being the county's largest employer. The county is also home to many important military facilities that provide technical support to neighboring Point Mugu and Port Hueneme naval bases. Although the threat of military base closures is still a concern, employment in the defense industry is expected to remain strong in the near term since currently existing vital weapon systems will continue to require upgrades and maintenance. There is also hope that the county's defense firms will eventually expand their product lines and client base, given the expertise they have gained and the existing talent pool in the region.

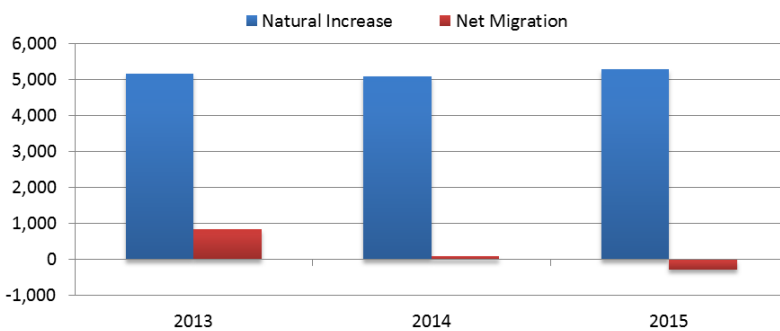
Population Y/Y Percent Change



Data Source: CA Department of Finance

The county's trade sector contributes over a billion dollars in economic activity and supports over 10,000 trade-related jobs in the region. Port Hueneme, the only deep-water port between Los Angeles and San Francisco, is a major gateway for importing cars and agricultural goods before they are shipped around the U.S., ranking among the top ten ports for cars and fresh produce in the country. Although motor vehicle trade is concentrated mainly by European and South Korean automakers, Japanese automakers use the port as well. Trade activity through the port remains strong, with 2014-2015 being the port's best fiscal year in its 78-year history.

Components of Population Change Ventura County



Data Source: CA Department of Finance

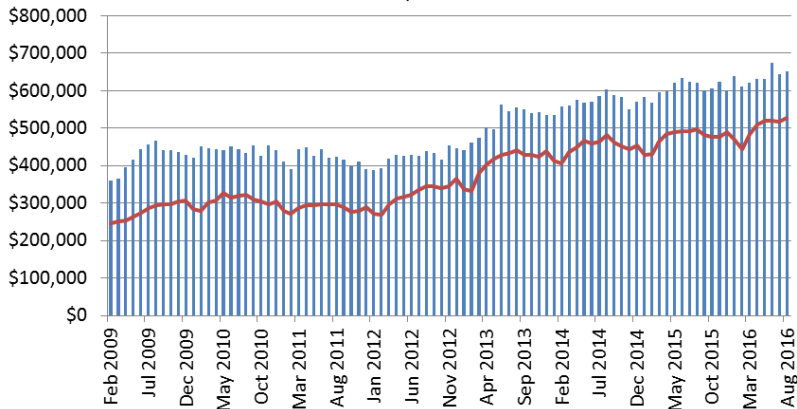
Port activity is expected to remain strong in the near term as economic strength across Southern California builds momentum and more of the port's customers feel comfortable diversifying their cargo and developing new markets. Recently approved infrastructure improvement plans, which involve deepening the port's harbor to allow more container ships, should also increase activity by raising the port's competitiveness and opening it up to new markets. The \$8 million dollar deepening effort is scheduled to begin in December.

Ventura County encompasses a population of about 853,000 people. The population of Ventura County grew at a slower rate than the state-wide average in 2015 due to a decline in net migration, which dropped to negative territory for the first time since 2012. The downward trend in net migration is likely the result of the relatively higher cost of living in Ventura County, which is causing many residents to move away.

Home Prices

Single Family Homes

Ventura County California

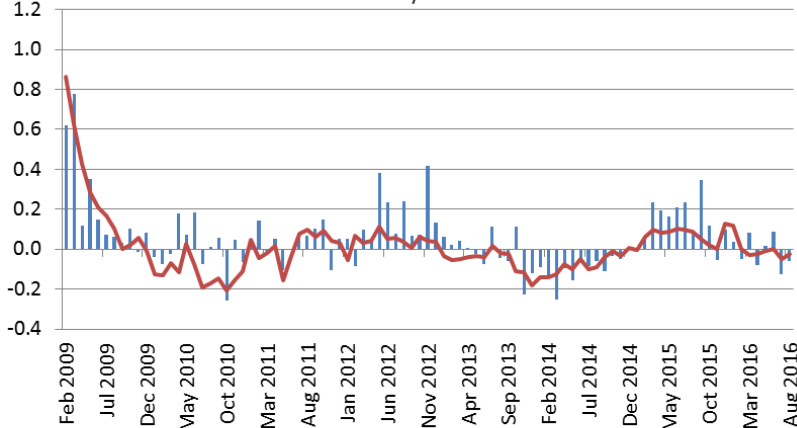


Data Source: California Association of Realtors

Home Sales

Y/Y % Change, Single Family Homes

Ventura County California

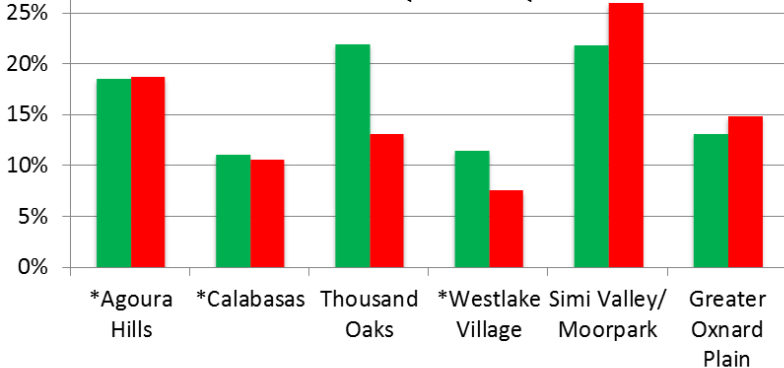


Data Source: California Association of Realtors

Office Vacancy Rates

Ventura County

2015Q2 2016Q2



Data Source: Daum Commercial Market Reports for 2015Q2 and 2016Q2 (Direct Office Vacancy Rates)

Unfortunately, Ventura County's housing market is losing momentum. Stringent regulation on new housing development from the county's Save Open Space and Agricultural Resources (SOAR) initiatives continues to place downward pressure on housing inventory and upward pressure on prices. The county's median home price was around \$652,330 in August, significantly above the statewide median of around \$526,580. Home prices in the Conejo Valley communities, such as Thousand Oaks and Westlake Village, continue to be much higher than the rest of the county.

Higher housing costs and tighter inventory are pushing away would-be buyers, causing the county's home sales to experience negative year-over-year growth during five of the last twelve months. This trend is expected to continue in the near term given the county's faltering labor market and confidence levels. Thankfully, the anticipated rate hikes by the Fed and the county's very low average apartment vacancy rate that is raising the cost of renting should provide some relief to the housing market in the near term.

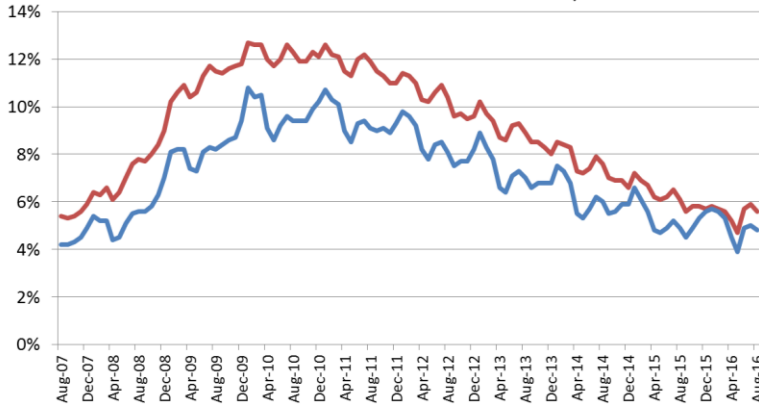
Meanwhile, the county's commercial real estate market is slowly improving; the overall direct office vacancy rate has dropped to 14% compared to 14.8% a year ago. A more significant drop in the vacancy rate has been prevented by an increase in vacancy in the Simi Valley/Moorpark submarket, which is likely the result of layoffs at Bank of America's Simi Valley-based legacy asset servicing division. The division was created after acquiring Countrywide in 2008 to handle default home mortgages; however, improving economic conditions have resulted in fewer mortgages falling into default, reducing the number of employees needed in the division. This trend will likely persist in the near term as the number mortgages in default continues to decline.

Thankfully, the vacancy rate in the Thousand Oaks submarket has declined significantly; Herri Holdings Corporation, a Chinese pharmaceutical company, recently invested in two large commercial real estate buildings that were empty for over two years. While better economic conditions are expected to lower the county's overall vacancy rate in the coming quarters, Amgen's plan to consolidate and reduce its facilities by 2018 will likely be a barrier to significant improvement in the near term.

Santa Barbara County's Economic Outlook

Unemployment Rate

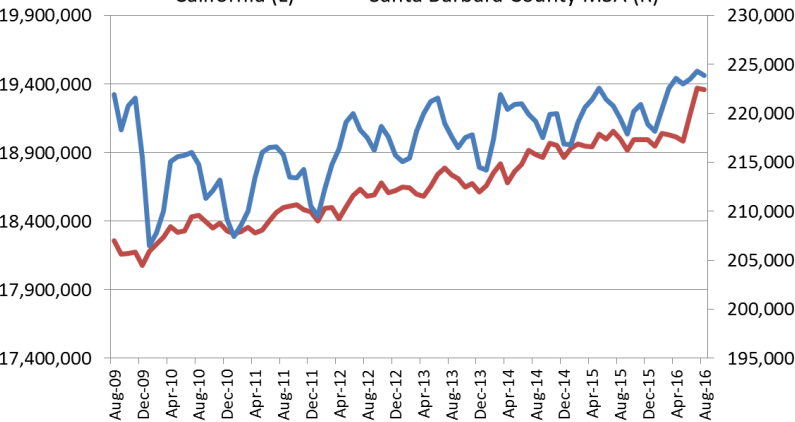
— California — Santa Barbara County MSA



Data Source: CA Employment Development Department (CA EDD)

Labor Force

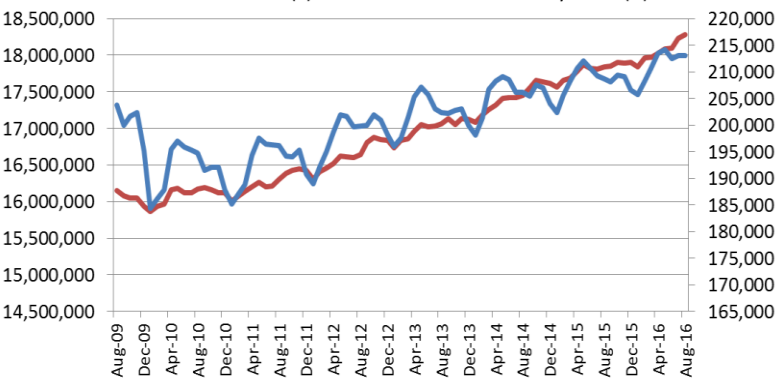
— California (L) — Santa Barbara County MSA (R)



Data Source: CA Employment Development Department (CA EDD)

Employment

— California (L) — Santa Barbara County MSA (R)



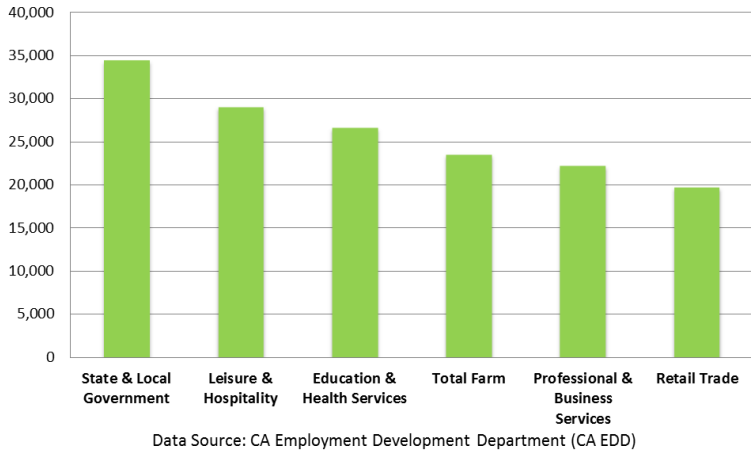
Data Source: CA Employment Development Department (CA EDD)

The Santa Barbara County economy is giving mixed signals. Although the county's unemployment rate has been on a downward trend and dropped to 4.8% in August, the rate of its decline is slowing and lagging behind the state; compared to a year ago, the county's unemployment rate only declined by 0.1% in August while the statewide average dropped by 0.5%. Further, while the county's overall unemployment rate is relatively low, labor market conditions remain very different in the North County versus the South County. The unemployment rate in the South County cities of Santa Barbara, Goleta and Carpinteria, estimated to be between 3-4%, is much lower than the North County due to the higher cost of living in the region; the median home price in the city of Santa Barbara, for example, is around twice the statewide median price, while the median monthly rent for a two bedroom apartment is about 25% higher than the statewide median. The higher cost of living makes it such that many South County workers move away if they lose their job or opt to live in the more-affordable North County and travel to work. Since labor market statistics are based on location of residence, these workers, and the joblessness among them, are not counted in South County's labor market.

The growing trend of commuting workers has resulted in a surge of new housing development in the North County. Greater housing availability, along with a robust tourism industry in the South County, has been the main driver of the recent improvement in the county's overall labor market. Since jobs in the tourism industry typically do not pay much, however, many of these workers live in the more-affordable North County. As a result, North County's unemployment rate, which is estimated to be between 6-7%, has dropped significantly compared to the double-digit rates experienced two years ago.

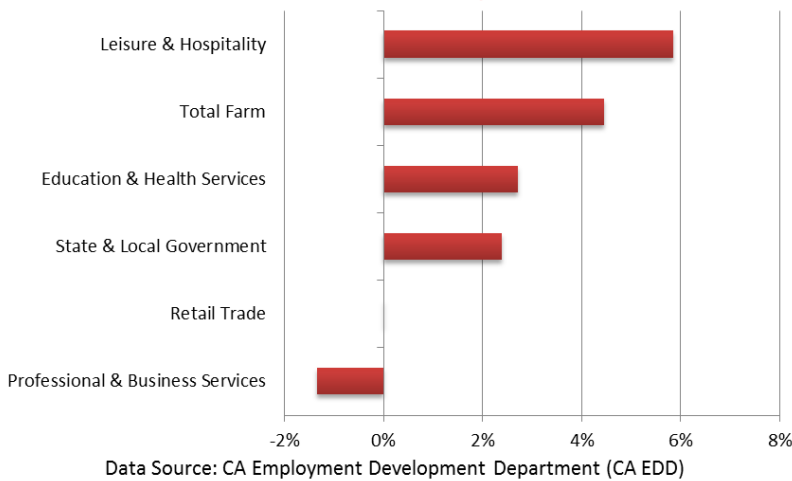
Labor market conditions are expected to continue slowly improving in the near term, with the county's overall unemployment rate reaching pre-recession rates of around 4% in the next year or two. The county's level of employment, which has already exceeded those before the Great Recession, is also expected to continue growing in the near term. New job creation will continue to occur mostly in the North County due to greater housing availability and affordability.

**Santa Barbara County
Top Sectors of Employment
Number of Workers, August 2016**



Work in the South County is concentrated in the State and Local Government, Leisure and Hospitality, Education and Healthcare and Professional and Business Services sectors. Top employers in the South County area include UCSB, SB Community College, Santa Barbara Cottage Hospital and The Four Seasons Biltmore. Santa Barbara County's coastal region continues to enjoy a soaring tourism market, with employment growth in the Leisure and Hospitality industry outpacing every other sector.

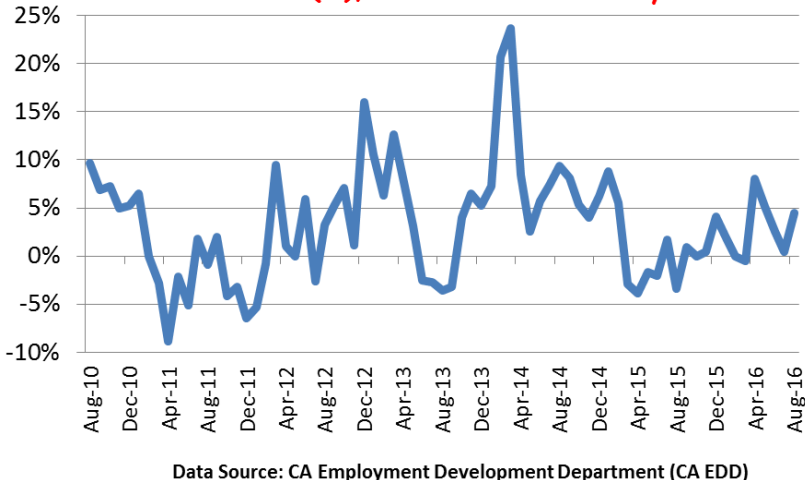
**Change in Employment by Sector
August 2015 - August 2016
Santa Barbara County MSA**



The county's Education and Health Services sector, which consists almost entirely of workers in Health Care and Social Assistance occupations, also continues to grow at a strong rate. The combination of the county's aging population and rising insurance coverage under Obamacare has contributed to rapid employment growth in this industry. This trend is expected to continue in the near term and the health care industry will remain a key driver for Santa Barbara County's economy. Overall, the outlook for South County's labor market is bright; however, employment growth will continue to be restricted by the lack of affordable housing in the region.

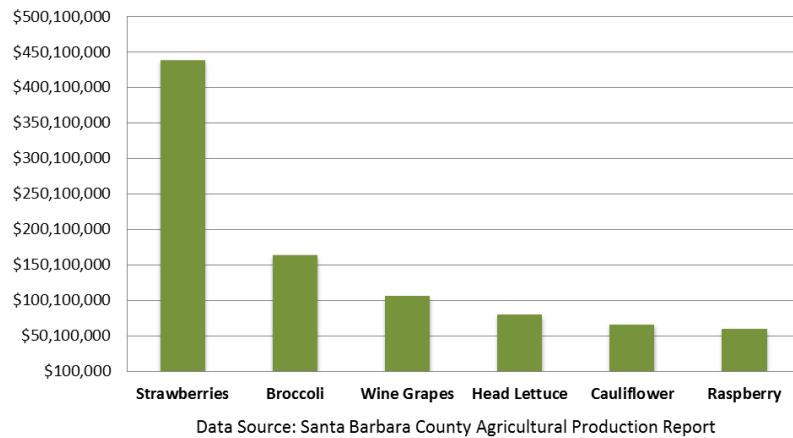
Farm Employment

Y/Y Growth (%), Santa Barbara County MSA

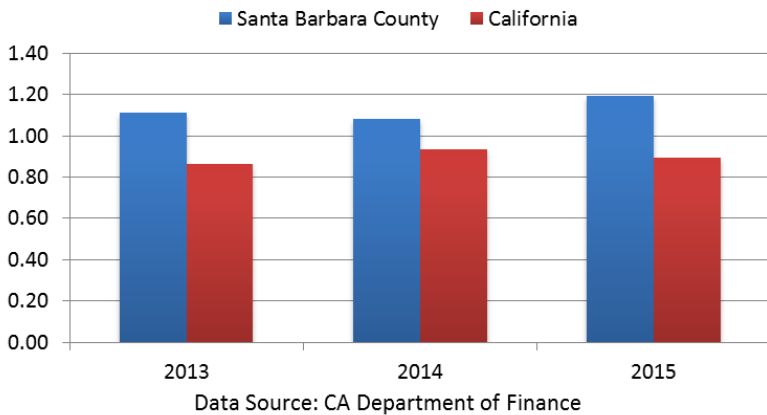


Meanwhile, the outlook for North County's labor market is very mixed; while commuting workers are benefiting from new jobs created by the thriving South County economy, employment growth among non-commuting workers is very unstable. North County's non-commuting employment is heavily concentrated in the agriculture sector, with almost half of Santa Maria's workforce in the farm industry. Although the county's Farm employment grew at a strong rate in August, employment in this sector has been very volatile over the last few years. The record drought is hurting the county's agriculture industry, with farmers continuing to face rising costs. While this year's El Niño has brought bouts of rain, much more is needed after the 4-year drought. Santa Barbara County's farm industry is fueled by strawberries, a very water-intensive crop; strawberries alone make up almost a third of the industry, contributing almost \$440 million to the county's agricultural economy in 2015. The drought will continue to increase the cost of water throughout California, threatening the county's nearly \$1.5 billion agriculture industry.

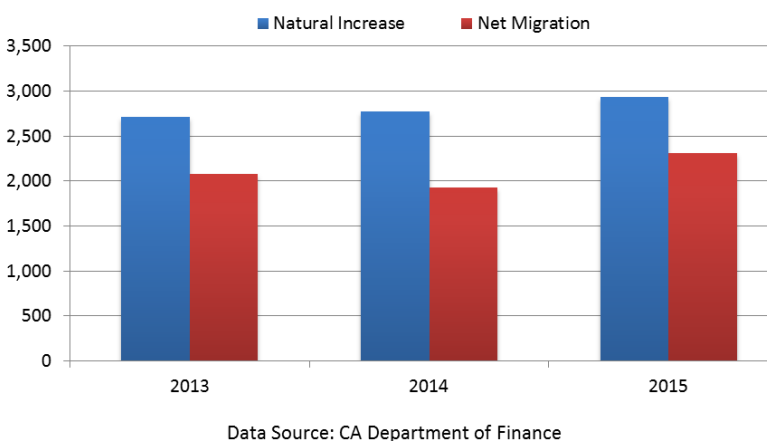
Top Revenue-Producing Crops Santa Barbara County Value in 2015



Population Y/Y Percent Change



Components of Population Change Santa Barbara County



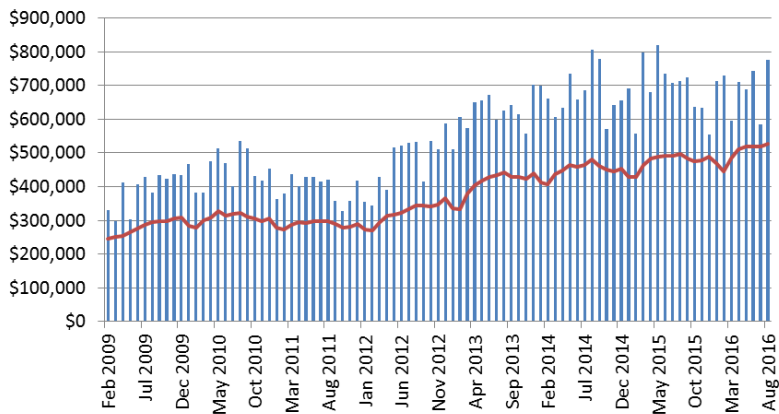
Santa Barbara County encompasses a population of about 445,000 people. The population of Santa Barbara County grew at a faster rate than the statewide average in 2015 due to an increase in net migration, which has remained positive for a few years due to the surge in housing development in the North County. This trend is expected to continue in the near term as more housing is developed to accommodate commuting workers. Overall, the county's population will continue to increase at faster rates in North County due to the greater affordability in the region.

Median household income in Santa Barbara County is about \$64,000. The median income has for the most part been on track with the statewide average; however, there is tremendous disparity in wages among the county's workers. The median household income in the county's highest income group is over four times that of the lowest income group. Workers in the South County are concentrated in knowledge-based jobs such as business, healthcare and education. As a result, these workers typically hold higher educational degrees and earn higher salaries. Income levels among South County workers are expected to remain high in the near term given the higher housing costs and type of work in the region.

Income levels among North County workers, on the other hand, are much more dispersed. Commuting workers typically have higher education levels and greater means available to commute. In contrast, North County's farm workers typically hold less than a high school diploma and earn very low wages. The combination of low wages and volatile farm employment growth has resulted in rising poverty rates in the North County. In response, more emphasis has been placed on increasing educational attainment levels and attracting new businesses to retain the region's skilled workforce. Although there is hope that these efforts will boost income levels in the North County, it will likely take many years to see significant improvement. As a result, there will continue to be great disparity in North County income levels in the near term.

Home Prices Single Family Homes

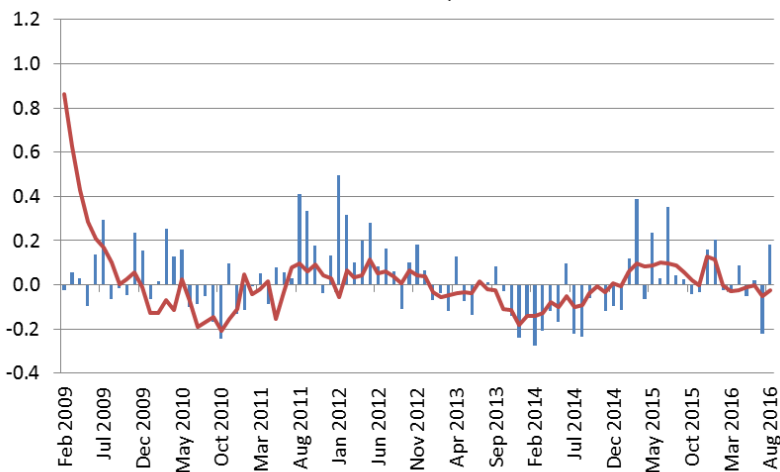
■ Santa Barbara County — California



Data Source: California Association of Realtors

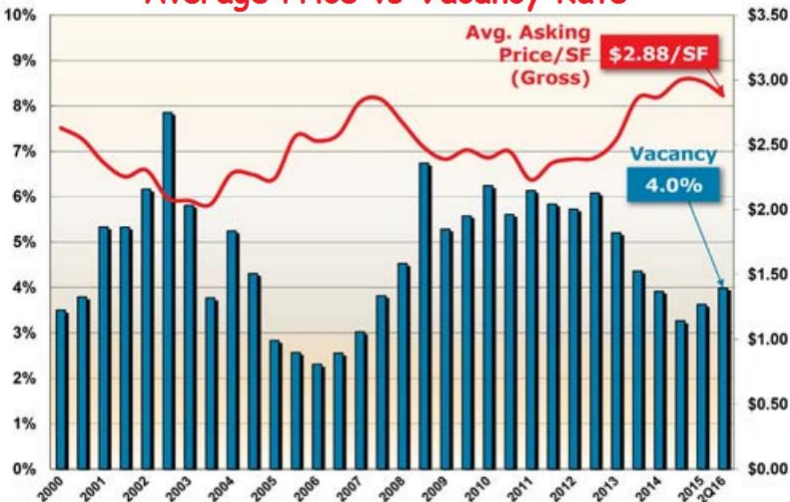
Home Sales Y/Y % Change, Single Family Homes

■ Santa Barbara County — California



Data Source: California Association of Realtors

Santa Barbara Office Average Price vs Vacancy Rate



Source: Radius Commercial Real Estate and Investments, Q2 2016 Report

Santa Barbara County's real estate market is also giving mixed signals. Although the county's median home price experienced negative year-over-year growth during six out of the last twelve months, this is mostly because more and more of the county's housing activity is occurring in the North County, where home prices are significantly lower than the South County; the median home price in the city of Santa Barbara is around three times that in the North County. Home prices in the South County are greater than those in the North County largely because a lot of South County homes are filled with wealthy retired residents and therefore South County homes are both scarce and expensive. South County home prices, particularly in the city of Santa Barbara, continue to rise at a strong rate. North County home prices, on the other hand, have remained flat as a result of the surge in new housing development resulting from the growing trend of commuting workers. As the new housing becomes saturated, we should see rising home prices in the North County.

High housing costs and tight inventory in the South County are pushing away would-be buyers, causing the county's home sales to experience negative year-over-year growth during six of the last twelve months. This trend is expected to continue in the near term since the escalating issue of poor housing affordability is not expected to improve any time soon. Thankfully, the anticipated rate hikes by the Fed and the South County's very low average apartment vacancy rate of less than 1% that is raising the cost of renting should provide relief to the county's housing market in the near term. Given the greater housing availability and affordability in North County, higher overall homes sales in the county will be led by further increases in demand for North County homes by South County workers who choose to commute to work.

Santa Barbara County's commercial real estate market remains strong following the record-setting number of sales in 2014 and second-highest number of sales in 2015; total sales during the first half of 2016 are comparable to those recorded during the first half of 2014. The vacancy rate in Santa Barbara's office market, the county's largest office submarket, continues to be very low at 4% and is expected to decline further in the near term due to attractive interest rates. Meanwhile, despite dipping slightly at the beginning of the year, the average asking price remains near a record-high and is expected to rise further as inventory becomes tighter.



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