

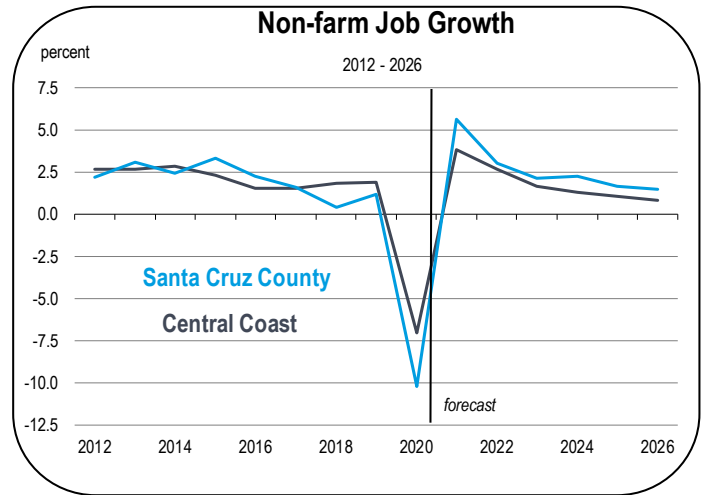
Santa Cruz County Economic Forecast

Forecast Summary

- On an annual average basis, 5,300 non-farm jobs will be restored in Santa Cruz County during 2021, representing approximately half of the jobs that were lost in 2020.
- A full labor market recovery is expected by 2023.
- Employment gains in 2021 will be largest in leisure services, which will recover 1,700 jobs.
- The full reopening of the Santa Cruz Beach Board Walk will be a major factor in leisure and hospitality job creation.
- Approximately 1,200 jobs will be re-gained at government agencies, including local schools and UC Santa Cruz.
- The unemployment rate averaged 9.5 percent in 2020. It is forecast to average 7.3 percent in 2021.
- The Santa Cruz County population is expected to grow slowly over the forecast period.
- Approximately the same number of homes will be built over the forecast period as were built during the previous five years.
- Home prices surged unexpectedly in 2020, rising by 12 percent. The median price is expected to increase by another 6 to 8 percent in 2021.

Job Growth

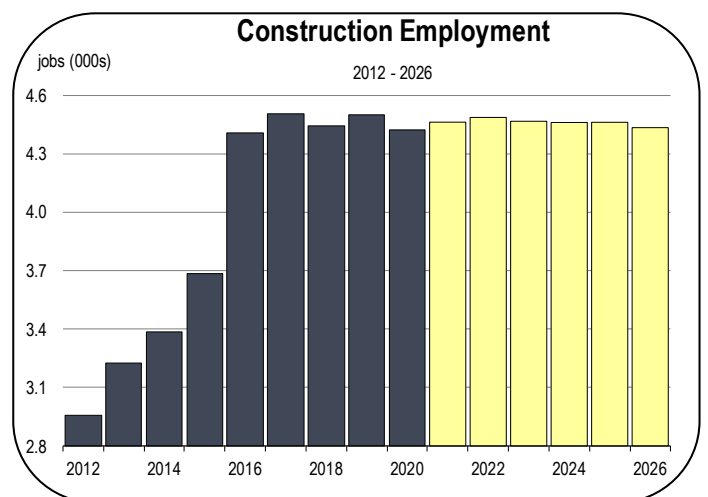
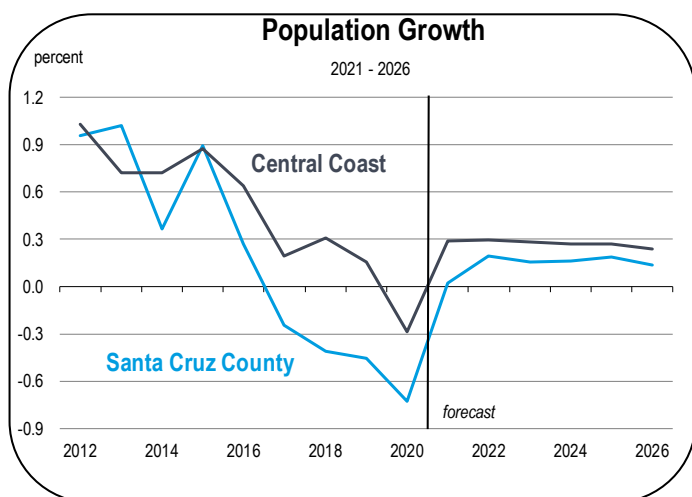
- Total employment in Santa Cruz County will expand by 5.2 percent in 2021 on an annual average basis.



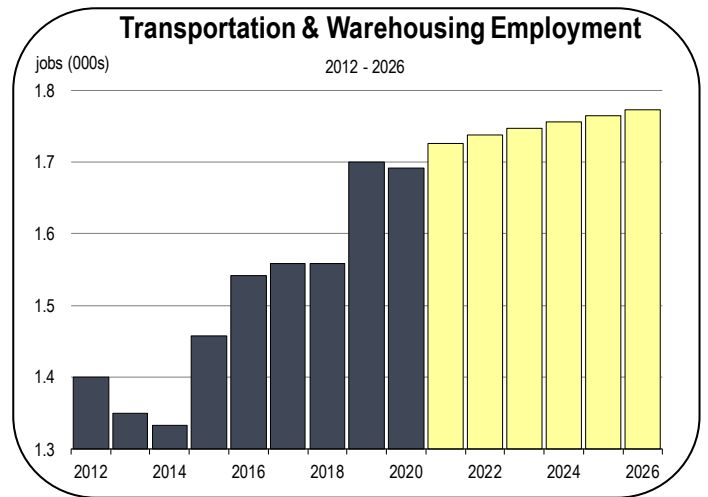
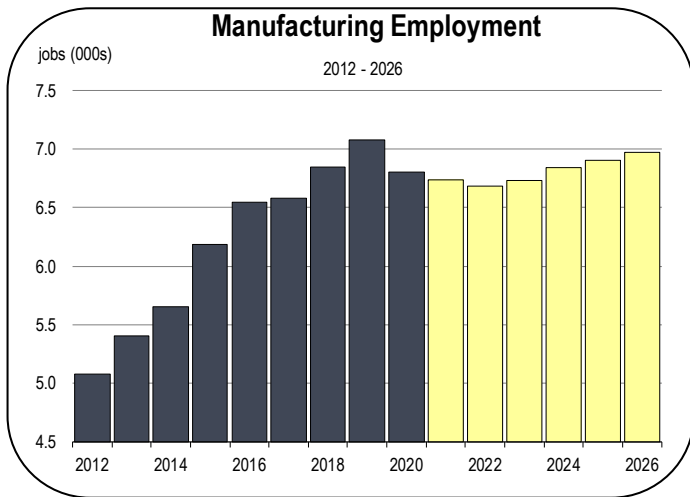
- Between 2022 and 2026, job growth in Santa Cruz County will average 2.0 percent per year.

Construction Employment

- The Coronavirus Recession had a minimal impact on the construction industry.
- The expected level of housing production and non-residential construction activity will not require a large expansion of the construction workforce.
- Even if construction activity exceeds our expectations, the California construction workforce will be fully employed by 2023, and construction firms would struggle to hire additional workers.



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Manufacturing Employment

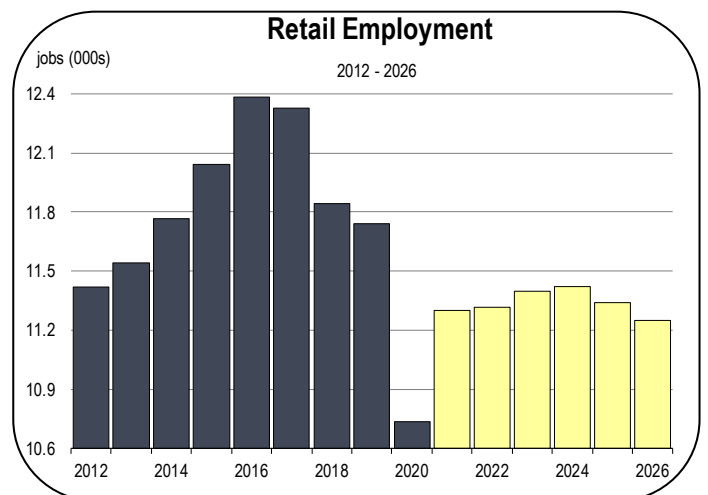
- More than a quarter of manufacturing jobs in Santa Cruz County are in food and supplement production facilities.
- Food and supplement manufacturing was not impacted by the recession as significantly as other types of manufacturing activity.
- One of the largest firms in the county is Santa Cruz Nutritionals, which has more than 200 employees at their plant in between Delaware Ave. and Cabrillo Highway.

Transportation and Warehousing Employment

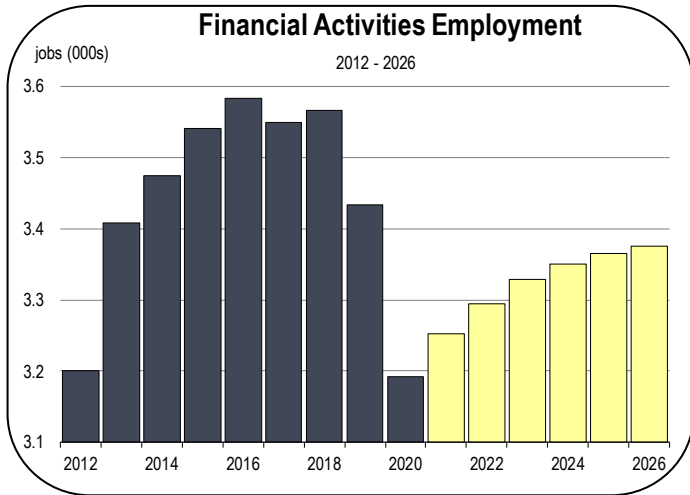
- Most transportation jobs in Santa Cruz County are in trucking and warehousing, where firms deliver goods to and from the Port of Oakland, and store these goods in logistics facilities.
- About a third of the industry is in delivery firms like UPS, FedEx, and Instacart. Delivery firms hired large numbers of workers during 2020 in response to a surge in direct-to-consumer shipping.
- The official count of delivery jobs would have expanded even faster if some firms, like DoorDash and GrubHub, classified their drivers as W-2 employees rather than independent contractors. Independent contracts are not counted as part of industry employment estimates.
- The difference between W-2 employees and independent contracts may impact the employment totals in 2021, as Instacart plans to lay off W-2 employees and hire more independent contractors.

Retail Trade Employment

- The retail sector was decimated in 2020, declining by 9 percent and losing 1,000 jobs.
- Losses were largest at car dealers, clothing stores, and big box department stores.
- Retail employment will rebound sharply in 2021 as storefronts open up to higher capacities, but automation and the transition to online shopping will put local brick-and-mortar employment at risk of stagnation or contraction over time.



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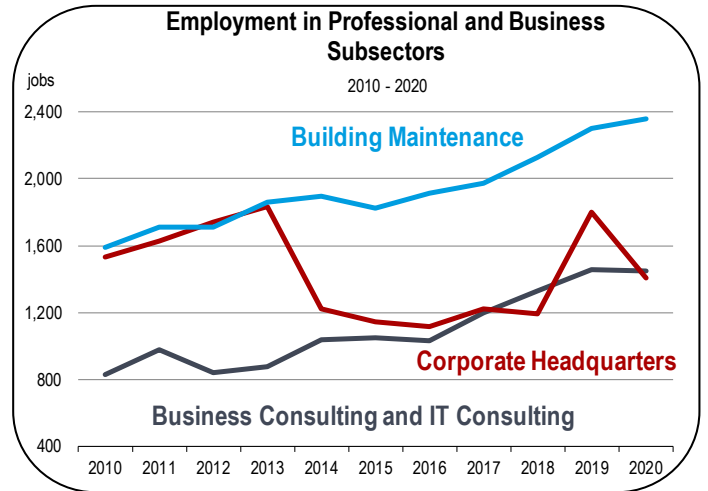
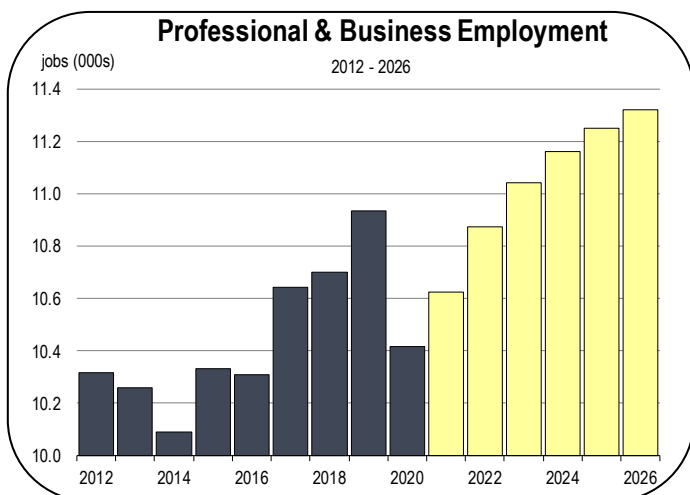


Financial Activities Employment

- The Santa Cruz County financial activities sector is primarily comprised of real estate agencies, insurance firms, and banks.
- Over the forecast period, most growth will be observed in the real estate services industry.
- Banks and insurance firms will create very few jobs between 2021 and 2026.

Professional and Business Services Employment

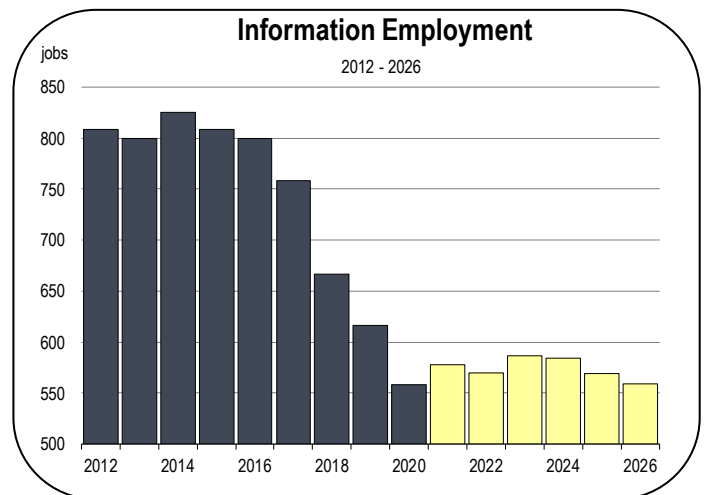
- The professional and business services industry has a diverse array of subsectors, and each was affected differently during the recession.



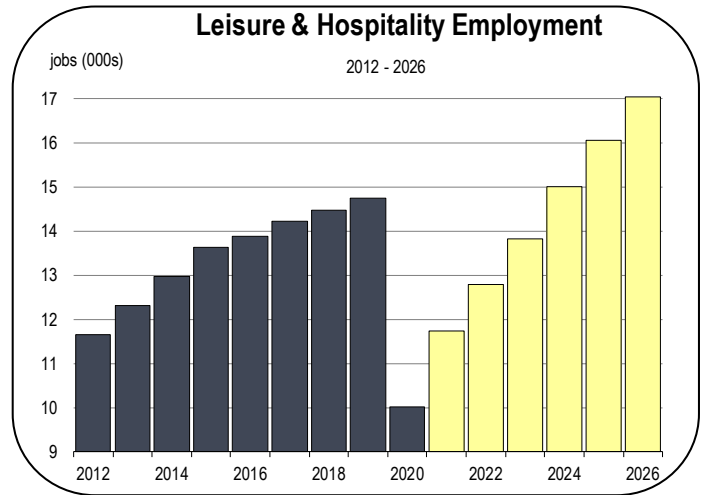
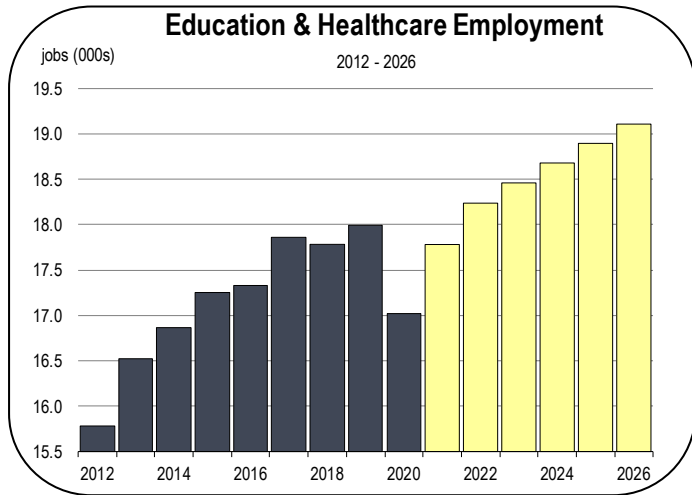
- The largest losses were at the corporate headquarters of statewide and nationwide firms. In 2020 there were 1,400 employees in corporate headquarter locations, down from 1,800 in the previous year.
- Over the forecast period, jobs will be restored as employees are recalled to the office, and new jobs will be created in the business consulting, IT consulting, and building maintenance subsectors.

Information Employment

- In Santa Cruz County, the information sector is dominated by movie theaters and telecommunications companies like Comcast.
- Movie theaters were closed for most of 2020. Jobs at movie theaters have begun to return slowly as social distancing requirements have begun to be relaxed.



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- Movie theater jobs will be restored more quickly after California removes most business restrictions on Jun 15th.
- Telecommunications firms are not expected to expand their employee headcounts during the forecast period.

- A meaningful number of jobs were also lost at child daycare centers. Jobs at daycare centers are also expected to be restored in the second half of 2021.

Private Education and Healthcare Employment

- Job losses in healthcare were large in 2020. Employment levels at hospitals and doctors offices did not change much, but several hundred jobs were lost at dentist offices.
- Dental jobs should be restored when patients feel more comfortable going to a medical facility without a mask, which could become more common in the second half of 2021.

Leisure and Hospitality Employment

- Leisure and hospitality firms were impacted by restricted business conditions more than any other type of company.
- On an annual average basis, 2,700 jobs were lost at restaurants and bars, a decline of 25 percent.
- More than 200 jobs were lost at hotels and motels (19 percent) and more than 900 jobs were lost at gyms, fitness centers, performing arts centers, and the Santa Cruz Beach Boardwalk (36 percent).



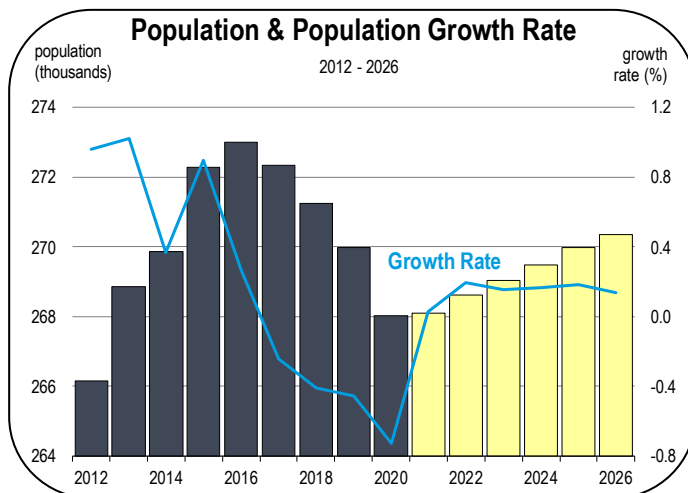
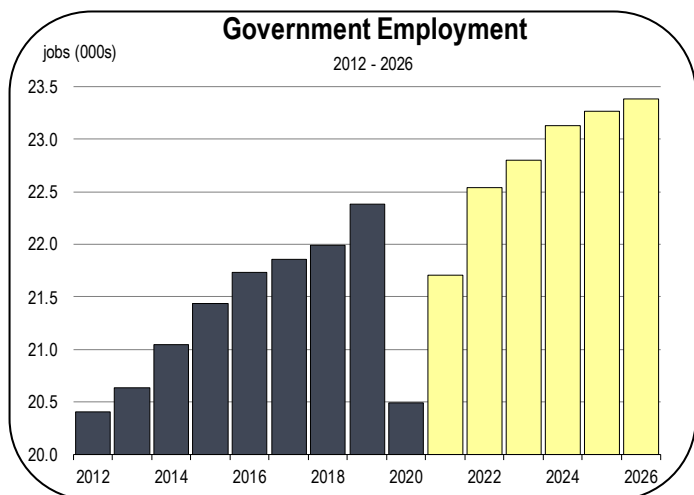
Tourism generates \$1.1 billion annually in Santa Cruz County. The main attraction is the Santa Cruz Beach Boardwalk, which will open more fully in the Summer of 2021.

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- The Boardwalk is the primary visitor attraction, and the Boardwalk was mostly closed throughout 2020 and early 2021.
- Leisure and hospitality employment could rebound sharply in the second half of 2021 due to a surge in travel, dining, drinking, and recreation throughout Santa Cruz County.
- When visitors are allowed to return in large numbers, the local economy can expect a meaningful injection of income. Tourists spend an average of \$115 per day in local businesses, adding up to more than \$1 billion in activity in a normal year.

Government Employment

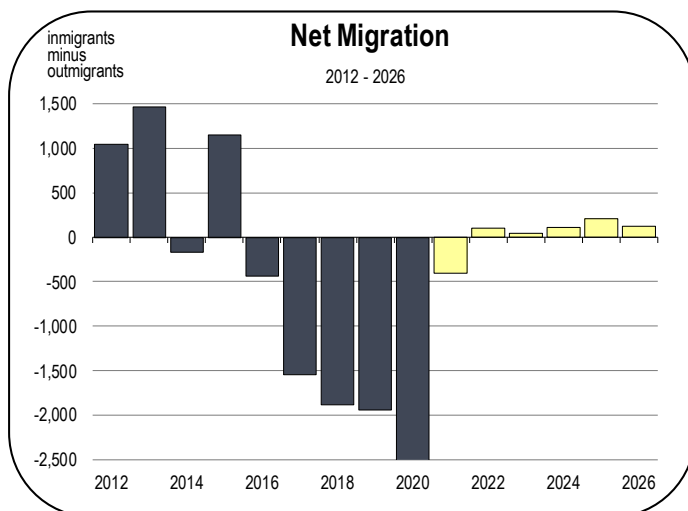
- State and local government agencies lost 2,000 jobs during 2020. Virtually all of these losses were at local schools (800 jobs lost) and UC Santa Cruz (1,200 jobs lost).
- A large share of local government revenue comes from visitor taxes, including taxes on sales at hotels, restaurants, and the Boardwalk. Job losses at municipal agencies were averted because of stimulus funding that was passed by the Congress, and because Santa Cruz City and County government agencies had sizable rainy day funds.
- UC Santa Cruz is the largest employer in the county, with more than 8,000 employees in a typical year. Enrollment and funding trends will be critical factors in the outlook for government jobs. Both are expected to increase between 2021 and 2026.



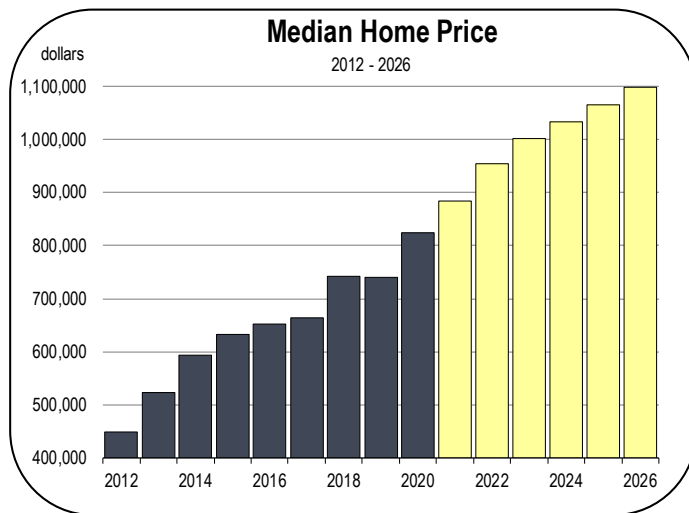
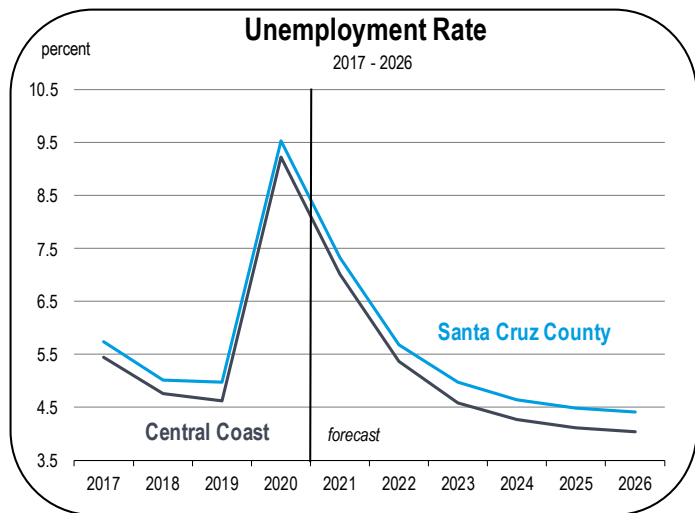
- Some state and local government positions will be restored in fiscal 2022 (beginning in July 2021) with the commencement of in-person schools in the Fall of 2021.

Population Growth

- The Santa Cruz County population is expected to expand slowly between 2021 and 2026.
- Net migration was estimated to be substantially negative between 2017 and 2020. The forecast assumes that the number of outmigrants will generally offset in-migrants over the next several years, due largely to positive job creation in the county.
- Population which has been in decline since 2016 will level off and rise modestly over the forecast.



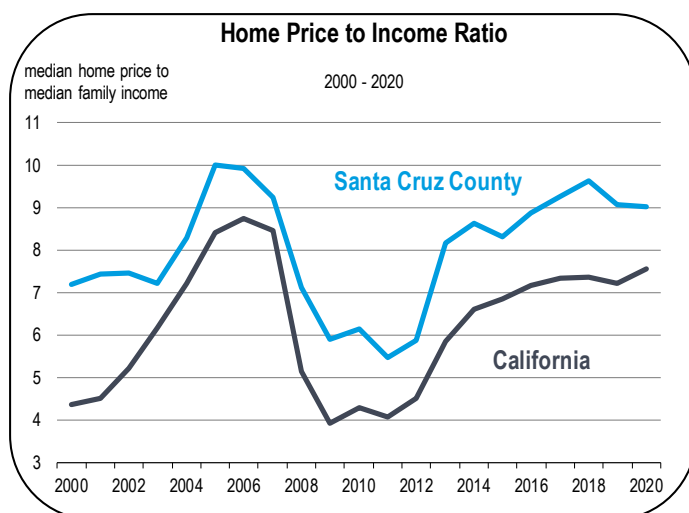
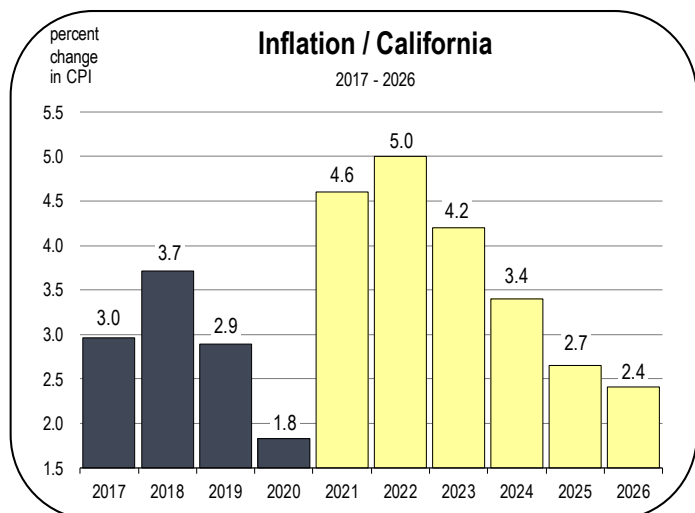
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Unemployment and Inflation Rates

- The unemployment rate in Santa Cruz County averaged 9.5 percent in 2020.
- An unemployment rate below 6.0 percent signifies a fully employed workforce in Santa Cruz County.
- The unemployment rate is expected to average 7.3 percent in 2021 and 5.7 percent in 2022.
- Inflation decelerated sharply in 2020, largely because energy prices declined when the demand for fuels plunged.
- Inflation soared in 2021 and is expected to remain elevated for several years.

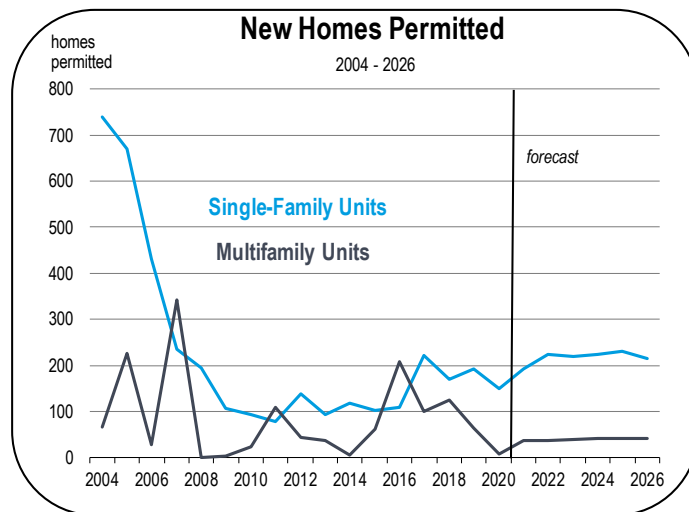
- Over the forecast period, there will be a number of factors that will contribute to high inflation. The most prominent will be:
 - Record levels of spending by consumers and government agencies
 - Fractures in the global supply chain that raise the cost of production for many businesses
 - Sharp increases in the cost of housing and energy
 - Labor market recruitment challenges that force companies to raise wages
- Combined, these factors will push inflation to its highest rates in 30 years. Ultimately, it will reduce the purchasing power of households and negatively impact consumer confidence, limiting the growth potential of the economy in 2022.
- However, inflation will begin to decelerate as supply chains and the labor force are restored by the second half of the forecast period, eventually falling below 3 percent.



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Home Prices and New Housing Production

- In 2020 the median home price in Santa Cruz County was \$825,100, an increase of 12 percent from the previous year.
- A typical household in Santa Cruz County has to spend more than 40 percent of its pre-tax income on mortgage payments in order to afford the median-priced home, indicating that housing priced have become excessive.
- Across California, the typical household must spend approximately 30 percent of its income on mortgage payments for the median priced home.
- From 2015 to 2020, an average of 250 new homes were started per year in Santa Cruz County. Approximately two thirds were single-family homes.
- Housing production is expected to average between 225 and 275 homes per year from 2021 to 2026, consisting primarily of single-family homes.
- There are no major single-family construction projects in the Santa Cruz development pipeline. Single-family housing production will be comprised of one-unit projects across the county.



- There are a handful of multifamily projects in the pipeline, including the Delaware Edition, which is under construction and will produce 248 live/work units and 400,000 square feet of industrial space.
- Most multifamily construction, including the Delaware Edition and a project at 130 Center St., Will be located between Cabrillo Highway and the ocean.



Housing construction will consist mainly of single-family units, but a handful of multifamily projects have been proposed, including this project at 130 Center St. that would include 233 studio apartments and 2,600 square feet of commercial space.

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Socioeconomic Indicators

