# 2020 Santa Clarita Valley Economic Outlook
# *September Update*

CALIFORNIA
Economic Forecast

# The 2020 Santa Clarita Valley Economic Outlook, September Update

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# Executive Summary

***The 2020 Update for California and the Santa Clarita Valley***

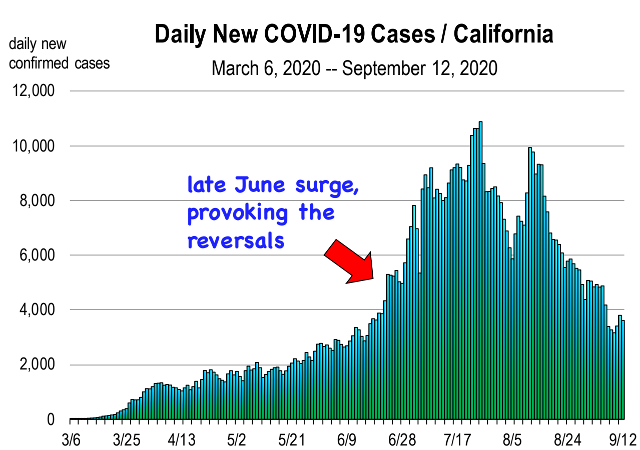
by Mark Schniepp
September 14, 2020

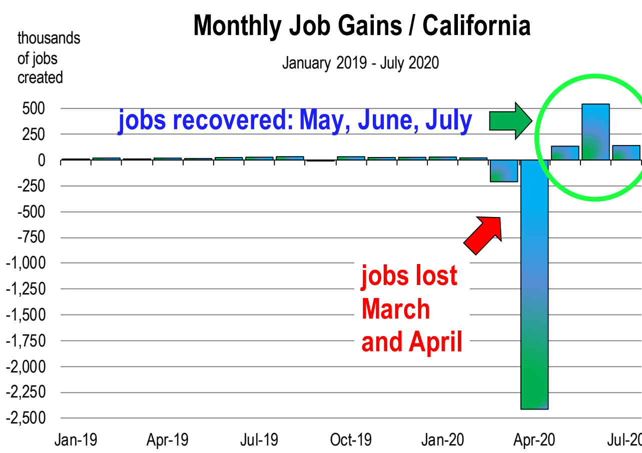
## The California Economy

The California economy is not progressing like we had hoped back in the late Spring when the great re-opening of businesses began.

Restaurants, bars, retail outlets, and personal care shops starting opening up in mid-May, with the majority of counties open by May 28.

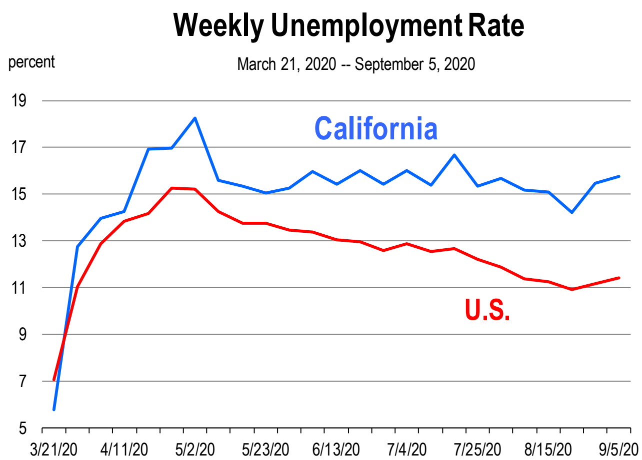
Job creation in the last 2 weeks of May and throughout June was significant, with hundreds of thousands of workers being rehired as spending by consumers surged. This was short-lived however. Coronavirus cases began to climb in late June, in tandem with both business openings and civil unrest across the nation including many cities of California. Reversals were ordered by the Governor in late June and early July, and this changed the trajectory of economic progress in the State. Employment gains were minimal in July.

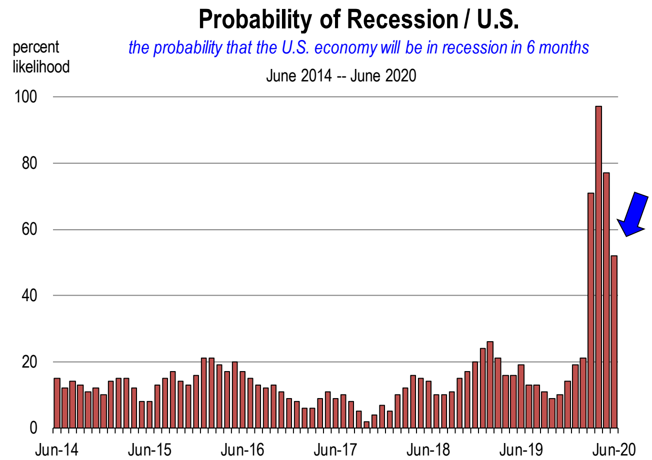



Both initial and continuing claims for unemployment insurance by unemployed or under-employed California workers has not improved in 2 months. California represents 12.2 percent of the total population in the nation but unemployment claims recipients account for 28 percent of the national total.

California has more leisure and hospitality workers than the national average, more tourism activity, more hotels, more amusement parks, more major and minor league sports, more national and state parks, more concert venues, more convention venues, more schools, and more restaurants, wineries, and micro breweries than any other state. Nearly all these venues are vacant, or significantly restricted and have been

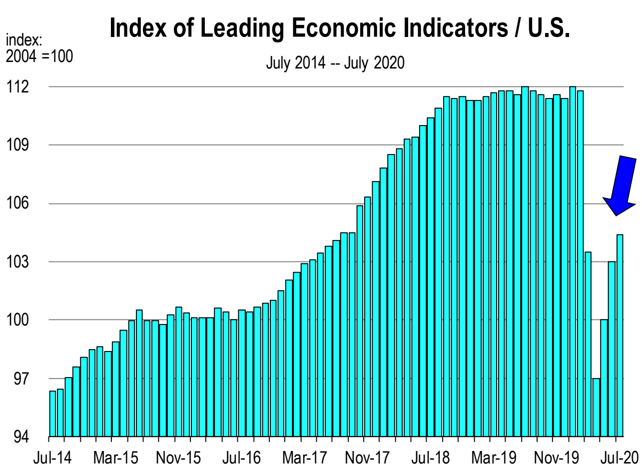



for the last 6 months. As of September 5, more than 3.1 million Californians are receiving some sort of unemployment benefit. The effective rate of unemployment in California in early September is 15.8 percent.

The U.S. economy is recovering and many economic indicators, including job growth, have surged. The index of leading indicators has jumped sharply the last two months. And the probability of recession is now falling like a rock.

The probability of the U.S. being in recession in the next six months fell from 77% in May to 52% in June. The National Bureau of Economic Research, the official arbiter of the business cycle, has declared the economy in recession. However, the recession has likely already ended, as the reopening of states' economies has caused an initial bounce in economic activity over the past few months. Employment, industrial production, retail sales and housing starts have all increased through July and even August.




## The New Blueprint for California and What it Means for the Rest of 2020

County economies are classified by 4 colors, most restrictive to least: purple, red, orange and yellow.

Purple counties have more than seven new daily coronavirus cases per 100,000 residents and more than 8% of tests coming back positive. Indoor dining, gyms, nail salons and other personal care services, movie theaters, museums and houses of worship cannot yet open. Hair salons and barbershops were allowed to reopen indoors on August 31, and all retail stores can operate with 25% capacity.

Schools can reopen for in-person instruction in counties that have been in the red tier for two weeks. But counties in the purple tier can reopen elementary schools if they receive a waiver from the local health department.

The waivers only apply to approved elementary schools, in part because the state believes distance learning is especially challenging for young learners. Los Angeles County is not currently considering waiver applications. in Orange County, the Health Care Agency had received more than 130 applications from private, independent, or faith-based schools and one public school district — Los Alamitos Unified — as of September 1. Six elementary schools opened on September 8.

Under the new criteria, because it takes so much more time to move through the tiers, permanent business losses will invariably result, and this will keep the unemployment rate high. The labor markets in California will effectively see little or even no progress for much of the rest of this year.

This is impacting our estimates of economic activity for calendar 2020. The final numbers won't look pretty for California, but will represent a clearer improvement for the rest of the nation.

Moving into calendar 2021, our assumption is that the long anticipated vaccine becomes ready no later than January/February. While the vaccine may be available sooner, it will likely be limited to special groups first including front line health care staff and the more vulnerable populations. General dissemination is assumed to occur over a 4 to 5 month period when most of the U.S. population receives it. Consumers and all economic agents will gain new confidence that they won't contract the virus and most will resume public interaction and gatherings as before.

The economy effectively opens up entirely next summer. Travel resumes with more exuberance and spending on goods, services, and travel and recreation surges. The 2nd half of 2021 results in strong growth and major gains in employment and income.

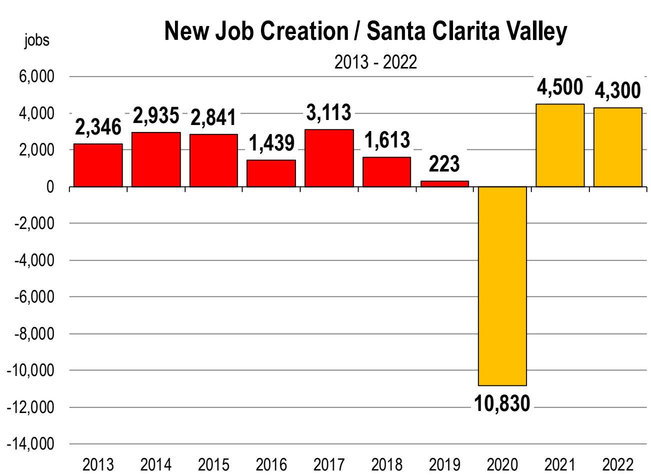
The economy however does not rebound to pre-crisis status. During most of calendar 2020 and in much of the first half of 2021, the persistent economic restrictions resulted in millions of permanent business closures and jobless workers. These closures cannot be reopened quickly by replacement businesses. There may also be some lingering fears that a mutated strain of the virus could be present, unaffected by the vaccine, and this would prevent some consumers from spending freely at stores, shops, or other public venues. It will take some time for the demand for travel to be entirely reinstated.

Consequently, the economy needs time to fully recover, and during 2022 and 2023, new businesses open, workers become rehired, income is generated, and spending rises as a result of wider income growth.

## Santa Clarita Valley

### Current Conditions

The two largest employers in the region have been devasted and this has disproportionately impacted the Santa Clarita Valley labor market. They happen to be in sectors in which the lockdowns of April-May have never eased. This includes Magic Mountain and Princess Cruises. Together, they account for 2,500 layoffs in Santa Clarita.




The Santa Clarita Valley lost approximately 14,000 jobs between February and April, and is expected to re-gain 3,000 jobs by the end of the year. This puts annual average job loss in 2020 at approximately 11,000.

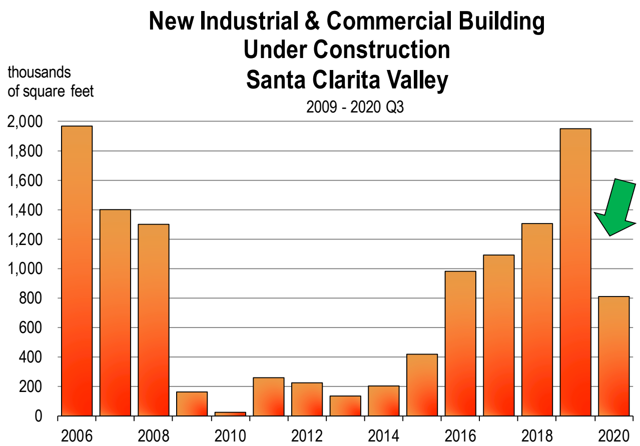
Though jobs losses to date have been severe, restoration is expected to accelerate next year, with job growth forecast to exceed 5 percent. Manufacturing and construction are essential businesses that can remain fully operational. And manufacturing is a principal engine of growth for the region so its recovery is of particular importance to the local economy.

A significant volume of new commercial and industrial structures was completed in 2019 and early 2020. This is a principal reason why the industrial vacancy rate has surged this year.

Even today, though new development has dropped off in the region, there are still a number of construction projects underway, including five office buildings and three industrial buildings. Other projects in the pipeline will start construction next year. Building will resume at Needham Ranch and Vista Canyon. More homes will be started on the FivePoint Valencia project.

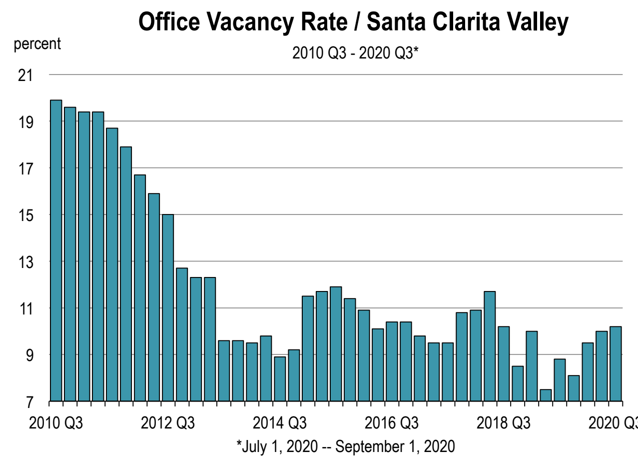
The state estimated the city's unemployment rate at 20 percent in April, and it has gradually improved since. The unemployment rate will average 13.3 percent in 2020, declining to 9.0 percent in 2021.

# Economic Activity in the Santa Clarita Valley



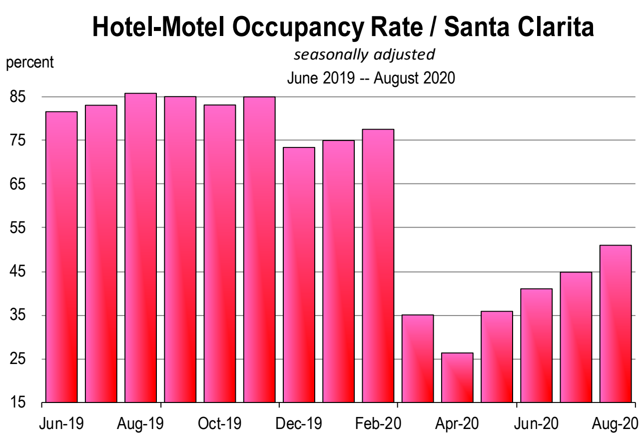

### Under Construction

Currently there is 353,000 square feet of industrial building, 269,000 square feet of office, and 68,000 square feet of retail under construction in the Santa Clarita Valley. Over 1,500 new construction jobs have been created since 2016. Deliveries to the market in 2019 and 2020 from the surge in new construction have been prolific.



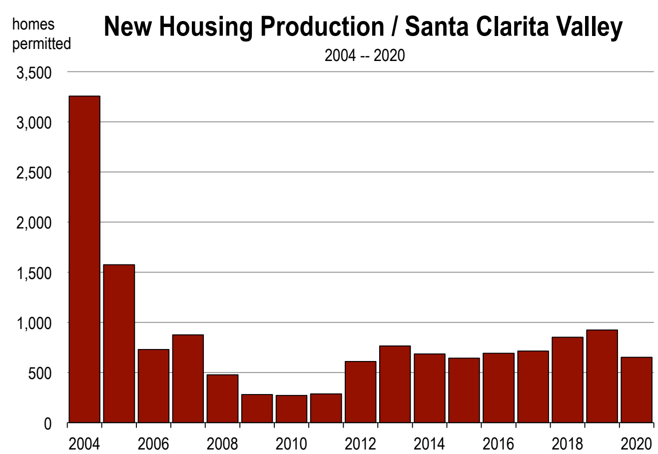

### Office Vacancy

Office market vacancy was 8.8 percent in February 2020, but has risen to 10.2 percent today (September 2020). Office using employment has not technically declined by a significant amount nor has the number of office using companies during the pandemic.




### Hotel Utilization

During 2019, the transient lodging industry averaged 84 percent occupancy marking the 6th consecutive year of 80+ percent occupancy. Hotel utilization tumbled in March with the onset of the pandemic and the shelter-in-place orders. Since the low mark was recorded in April, a clear recovery has been underway in the transient lodging market.



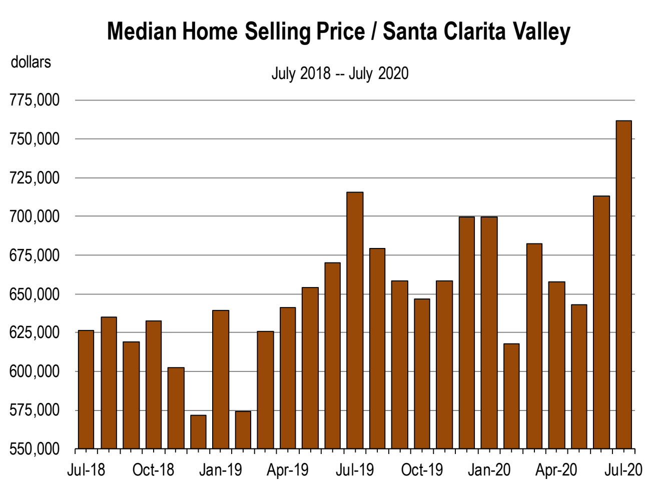

### New Housing Production

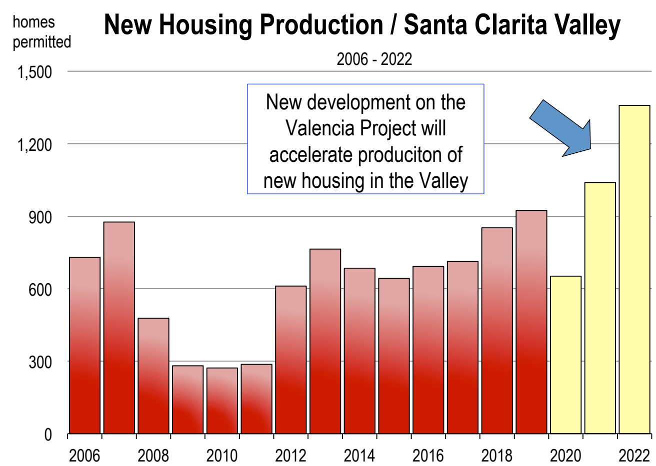
Just over 900 housing units were started in the Santa Clarita Valley in 2019 and another 600 are on pace to break ground this year. Though the rate of annual homebuilding has remained relatively constant since 2012, this condition will soon change. There are a number of large projects in the entitlement pipeline and more housing starts are expected next year.

## Existing Housing Market

The demand for existing homes in the SCV, like elsewhere, took an initial dip in April and May. But sales rebounded in June and July. Selling values were never impacted, and July selling values actually soared to record levels.

Mortgage rates are now at the lowest levels in recorded history. That has served as a partial stimulus for continued demand in 2020, despite the vagaries of purchasing a home during the pandemic. The other stimulus to rising prices is the lack of inventory. This will change however going forward. The expanding new housing supply will represent a potentially meaningful factor that will slow housing appreciation over the next few years. While existing home inventories remain extraordinarily tight, there is greater hope that the new housing market will provide more much supply next year.




Apartment rents continue their upward march throughout 2020. But rents are increasing much more slowly than home prices, and much more slowly than incomes. After rising by almost 10 percent per year a few years ago, annual rent appreciation has slowed to just 3.2 percent.

### *New Housing*

Vertical construction for the FivePoint Valencia project is underway this year, with the first of thousands of homes soon to be delivered from one of the largest residential projects in California. There are a number of housing developments under construction, and more home starts are forecast each year for the next three years.

## Commercial Real Estate Utilization

Information through August indicates that real estate assets generally remain effectively utilized though actual occupancy (and certainly density) as a result of work from home may actually be much lower.

The industrial market appears to be the more healthy of the three real estate categories. Though vacancy rates jumped to 9.1 percent, the recent completion of nearly 900,000 square feet in 13 buildings contributed to a significant boost in the availability of space. While there has been downsizing among a handful of manufacturing firms, the carnage to the industrial sector has been minimal.

| Market | 2019 Q3 | 2020 Q3 |
|---|---|---|
| | -------- *percent vacant* -------- | |
| Office | 8.8 | 10.2 |
| Industrial | 6.0 | 9.1 |
| Retail | 4.8 | 5.6 |

*Source: Costar, Santa Clarita Valley, though September 1, 2020*

The availability rate for office product jumped to 16.5 percent in August, from 14.7 percent a year earlier. It appears that available space increased by only 87,000 square feet during the pandemic. Base rents have barely been impacted, declining only four cents per square foot between Q2 and Q3 of this year.

Availability in the retail market has increased sharply since the first quarter of 2020. Available space jumped 28 percent, pushing the retail availability rate to 8.1 percent today. To date, there is not much change in triple net rental rates, though this condition is likely to change by the end of this year.

## The Updated Outlook for 2021

There are many uncertainties that can materially impact the forecast, notably, the point in time when the pandemic is deemed over. Only then will the California economy be allowed to open without restrictions and most consumers will feel liberated to participate in group activities and public gatherings.

The forecast has nearly all of the jobs lost during 2020 recovered by late 2022 or early 2023. Construction, healthcare, professional business services, and most of the manufacturing sector will have recovered by the end of next year.

Travel related services, personal services, retail trade, recreation, and food services will require more time to recover.

The labor markets should rebound sharply in 2021 and 2022, but a new peak in employment is not forecast until 2023 or early 2024.

Homebuilding should accelerate in California and in the Santa Clarita Valley. The momentum for new office and retail product has been interrupted this year; a slower recovery is forecast for the new commercial development sector.

# THE FORECAST

The Forecast in a COVID-19 Economy

The California Economy

The Santa Clarita Valley Economy

# The 2020 Forecast Update

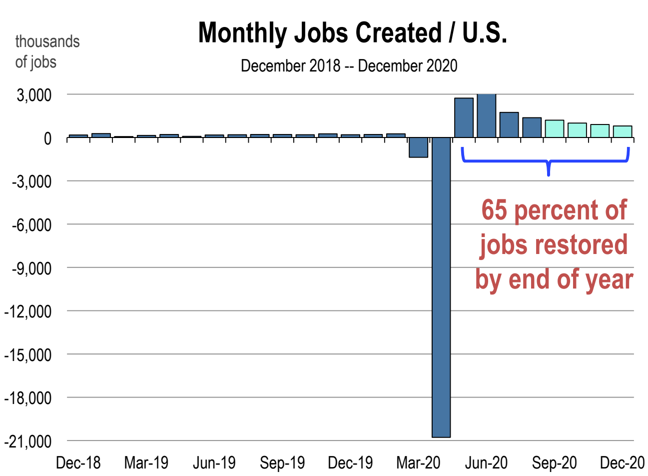
***California and The Santa Clarita Valley***

**September, 2020**

## The Forecast in a COVID-19 Economy

The U.S. economy is clawing back. Job openings are rising, manufacturing is surging, construction spending has moved higher, incomes are increasing again, and consumer spending is up—on restaurants, homes, cars, gasoline, and recreation.

Twenty two million workers lost their jobs in April 2020. Since then, over eight million have been restored. The economic recovery from the March-April recession is underway, though the pace is now slowing. In the absence of a further stimulus bill from Congress, we don't expect to see much progress in the growth of incomes and spending in the next few months.




If the pandemic is resolved soon with the implementation of a vaccine, and businesses are allowed to open up along with K-12 schools, colleges, universities, sporting events, amusement parks, entertainment venues, public gatherings, and more travel destinations globally, then economic growth should surge. In the absence of this, the economy will struggle.

### What We Wrote Back on March 6, 2020[1]

If the virus is contained within the next few weeks, the damage would be minimized and the U.S. would likely avoid recession.

And if the virus remains active until the summer months before a clear abatement is affirmed and production supply chains are restored, the U.S. will have likely suffered negative GDP growth along the way and an increase in unemployment.

Up to now, businesses have generally reported decent earnings and the stock market has reached record levels of valuation through February 21, 2020. A serious consolidation in the stock market would reduce average levels of household wealth. And a spending pullback might ensue.

That's what we are worrying about now, given the recent collapse of the stock market in record time.  We don't know how this will impact

[1] The 2020 Santa Clarita Valley Economic Outlook, Executive Summary, page 26, March 2020

consumers and consumer spending. If the containment of the virus is not forthcoming soon, new cases are reported all over the world, and supply chains globally are impacted (the scenario reflected in the recent behavior of the stock market), the oversized fear is that demand will evaporate and the economy will contract into recession.

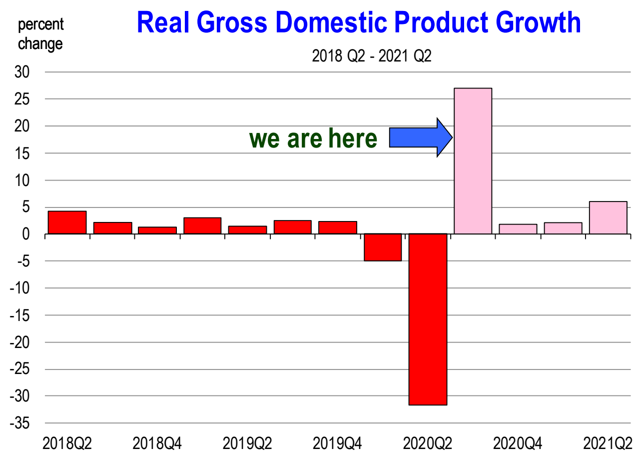
While we acknowledge this as a viable scenario, it's not the most probable one. It's likely COVID-19 will be contained no later than within the April timeframe, and economic losses will be temporary. The economy should then return to a pre-virus condition.

### Fast Forward to September 14, 2020

The less probable worser case scenario that we reluctantly acknowledged back in early March ultimately prevailed. The economy was "locked down" based on the fear that our hospitals would be overwhelmed with sick people, exhausting resources and increasing the death counts.

Cases were quickly contained and hospitals were not overwhelmed. However, the criteria were changed by California public health officials in May and June to reducing the count of cases in every county of the state, regardless of hospital or ICU utilization.

So that's where we are now. The California economy is the most business limited state




in the country as of September 2020, and the economic indicators reflect this degree of restriction.

For the nation, 2020 Q3 growth will be stellar. It's currently tracking at between 27 and 30 percent annualized. Q4 growth will be much less as progress in opening up businesses, schools, sports, entertainment, and public gathering activities is limited. The grand reopening of the economy does not occur until the vaccine effectively eradicates the pandemic. We presume this will occur by mid 2021.

## The California Economy

The new Blueprint for the opening of the economy has most of the state's non-essential businesses operating under severe limitations.

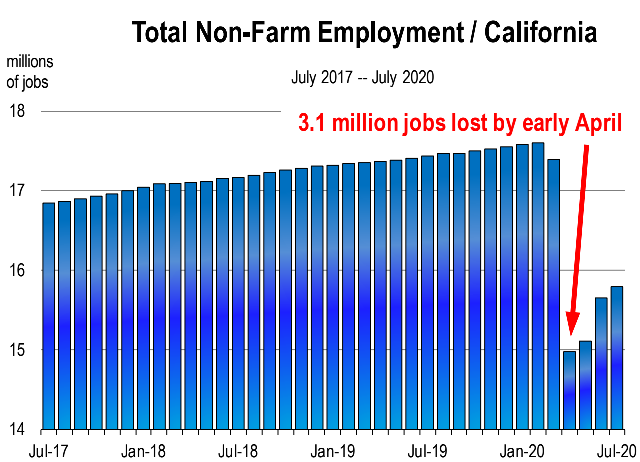
While limited opening is better than no opening, the continued mandates from the Governor's office to open outside, limit inside occupancy for personal care shops and retail stores, or remain closed will negatively impact the economy for the remainder of the year, and into 2021.

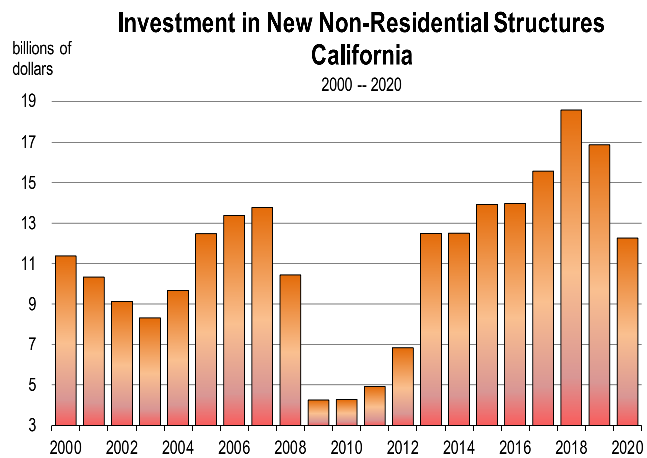
This is why the recovery over the last three months has been so weak. The U.S. has recovered 36 percent of the total employment impact from March-April. California has recovered just 27 percent of jobs lost.

So California's labor market is lagging, and this will continue into next year.

Non-residential building was experiencing booming conditions in California over the last 3 years. There was record level investment in commercial and industrial building with most of it occurring in the large Los Angeles and Bay Area metro areas.

Construction activity is largely being restored after many shutdowns in April and May. But




there are many questions about what kind of market completed buildings will be delivered to in 2020 and 2021. There is not much change in the demand for industrial space, and vacancy rates remain low. For office space, many office workers are working from home and will continue to do so into next year. Office vacancy is rising and lease rates are softening.

We are not yet convinced that a meaningful change in office demand will prevail, reducing the need for office space and resulting in rising vacancy rates for years to come. That scenario is possible, but not probable. And as the economy recovers, more new businesses will form and office space will be absorbed, if not gradually, because the need for interpersonal interaction cannot productively be dismissed.

Retail space was remarkably being utilized in California despite the retail apocalypse that has been underway for the last 3 years.

Nationwide retail mall vacancy rates had been increasing slowly and reached an 8 year high in 2019. When the pandemic resulted in massive business closures, many retail businesses closed permanently, and vacancy rates in city downtowns and malls have soared.

In California however, the retail markets have not yet demonstrated calamity. Through August 2020, the vacancy rate in Los Angeles County is just 5.2 percent. In Orange County, the retail rate is still at 4.4 percent. So far, average asking rents have not softened yet. This condition however, is likely to change.

### The Forecast

The California economy makes little progress for the rest of the calendar year. This assessment assumes that the extent of business limitations in the state don't materially change and that K-12 schools and college/university campuses remain effectively closed to in-person instruction.

**California Forecast Summary**

| | 2019A | 2020E | 2021F |
|---|---|---|---|
| Employment Growth | 1.5% | -7.1% | 1.9% |
| Unemployment Rate | 4.1% | 12.3% | 8.9% |
| Personal Income Growth | 3.3% | -2.3% | 1.7% |
| Population Growth | 0.4% | 0.2% | 0.3% |
| Inflation | 2.8% | 0.5% | 1.6% |
| New Housing Units | 110,999 | 94,600 | 110,010 |

A = actual, E = estimate, F = forecast

Home-building has a more optimistic forecast for 2021 when more large housing projects will be under construction, including Rio Mesa in Madera, the Tejon Grapevine project, FivePoint Valencia in Santa Clarita, and numerous large projects in the Sacramento Valley.

The elevated unemployment rate will be slow to decline. There is growing likelihood that the new normal will have higher joblessness. This is not just because GDP will be lower but that the decline in output will be particularly concentrated in labor-intensive industries like leisure, hospitality and retail trade, reducing employment disproportionately.

Home prices will rise in 2020 and demand will remain steady. Housing price appreciation will slow down in 2021 but not reverse. Limited supply continues to dominate the new housing landscapes in the largest metro areas of the state.

## The Santa Clarita Valley Economy

### Labor Markets

Few net jobs were created in the Santa Clarita Valley economy during 2019. The growth rate was only 0.3 percent. This year, the spring and summer lockdowns have resulted in a major fallout of jobs, and though some restoration is now underway, new job opportunities will be limited for the remainder of 2020.

**Santa Clarita Valley Economic Forecast Summary** — **2017-2019 History, 2020-2023 Forecast**

| Year | Non-farm Wage & Salary Jobs (000s) | Non-farm Job Growth (% change) | New Homes Permitted | Retail Sales (billions) | Real per Capita Income | Median Home Selling Price | Inflation (% change in regional CPI) | Unemployment Rate (%) |
|---|---|---|---|---|---|---|---|---|
| 2017 | 93.9 | 3.4 | 713 | $2.7 | $79,689 | $510,192 | 2.8 | 4.1 |
| 2018 | 95.5 | 1.7 | 852 | $2.6 | $80,398 | $529,580 | 3.8 | 4.3 |
| 2019 | 95.8 | 0.3 | 924 | $2.6 | $81,379 | $563,473 | 3.1 | 4.1 |
| 2020 | 85.0 | -11.3 | 652 | $2.3 | $84,021 | $591,646 | 0.6 | 13.3 |
| 2021 | 89.4 | 5.2 | 1,040 | $2.6 | $81,454 | $604,730 | 2.1 | 9.0 |
| 2022 | 93.6 | 4.7 | 1,359 | $2.8 | $82,105 | $621,659 | 2.5 | 7.1 |
| 2023 | 97.3 | 3.9 | 1,643 | $2.9 | $82,666 | $640,378 | 2.7 | 6.2 |

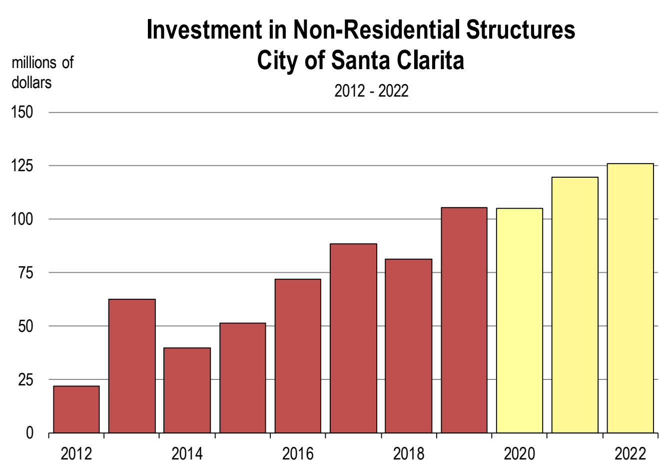
*Source: California Economic Forecast, September 2020*

Most industries began to recover in May, when some of the lockdowns were lifted after federal stimulus funding had been deployed. Through August, the fastest rebounds have been observed in hotels and food services, which has recovered 17 percent of the jobs lost during the recession, and retail, which has recovered 10 percent.

In 2021 the Santa Clarita Valley is expected to generate 4,000 to 5,000 jobs, at which point half of the jobs lost during the recession will have been recovered. The unemployment rate is forecast to average 13.3 percent for the 2020 calendar year and decline to 9 percent in 2021.

As the pandemic is eradicated with the inoculation of the nation with a vaccine, the economy opens fully and job growth accelerates. By 2022 income is fully restored in the region but jobs do not eclipse the previous 2019 peak until late 2022 or early 2023.

Utilization in the office market is rising. As of August, the rate of vacancy was 10.2 percent. There is still not much evidence that lease costs have softened much, amidst rising vacancy. Not as much new product is scheduled to be delivered this year and job restoration in the office sector is likely to prevent significant reductions in lease rates.

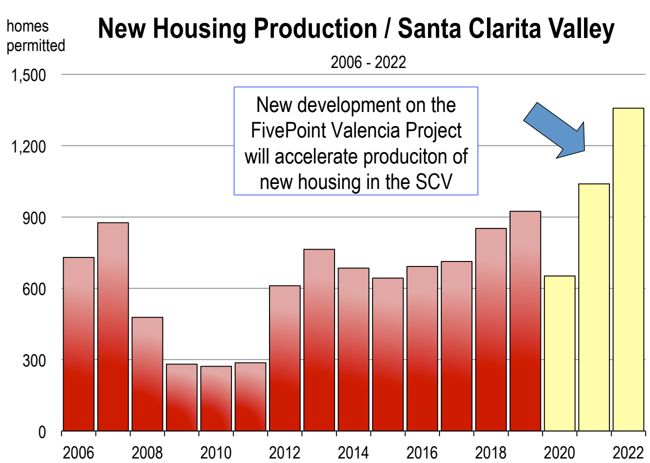


Seven new buildings totaling 640,000 square feet were added to the industrial market in 2020. This has increased the vacancy rate to 9.1 percent. Though some industrial using firms have failed during this year's recession, the market is generally the most healthy of the three non-residential sectors, and lease rates have been relatively unchanged.

## New Housing

The Santa Clarita Valley has the potential to become one of the fastest growing regions in the state, in view of the FivePoint Valencia project which is now underway. The project is among the largest 5 residential projects in California, planned to produce more than 21,000 homes and accommodate 65,000 new residents.

Hundreds of lots have been sold to builders and vertical construction is now underway. Permits for individual housing units are being issued this year and the first new home sales and move-ins will occur in 2021.




New housing at Vista Canyon, Skyline and Skyline Ranch continue this year.

## Housing Values

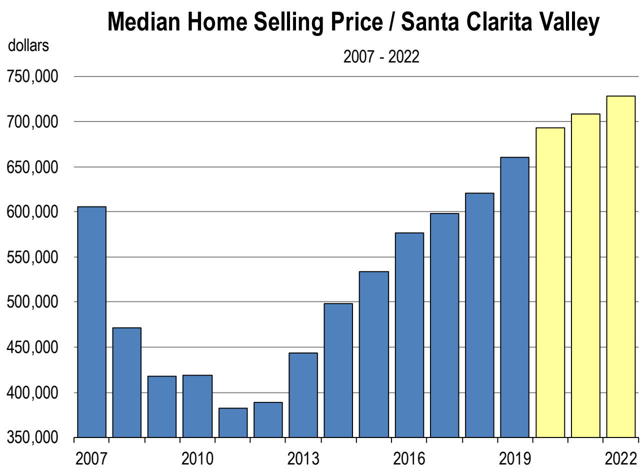
Compared to past economic cycles, there have been fewer existing and new homes for sale in the Santa Clarita market. Low inventory has helped push prices higher over the last 7 years. Housing values have now eclipsed the peak levels reached in 2006.

With rising values, more inventory will be forthcoming, not only from existing homes but from new homes. Because the workforce is fully employed, the forecast calls for home sales to increase slightly in 2020 and more convincingly in 2021. With more inventory, selling values will moderate or flatten.

Our base forecast has the median home price rising, but by one percent per year or less over the next two years. Housing affordability has become an issue in the Santa Clarita Valley once again and this will persist for at least the next two or three years.

## Inflation and Mortgage Rates

Fed Policy has effectively put short term rates at or near zero with the expectation that they will stay pat through next year. The bond market rallied again this year, pushing the 10 year bond yield to the lowest level in a recorded history of long term interest rates that began with the Continental Congress in the 1770s.



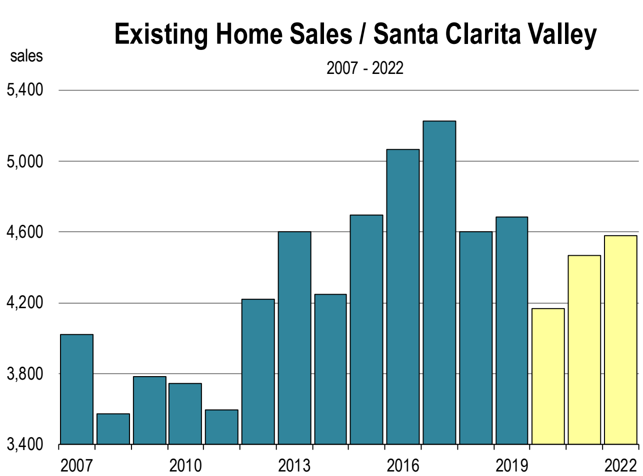

Easier monetary policy will benefit the economy should it weaken again going forward.

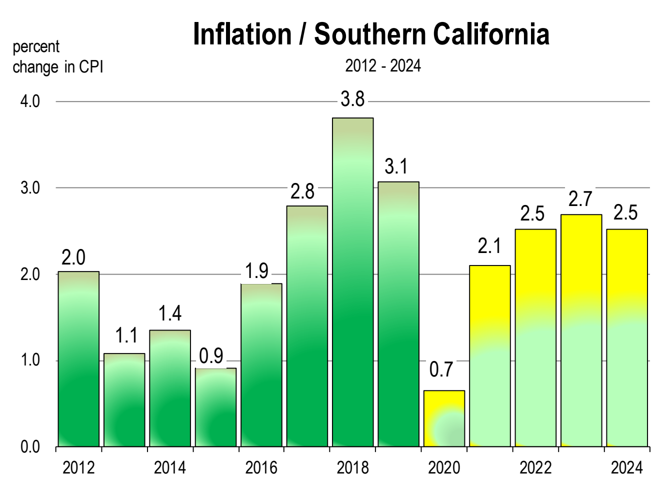
10 year treasury bond yields have remained relatively constant since March. In mid-September they were 0.67 percent. While the Federal Funds rate will remain near zero, 10 and 30 year treasury rates should gradually move higher into next year in tandem with a strengthening economy and the potential for higher rates of inflation

When inflation rises, it's usually because wages are increasing, homes and apartments have become more expensive, and energy prices are moving higher.

That environment has now changed. Average wages are rising due to the reduction of lower paying jobs. Wage rates for a particular profession are not likely to rise because of the current slack in most labor markets.

As the pandemic ends next year and production begins to return to normal in 2022, look for both interest rates and inflation to move higher.



# EMPLOYMENT

Employment and Unemployment

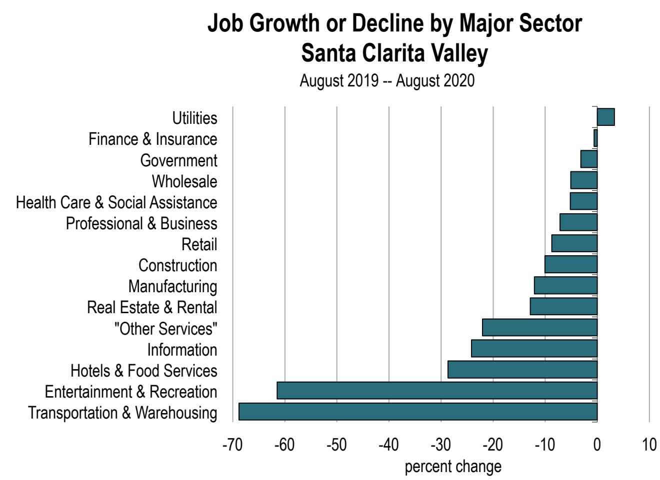
Employment Outlook

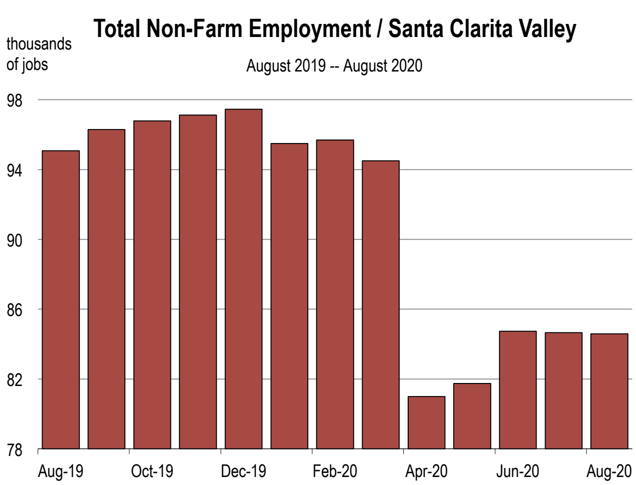
## Employment and Unemployment

The Coronavirus Recession has inflicted major job losses across the Santa Clarita Valley economy. Almost no industries were spared, and some have lost more than half of their pre-pandemic headcounts.

The most prominent losses were in transportation and entertainment. Two of the SCV's most prominent companies – Six Flags Magic Mountain and Princess Cruises – were forced to scale back their business operations, leading to large-scale layoffs (Princess Cruises is officially classified as a transportation firm).

In general, the industries with the biggest declines were subjected to the most restrictive social distancing requirements, including hotels, restaurants, and "other services" (which includes child care centers and barbershops).

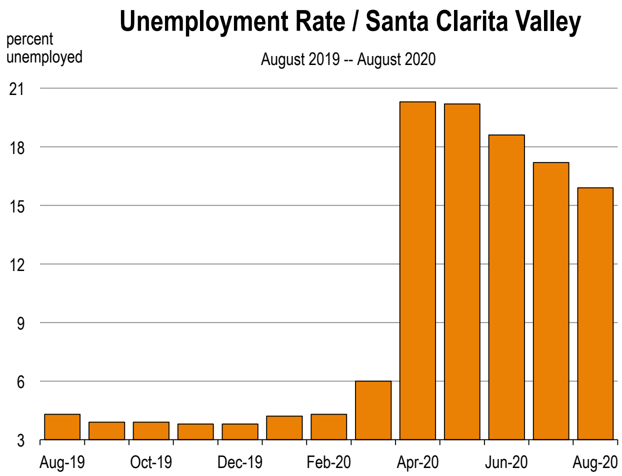


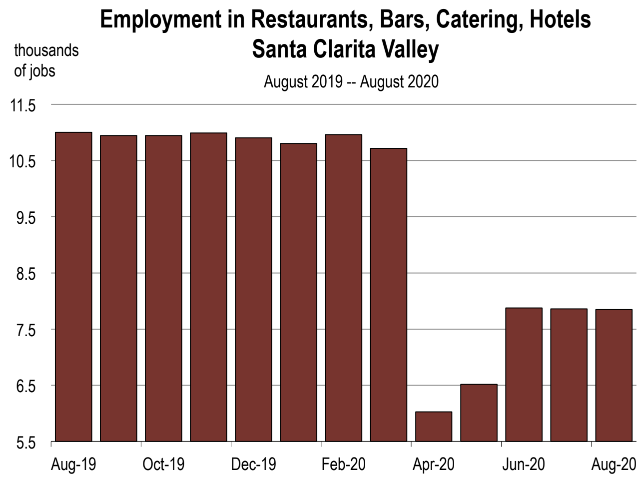



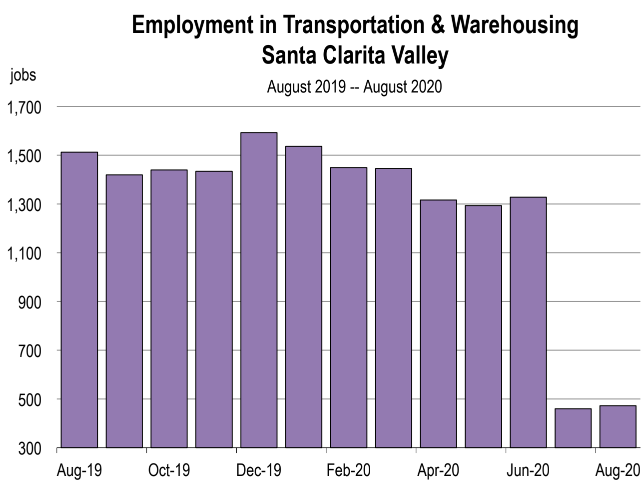

Most industries began to recover in May, when some of the lockdowns were lifted and after federal stimulus funding had been deployed. Through August, the fastest rebounds have been observed in hotels and food services, which has recovered 17 percent of the jobs lost during the recession, and retail, which has recovered 10 percent.

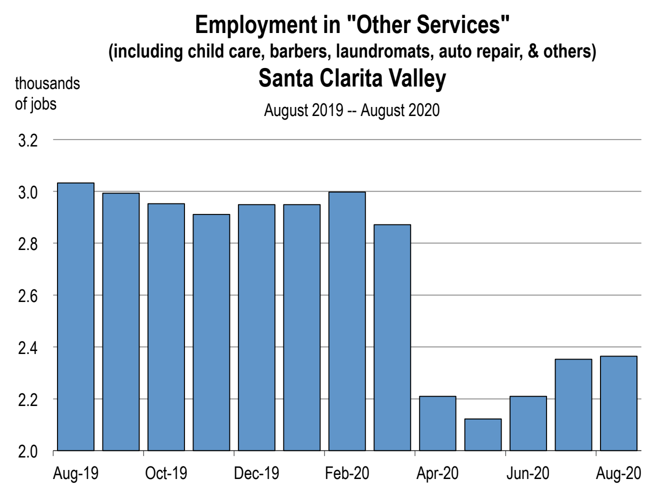
But not all sectors have started the recovery process, with some continuing to contract through August.

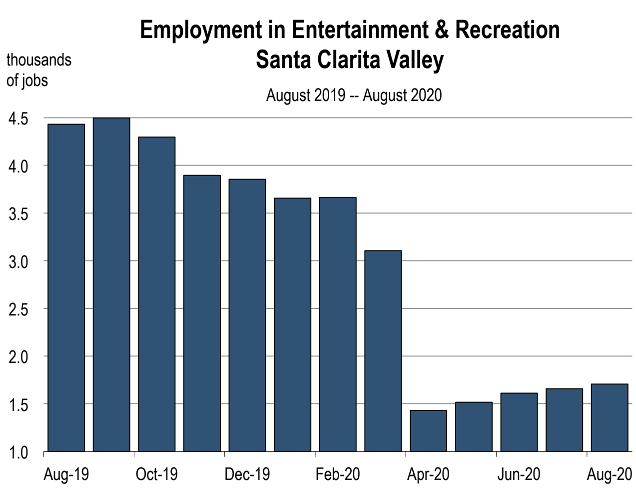
In April, at the bottom of the recession, the unemployment rate in the SCV surpassed 20 percent. It improved substantially through August, but is still above 15 percent.

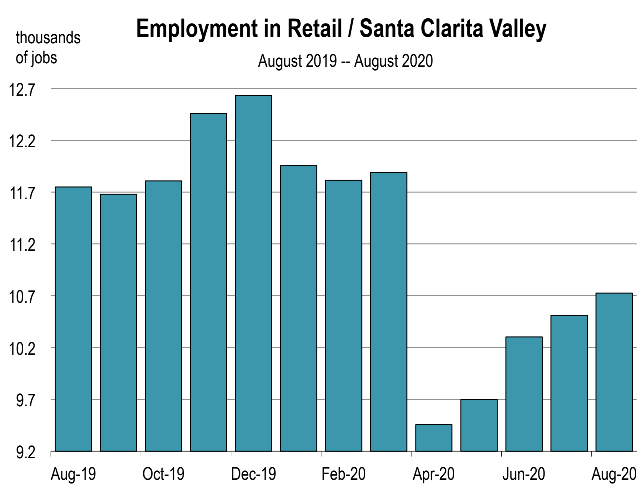

Unemployment Rate / Santa Clarita Valley
August 2019 -- August 2020
percent unemployed
21
18
15
12
9
6
3
Aug-19
Oct-19
Dec-19
Feb-20
Apr-20
Jun-20
Aug-20


Employment in Restaurants, Bars, Catering, Hotels
Santa Clarita Valley
August 2019 -- August 2020
thousands of jobs
11.5
10.5
9.5
8.5
7.5
6.5
5.5
Aug-19
Oct-19
Dec-19
Feb-20
Apr-20
Jun-20
Aug-20


Employment in Transportation & Warehousing
Santa Clarita Valley
August 2019 -- August 2020
jobs
1,700
1,500
1,300
1,100
900
700
500
300
Aug-19
Oct-19
Dec-19
Feb-20
Apr-20
Jun-20
Aug-20


Employment in "Other Services"
(including child care, barbers, laundromats, auto repair, & others)
Santa Clarita Valley
August 2019 -- August 2020
thousands of jobs
3.2
3.0
2.8
2.6
2.4
2.2
2.0
Aug-19
Oct-19
Dec-19
Feb-20
Apr-20
Jun-20
Aug-20


Employment in Entertainment & Recreation
Santa Clarita Valley
August 2019 -- August 2020
thousands of jobs
4.5
4.0
3.5
3.0
2.5
2.0
1.5
1.0
Aug-19
Oct-19
Dec-19
Feb-20
Apr-20
Jun-20
Aug-20


Employment in Retail / Santa Clarita Valley
August 2019 -- August 2020
thousands of jobs
12.7
12.2
11.7
11.2
10.7
10.2
9.7
9.2
Aug-19
Oct-19
Dec-19
Feb-20
Apr-20
Jun-20
Aug-20

## Employment Outlook

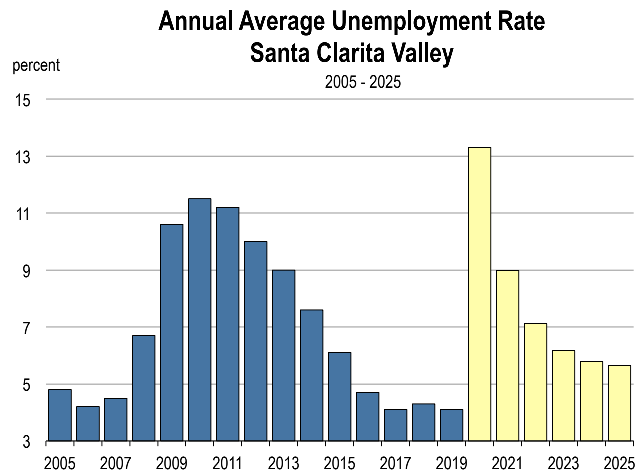
The Santa Clarita Valley lost approximately 14,000 jobs between February and April, and is expected to re-gain 3,000 jobs by the end of the year. This puts annual average job loss in 2020 at approximately 11,000.

In 2021 the SCV is expected to generate 4,000 to 5,000 jobs, at which point half of the jobs lost during the recession will have been recovered.

The unemployment rate is forecast to average 13.3 percent for the 2020 calendar year and decline to 9 percent in 2021.

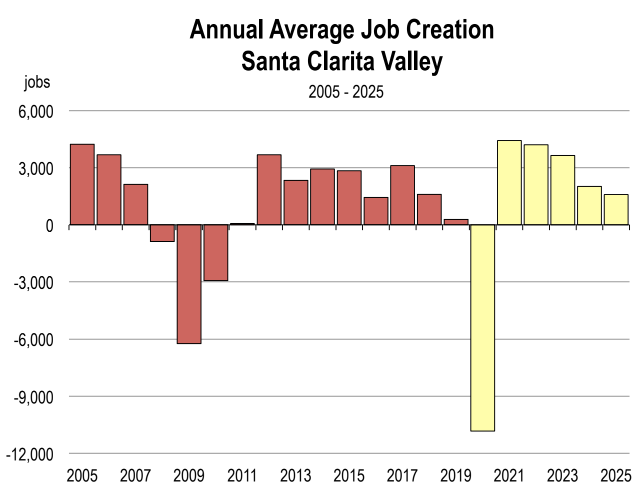
In general, the unemployment rate should improve faster than it did after the Great Recession of 2008-2009, but it could take several years to return to a healthier range of 5 to 6 percent.

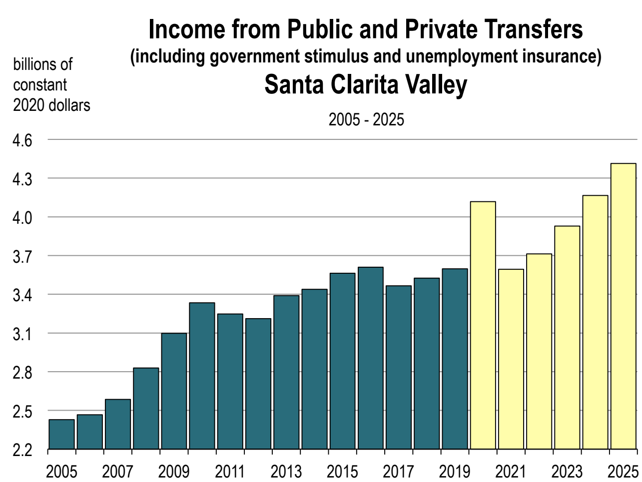
The average salary is expected to increase substantially in 2020, but this is a statistical quirk. Layoffs in the SCV have been most prominent among low-wage workers, meaning that the average salary of everyone who still has a job will increase, even if individual workers aren't getting meaningful raises.




Total personal income will also increase in 2020, largely due to the huge amount of government stimulus that has been distributed.

Total public and private transfers will total $4.1 billion in 2020, which includes the $1,200 payments that were part off the CARES Act, and various sources of unemployment insurance benefits.



| Labor Market and Income Forecast | | | Santa Clarita Valley | | | History: 2014 - 2019 |
|---|---|---|---|---|---|---|
| | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 |
| **Employment** | | | | | | |
| **Sector** | | | *– jobs –* | | | |
| Farm | 39 | 20 | 18 | 28 | 31 | 31 |
| Construction | 5,710 | 6,100 | 6,163 | 6,817 | 7,517 | 7,728 |
| Manufacturing | 10,737 | 11,188 | 11,210 | 11,040 | 11,253 | 11,470 |
| Transportation & Utilities | 1,161 | 1,370 | 1,524 | 1,533 | 1,602 | 1,806 |
| Wholesale/Retail Trade | 15,537 | 16,147 | 16,465 | 16,767 | 16,614 | 16,082 |
| Retail | 11,562 | 11,979 | 12,302 | 12,560 | 12,370 | 11,900 |
| Wholesale | 3,975 | 4,168 | 4,163 | 4,207 | 4,244 | 4,182 |
| Financial Activities | 3,694 | 3,784 | 3,779 | 3,868 | 3,974 | 3,910 |
| Professional Services | 12,555 | 12,313 | 12,538 | 12,927 | 13,244 | 13,647 |
| Information | 1,248 | 1,366 | 1,346 | 1,348 | 1,338 | 1,392 |
| Healthcare & Education | 9,660 | 10,247 | 10,816 | 11,282 | 11,327 | 11,539 |
| Leisure & Recreation | 13,278 | 13,563 | 13,983 | 14,691 | 15,068 | 15,128 |
| Other Services | 2,840 | 2,982 | 2,908 | 2,950 | 2,896 | 2,918 |
| Government | 9,661 | 10,057 | 10,010 | 9,890 | 9,951 | 10,021 |
| Federal | 1,028 | 1,103 | 1,108 | 1,113 | 1,097 | 1,099 |
| State & Local | 8,633 | 8,954 | 8,902 | 8,777 | 8,854 | 8,922 |
| Total Wage & Salary | 86,560 | 89,401 | 90,840 | 93,953 | 95,566 | 95,858 |
| percent change | 3.5 | 3.3 | 1.6 | 3.4 | 1.7 | 0.3 |
| Total Non-farm Jobs Created | 2,983 | 2,860 | 1,441 | 3,103 | 1,610 | 292 |
| Unemployment Rate (percent) | 7.6 | 6.1 | 4.7 | 4.1 | 4.3 | 4.1 |
| **Income** | | | *- dollars per worker or person -* | | | |
| Average earnings per worker | | | | | | |
| current dollars | 45,039 | 46,575 | 46,328 | 48,270 | 49,620 | 52,001 |
| constant 2020 dollars | 51,256 | 52,526 | 51,279 | 51,978 | 51,473 | 52,339 |
| Average per capita income | | | | | | |
| current dollars | 67,247 | 68,803 | 70,664 | 74,005 | 77,504 | 80,854 |
| constant 2020 dollars | 76,528 | 77,595 | 78,216 | 79,689 | 80,398 | 81,379 |
| | | | *– billions of dollars –* | | | |
| Total Personal Income | 18.3 | 18.9 | 19.5 | 20.6 | 21.8 | 23.0 |
| percent change | 2.6 | 3.0 | 3.5 | 5.5 | 5.7 | 5.3 |
| Income from Wages and Salaries | 4.4 | 4.5 | 4.7 | 5.1 | 5.4 | 5.6 |
| Income from Property and Assets | 3.8 | 4.0 | 4.2 | 4.6 | 5.0 | 5.4 |
| Income earned from outside the County | 4.7 | 4.8 | 5.0 | 5.4 | 5.7 | 5.9 |
| Income from Public and Private Transfers | 3.0 | 3.2 | 3.3 | 3.2 | 3.4 | 3.6 |
| Proprietor Income | 2.4 | 2.4 | 2.4 | 2.3 | 2.4 | 2.5 |

*Source: California Economic Forecast, September 2020*

| Labor Market and Income Forecast | Santa Clarita Valley | | | | Forecast: 2020 - 2025 |
|---|---|---|---|---|---|
| | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 |

| | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 |
|---|---|---|---|---|---|---|
| **Employment** | | | | | | |
| **Sector** | | | – jobs – | | | |
| Farm | 21 | 25 | 26 | 25 | 25 | 25 |
| Construction | 7,304 | 8,030 | 8,593 | 9,088 | 9,376 | 9,626 |
| Manufacturing | 10,252 | 11,006 | 11,180 | 11,330 | 11,450 | 11,549 |
| Transportation & Utilities | 1,327 | 1,388 | 1,519 | 1,690 | 1,831 | 1,886 |
| Wholesale/Retail Trade | 14,919 | 15,640 | 15,810 | 16,027 | 16,341 | 16,515 |
| Retail | 10,956 | 11,591 | 11,727 | 11,901 | 12,152 | 12,293 |
| Wholesale | 3,963 | 4,049 | 4,083 | 4,126 | 4,188 | 4,222 |
| Financial Activities | 3,755 | 3,859 | 3,920 | 3,974 | 4,024 | 4,071 |
| Professional Services | 12,893 | 13,585 | 14,081 | 14,505 | 14,847 | 15,129 |
| Information | 1,134 | 1,342 | 1,380 | 1,385 | 1,392 | 1,398 |
| Healthcare & Education | 11,251 | 11,452 | 11,805 | 12,057 | 12,247 | 12,417 |
| Leisure & Recreation | 10,461 | 11,729 | 13,524 | 15,027 | 15,220 | 15,505 |
| Other Services | 2,471 | 2,797 | 2,879 | 2,919 | 2,942 | 2,990 |
| Government | 8,690 | 8,216 | 8,643 | 9,012 | 9,384 | 9,563 |
| Federal | 1,093 | 1,077 | 1,084 | 1,088 | 1,086 | 1,075 |
| State & Local | 7,597 | 7,139 | 7,559 | 7,925 | 8,298 | 8,488 |
| Total Wage & Salary | 85,028 | 89,451 | 93,657 | 97,296 | 99,316 | 100,901 |
| percent change | -11.3 | 5.2 | 4.7 | 3.9 | 2.1 | 1.6 |
| Total Non-farm Jobs Created | -10,820 | 4,419 | 4,205 | 3,639 | 2,021 | 1,585 |
| Unemployment Rate (percent) | 13.3 | 9.0 | 7.1 | 6.2 | 5.8 | 5.6 |
| **Income** | | | - dollars per worker or person - | | | |
| Average earnings per worker | | | | | | |
| current dollars | 57,452 | 56,831 | 57,804 | 59,428 | 61,634 | 63,922 |
| constant 2020 dollars | 57,452 | 55,663 | 55,224 | 55,288 | 55,931 | 56,653 |
| Average per capita income | | | | | | |
| current dollars | 84,021 | 81,471 | 84,437 | 87,683 | 90,456 | 92,884 |
| constant 2020 dollars | 84,021 | 79,796 | 80,667 | 81,574 | 82,085 | 82,321 |
| | | | – billions of dollars – | | | |
| Total Personal Income | 24.0 | 23.6 | 24.8 | 26.2 | 27.5 | 28.7 |
| percent change | 4.6 | -1.9 | 5.2 | 5.6 | 5.0 | 4.5 |
| Income from Wages and Salaries | 6.5 | 5.9 | 6.2 | 6.7 | 7.1 | 7.4 |
| Income from Property and Assets | 5.2 | 5.4 | 5.6 | 5.9 | 6.2 | 6.4 |
| Income earned from outside the County | 5.9 | 6.2 | 6.4 | 6.7 | 6.9 | 7.1 |
| Income from Public and Private Transfers | 4.1 | 3.7 | 3.9 | 4.2 | 4.6 | 5.0 |
| Proprietor Income | 2.3 | 2.5 | 2.6 | 2.7 | 2.7 | 2.8 |

*Source: California Economic Forecast, September 2020*

Data sources for this chapter principally include the California Employment Development Department, Labor Market Information Division. They provide us the monthly information on employment and payrolls by category. The U.S. Department of Commerce is the source of the personal income data.

# RESIDENTIAL REAL ESTATE

California

Los Angeles County

The Santa Clarita Valley

The Forecast

# RESIDENTIAL REAL ESTATE

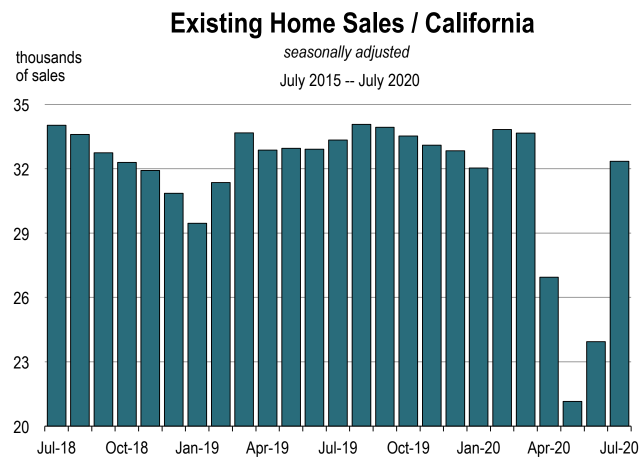
## California

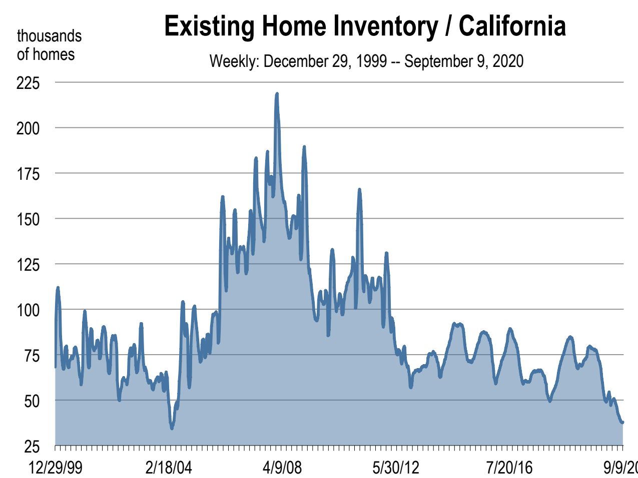
Despite the deepest recession on record, home values are rising sharply in California.

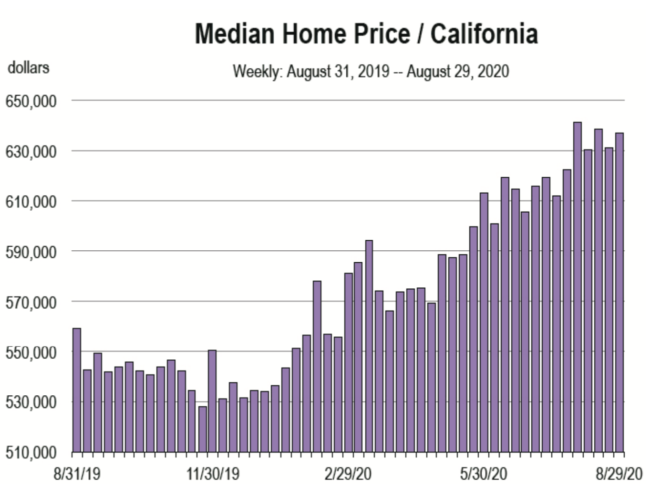
As of late August, the median price had risen to $637,000, an increase of 19 percent since the beginning of the year.

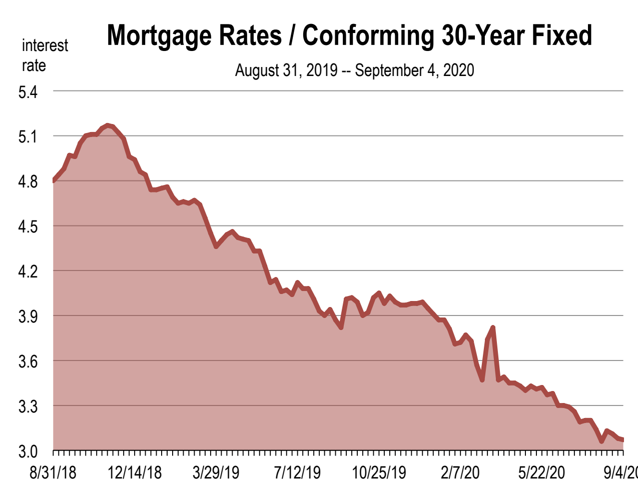
Why are prices rising during a period of massive job loss? Because the number of homes for sale is declining, interest rates are near historic lows, and there are still a lot of people with secure jobs that have jumped into the buyer pool.

Across the state, there are only 38,000 single-family homes for sale. Aside from a brief period in 2004, housing inventory has never been sparser, despite the fact that the population continues to increase.



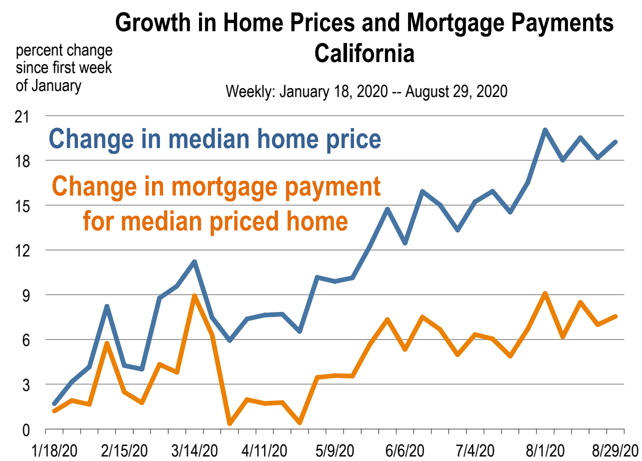



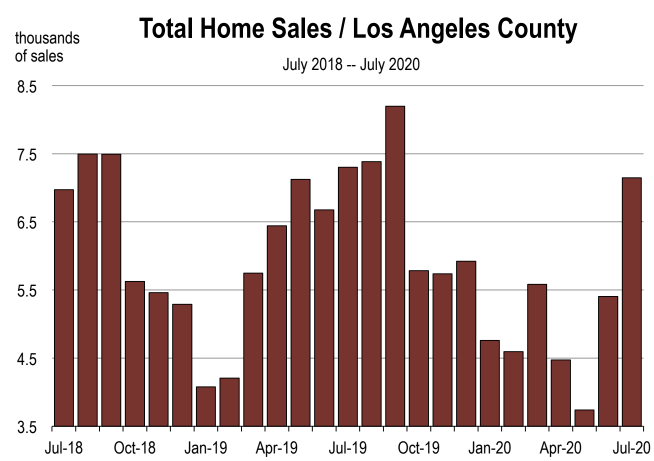
At the same time, low interest rates have motivated a new group of buyers, pushing sales back to pre-pandemic levels.

The median price may have increased by 19 percent since January, but the typical mortgage payment on that home is up by only 8 percent, meaning that fewer buyers have been squeezed out the of market than headline data would suggest.

## Los Angeles County

In Los Angeles County, selling activity contracted heavily in the early phases of the Coronavirus Recession, but has since

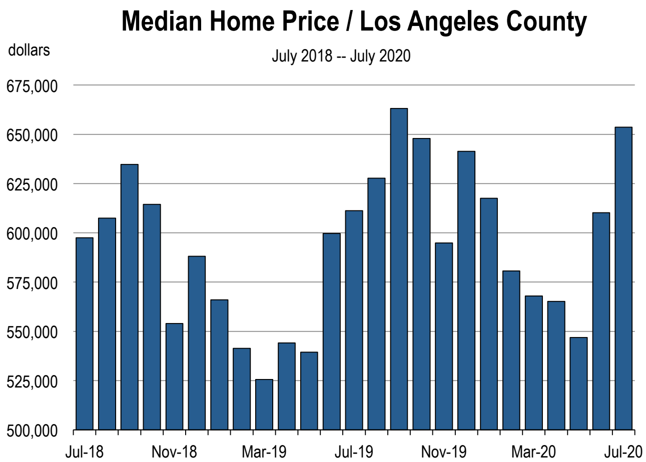


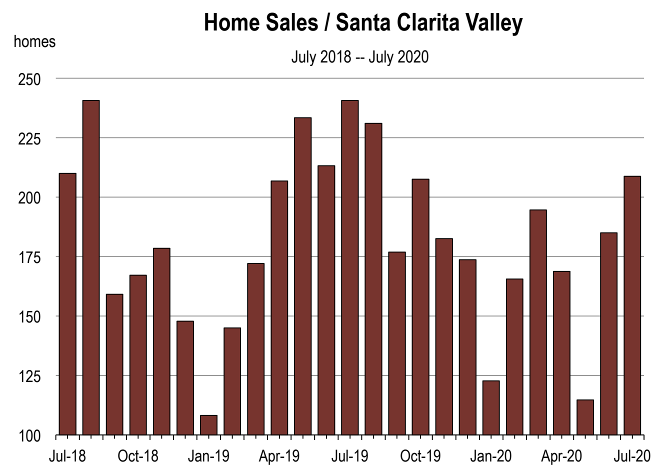




**Single-Family Housing Market**
**Selected California Counties** **2019 - 2020**

| | July 2019 Sales | July 2020 Sales | % Change | July 2019 Median Price | July 2020 Median Price | % Change |
|---|---|---|---|---|---|---|
| **Southern California** | | | | ------------ dollars | ------------ | |
| Inland Empire | 3,518 | 3,933 | 11.8 | $380,000 | $420,000 | 10.5 |
| Los Angeles County | 3,397 | 3,325 | -2.1 | $611,230 | $653,570 | 6.9 |
| Santa Clarita Valley | 241 | 209 | -13.3 | $715,700 | $761,800 | 6.4 |
| Orange County | 1,752 | 1,791 | 2.2 | $839,450 | $880,000 | 4.8 |
| San Diego County | 2,165 | 2,386 | 10.2 | $650,000 | $719,000 | 10.6 |
| Ventura County | 627 | 635 | 1.3 | $685,000 | $720,000 | 5.1 |
| **Northern California** | | | | ------------ dollars | ------------ | |
| Alameda County | 922 | 982 | 6.5 | $950,000 | $1,027,500 | 8.2 |
| Sacramento County | 1,635 | 1,696 | 3.7 | $390,000 | $422,740 | 8.4 |
| San Francisco County | 207 | 210 | 1.4 | $1,600,000 | $1,665,000 | 4.1 |
| Santa Clara County | 905 | 1,018 | 12.5 | $1,298,000 | $1,380,000 | 6.3 |
| **California** | **34,151** | **36,330** | **6.4** | **$540,400** | **$617,400** | **14.2** |

*Source: California Association of Realtors, Corelogic, and the California Economic Forecast*



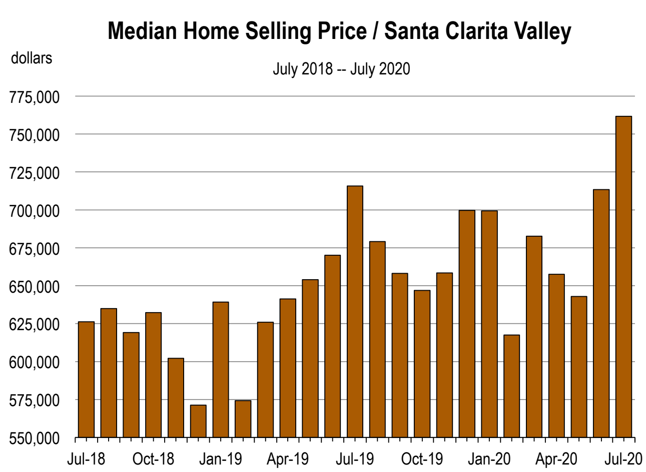




rebounded convincingly. In July, sales had actually returned to year-ago levels.

Countywide prices fell below $550,000 in May but rose above $650,000 just two months later. Prices haven't increased that quickly since the peak of the 2004-2007 housing bubble.

## The Santa Clarita Valley

In an environment as influential as the Coronavirus Recession, economic trends at the

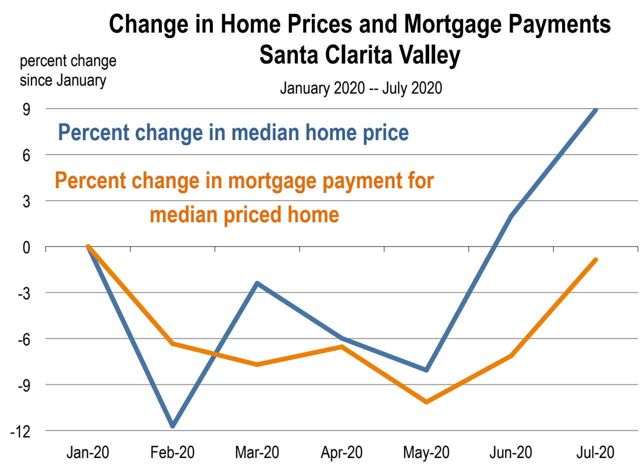


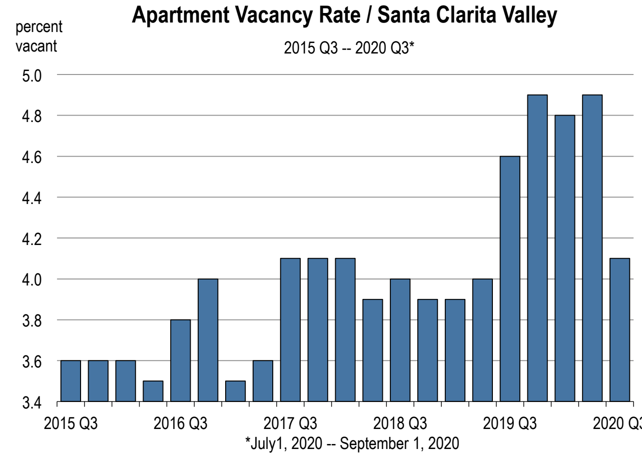

regional levels tend to mirror the U.S. macro environment. The SCV housing market has largely followed national trends, but there have been some important differences.

The median home price in the SCV looks similar to the U.S. and California – declines in April and May, followed by large increases in June and July. The same is true for home sales.

So where does the SCV market differ from the broader macro environment? Whereas homes across California have gotten more expensive, homes in the Santa Clarita Valley have gotten more affordable.

Even though selling prices have increased since the beginning of the year, the typical mortgage payment on the median priced home has actually decreased. Interest rates have declined faster than homes in the SCV have appreciated, meaning that many local buyers could afford a more expensive house in July than they could in January.



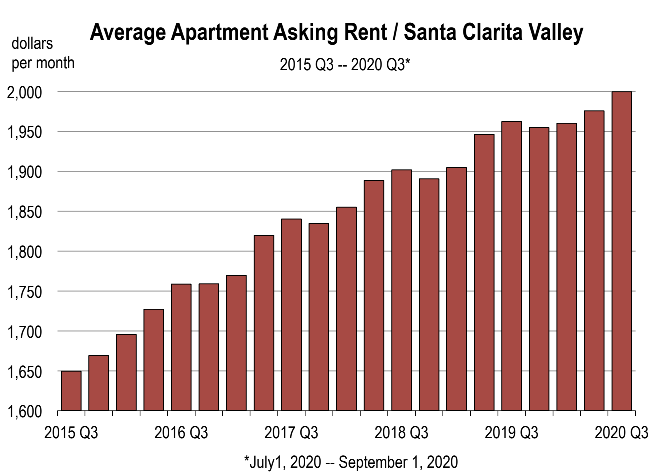

Apartments rents have continued to rise throughout the Coronavirus Recession, with average asking rents hitting $2,000 per month in July and August.

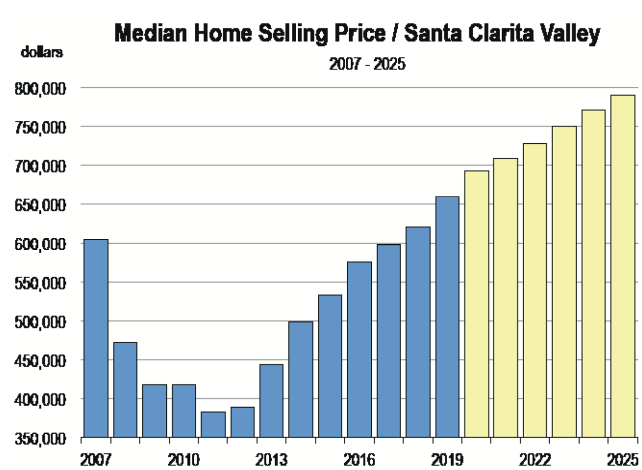
Eviction moratoriums have prevented tenants from being asked to leave, even if they have trouble paying their rent, which has prevented the rise in vacancy rates that typically occurs during economic contractions.

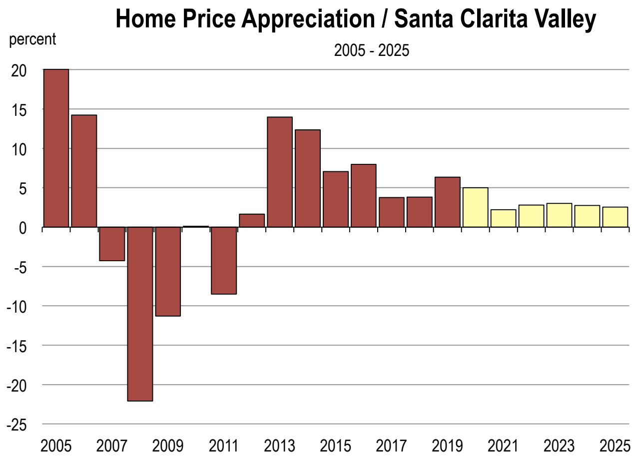
During July and August, the apartment vacancy rate in the Santa Clarita Valley actually declined, falling to just 4.1 percent.

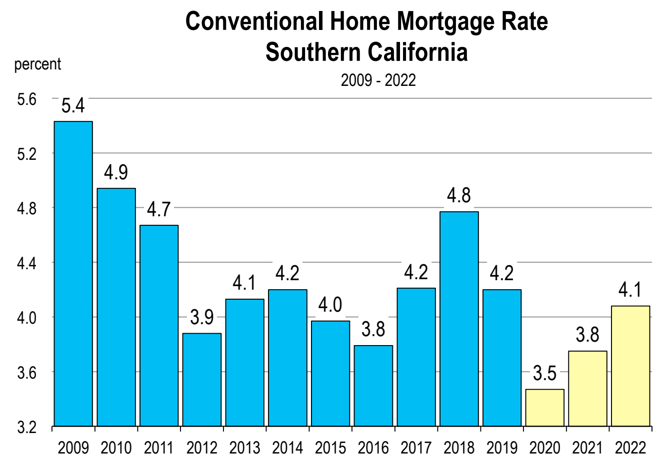
## The Forecast

- Home prices in the Santa Clarita Valley will rise by approximately 4 to 6 percent in 2020, but by only 1 to 3 percent in 2021.

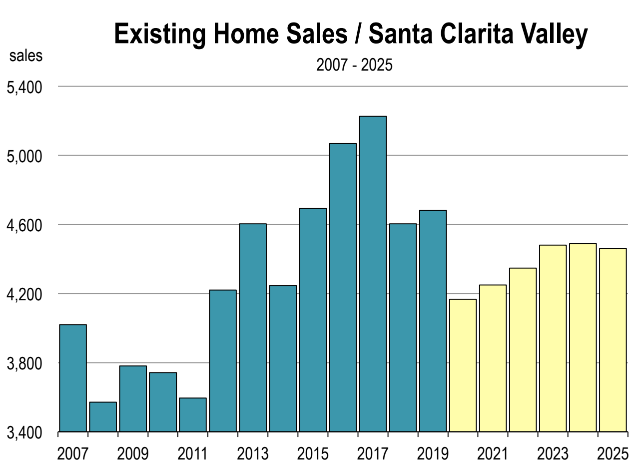


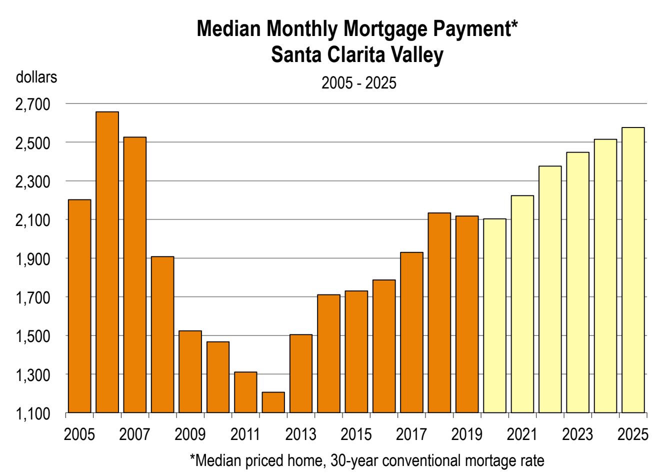






- Prices across California will appreciate by 1 to 3 percent in 2021.
- The FivePoint Valencia development project will produce a large number of new houses, which will increase the supply of homes in the Santa Clarita Valley market.
- But because these homes will be built over a multi-decade period, their impact on region-wide housing prices will be minimal.
- After reaching record lows in 2020, mortgage rates will increase in 2021 and 2022.
- The typical mortgage payment will decline slightly in 2020, but will grow in 2021 and 2022. By 2022, it is expected to reach $2,375 per month.



| Home Sales and Prices | Santa Clarita Valley | | | History 2015-2019 | |
|---|---|---|---|---|---|
| | 2015 | 2016 | 2017 | 2018 | 2019 |
| **Median Home Selling Price** | | | | | |
| Santa Clarita Valley | | *-- dollars --* | | | |
| current dollars | 533,677 | 576,228 | 597,812 | 620,645 | 660,125 |
| percent change | 7.1 | 8.0 | 3.7 | 3.8 | 6.4 |
| constant 2020 dollars | 601,872 | 637,815 | 643,731 | 643,817 | 664,412 |
| percent change | 6.1 | 6.0 | 0.9 | 0.0 | 3.2 |
| California | | | | | |
| current dollars | 474,719 | 499,955 | 534,934 | 568,340 | 589,626 |
| percent change | 6.1 | 5.3 | 7.0 | 6.2 | 3.7 |
| United States | | | | | |
| current dollars | 219,614 | 231,812 | 245,567 | 257,424 | 270,198 |
| percent change | 6.9 | 5.6 | 5.9 | 4.8 | 5.0 |
| **Existing Home Sales** | | | | | |
| Santa Clarita Valley | 4,693 | 5,068 | 5,226 | 4,604 | 4,682 |
| percent change | 10.5 | 8.0 | 3.1 | -11.9 | 1.7 |
| **Effective Mortgage Rates** | | *-- percent --* | | | |
| Southern California | 4.0 | 3.8 | 4.2 | 4.8 | 4.2 |
| Nation | 3.9 | 3.7 | 4.0 | 4.5 | 3.9 |
| **Inflation** | | *-- percent change in the consumer price index --* | | | |
| Southern California | 0.9 | 1.9 | 2.8 | 3.8 | 3.1 |
| California | 1.4 | 2.3 | 3.0 | 3.7 | 2.9 |
| Nation | 0.1 | 1.3 | 2.1 | 2.4 | 1.8 |

*Source: California Economic Forecast, September 2020*

| Home Sales and Prices | Santa Clarita Valley | | | | Forecast 2020-2025 | |
|---|---|---|---|---|---|---|
| | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 |
| **Median Home Selling Price** | | | | | | |
| Santa Clarita Valley | | | *-- dollars --* | | | |
| current dollars | 693,131 | 708,459 | 728,292 | 750,221 | 770,846 | 790,454 |
| percent change | 5.0 | 2.2 | 2.8 | 3.0 | 2.7 | 2.5 |
| constant 2020 dollars | 693,131 | 693,887 | 695,779 | 697,954 | 699,514 | 700,564 |
| percent change | 4.3 | 0.1 | 0.3 | 0.3 | 0.2 | 0.2 |
| California | | | | | | |
| current dollars | 590,500 | 600,554 | 616,735 | 635,401 | 652,804 | 669,242 |
| percent change | 0.1 | 1.7 | 2.7 | 3.0 | 2.7 | 2.5 |
| United States | | | | | | |
| current dollars | 278,314 | 278,247 | 277,691 | 288,514 | 299,257 | 309,680 |
| percent change | 3.0 | 0.0 | -0.2 | 3.9 | 3.7 | 3.5 |
| **Existing Home Sales** | | | | | | |
| Santa Clarita Valley | 4,167 | 4,249 | 4,347 | 4,480 | 4,489 | 4,462 |
| percent change | -11.0 | 2.0 | 2.3 | 3.1 | 0.2 | -0.6 |
| **Effective Mortgage Rates** | | | *-- percent --* | | | |
| Southern California | 3.5 | 3.8 | 4.1 | 4.1 | 4.1 | 4.1 |
| Nation | 3.5 | 3.5 | 3.7 | 3.7 | 3.7 | 3.7 |
| **Inflation** | | | *-- percent change in the consumer price index --* | | | |
| Southern California | 0.7 | 2.1 | 2.5 | 2.7 | 2.5 | 2.4 |
| California | 0.5 | 1.6 | 2.3 | 2.6 | 2.5 | 2.3 |
| Nation | 0.8 | 1.7 | 2.0 | 2.5 | 2.4 | 2.3 |

*Source: California Economic Forecast, September 2020*

Data sources for this chapter include the California Association of Realtors for housing prices, sales, and inventory for California and Los Angeles County; the Mortgage Bankers Association for mortgage rates; Corelogic for housing prices and sales for the Santa Clarita Valley; CoStar for apartment rental and vacancy rates; and the Bureau of Labor Statistics for inflation statistics.

# COMMERCIAL REAL ESTATE

Employment

Office Market


Industrial Market

Retail Market

# COMMERCIAL REAL ESTATE

## Employment

During the Coronavirus Recession, jobs were lost across all major commercial retail sectors. Losses were heaviest by a wide margin in retail-using firms, but losses in office-using and industrial-using industries were also severe.

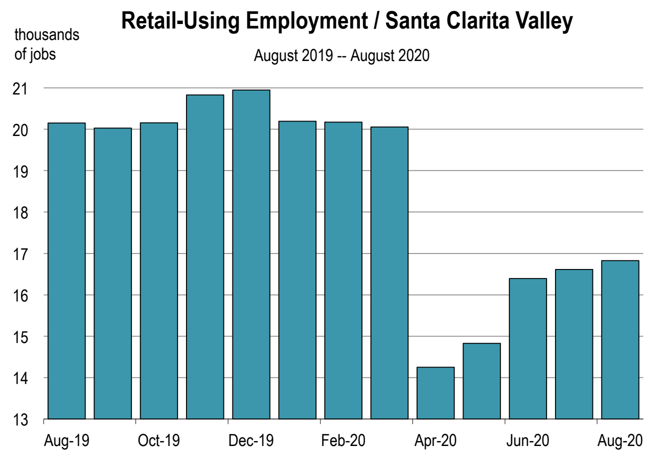
In March and April, when the SCV economy was contracting, non-essential retail and dine-in restaurants were largely shut down. Because these are the primary users of retail facilities, overall retail-using employment declined by 30 percent.

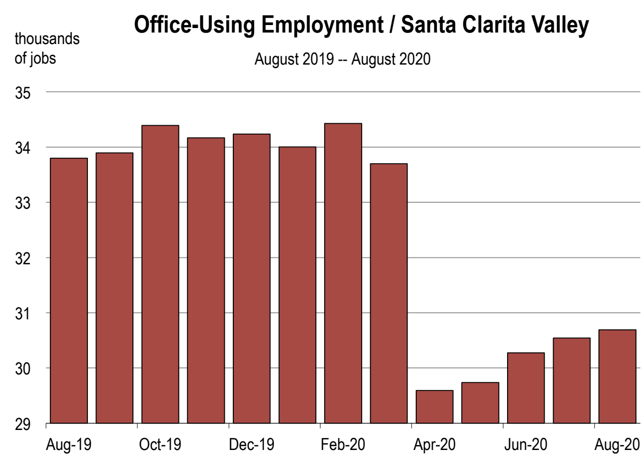
Since April, almost half of retail-using jobs have been restored, which is a relatively quick rebound. It is expected to take much longer to recover the remaining jobs that were lost.

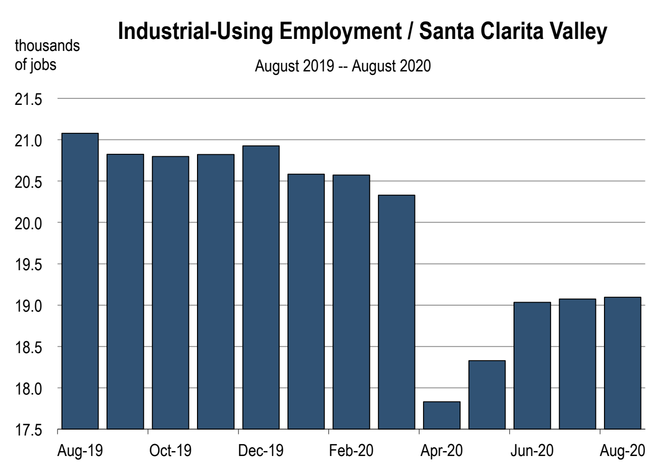
In the industrial-using and office-using industries, total employment declined by 13 to 15 percent in March and April.

The rebound in office jobs has been slow because many offices are still closed, and because demand for some services has yet to begin to rebound.

The recovery in industrial-using jobs has been much more robust because there are fewer restrictions on warehouse, storage, delivery, and manufacturing activities.



## The Office Market

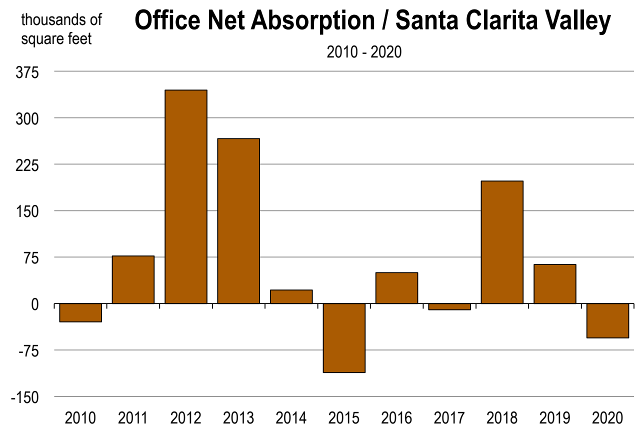
- Across the Santa Clarita Valley, the office vacancy rate is rising. During the third quarter of 2020, 10.2 percent of office space was vacant.

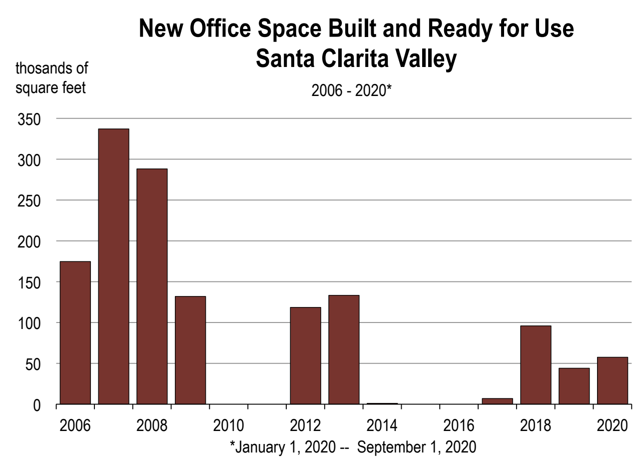
- Net absorption has been negative, with more companies vacating their office facilities than companies expanding or moving into new facilities.

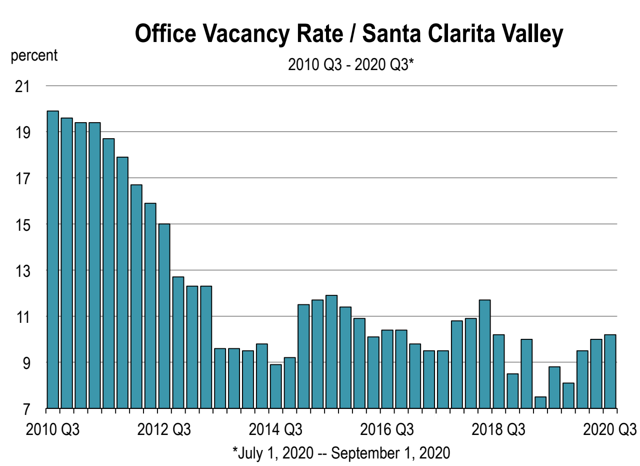
- Only 73 leases have been signed in 2020, with transactions declining after the Coronavirus Recession began in March. In a typical year, more than 100 leases are signed during the first three quarters.

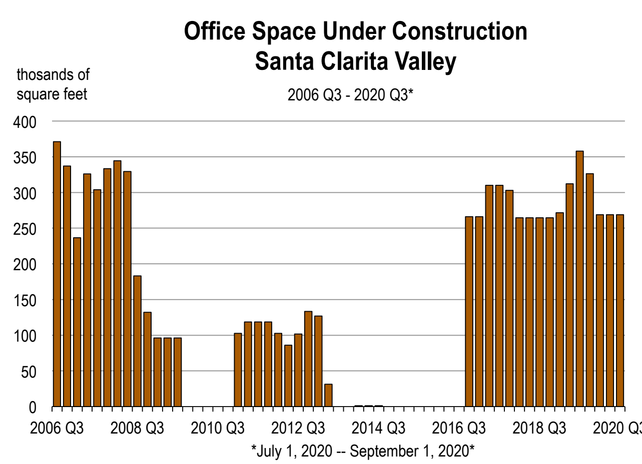
- Only a small amount of new space has been built and added to the market in 2020, and all of it occurred in the first quarter.

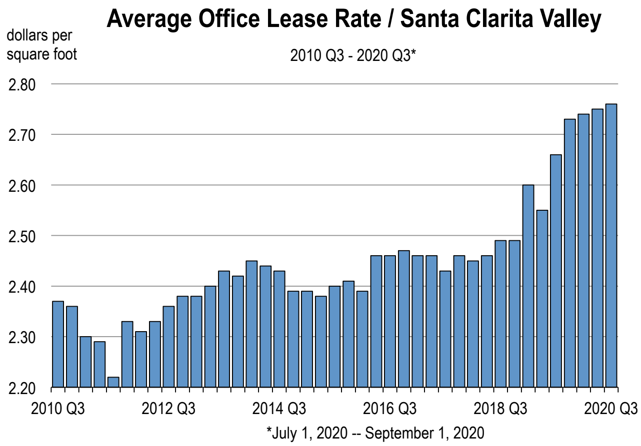
- Five buildings are under construction, and upon completion these facilities will deliver more than 250,000 square feet of capacity.

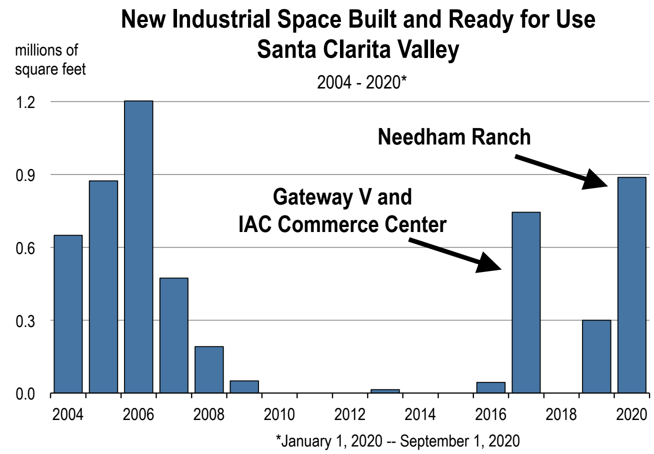





• Office lease rates continue to climb, and are now above $2.75 per square foot.

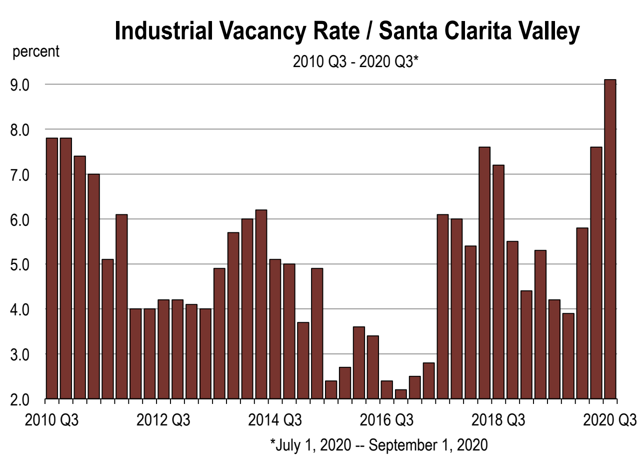
## The Industrial Market

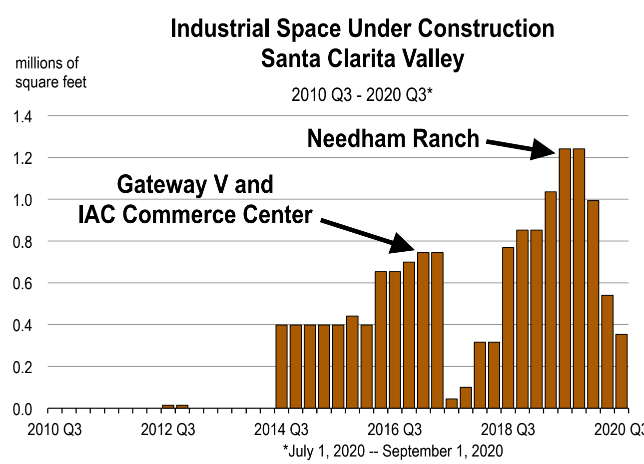
• In the SCV, industrial vacancy rates are rising sharply.

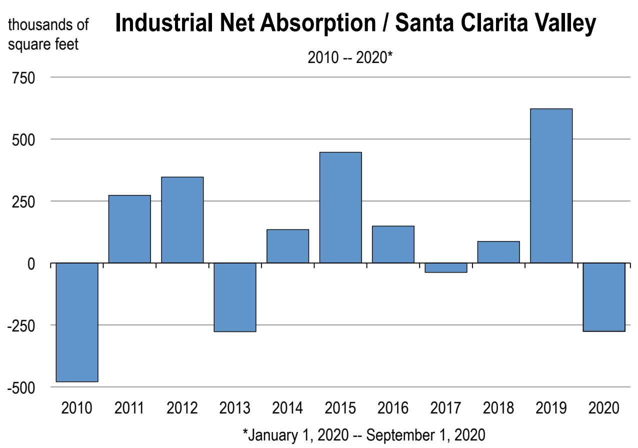
• Vacancy rates are rising because new facilities are being built and added to the market base. These deliveries have not slowed down during the recession, as 7 new structures (640,000 square feet) have been completed in the second and third quarters of 2020.

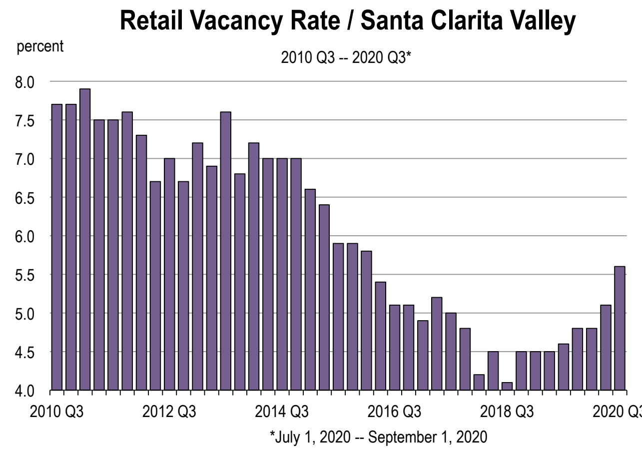
• Leasing activity in 2020 has kept pace with 2019. Several tenants have acquired space at Needham Ranch (including Amazon and Illumination Dynamics), absorbing some of the new space that is being added.

• Some industrial-using firms have gone out of business because of the Coronavirus Recession, but the completion of new facilities






has impacted vacancy rates to a much greater extent than business failures.

- Lease rates have been relatively unchanged for most of 2020, and have stabilized around $0.82 per square foot.

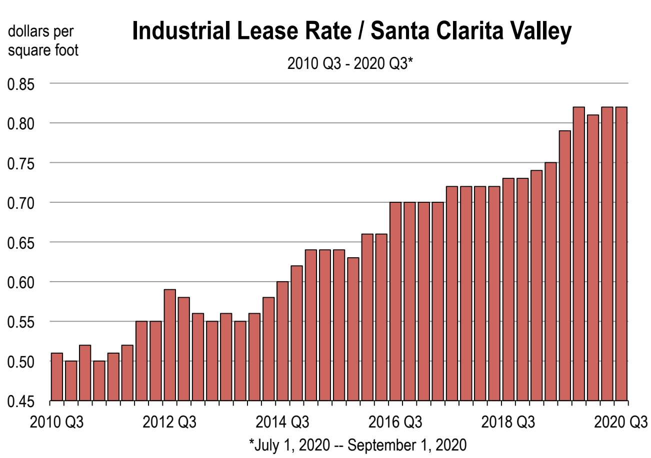
- Construction activity has slowed substantially during 2020. Midway through the third quarter, only 3 buildings (350,000 square feet) were underway, which should limit the amount of space that will be completed at the end of 2020 and into 2021.

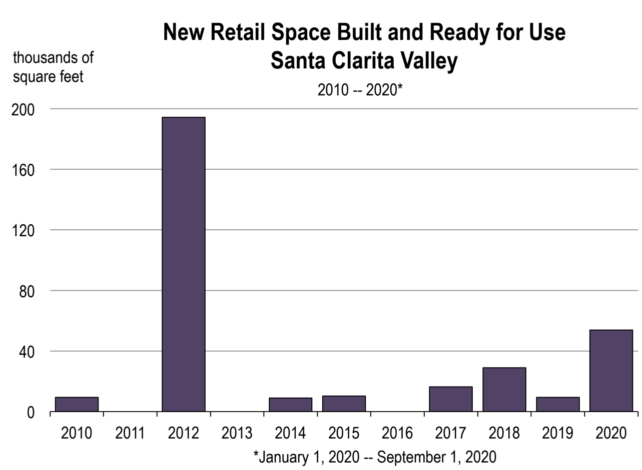
## The Retail Market

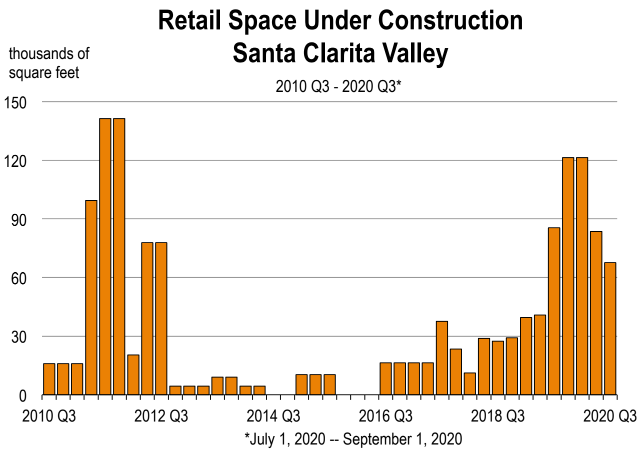
- Vacancy rates in the Santa Clarita Valley retail market are climbing.

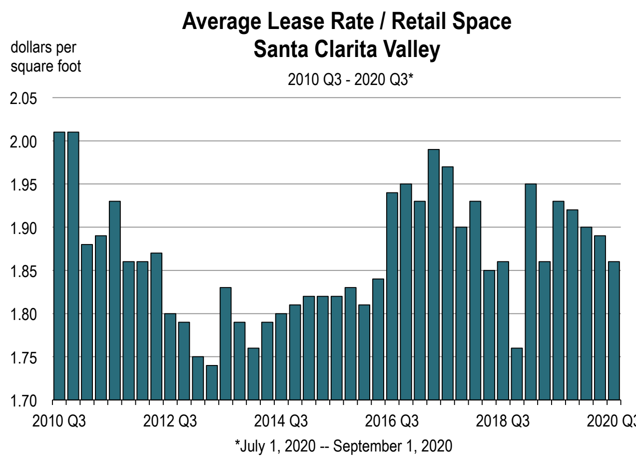
- The marketwide vacancy rate is now 5.6 percent, which is up from 4.1 percent in mid-2018.

- New construction had been minimal for years, with only 79,000 square feet of space being competed between 2010 and 2018. But new





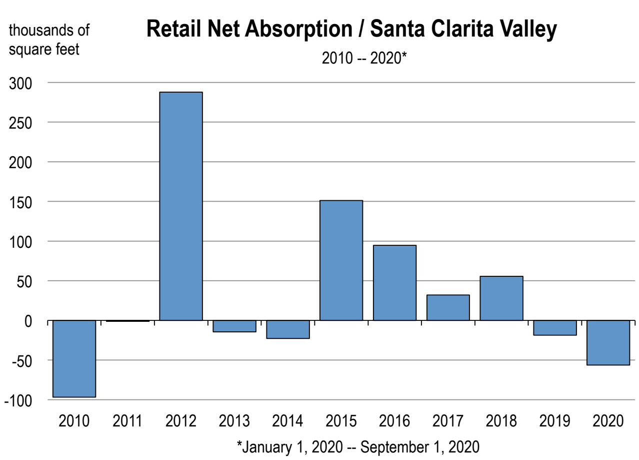



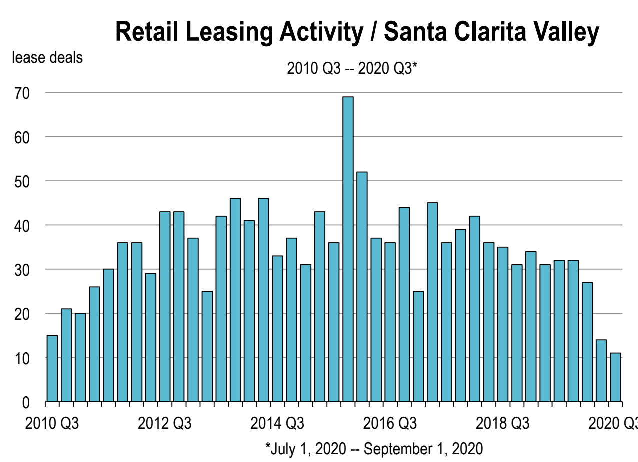

projects have broken ground and more than 60,000 square feet of space was completed over the last 20 months.

- Net absorption has been slightly negative in 2020. Most of this activity has occurred in the second and third quarters of the year, when social distancing requirements have made it difficult for retail-using businesses to stay afloat.

- The number of new lease deals fell sharply during the Coronavirus Recession of 2020, dropping to a level that is comparable to the Great Recession of 2008-2009.

- Lease rates have softened in 2020, as would be expected when vacancy rates are rising.



# Acknowledgements

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