Institute for Global Economic Research presents

Economic Outlook for Ventura and Santa Barbara Counties

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Ventura County’s Economic Outlook

The Ventura County economy is slowly improving. After reaching double-digits during the Great Recession, the county’s unemployment rate has been on a downward trend and dropped to 5.8% in August, down 1.2% from a year earlier. While the situation has improved, the county’s unemployment rate is still higher than pre-recession rates of between 4 and 5%. Further, there is concern that the unemployment rate provides a misleading indication of the true state of joblessness 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 two years.

The main culprit for the county’s shrinking labor force is the relatively higher cost of living in Ventura County. Home prices in the county are around 26% higher than the statewide average, while the monthly rent for a two bedroom apartment is about 15% higher than the statewide average. The higher cost of living makes it such that those who are not able to find jobs often move away and are not counted in the county’s labor force. As this occurs, both unemployment and labor force figures decline, causing the unemployment rate to drop. 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. It is also the main reason why Ventura County’s unemployment rate continues to fall below that of the statewide average, which dropped to 6.1% in August.

Nevertheless, the county’s labor market is improving, with employment exceeding pre-recession levels. Workers in Ventura County are concentrated in the Professional and Business Services, Education and Healthcare, Leisure and Hospitality, Retail Trade, Farm and State and Local Government sectors. The county’s private sector continues to lead the recovery, with Professional and Business Services employment growing the fastest. Although employment is expected to continue rising with improving economic conditions, lack of affordable housing in the county will remain a major barrier to strong employment growth in the near term.
Unfortunately, employment in the county’s Leisure and Hospitality sector is declining. Although Ventura County was previously benefitting from California residents who chose to take short trips close to home, improving economic conditions are now allowing households to spend more money on bigger vacations. This trend will likely continue in the near term as overall economic conditions improve, hurting the county’s tourism industry.

Meanwhile, Ventura County’s farm employment is also falling. The record drought is threatening the county’s $2 billion 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, contributing over $600 million to the county’s agricultural economy in 2013. The drought will continue to increase the cost of water throughout California, putting water-intensive crops in Ventura County at risk.

Lack of affordable housing is also hurting the county’s farm employment. On average, a farm worker in Ventura County earned around $13.75 an hour in 2013. Assuming a full work year, this represents an annual wage of $28,600, while the average apartment rent in Ventura County has reached almost $20,000 a year. The shortage of water and affordable housing is weighing heavily on the county’s agriculture industry and has a significant effect on its sustainability.

Another risk to Ventura County’s job market is the reduction in workforce at Amgen, the county’s largest private-sector employer. Last year, the biotech giant announced plans to lay off approximately 12-15% of its staff members by 2016 and reduce its facilities at the Thousand Oaks headquarters by 2018. While around 3,000 layoffs already took place as of mid-year, between 600 and 1,000 more are expected before the end of the year. This will unfortunately have a major negative impact on Ventura County’s economy in the near term. Thankfully, Herri Holdings Corporation, a Chinese pharmaceutical company, recently invested in around 200,000 square feet of property next to Amgen’s headquarters, giving hope that many of Amgen’s recently laid off workers will be able to find work at the new drug company.
Military defense is a key driver in Ventura County, with the Naval Base being the county’s largest employer. The county is also the home of many important military facilities that provide technical support to neighboring Point Mugu and Port Hueneme naval bases. The threat of military base closures is a big concern as the U.S. military continues to absorb budget cuts. Nevertheless, the defense industry will remain a key driver in the near term since currently existing vital weapons systems will continue needing upgrades and maintenance. There is also hope that 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.

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 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 2013-2014 being the port’s best fiscal year for international trade, driven by a spike in auto exports by over 30% compared to the previous year. More and more foreign manufacturers, such as Honda and Toyota, are choosing to operate in U.S. facilities and ship manufactured cars back to Asia.

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 proposed 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.

Ventura County encompasses a population of about 846,000 people. The population of Ventura County grew at a slower rate than the state-wide average in 2014 due to a steeper decline in births. This is likely because the cost of living in Ventura County is higher than the state-wide average, making it hard for families to have more children. Nevertheless, the county has experienced positive net migration for the last couple of years. Many residents of Ventura County commute to Los Angeles County for work and, given the improvements in the labor market in both Ventura County and Los Angeles County, more people are moving into Ventura County.
Thankfully, after losing steam in 2014, Ventura County’s housing market has re-gained momentum and is a major source of economic activity. The median price of an existing single family home in the county reached around $620,000 in August, significantly above the statewide average of around $493,000. This is likely due to higher home prices of the Conejo Valley communities, such as Thousand Oaks and Westlake Village, which are pushing up the county’s median home price.

The county’s home sales are also rising, thanks to higher income and confidence levels. The anticipated rate hikes by the Fed, along with the county’s very low average apartment vacancy rate of around 2.8% that is raising the cost of renting, is also boosting housing demand. This trend is expected to continue in the near term as families attempt to secure a low mortgage rate before any rate hikes by the Fed. More improvement in the county’s housing market is also expected over the next few years as new homes are introduced.

Unfortunately, the county’s commercial real estate market has lost steam, with the office vacancy rate remaining around the same rate as a year ago at just under 15%. The overall vacancy rate has failed to decline due to a spike in vacancy in the Simi Valley/Moorpark submarket, which is likely the result of recent 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 continue in the near term as the number mortgages in default declines with improving housing market conditions.

Thankfully, the recent move by Herri Holdings Corporations has filled two large commercial real estate buildings that were empty for over two years, reducing the vacancy rate in the Thousand Oaks submarket. While better economic conditions are expected to lower the county’s overall vacancy rate in the coming quarters, Amgen’s plan of consolidating and reducing its facilities by 2018 will be a major barrier to significant improvement in the near term. Around six or seven buildings are expected to be gradually released by the company over the next couple of years.
The Santa Barbara County economy is performing well. After experiencing a downward trend for over four years, the unemployment rate dropped to 4.8% in August, down 1.1% from a year ago. The county’s unemployment rate remains lower than the statewide average of 6.1% due to the lower unemployment rates in the South County cities of Santa Barbara, Goleta and Carpentaria. South County’s lower unemployment rate, estimated to be between 3-4%, is mostly a result of the higher cost of living in the region; home prices in the city of Santa Barbara, for example, are more than double the statewide average, while the average rent for a two-bedroom apartment is around 60% higher than the statewide average. The high 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 or Ventura communities 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 created a surge in 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. 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. Since jobs in this sector typically do not pay much, however, many of these workers live in the North County. As a result, North County’s unemployment rate dropped to around 6% in August, down from double-digit rates a year ago.

Labor market conditions are expected to remain strong in the near term, with the county’s overall unemployment rate reaching pre-recession rates of around 4% in the next couple of years. 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.
In addition to the Leisure and Hospitality sector, work in the South County is concentrated in the Professional and Business Services, Education and Healthcare and State and Local Government sectors. Top employers in the South County area include UCSB, SB Community College, Santa Barbara Cottage Hospital and The Four Seasons Biltmore. Many South County residents are wealthy retired workers and full-time college students, creating many jobs to service them; as a result, employment growth in the county’s Professional and Business Services and Retail sectors remains strong, which is expected to continue in the near term. As overall economic conditions improve across the country, Santa Barbara County will also continue to benefit from tourists visiting the South Coast region. 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.

Unfortunately, the outlook for North County’s labor market, on the other hand, is very mixed; there is tremendous disparity in conditions among North County’s commuting and non-commuting workforce. While commuting workers are benefiting from new jobs created by the thriving South County economy, employment among non-commuting workers is declining. 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. Unfortunately, farm employment has been very volatile over the last couple of years. Although the industry was previously benefiting from robust demand for the region’s wine and strawberries, with employment growth reaching double-digit rates early last year, the record drought has caused the sector to take a dive. 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 over $450 million to the county’s agricultural economy in 2014. The drought will continue to increase the cost of water throughout California, threatening the county’s $1.5 billion agriculture industry.
Santa Barbara County encompasses a population of about 440,700 people. The population of Santa Barbara County grew at about the same rate as the statewide average in 2014. The county has experienced positive net migration for the last couple of 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; however, falling farm employment will restrict net migration growth. 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 $63,000. 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 falling farm employment 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.
Thankfully, after losing steam in 2014, Santa Barbara County’s housing market has re-gained momentum and is a major source of economic activity. The median price of an existing single family home in the county reached around $674,000 in August, significantly above the statewide average of around $493,000. This is mostly due to the higher home prices in the South Coast which has driven the higher average home price in the county. The median home price in the South County was around $800,000 in August, almost half million dollars more than the median home price in the North County of around $326,000. Home prices in the South County are greater than those in the North County largely because a lot of the South County homes are filled with wealthy retired residents and therefore South County homes are both scarce and expensive.

The county’s home sales are also rising, thanks to higher income and confidence levels. The anticipated rate hikes by the Fed, along with the South County’s very low average apartment vacancy rate of around 1% that is raising the cost of renting, is also boosting housing demand. This trend is expected to continue in the near term as families attempt to secure a low mortgage rate before any rate hikes by the Fed. 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 make the commute to work.

Santa Barbara County’s commercial real estate market remains strong following last year’s record-setting number of sales. The vacancy rate in Santa Barbara’s office market, the county’s largest office submarket, continues to experience a downward trend and is now at its lowest rate since 2008. Office spaces of all sizes are being filled. Although the average asking price is at its highest level since 2007, it has remained relatively unchanged over the last couple of years. The vacancy rate in the area is expected to continue its current trend of decreasing in the coming months due to improving economic conditions and attractive interest rates. As inventory becomes tighter, the average asking price will likely pick up in the near term.
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