

Santa Barbara's Changing Demographics and Housing Trends



 Coastal
Housing Coalition

**California
Economic
Forecast**



Santa Barbara's Changing Demographics and Housing Trends

Prepared for:



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Final Report

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A Letter from the Coastal Housing Coalition



Dear Reader:

The economic and social health of any community depends on socio-economic diversity, on a balanced mix of income groups having the opportunity to live and work successfully in the community. Without such diversity, employment sectors will lack qualified workers from the community and will have to rely on workers commuting from outside the community. A large in-commuting workforce in a community is typically associated with negative impacts on the environment, a lack of community cohesion, and a diminished quality of life for those commuting. In the worst cases, key employers may choose to relocate to areas where it is easier to attract qualified workers, and important economic sectors of the economy will atrophy.

To assure the healthy mix of income groups that will provide a viable workforce, it is essential that a community balance job opportunities and housing opportunities. While this balance varies among the geographical sub-regions of Santa Barbara County (South County, Central County, and North County) in response to demographic differences, past research and general observation has indicated imbalances in all of these sub-regions.

Study Background: The Coastal Housing Coalition was formed seven years ago in response to the South County community's concern that general housing scarcity and the housing bubble escalation of home prices was excluding middle income workers from home ownership and causing local businesses to have trouble recruiting and retaining qualified local workers. The Coalition's founding mission was to educate the community about the critical need for middle-income housing and to advocate that community decision makers provide for such housing in land use decisions.

In pursuit of that mission and with the belief that clear and current demographic data were necessary to fully understand the jobs/housing imbalance's impact on our local workforce, the Coalition engaged the California Economic Forecast to undertake this study, *Santa Barbara's Changing Demographics and Housing Trends*. The study provides data for all three closely-interconnected sub-regions of the County in order to better understand the region as a whole. The study was generously funded by a grant from the Santa Barbara Foundation, guided by a committed sub-committee of the Coalition's Board of Directors and informed by an impressive community advisory board. We are grateful to all of these organizations and individuals.

The study provides demographic evidence that supports the concerns that many in the sub-regional communities have had for some time over community health as it relates to housing opportunities and economic vitality.

North County: In the North County, with large numbers of foreclosures, a stagnant economy with lower-paying jobs, and very significant out-commuting, housing is available, but the area lacks middle income workers to buy them, and lower income households lack the income to meet underwriting standards. The jobs/housing balance is tipped toward more available units than middle income workers to buy them. The result is out-commuting to the north and to south for jobs and in-migration from the north and from the south for housing.

Central County: In the Central County, the population is aging in place, under-utilizing the existing single-family housing stock, and the younger population cohort is dwindling. Jobs are largely agricultural and entry-level housing is not available. Without either attractive jobs or available housing, the middle class is out-migrating.

South County: The South County has the strongest economy in the County and the highest housing costs. Compared to California and to the nation, the availability of housing is significantly less. Although housing prices dropped significantly from the housing-bubble highs of 2005, housing is still much more expensive than in California or the nation overall. The gap between housing costs and median income is much wider here. And, although the data suggests that a fair percentage of median-income households in the community could afford a median housing cost condominium, the number of such units is small and the calculation does not attempt to account for down payment requirements or toughened current underwriting standards. The jobs/housing balance is tipped to jobs, and the result is in-commuting for jobs and out-migrating for housing.

Where to go from here: With these regional conditions, there is clear cause for concern about the continued erosion of the balance and diversity in our communities. North County will need to continue to pursue the creation of quality jobs and educational opportunities for its residents to absorb the existing housing stock and to enhance the overall economy and the associated community health. Central County will need to rely on the continued viability of the agricultural segment and the growth of the wine industry, and will need to explore opportunities for additional affordable housing stock. South County will need to plan for housing for its workforce by making the necessary land use decisions. It also needs to be remembered that the economy locally and nationwide is in a slow and irregular recovery. As the recovery hopefully becomes more robust and generates more jobs, the jobs/housing balance will worsen, given the existing constraints of environmental restrictions and land use policies. It will be wise for the community to plan for that eventuality now if we are to preserve our middle class/middle-income workers and have a healthy economy and community.

The findings in this report, synthesized in the key trends that follow, help provide a framework for discussing the housing needs of our communities given demographic changes and housing trends over time. The Coalition believes the study raises the following questions about how the South Coast community should seek to better balance our economic and social environment:

- Are there housing product types that would better fit demand, such as units for larger, multi-generational families or smaller homes for young families?
- Should we further revise land use policies to require stronger inclusionary housing requirements of private development?
- Where and how could densities be increased while accounting for environmental quality and stable, safe neighborhoods?
- Would additional senior housing encourage homeowners aging in place in under-utilized homes to move?
- Is affordability-by-design achievable and how would it be preserved?
- Would the development of new quality rental housing be attractive to middle income workers and be economically feasible to develop?
- Can we afford to wait for things to get tighter in the housing market as the economy improves and new jobs are generated?

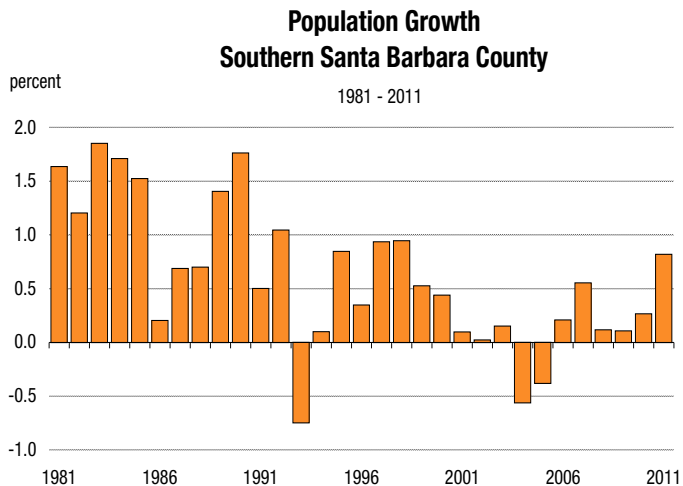
The Coalition believes this is a critical time to engage these questions and the issue of preserving the health of our community by preserving our dwindling resident middle income middle class and invites everyone to join the discussion.

Sincerely,

Coastal Housing Coalition Board

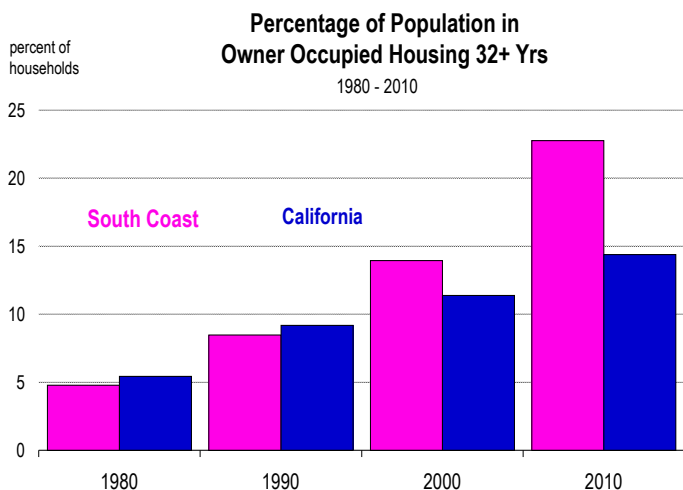
Key Trends in the South Coast

Key Trend #1: *Despite net out-migration, the South Coast's population is still slowly growing due to native births.*



Key Trend #2: *The South Coast's population is aging, increasingly consisting of people who are living longer and staying longer in their homes.*

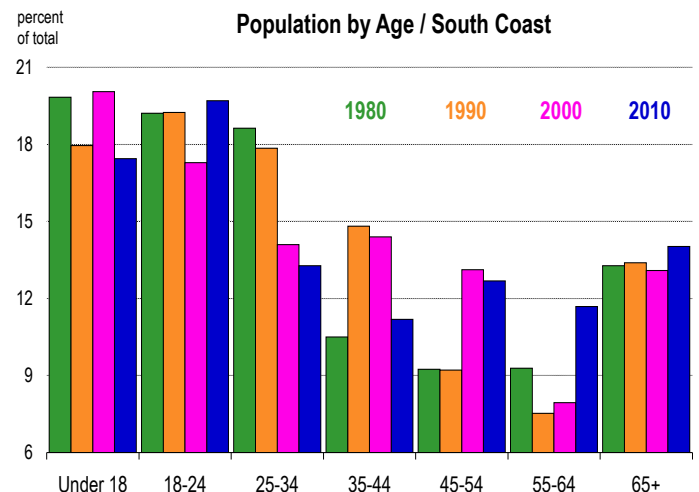
- While retirees contribute greatly to our community in many ways, a healthy community requires a balance of different demographic populations, including those that comprise the workforce.



- People in the Santa Barbara area are living in their homes much longer than the national average.
- Moreover, older populations generally have smaller household sizes, leading to an underutilization of ownership housing.

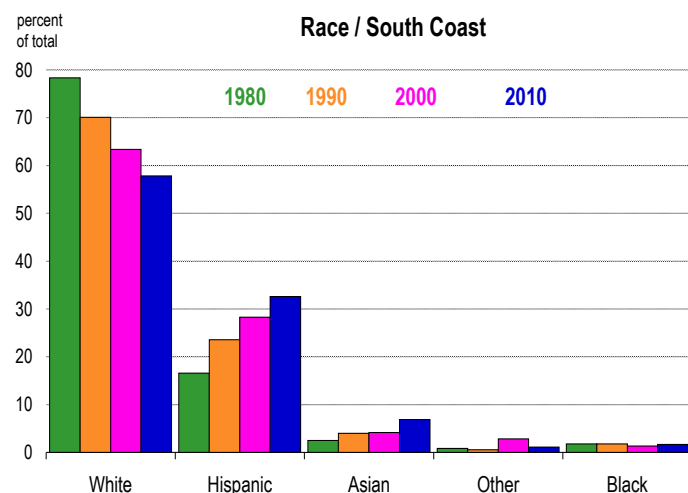
Key Trend #3: *The percentage of middle-age households in the South Coast has dramatically decreased in the last decade, resulting in the loss of a key demographic for community health and vitality.*

- Middle-age households tend to also be middle-income households, a key demographic for the economy.
- According to surveys by Coastal Housing, a dearth of middle-age households leads to lower levels of community involvement.
- Middle-income workers are needed for professional and supervisory jobs in many sectors of the South Coast economy. If these individuals are forced to commute from other regions, businesses, families, and the environment will be negatively affected.



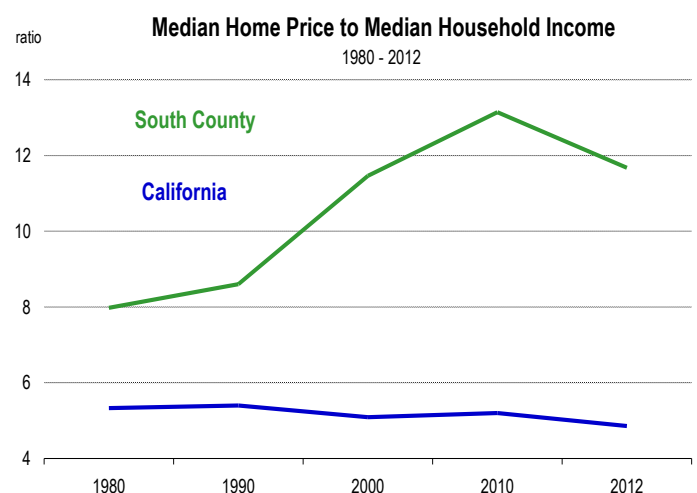
Key Trend #4. The South Coast population is becoming more ethnically diverse.

- Hispanics represent an increasing proportion of the population due to in-migration and family growth from births.
- The white population has been characterized by a lower birth rate, a higher average age, and a declining share of the population.



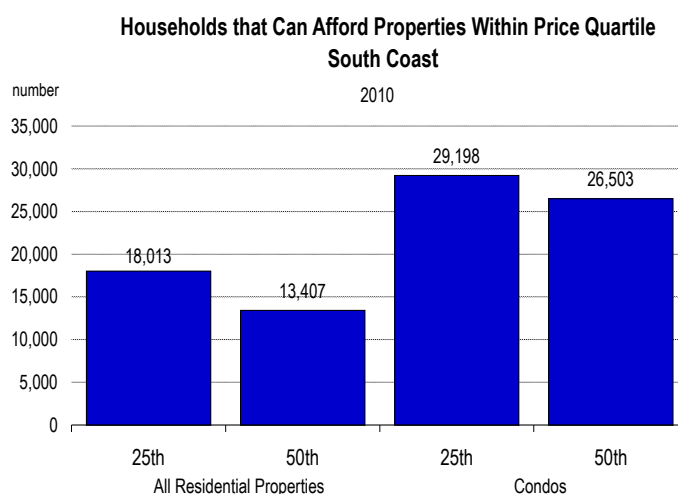
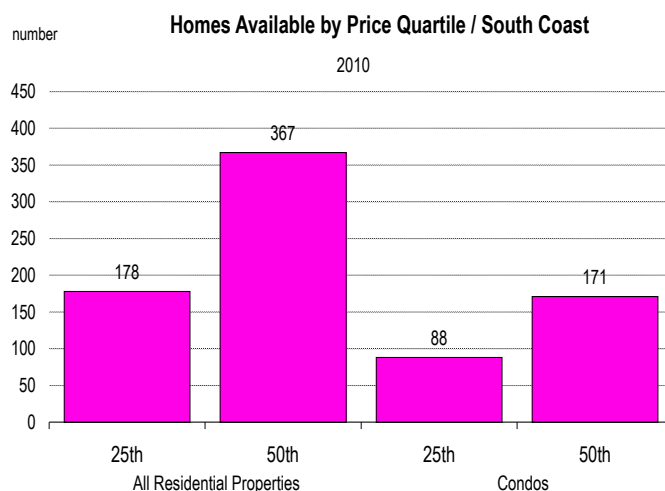
Key Trend #5: Since 1980, the gap between housing prices and median household income has widened dramatically in South Santa Barbara County, increasing much more here than across the state or nation.

- Over the long-term, the ratio of median home prices to median incomes in California has been relatively stable at around 5.2.
- In the South Coast the price to income ratio has increased over time, growing from 8.0 in 1980 to 11.7 in 2012.
- In South Santa Barbara County, Inflation-adjusted median income has declined to 1990 levels, but home prices are much higher than in 1990.



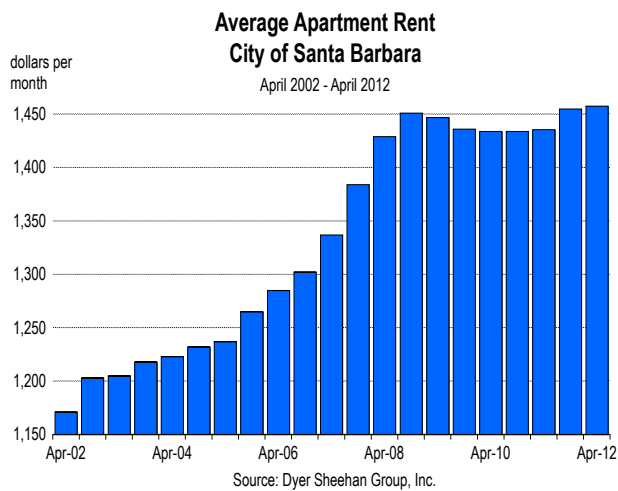
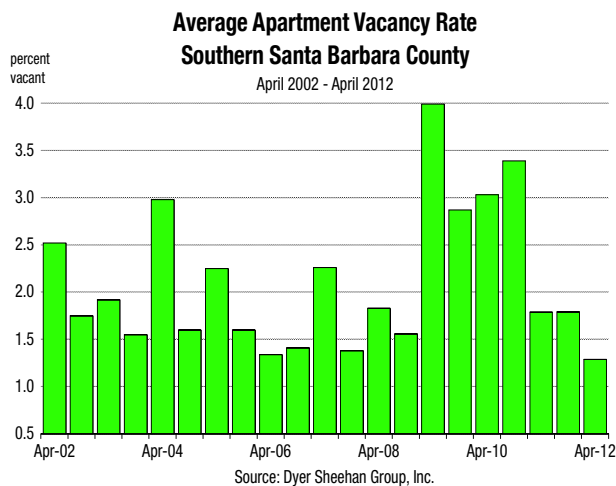
Key Trend #6: While house prices have declined since the mid-2000's, home affordability for middle-income households remains a challenge.

- Housing prices have declined significantly since the 2005 peak, but are still higher than most places in the state and nation.
- Despite price declines and low interest rates, the percentage of residents able to afford to buy is still relatively low.
- In 2010, 178 housing units were listed for sale below the 25th price percentile, and 367 additional units were below the 50th percentile.
- However, there were more than 18,000 households that were able to afford the homes below the 25th percentile, and more than 13,000 that could afford the median-priced home. This is a staggering disparity – and the divergence only becomes wider when analyzing condos.
- In addition, credit standards are tighter than they have been for many years. Even for families with adequate income and savings, qualifying for a mortgage can be difficult. This constrains affordability even further.



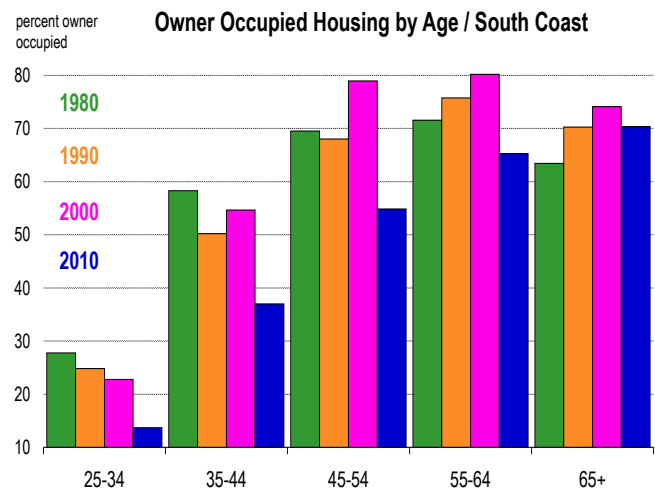
Key Trend #7: The South Coast rental market has the lowest vacancy rate in years, and rents are high.

- Even for renters, housing affordability is a challenge. Rental prices declined only slightly during the recession, and rents are now rising again in the cities of Santa Barbara and Carpinteria.



Key Trend #8: In the South Coast, homeowners are overwhelmingly in the older age cohorts.

- The vast majority of all homes are owned by individuals aged 55 and over.
- This is a sign of the lack of affordability for younger households.
- Consequently, younger households are forced to rent or move out of the area.



Implication of Key Trends

Population growth in the South Coast has slowed. There has been out-migration for most of the past decade.

The existing population continues to grow older, particularly the near-retirement and retired aged cohorts.

There has been virtually no housing built here for much of the decade.

Based on the commuting patterns to or from Ventura and Oxnard, it is clear that the high cost of housing in Southern Santa Barbara County is driving employees to move out of the area.

Because of the high ownership rates for older households, residents aged 55 and higher own nearly all the housing along the South Coast. This has come at the expense of 25 to 44 year olds, who combined own just 15 percent of South Coast homes.

Across the state there has been a trend toward longer tenure in owner occupied housing, but it has been especially pronounced in the South Coast market, where nearly 25 percent of all owners have lived in their home since at least 1980.

And there are very few affordable homes available to purchase along the South Coast.

Consequently, as workers retire, they are very likely to remain in their owned homes instead of making them available to the existing workforce in the middle age cohorts. The trend clearly points to a dearth of housing for the future South Coast workforce.

This situation implies a continued increase in commuting. It also indicates that a suitable workforce may not be locally available to fill needed positions within South Coast businesses, especially as workers retire. There is therefore a growing probability that firms will expand elsewhere or relocate altogether outside the region.

Technical Note

Statistical information beginning with the 1980 Census has been used in this report to construct a 30 year history on the demographics and housing characteristics of Santa Barbara County. Where possible, even earlier information has been incorporated to provide a longer time horizon. For the purposes of this report, the

North County is defined as Guadalupe, Orcutt, Santa Maria, Lompoc, and Cuyama. The Santa Ynez Valley is made up of Los Olivos, Buellton, Solvang, and Santa Ynez. The South County, or South Coast, is comprised of Goleta, Isla Vista, Santa Barbara, Montecito, and Carpinteria.



Table of Contents

Who Lives Here	12
Who Works Here	28
Where We Live	34
Housing Affordability	46
Preparers	56

WHO LIVES HERE

Population

Migration

Age

Education

Ethnicity/Race

Income



Population

Santa Barbara County

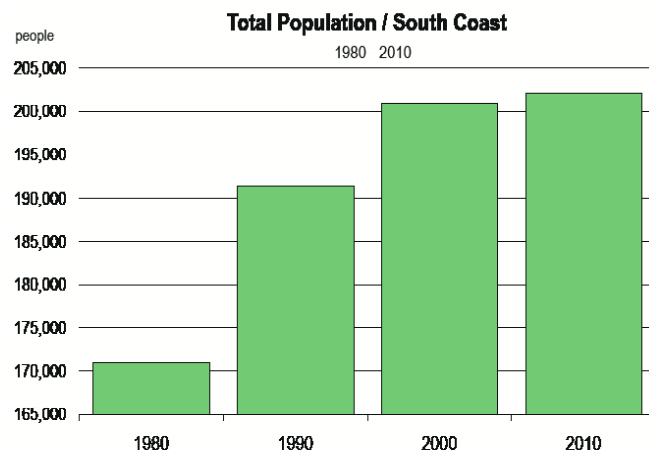
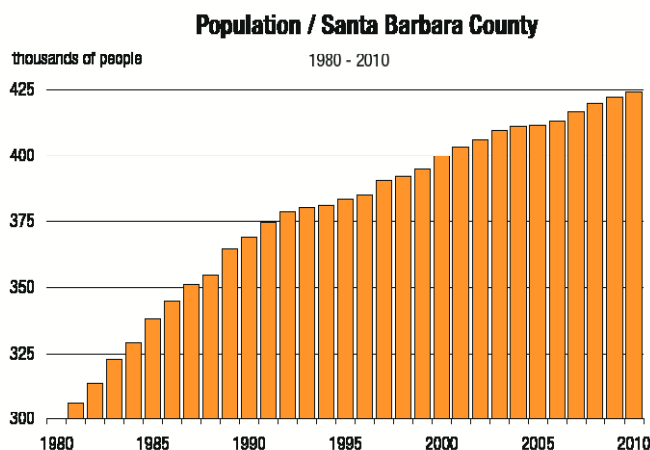
According to the 2010 Census there were 423,895 residents living in Santa Barbara County. Of these, 202,167 were located in the South County, 199,058 in the North County and 22,670 in the Santa Ynez Valley. Total population in the county has grown by 42 percent over the past 30 years, with the majority of the growth occurring in the North County and Santa Ynez Valley.

Population growth has slowed substantially in recent years, and is now virtually non-existent. During the 1980s the population rose by a modest 12 percent, followed by 5 percent growth in the 1990s. In the most recent decade the population grew by just 0.6 percent. The high cost of housing is a primary reason that families are increasingly unable to settle in Southern Santa Barbara County.

Southern Santa Barbara County

The 202,167 residents living in the South Coast of Santa Barbara County make up approximately half of the total county population. Since 1980 the population has grown by 31,273 residents, or just over 18 percent.

Though the total population has changed little in recent years, the demographic makeup of the South Coast has dramatically changed. Age, ethnicity, income, and education profiles are all substantially different than what was observed in 1980, and the trends in place are likely to continue.



Northern Santa Barbara County

Population in the North County has grown by 75 percent since 1980, an increase of 85,355 residents. Growth remains strong, rising by just under 13 percent over the past decade. Over the past 30 years the North County has accounted for 68 percent of all growth in Santa Barbara County.

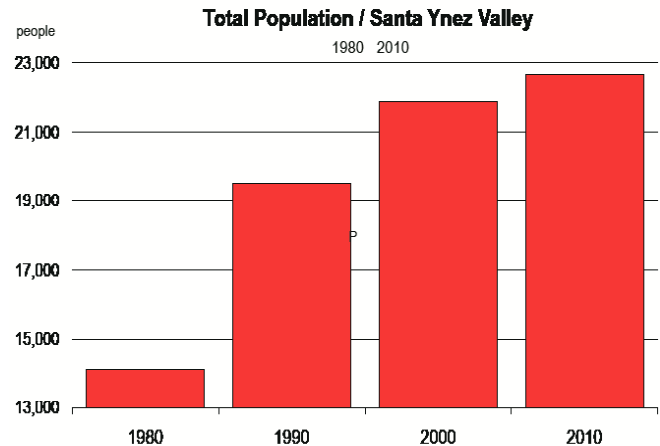
Santa Ynez Valley

The Santa Ynez Valley makes up just over 5 percent of total population in Santa Barbara County. Population growth is stronger than in the South County, but lower than the North County. Because demographics more closely match the South County, and there is limited new building in the area, population growth will likely slow further in the coming years.

Migration

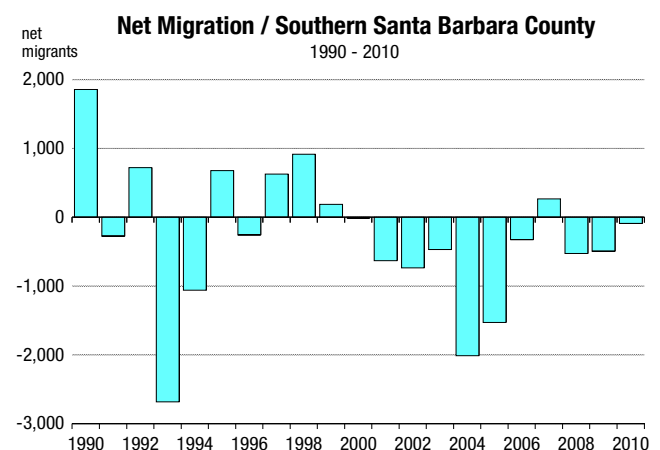
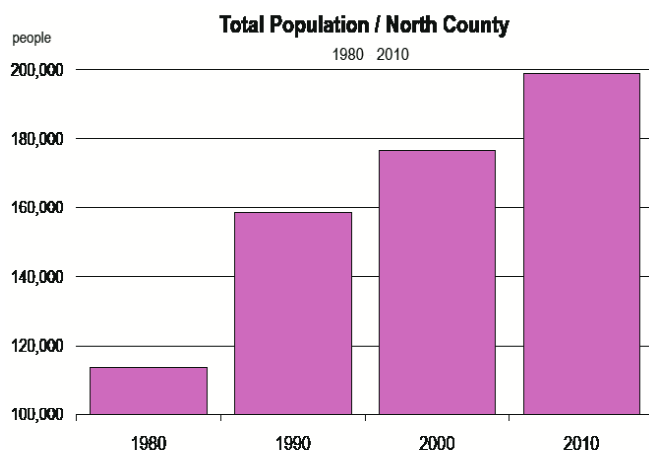
Southern Santa Barbara County

Though population growth in the South County is still marginally positive, residents continue to leave the area every year. In the past decade there has been only one year with positive in-migration



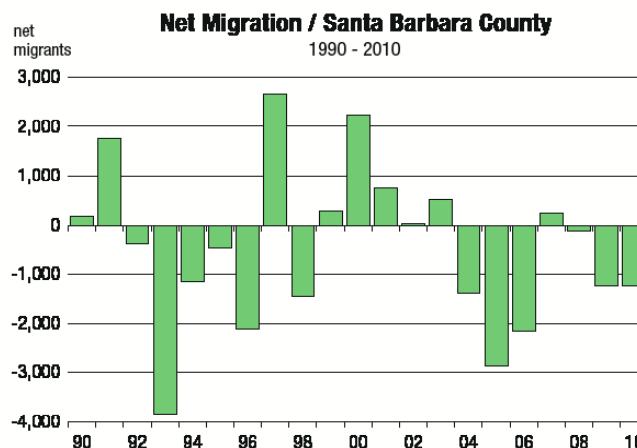
into the South County. All population growth can be accounted for by the natural increase, which means that more births are occurring in the area than deaths.

Over the past decade, births have been consistently declining. Deaths have not yet been rising, but with the aging of the population, a higher death rate will be inevitable in the coming years. In the 1990s the natural increase averaged over 1,100 people per year. Over the past decade it has been less than 800 per year, and slowed to as few as 630 in 2010. If this trend continues, and it seems likely that it will, population in the South County will begin to decline unless migration reverses. The high cost of living will make attracting people to the South Coast a continuing challenge.



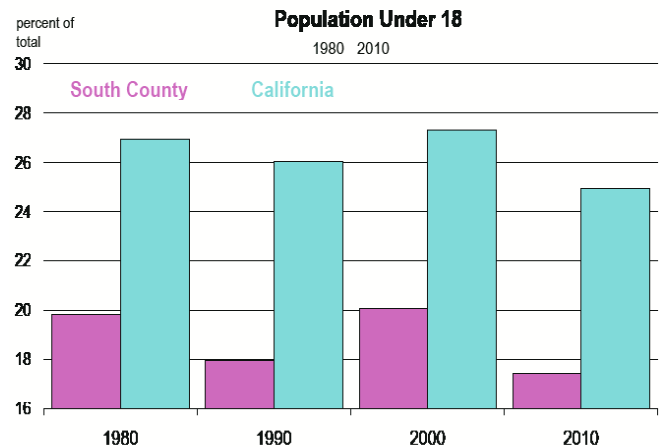
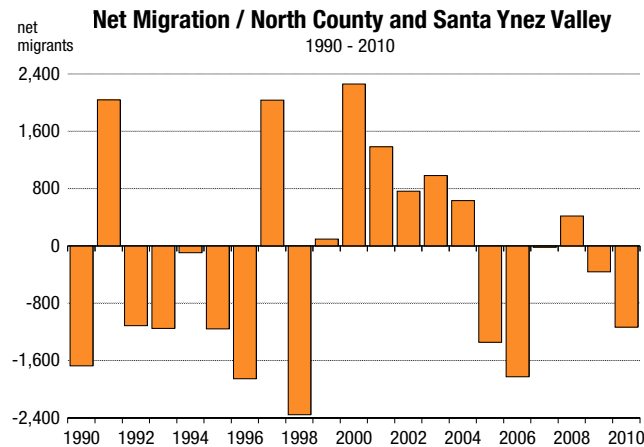
North County and Santa Ynez Valley

As a whole, total migration in Santa Barbara County has been negative in most years over the past two decades. Since 1990 more than 9,600 people have left the County. The majority of those leaving have been from the South County (-5,800); however the North County and Santa Ynez Valley have experienced negative net migration as well. The decline in defense spending reduced employment at Vandenberg Air Force base, and there are now almost 35 percent fewer employees. This forced many residents to leave the area during the early 1990s. Highly affordable housing will encourage migration into the North County in the future, as long as job creation is sufficient.



Demographics	South Coast Santa Barbara				1990-2010
Year	Total Births	Total Deaths	Net Migration	Net Natural Increase	Total Population
1990	2,971	1,518	1,859	1,453	191,367
1991	2,852	1,620	-274	1,232	192,325
1992	2,844	1,560	724	1,284	194,333
1993	2,848	1,617	-2,680	1,231	192,883
1994	2,731	1,482	-1,058	1,249	193,074
1995	2,559	1,603	679	956	194,709
1996	2,523	1,592	-253	931	195,386
1997	2,689	1,487	627	1,202	197,216
1998	2,445	1,500	917	945	199,078
1999	2,328	1,471	189	857	200,124
2000	2,372	1,483	-11	889	201,002
2001	2,285	1,463	-628	822	201,196
2002	2,154	1,376	-735	778	201,239
2003	2,143	1,370	-467	773	201,544
2004	2,302	1,425	-2,009	877	200,412
2005	2,149	1,381	-1,528	768	199,652
2006	2,105	1,365	-323	740	200,069
2007	2,157	1,315	267	842	201,179
2008	2,143	1,382	-524	761	201,415
2009	2,058	1,352	-492	706	201,629
2010	1,982	1,354	-91	629	202,167

Source: Census, Department of Health, Department of Finance



Age

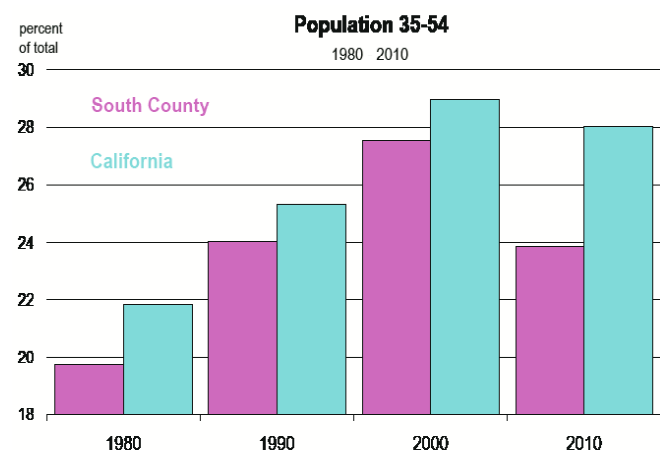
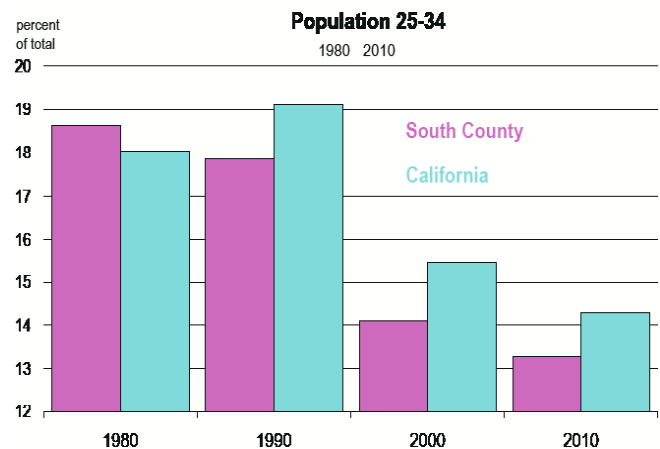
Santa Barbara County

The various regions of Santa Barbara County have markedly different age structures. The only trend that has occurred across all areas of the County has been a rise in the percentage of residents 65 and older. This, however, is occurring across the state and nation, and is a direct result of the aging of the baby boomer generation.

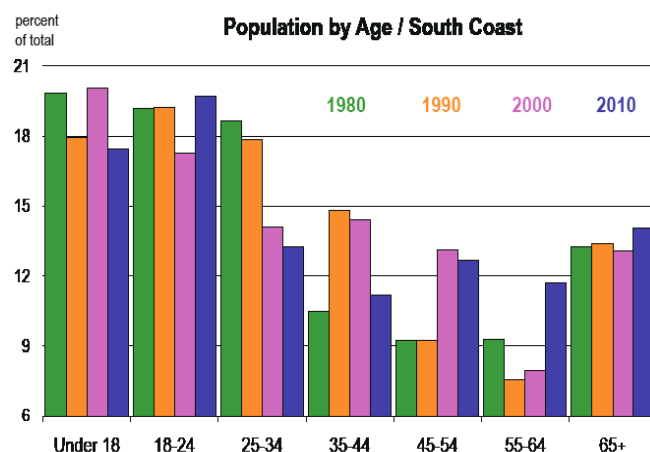
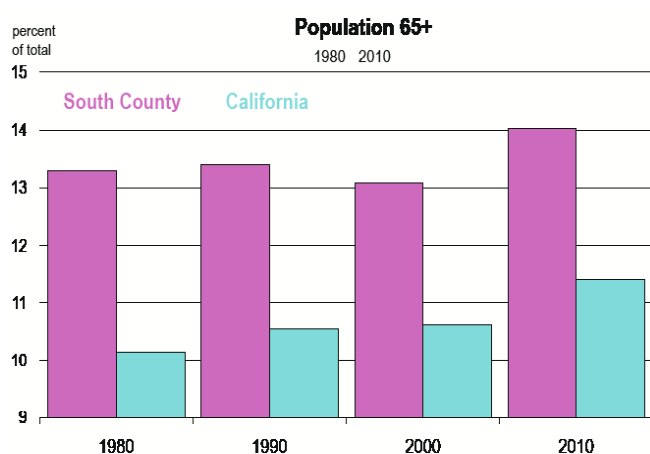
Relative to both the North County and the Santa Ynez Valley, the South Coast has a far lower percentage of children under 18. The 18 to 24 year old age cohort is much higher in the South County as a result of student populations at UCSB and Santa Barbara City College.

Southern Santa Barbara County

Over the past three decades the population living along the South Coast has been growing older. As percentages of the total population, the 55-



to-64 over 65 cohorts are now at all time highs. At the same time, children under 18 have been declining as a percentage of the population, and the 18 to 24 cohort has increased as a result of rising University enrollment. However, following graduation few are able to remain in the area. Consequently, the 25 to 34 year old entry-level workforce population has been steadily declining since 1980.



Over the past decade the percentage of the population between 35 and 54 has been in decline. This trend has occurred both in the South Coast as well as the state as a whole. As the baby boomer generation ages this trend will continue.

Northern Santa Barbara County

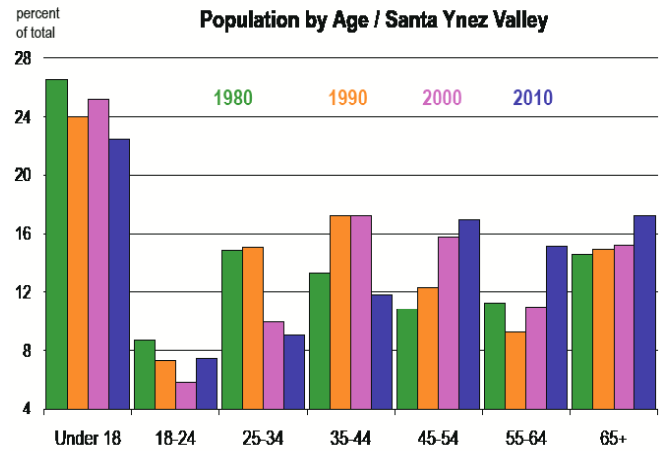
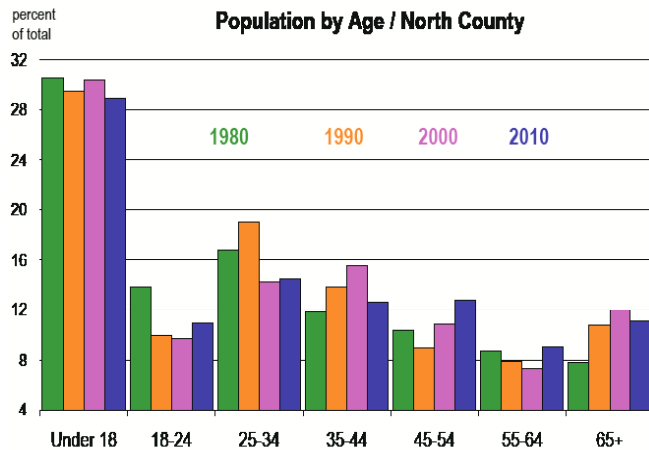
The North County has a larger percentage of children under the age of 18 than any other area in Santa Barbara County. Affordable housing makes it a more attractive location for families to settle. In addition, a larger Hispanic population, which has higher birth rates, has led to a large youth cohort.

Santa Ynez Valley

As a percentage of the total population, the Santa Ynez Valley has more children than the South County, but fewer than the North County. The 18-34 cohort accounts for a much lower share than anywhere else in the County. This is a result of a high cost of living that prevents young workers from being able to settle in the area, as well as a lack of universities and, consequently, no college-aged students.

All of the cohorts aged 45 and older make up a much larger share of the population in the Santa Ynez Valley relative to both the rest of Santa Barbara County, and California.

WHO LIVES HERE



Total Population	South Coast Santa Barbara			
	1980-2010			
	1980	1990	2000	2010
Under 18	33,893	34,357	40,307	35,264
18-24	32,840	36,831	34,758	39,819
25-34	31,842	34,155	28,337	26,851
35-44	17,954	28,358	28,943	22,613
45-54	15,795	17,622	26,380	25,647
55-64	15,873	14,410	15,974	23,627
65+	22,697	25,634	26,303	28,346

Percentage of Total	South Coast			
	1980-2010			
	1980	1990	2000	2010
Under 18	19.8	18.0	20.1	17.4
18-24	19.2	19.2	17.3	19.7
25-34	18.6	17.8	14.1	13.3
35-44	10.5	14.8	14.4	11.2
45-54	9.2	9.2	13.1	12.7
55-64	9.3	7.5	7.9	11.7
65+	13.3	13.4	13.1	14.0

Percentage of Total	North County			1980-2010
	1980	1990	2000	2010
Under 18	30.6	29.5	30.4	29.0
18-24	13.9	10.0	9.7	10.9
25-34	16.9	19.0	14.2	14.5
35-44	11.8	13.9	15.6	12.7
45-54	10.4	9.0	10.9	12.8
55-64	8.7	7.9	7.3	9.0
65+	7.7	10.8	12.0	11.1

Percentage of Total	Santa Ynez Valley			1980-2010
	1980	1990	2000	2010
Under 18	26.5	24.0	25.3	22.5
18-24	8.7	7.2	5.7	7.4
25-34	14.8	15.1	9.9	9.1
35-44	13.3	17.2	17.2	11.8
45-54	10.9	12.3	15.7	16.9
55-64	11.2	9.2	10.9	15.1
65+	14.6	14.9	15.2	17.2

Percentage of Total	California			1980-2010
	1980	1990	2000	2010
Under 18	27.0	26.0	27.3	25.0
18-24	13.7	11.5	9.9	10.5
25-34	18.0	19.1	15.4	14.3
35-44	11.9	15.6	16.2	13.9
45-54	9.9	9.8	12.8	14.1
55-64	9.3	7.5	7.7	10.8
65+	10.1	10.5	10.6	11.4

Source: Census

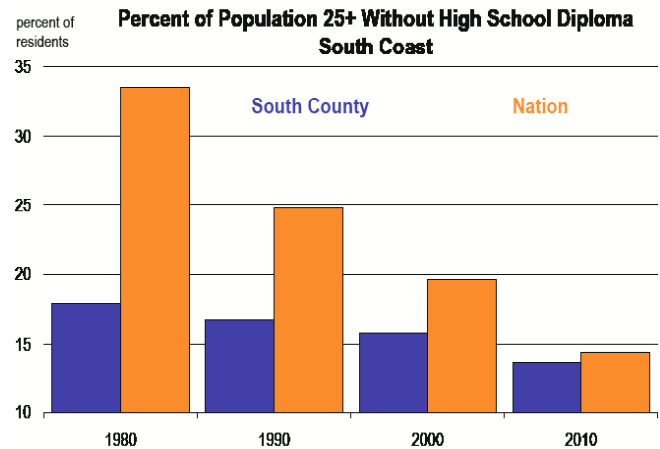
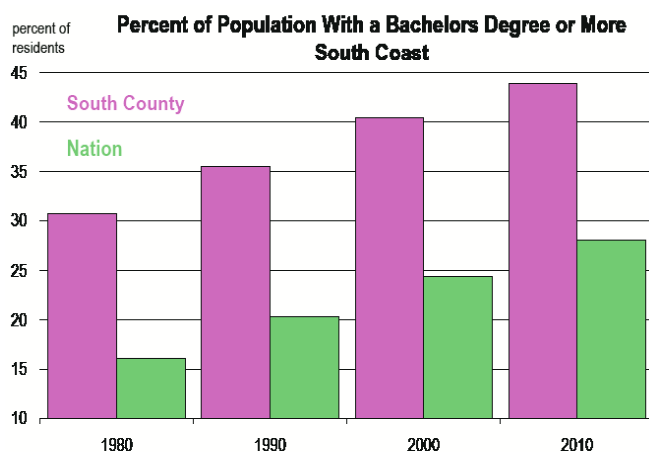
Education

Southern Santa Barbara County

South Coast residents have been steadily becoming more educated over the past 30 years. Of those over the age of 25, 44 percent have obtained at least a bachelors degree. This compares with just under 31 percent in 1980. In the last 10 years those with advanced degrees have increased by 9 percent.

At the same time the percentage of residents over age 25 who have not completed high school has been declining significantly. In 1980 nearly 18 percent of residents had not completed high school, but by 2010 that has fallen to less than 14 percent.

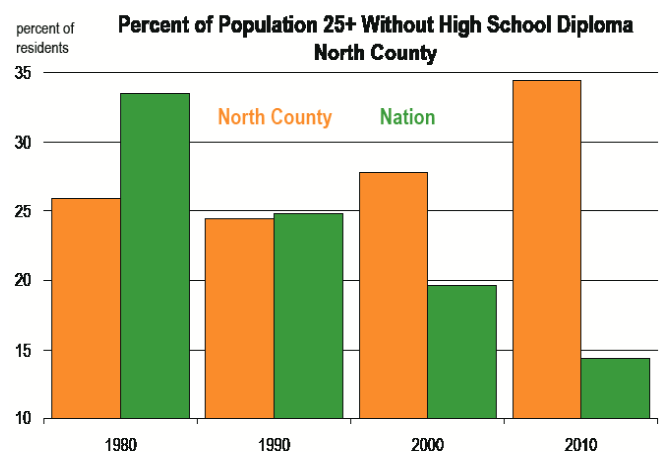
The high cost of housing is forcing households with lower earning potentials to live outside the area. Education is highly correlated with income, and those without minimum credentials are much less likely to be able to find high paying work that can support a household in Southern Santa Barbara County.

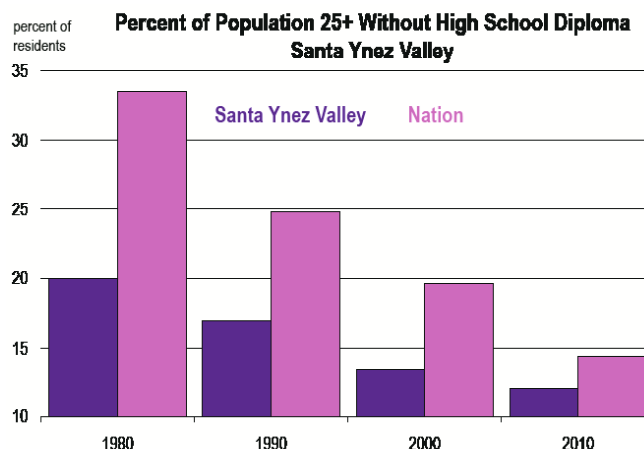
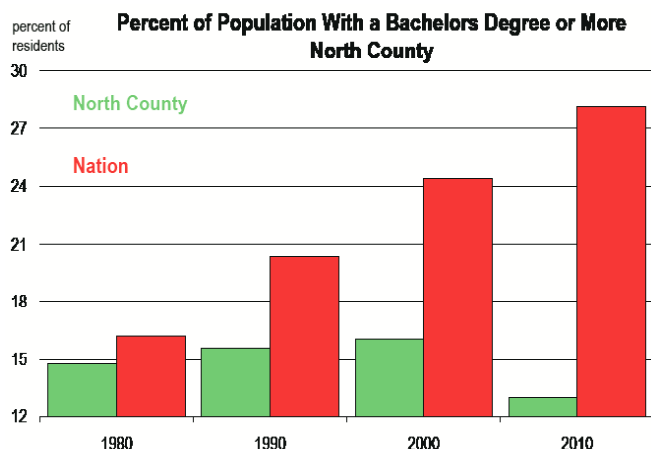


Northern Santa Barbara County

In the North County educational attainment has declined over the past decade. The percentage of residents with a bachelors degree or greater is now at a low for the past 30 years, while the share of those who have not completed high school is at an all time high. Since 2000 the percentage of the population with an advanced degree has fallen by 19 percent.

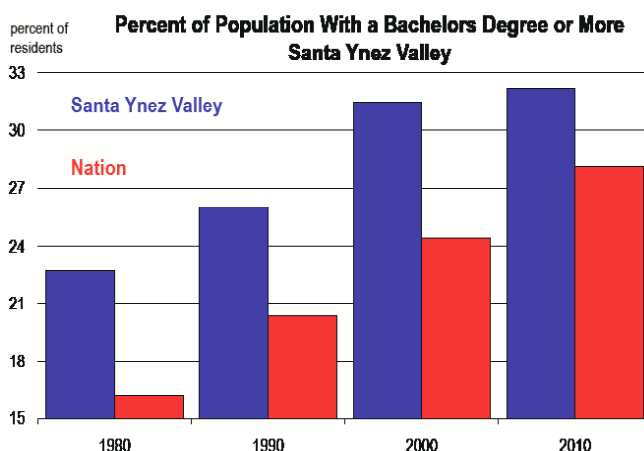
It is very unlikely that incomes will rise in the North County until education improves. Today's economy demands a high level of skill, and meaningful employment is not likely to be found without at least a high school diploma.





Santa Ynez Valley

In Santa Ynez, educational attainment has risen steadily since 1980. Trends in the region have largely mirrored those in the South County and across the nation, with a higher share of college degree holders, and a lower share of individuals who have not obtained a high school diploma. Attainment levels increased rapidly from 1980 to 2000, but only marginally over the last decade.



Percentage of Population With a Bachelor's Degree or More				1980-2010
	1980	1990	2000	2010
South County	30.7	35.5	40.4	43.9
Santa Barbara City	25.5	33.1	39.6	43.3
'93101	NA	NA	30.7	34.7
Goleta City	NA	NA	39.0	42.5
Carpinteria City	15.0	22.6	26.5	31.3
North County	14.8	15.6	16.1	13.0
Santa Ynez Valley	22.7	26.0	31.5	32.2
Santa Barbara County	22.2	26.6	29.4	31.6
Nation	16.2	20.3	24.4	28.1

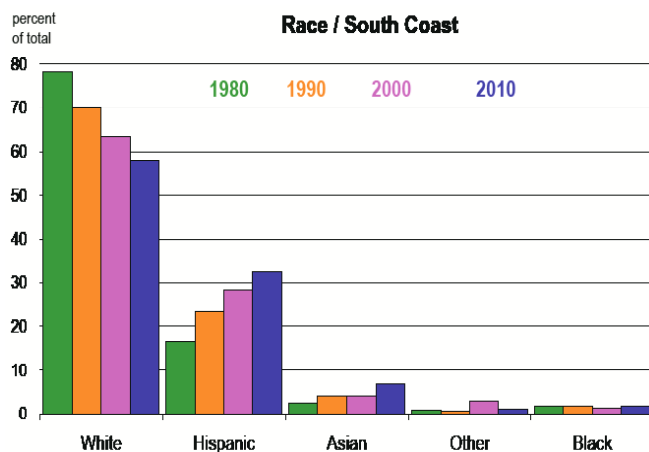
Source: Census, Claritas

Ethnicity/Race

Southern Santa Barbara County

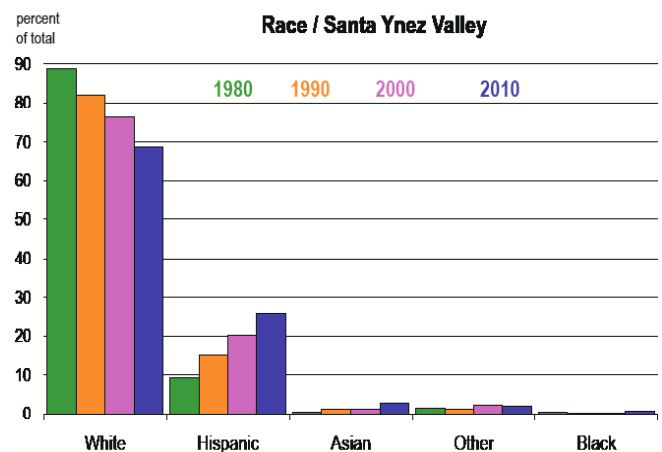
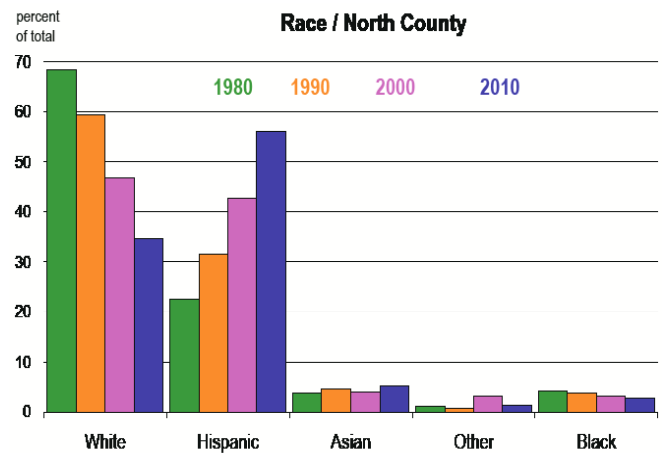
The racial makeup of South Coast residents has been shifting steadily in recent decades. In 2010, 33 percent of residents identified themselves as Hispanic – nearly double the 1980 value. The share of Asian residents has more than doubled, though Asian individuals still account for just 7 percent of total population. The Black population has maintained a steady share of the population at just under 2 percent.

The increasing prevalence of Hispanics and Asians has occurred with the declining share of the white population, which has dropped from 78 to 58 percent of the total.



Northern County and Santa Ynez Valley

Trends in the North County and Santa Ynez Valley mirror the South County. Over the past 30 years, the population of Hispanic residents has steadily increased while the white population has declined. Asians have also risen sharply, but make up only a small percentage of total population.



Percentage by Race	South Coast			1980-2010
	1980	1990	2000	2010
White	78.3	70.1	63.4	57.8
Hispanic	16.6	23.6	28.3	32.6
Asian	2.5	4.0	4.1	6.9
Other	0.8	0.6	2.8	1.1
Black	1.8	1.8	1.3	1.6

Percentage by Race	Santa Barbara City			1980-2010
	1980	1990	2000	2010
White	72.6	63.7	58.4	54.2
Hispanic	22.2	31.5	35.0	38.5
Asian	1.9	2.2	2.5	4.5
Other	0.9	0.6	2.5	1.1
Black	2.4	2.0	1.6	1.7

Percentage by Race	Goleta City			1980-2010
	1980	1990	2000	2010
White	NA	NA	67.3	53.3
Hispanic	NA	NA	22.5	33.4
Asian	NA	NA	6.2	10.2
Other	NA	NA	2.9	1.2
Black	NA	NA	1.2	1.8

Percentage by Race		93101		1980-2010
	1980	1990	2000	2010
White	NA	NA	46.0	43.3
Hispanic	NA	NA	47.8	49.8
Asian	NA	NA	1.8	3.9
Other	NA	NA	2.5	1.3
Black	NA	NA	1.9	1.8

Percentage by Race		Carpinteria City		1980-2010
	1980	1990	2000	2010
White	65.2	60.2	50.6	45.8
Hispanic	30.7	36.6	44.0	49.5
Asian	1.9	2.1	2.1	3.1
Other	1.7	0.5	2.2	0.7
Black	0.6	0.7	1.1	0.9

Percentage by Race		North County		1980-2010
	1980	1990	2000	2010
White	68.5	59.3	46.9	34.7
Hispanic	22.5	31.6	42.8	56.2
Asian	3.7	4.5	4.0	5.2
Other	1.1	0.8	3.2	1.3
Black	4.3	3.8	3.1	2.7

Percentage by Race		Santa Ynez Valley		1980-2010
	1980	1990	2000	2010
White	88.8	82.0	76.4	68.8
Hispanic	9.2	15.3	20.1	25.9
Asian	0.4	1.2	1.2	2.7
Other	1.4	1.3	2.2	1.8
Black	0.3	0.2	0.2	0.7

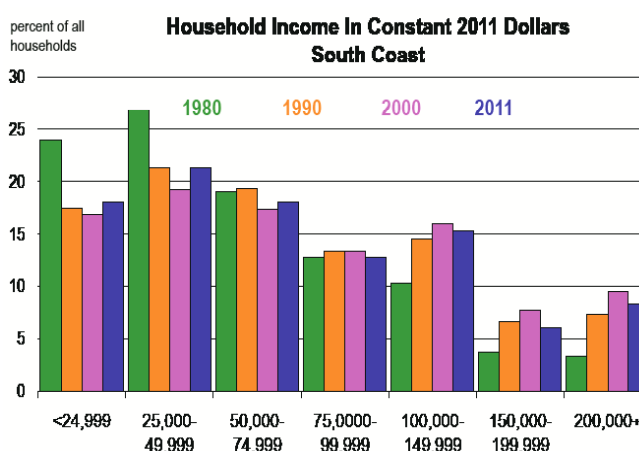
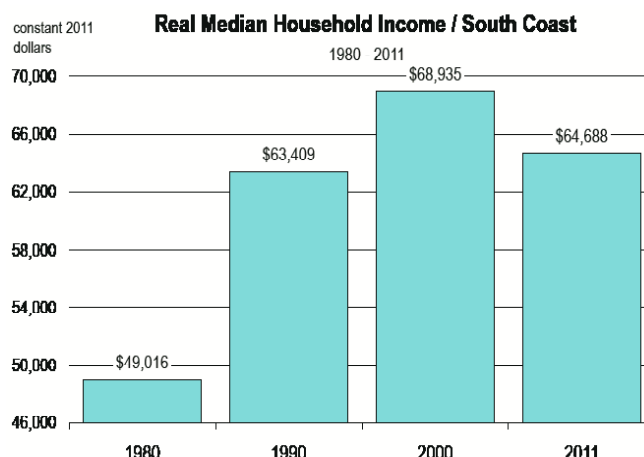
Income

Southern Santa Barbara County

Household incomes have risen from \$17,700 in 1980 to \$64,700 in 2011. After adjusting for inflation incomes have risen 32 percent in “real” or “inflation-adjusted” terms. However, over the past decade real incomes have declined by 6 percent.

As the population ages there are more retiree households who may have significant accumulated wealth but little new income.

Since 1980 the percentage of households earning in excess of \$200,000 per year in real terms has more than doubled. Households earning between \$150,000 and \$200,000 had doubled between 1980 and 2000, but declined 1.8 percentage points by 2011.



Affordable Homes For Sale by Income Range (Constant 2011 Dollars)

1995-2010

	1980	1990	2000	2010
<24,999	<723	<85	<1	<9
25,000-49,999	724-1,814	86-777	1-15	10-217
50,000-74,999	1,815-2,118	778-1,482	16-175	218-648
75,000-99,999	2,119-2,269	1,483-1,775	176-538	649-1,099
100,000-149,000	2,270-2,370	1,776-2,022	539-1,234	1,100-1,537
150,000-199,999	2,371-2,427	2,023-2,151	1,235-1,569	1,538-1,759
200,000+	2,428-2,514	2,152-2,390	1,570-2,181	1,760-2,309

Households in Each Income Range

1995-2010

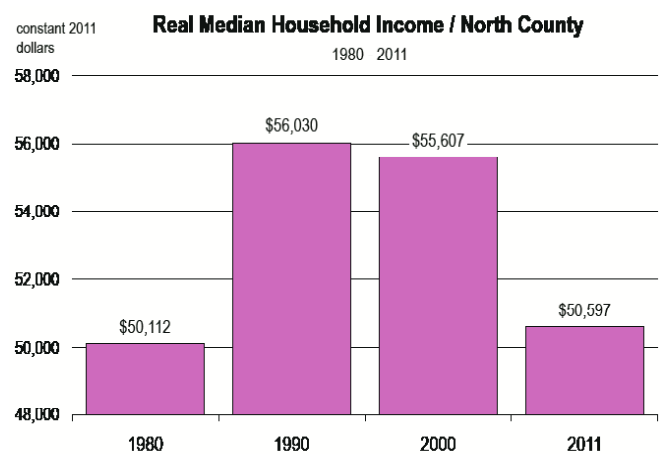
	1980	1990	2000	2010
<24,999	<723	<85	<1	<9
25,000-49,999	724-1,814	86-777	1-15	10-217
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75,000-99,999	2,119-2,269	1,483-1,775	176-538	649-1,099
100,000-149,000	2,270-2,370	1,776-2,022	539-1,234	1,100-1,537
150,000-199,999	2,371-2,427	2,023-2,151	1,235-1,569	1,538-1,759
200,000+	2,428-2,514	2,152-2,390	1,570-2,181	1,760-2,309

There are a very limited number of homes available for sale along the South Coast that can be purchased by lower income households. In 2010 over 57 percent of households were making less than \$75,000 per year. At this level of income there were only between 218 and 648 homes listed for sale that would be affordable, even assuming that households can spend 40 percent of their gross income on housing. This translates to approximately 19 percent of the housing stock for sale being affordable to lower income households. There are virtually no affordable units for households making under \$25,000 per year.

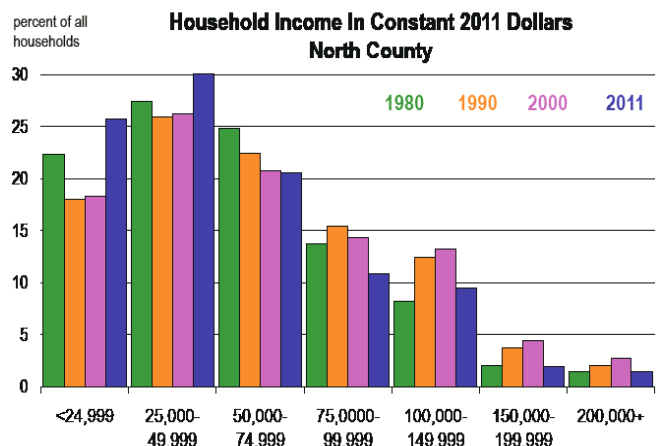
Northern Santa Barbara County

In the North County, household incomes adjusted for inflation reached a peak in 1990. Over the past 20 years real incomes have declined by nearly 10 percent. The deterioration of education among the population is largely responsible for lower incomes. At \$50,597 the median household income in the North County is only marginally higher than it was during 1980.

All income brackets above \$50,000 have fallen since the year 2000. Households making under \$25,000 and \$25,000 to \$50,000 have risen sharply over the past 10 years. Since 1980, the



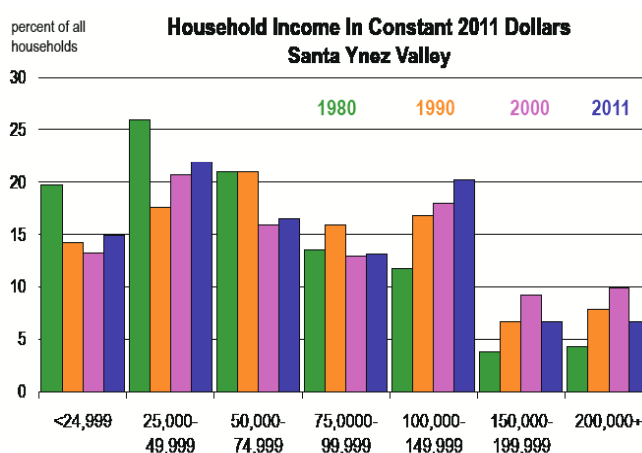
only high-income bracket that has increased its share in real terms is the \$100,000 to \$150,000 group, up marginally from 8.2 to 9.5 percent of households.



Santa Ynez Valley

Income levels in the Santa Ynez Valley are very similar to the South County. Home prices are high, and a high level of income is generally required to be able to afford to live in the area.

In the Santa Ynez Valley there is a slightly lower percentage of very high-income households than the South County, but a higher share of households making between \$100,000 and \$200,000. It is the only area in the county where there has been a rise in middle class households since 2000. All income brackets between \$50,000 and \$150,000 are higher than they were



last decade. Relative to 10 years ago there are fewer very high-income households, and more low-income households as well.

Income By Distribution (percentage of households)							2011
	<\$24,999	\$25,000-\$49,999	\$50,000-\$74,999	\$75,000-\$99,999	\$100,000-\$149,999	\$150,000-\$199,999	\$200,000+
South County	18.1	21.3	18.1	12.8	15.3	6.0	8.4
Santa Barbara City	19.3	22.9	18.9	12.0	14.1	5.7	7.2
93101	26.6	25.5	20.1	10.9	10.1	3.2	3.6
Goleta	11.6	19.8	19.9	16.1	18.4	6.9	7.4
Carpinteria	16.5	23.2	19.7	14.0	15.8	5.7	5.1
Santa Ynez Valley	14.9	22.0	16.4	13.2	20.2	6.6	6.7
North County	25.7	30.1	20.6	10.9	9.5	1.9	1.4
Santa Barbara County	19.3	24.2	19.3	12.6	14.0	4.7	5.8

Source: Census, Claritas

WHO WORKS HERE

Employment



Commuting



Employment

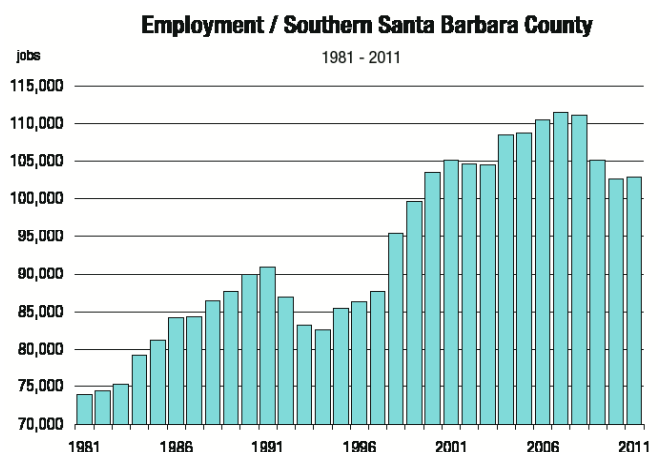
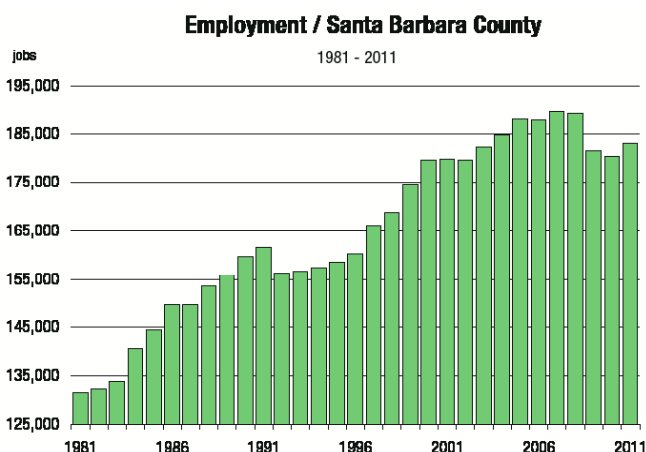
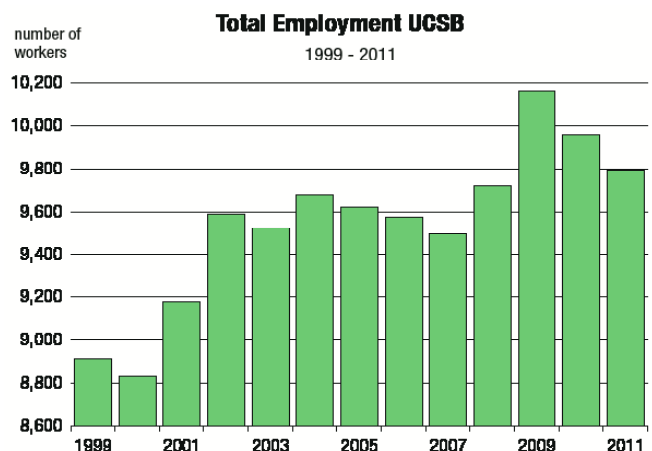
Southern Santa Barbara County

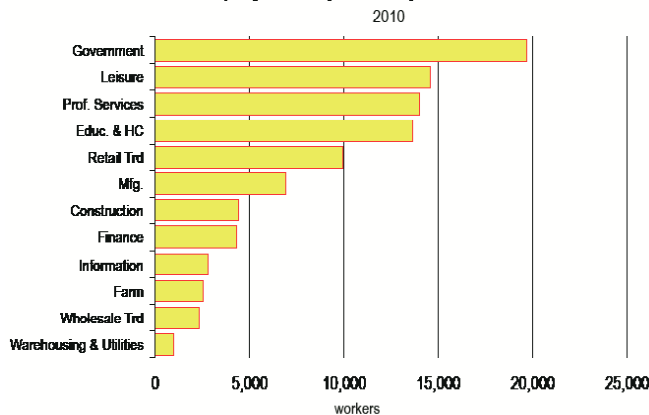
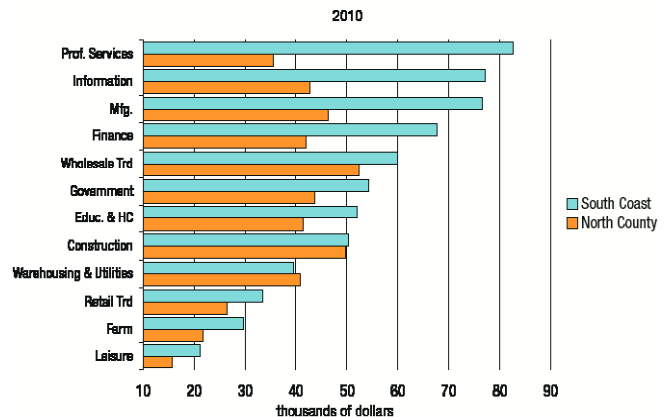
The South Coast accounts for approximately 57 percent of all employment in Santa Barbara County. The proportion has remained nearly constant over the past 30 years.

Since 2000 employment along the South Coast has declined slightly. Total county employment growth has declined substantially since the boom between 1980 and 1990.

The public sector is the largest employer in the South Coast. In 2010 there were just under 20,000 government/public employees. UC Santa Barbara accounts for a substantial portion of these jobs (though the numbers shown in the chart for UCSB reflect approximately 3,000 student workers who are not included in total employment by industry). Leisure services, professional services, and education and healthcare are the next largest industries, each with approximately 14,000 positions.

South County salaries during 2010 were highest in the professional services, information, manufacturing, and finance sectors. The large government and education and healthcare sectors each have salaries in the middle of the distribution at just over \$50,000. Leisure, the largest private sector employer, also has the lowest average salary at just \$21,000. Many of these workers are likely commuting into the area, as it would be very difficult to pay for housing with that level of income.



Employment by Industry / South Coast**Average Salary by Selected Industry**

The Challenge of Buying a Home in the South Coast

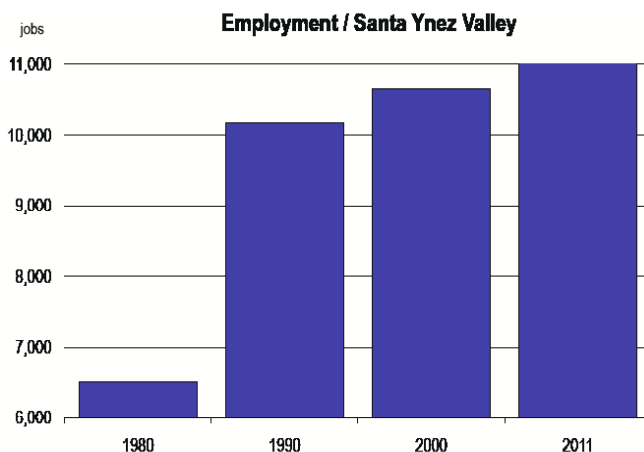
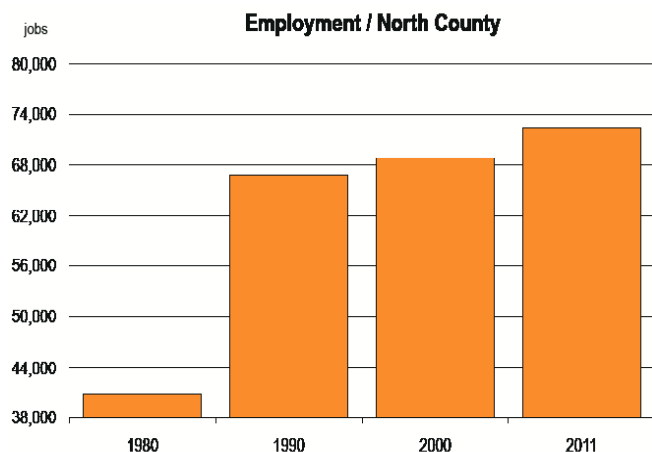
For many families, buying a home in the South Coast is tough. Because of the exceptionally high prices, most properties are beyond the reach of area residents. Consider Joe and Kathy, a fictional couple that is currently renting, but wants to buy.

Joe, a manager at a Santa Barbara hotel, makes \$40,000 per year. Kathy, a new middle school teacher, makes \$35,000. Combined, their household income of \$75,000 places them above the median for the South Coast. However, they are having trouble finding a home that they can afford.

To be sure, the median property in the South Coast is well beyond their reach. Such a property would require a down payment of more than \$150,000. For most families, it takes many years to amass such a large amount of money. And even with record-low interest rates, the monthly payments on the median home would exceed \$4,000 – roughly 65 percent of Joe and Kathy's pre-tax income.

After going over these numbers, Joe and Kathy quickly decide that, in order to buy a home here, they must focus on properties with much lower price tags. They figure that they can spend 40 percent of their pre-tax income – \$1,600 – on monthly mortgage payments, and that they can put all of their current savings – \$65,000 – toward a down payment. Working backwards, they determine that they must find a home that is \$325,000 or less.

But after doing some research, they quickly realize that the number of available homes within their price range is severely limited. Furthermore, there are a large number of other families looking for similar homes. Because of this, they decide that in order to buy, they must look elsewhere. They set their sights on Santa Maria and Ventura, two regions with significantly lower prices, and join the numerous other commuters that have come to the same conclusions.



Northern Santa Barbara County

The North County makes up around 38 percent of total county employment. Since 1980 employment in the North County has risen by 74 percent, and accounted for 61 percent of all employment growth in the county as a whole. Nearly all growth occurred between 1980 and 1990. In each of the past 2 decades employment growth has averaged just over 3 percent.

Salaries in the North County are considerably lower than in the South Coast. The wholesale trade sector has the highest average salary at just \$52,400. Agriculture is the largest sector in the North County, and has the second lowest

average salary at \$21,800. The construction, manufacturing, and government sectors are among the highest paying in the North County, and also were the hardest hit by the recession.

Santa Ynez Valley

The Santa Ynez Valley makes up around 6 percent of county employment. Growth has slowed from the dramatic gains experienced in the 1980's, but remains positive.

Total Employment

1980-2010

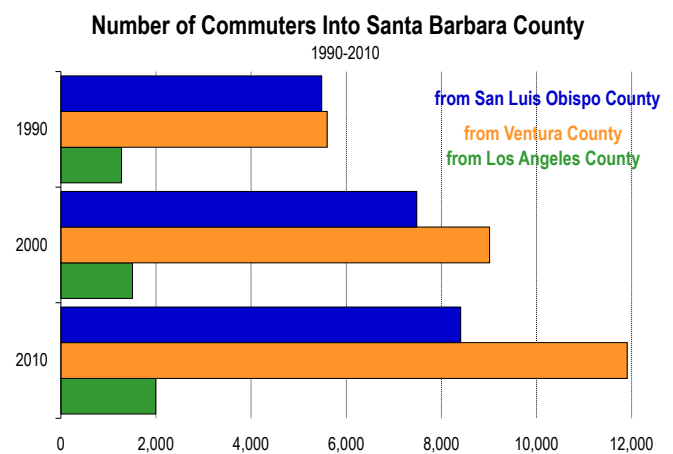
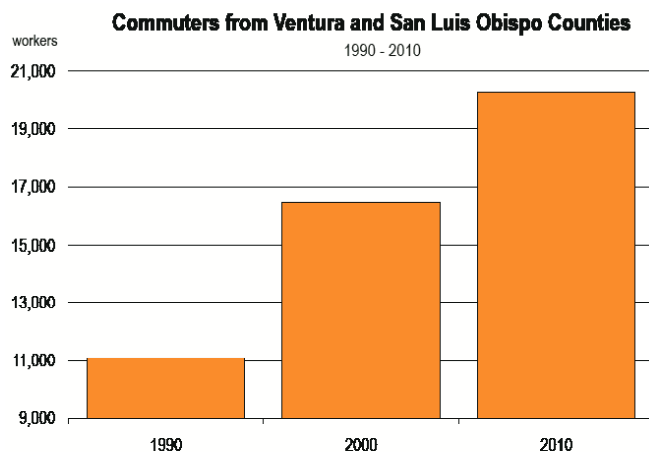
	1980	1990	2000	2010
South County	72,010	89,787	103,521	102,676
North County	40,833	66,847	68,860	70,999
Santa Ynez Valley	6,511	10,168	10,661	10,953

Source: Census, Labor Market Information Division

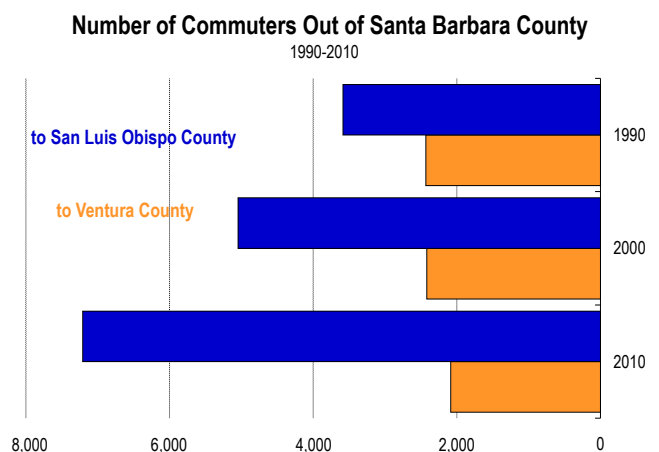
Commuting

Commuters coming into Santa Barbara County have increased significantly since 1990. The number of commuters from Ventura and San Luis Obispo Counties has nearly doubled in the past 20 years, climbing from 11,072 to 20,300. Regarding Los Angeles County commuters, in 2010 there were 1,990, an increase of 57 percent over the past two decades.

Over the same time period the number of Santa Barbara County residents commuting into Ventura County has declined by 14 percent, from 2,433 to 2,085. Commuters into San Luis Obispo County have increased considerably, going from 3,584 to 7,210, but are likely to be coming exclusively from the North County.

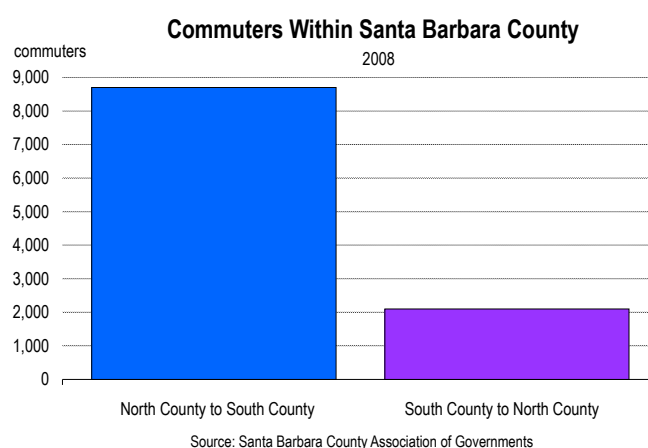
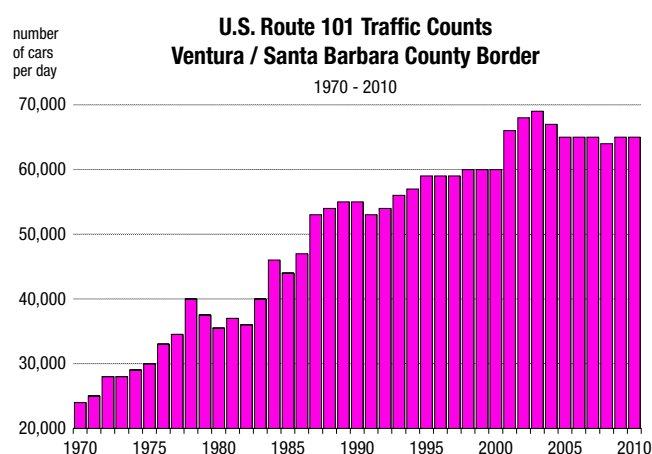


Based on the commuting patterns to and from Ventura it seems highly likely that the high cost of housing in Southern Santa Barbara County is driving employees to move out of the area.



Additional evidence on traffic counts at the Santa Barbara / Ventura County border shows a rapid rise in the volume of cars travelling along our highways. Since 1970 total traffic along the border has risen by 171 percent. The majority of those commuting will be coming into Santa Barbara, rather than leaving to work in Ventura.

Estimates put 8,700 residents of the North County commuting into the South County for work every day. Just 2,100 residents from the South County commute in the opposite direction. With more than four times as many commuters coming South as going North, the effect of cheaper housing on where workers choose to live is clear.



WHERE WE LIVE

Renters and Owners



The Rental Market



Years Occupied



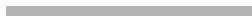
Housing Stock



Average Household Size



Housing Vacancy

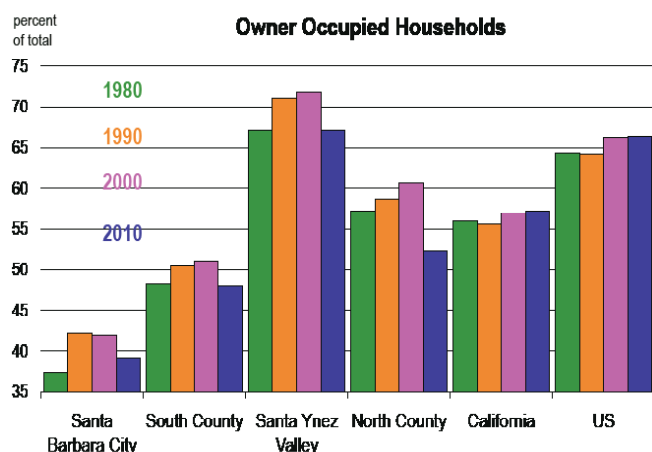


Renters and Owners

The percentage of households who own their home rather than renting is significantly lower in the South Coast than in California or the US. South Coast homeownership rates rose during the 1980's and 1990's, but have come down substantially by 2011. Ownership rates are now slightly lower than they were in 1980.

Households are far more likely to be renters in the City of Santa Barbara. In 2011 only 39 percent of households were owner occupied. Unlike the larger South Coast region, ownership rates in the City of Santa Barbara have been in decline since 1990. Ownership rates are particularly low in downtown Santa Barbara. In the 93101 zip code, renters account for nearly 80 percent of all households.

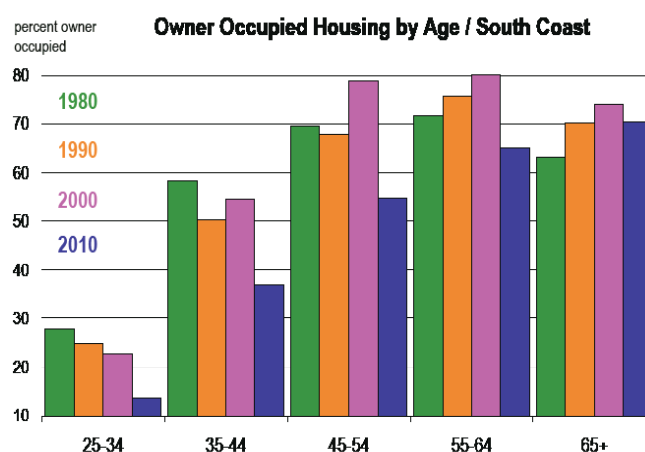
Homeownership rates in the North County and Santa Ynez Valley followed similar patterns over time, but homeownership rates are much higher than in the South Coast. Santa Ynez has the highest ownership rates in Santa Barbara County, followed by the North Coast.

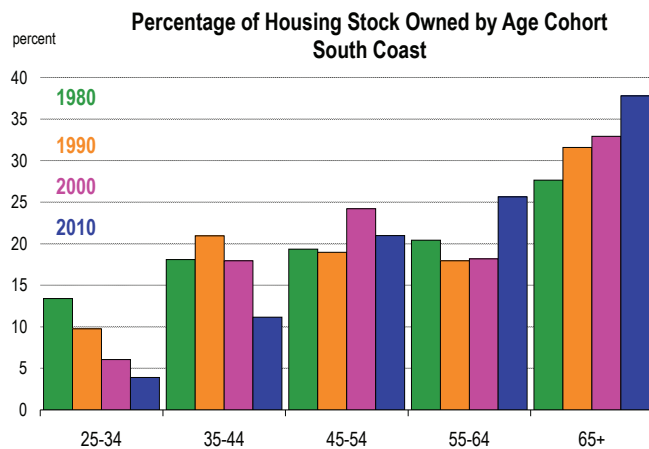


Ownership among the youngest age cohort, those between 25 and 34, has been steadily declining. In 2011, only 14 percent of residents in this cohort were owners. The data suggest that newly forming households find it very difficult to afford a home purchase along the South Coast.

Between 2000 and 2011 ownership rates fell in every age cohort; however the decline was much smaller for households occupied by those over the age of 65. Home ownership rates are now at a 30 year low for every age cohort aside from seniors.

Because of the high ownership rates for older households, residents aged 55 and higher own nearly all the housing along the South Coast. This has come at the expense of 25 to 44 year olds, who combined own just 15 percent of South Coast homes. Working aged residents generally cannot afford to purchase real estate in Southern Santa Barbara County. This means





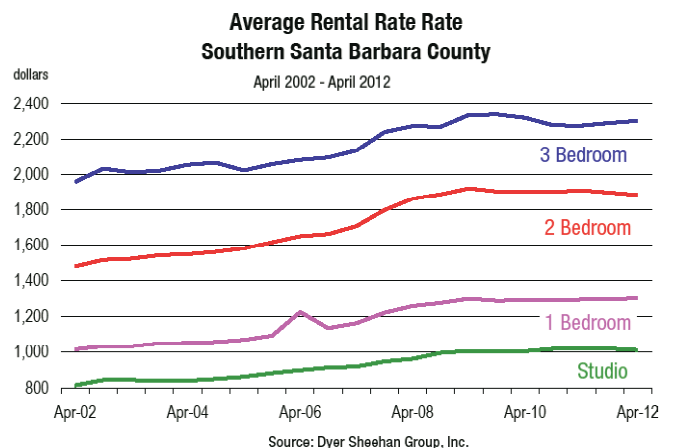
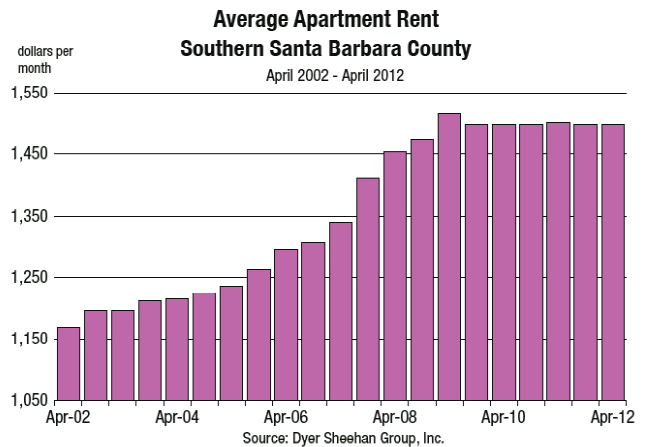
that home owners are primarily retirement-aged individuals who have been in their homes for many years, or who have accumulated a great deal of wealth over their lifetimes. Ownership housing has become unaffordable for nearly all entry to mid level workers, who are also the cohorts most likely to have families.

The Rental Market

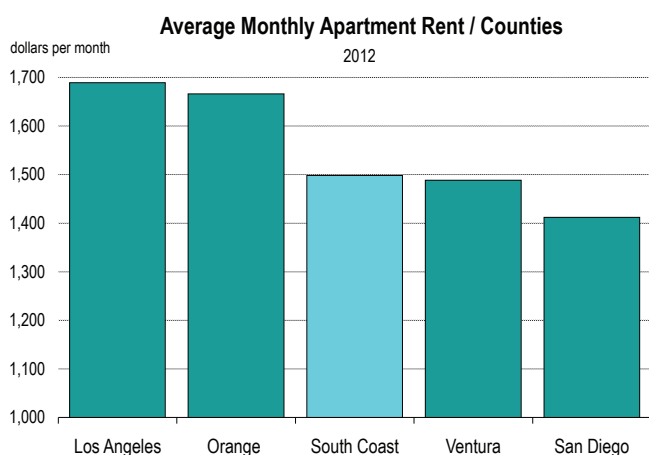
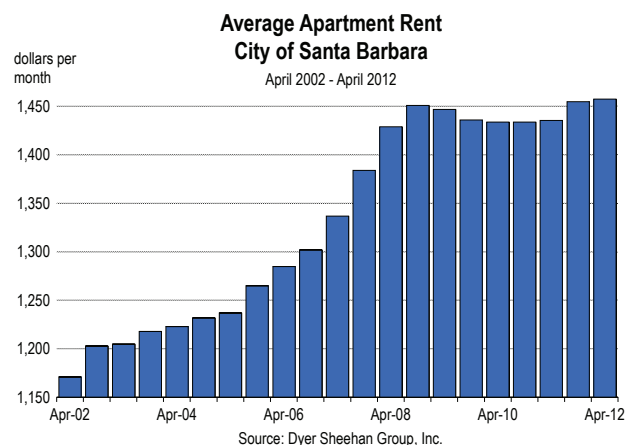
Southern Santa Barbara County

For the apartment stock in the South Coast, vacancy rates have fallen significantly over the past year, while rents have remained stable. Southern Santa Barbara County currently has one of the tightest rental markets in California, with vacancy under 2 percent. Rents have barely budged over the past 2 years across the South Coast, but are now rising again in the cities of Santa Barbara and Carpinteria. The strength of the rental market will eventually begin to breathe new life into the purchase market, driving up demand and prices. However the high cost of renting will continue to discourage many young and lower income households from settling in the area.

Compared to other regions in Southern California, the South Coast does not have the highest rental rates. On average, South Coast tenants pay a



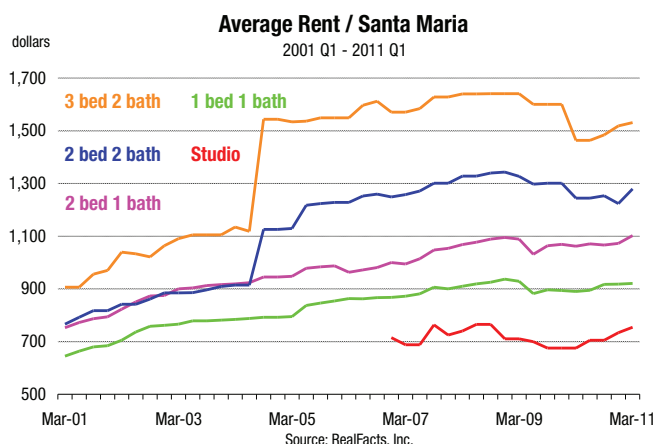
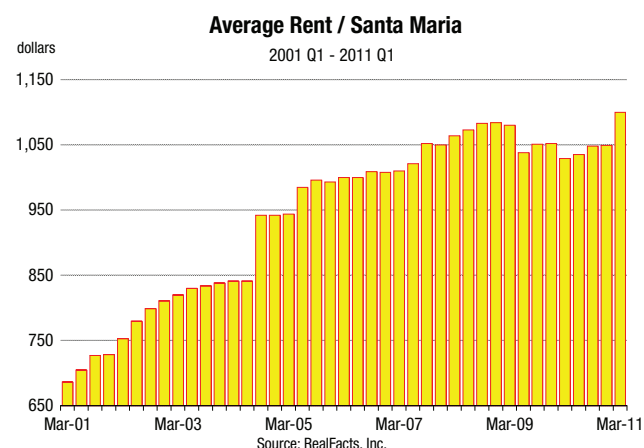
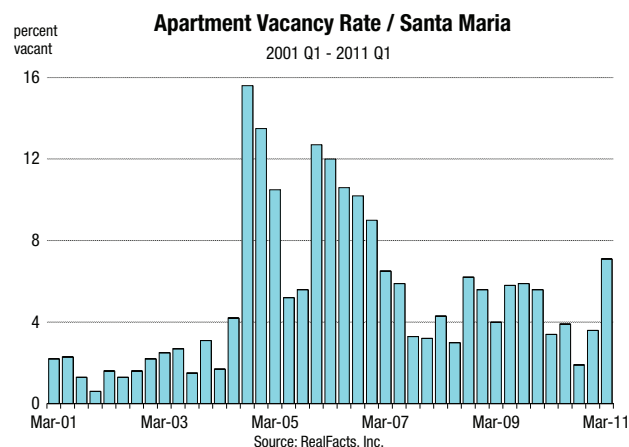
lower monthly rent than households in Los Angeles or Orange Counties. However, South Coast properties are typically smaller and older than homes in other regions of Southern California. Therefore, when adjusted for size and quality, South Coast rental housing is relatively expensive.



Northern Santa Barbara County

In the North County average rents have surpassed the previous peak as of the first quarter of 2011. However, rents on individual unit types do not appear to have appreciated substantially, so the rise is most likely due to a different mix of units being rented. Nevertheless the trend in rental rates has been rising over the past year. Vacancy is far higher in the North County than the South Coast, and spiked during the first quarter of 2011.

Vacancy remains much lower than during the middle of the decade when several large apartment complexes came on the market.



Years Occupied

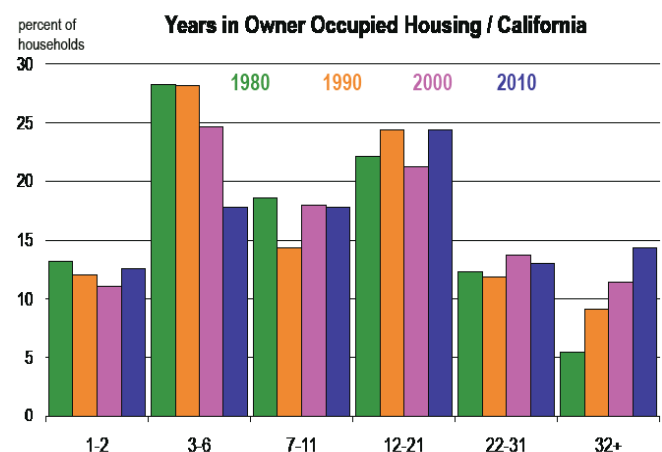
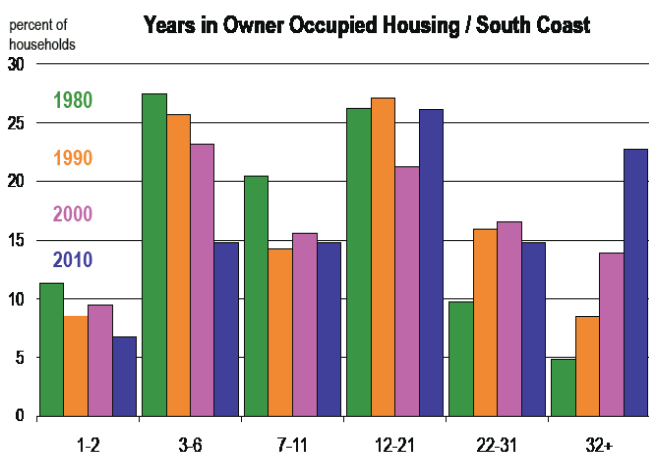
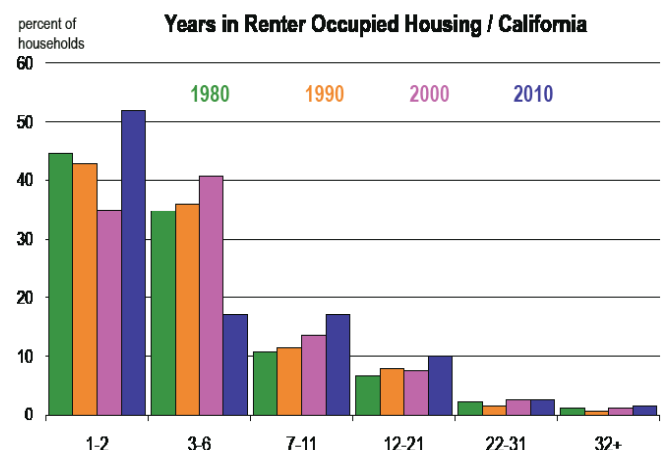
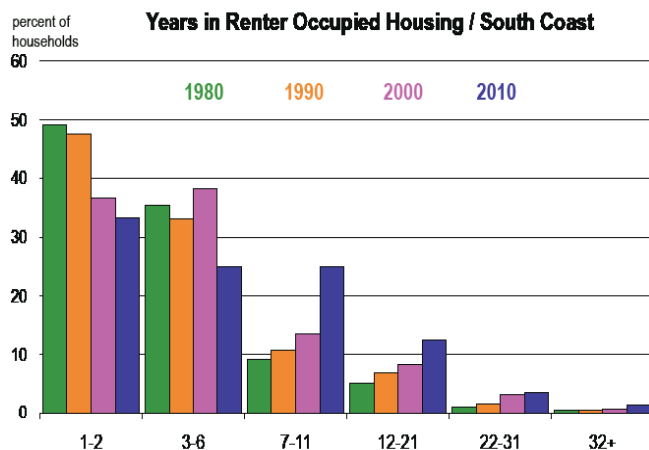
Southern Santa Barbara County

As home prices have risen and fewer households have been able to purchase a home, there has been a steady rise in the length of time families have spent in rental housing. In 1980 just 6.3 percent of renter households had been in the same unit for 12 years or more, by 2010 over 17 percent had. Forty-two percent have been in their rental unit for over 7 years, nearly double the rate in 2000.

Owners have also been staying in their houses far longer. Twenty-three percent have lived in the same home for over 32 years, up from just 5

percent in 1980. Those in their homes for 6 years or less have declined to just 21.5 percent of the population from 38.8 in 1980.

In California the trend of fewer short-term renters had been following Southern Santa Barbara County downward until 2010, when it jumped to over 50 percent of all renters. More foreclosures and job losses in other areas of California have recently forced many households to become renters, while others have had to relocate to cheaper units, or where employment could be found. Southern Santa Barbara County residents are more likely to be established in careers with no desire to move, but still renting due to the high cost of ownership.

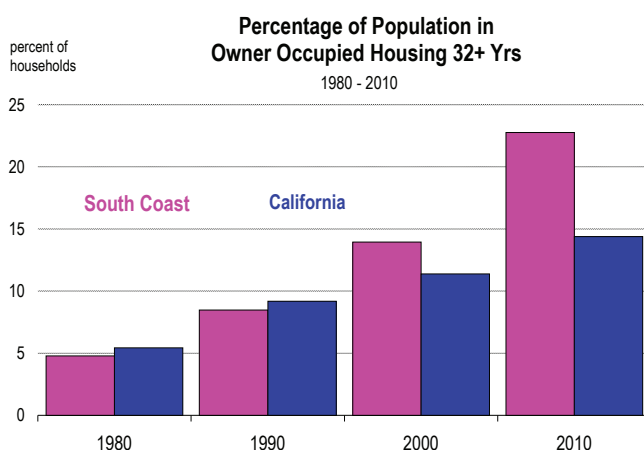
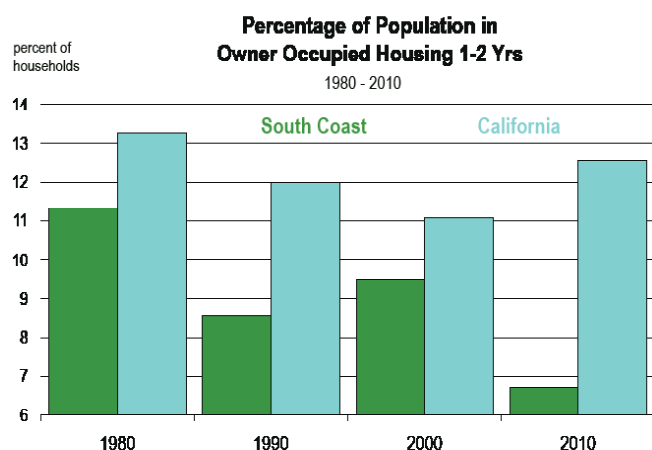
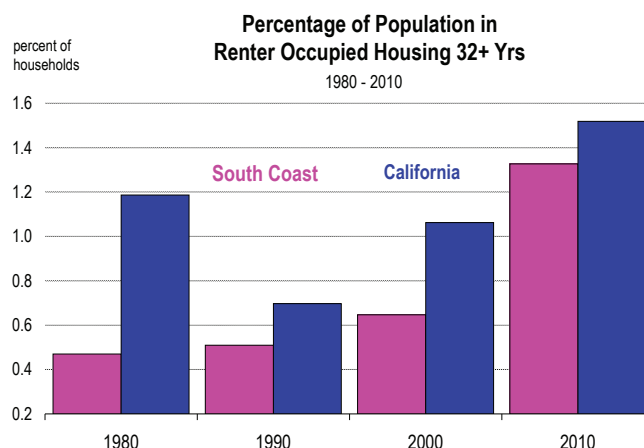
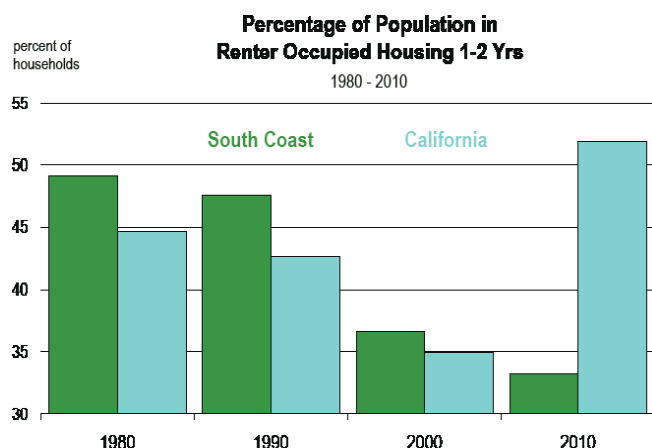


The percentage of households in very long term rentals (32 years or more) is small in both California and the South Coast. However, in both areas the proportion has doubled over the past 20 years.

Owners who have been in their homes for less than 2 years are much more common in California than along the South Coast, by a ratio of nearly two to one. The South Coast percentage has steadily declined over the last 30 years, reaching only 6.7 percent of households, as few are able to purchase in this market. New owner occupied households had been declining slightly between 1980 and 2000, but rebounded

in 2010. Owner occupied housing turnover can be used as a proxy for labor market mobility of more affluent cohorts.

There were more long-term owner-occupiers (32 years or more) in California than along the South Coast between 1980 and 1990. However by 2000 the South Coast had more long-term owners, and substantially more by 2010. Across the state there has been a trend toward longer tenure in owner occupied housing, but it has been especially pronounced in the South County market, where nearly one quarter of all owners have lived in their home since at least the Carter administration.



South Coast Years Owner Occupied						1980-2010
	1-2	3-6	7-11	12-21	22-31	32+
1980	11.3	27.5	20.4	26.3	9.7	4.8
1990	8.6	25.7	14.2	27.1	15.9	8.5
2000	9.5	23.2	15.6	21.2	16.5	13.9
2010	6.7	14.8	14.8	26.1	14.8	22.8

South Coast Years Renter Occupied						1980-2010
	1-2	3-6	7-11	12-21	22-31	32+
1980	49.1	35.5	9.1	4.9	1.0	0.5
1990	47.6	33.1	10.6	6.7	1.4	0.5
2000	36.6	38.2	13.4	8.2	3.0	0.6
2010	33.2	24.9	24.9	12.4	3.3	1.3

California Years Owner Occupied						1980-2010
	1-2	3-6	7-11	12-21	22-31	32+
1980	13.3	28.2	18.6	22.2	12.3	5.4
1990	12.0	28.2	14.4	24.4	11.8	9.2
2000	11.1	24.7	18.0	21.2	13.7	11.4
2010	12.6	17.8	17.8	24.4	13.1	14.4

California Years Renter Occupied						1980-2010
	1-2	3-6	7-11	12-21	22-31	32+
1980	44.6	34.8	10.6	6.5	2.3	1.2
1990	42.7	36.0	11.4	7.6	1.6	0.7
2000	34.9	40.6	13.5	7.4	2.5	1.1
2010	52.0	17.0	17.0	9.9	2.6	1.5

Source: Census

Housing Stock

Due to very limited new construction, the age of the housing stock along the south coast has steadily been increasing. The vast majority of homes were built prior to 1969. The average age of homes will continue to increase unless significant new development is allowed.

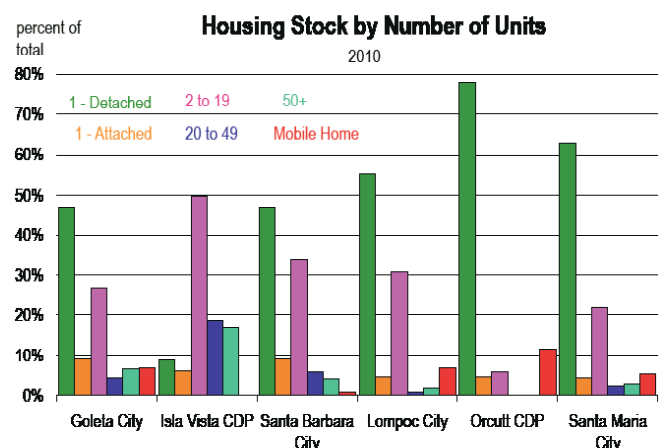
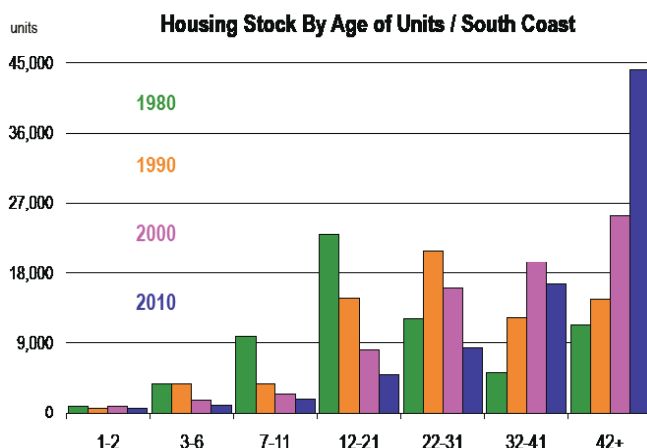
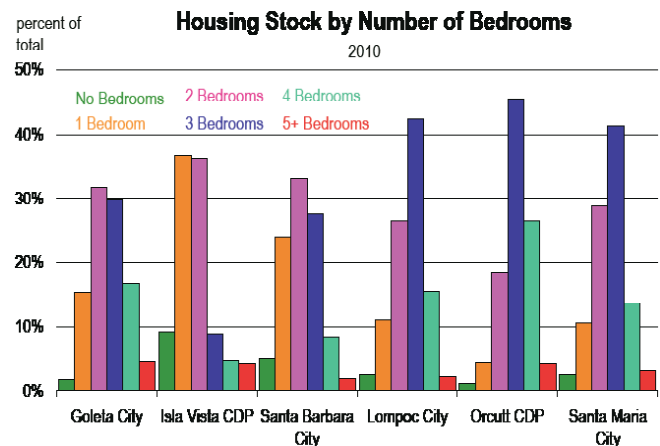
Housing Stock by Bedrooms

The American Community Survey provides information on cities with over 20,000 residents. For Santa Barbara County this represents just under 72 percent of all households. Estimates for the housing stock of the entire South Coast were computed based on complete 2000 Census information and American Community Survey data for 2010.

Small units make up the majority of the housing stock in the South County. Units with 2 bedrooms or fewer are often rentals, and rental households make up over half of the South County population. This is particularly true in Isla Vista, where nearly all residents are renters and

82 percent of units contain 2 bedrooms or less. In the city of Santa Barbara 62 percent of units have 2 bedrooms or fewer, as do 49 percent in the city of Goleta.

In the North County, where land is more affordable, and ownership is far more common, the housing stock is made up of larger units. In the city of Santa Maria 58 percent of units have 3 bedrooms or more, whereas in Lompoc such units account for 60 percent. In Orcutt 76 percent of homes have 3 or more bedrooms, while only 5 percent of the housing stock is studios or 1-bedrooms. The majority of these larger homes are single family, owner occupied housing.



To evaluate the housing stock along the South Coast, ratios were computed that compare various housing types to the age cohorts that typically occupy them. Across all demographics and unit types, the results were very similar to California.

The population between 35 and 54 will typically be those who purchase larger single-family homes. In California there are 0.71 homes with three or more bedrooms per resident in this age cohort, whereas in Southern Santa Barbara County there are slightly more homes per resident at 0.75. This does not necessarily imply that there are more homes available for families along the South Coast, however, as many residents in the area stay in larger their homes even after children have moved out.

The ratio of 1-2 bedroom homes to 18-34 year olds, as well as 2 bedroom homes to seniors over 65, are also very similar to the overall California numbers.

The causal relationship between housing stock and age demographics is difficult to determine. It is likely, however, that to a certain extent housing is built to meet population requirements, but that populations also migrate to housing that meets their needs. Because new production along the South Coast is exceedingly difficult,

residents will be more prone to conform to the existing housing stock. This helps to explain why the 35-54 year old cohort (and the children they typically have) are present in lower numbers than elsewhere in the state. Simply put, the type of housing that they would like to occupy is not available in the area.

Average Household Size

In general, average household sizes have been rising in Santa Barbara County. There is a wide variation in household sizes; Guadalupe has almost 4 people per household, while Solvang has fewer than 2.4.

Average household sizes peaked in the early 2000s in the South County municipalities. They began to decline in 2002, but since 2007 they have been on the rise again. Across all South County areas, household size was 2.6 people per household in 2000. In order to show the annual change more clearly, Santa Barbara's municipalities have been graphed below, but Guadalupe and Santa Maria (the outliers on the high side) have been removed.

However, despite the recent increase, household sizes are relatively low in the South County, and are lower than the state average of roughly 2.9. In general, household sizes tend to be inversely

Housing Stock by Age Cohort

	3br+/population age 35-54	1-2br/population age 18-34	2br/population age 65+
California	0.71	0.62	0.90
South Coast	0.75	0.60	0.84

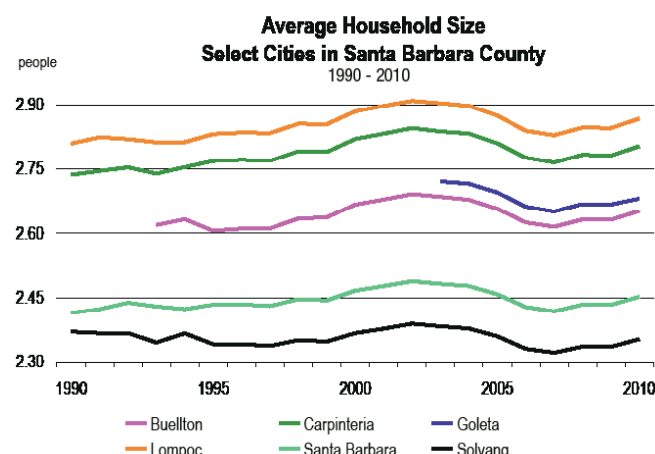
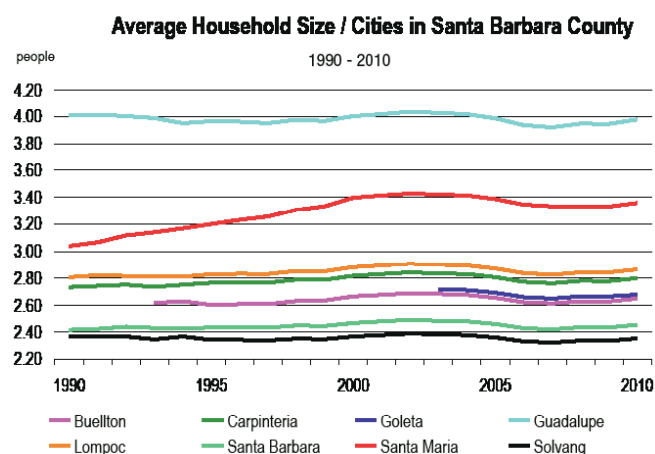
related to home prices and average household age. People tend to move away from areas with high home prices, a phenomenon that is largely responsible for the commute patterns discussed previously. In addition, older households – especially those in the 55 and older age cohorts – are typically much smaller than younger households. In the South Coast, the combination of high prices and an older population has resulted in relatively low household sizes.

However, it is important to note that low average household sizes do not imply that there is no problem with overcrowding in certain areas. The high cost of living along the South Coast forces many families to move to other areas. However, not all families can do so. Households that cannot afford transportation must remain close to their places of work. When this occurs, home prices in the South Coast force multiple families to share homes and bedrooms. There are parts of the South County where overcrowding is certainly an issue, and a greater number of affordable units could serve to drastically improve this problem.

Housing Vacancy

Housing vacancy rises and falls along with economic growth. At just 7.0 percent as of January 1, 2011, the average county-wide housing vacancy is currently at an all time high, rising from just 4.5 percent in 2000 and 4.3 percent in 2008. South Coast real estate is highly desirable, and is unlikely to go unused for an extended period of time. Though owner occupied households may not rise substantially in the coming years, detached single family homes and condos will be highly attractive to investors as rentals. This process, combined with an improving labor market, will bring vacancy rates back to more normal levels.

Despite the rise in vacancy over the past decade, the South Coast market has more occupied housing than most other regions. Housing vacancy in Santa Barbara and Goleta is well below the state average. Vacancy during 2010 for the state of California was 8.1 percent, while the nation as a whole had 11.4 percent vacancy.



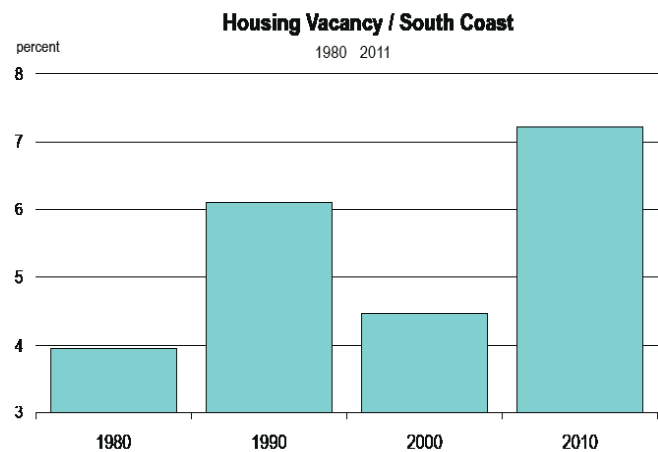
The high levels of total vacancy relative to the low levels of vacancy for apartments can be explained by the following factors:

1) Vacant homes for sale are waiting extended periods of time for bank responses on short sale offers

2) Investors have purchased homes and have left them empty while awaiting the recovery in the housing market

3) Home sales remain slow as would-be homebuyers are waiting for a clear housing market recovery or are having difficulty obtaining mortgages.

Despite higher levels of vacancy rates than observed historically, downward momentum on

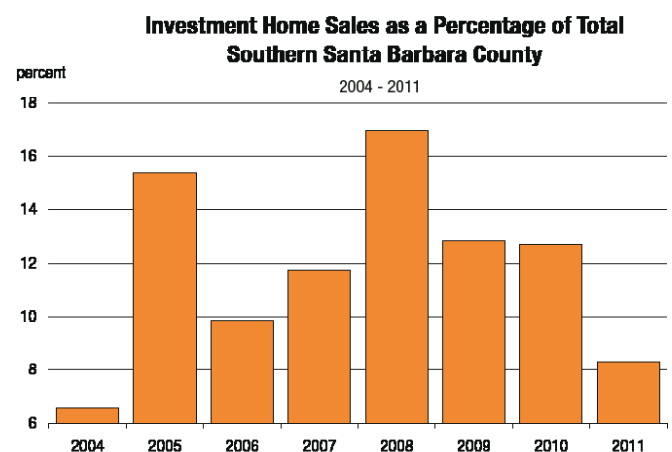
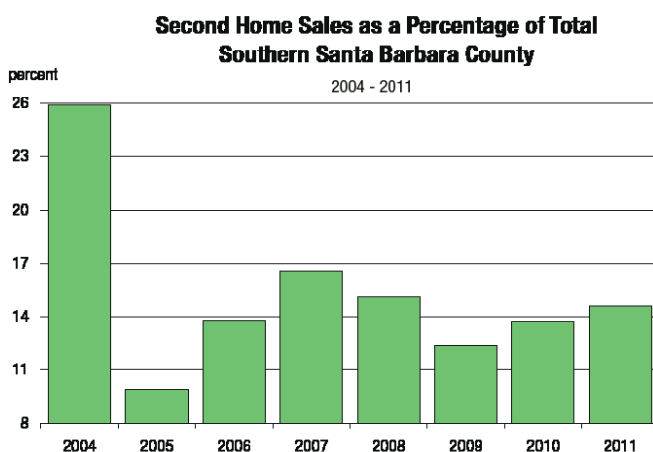


values is not necessarily the result. This temporary phenomenon may provide investors with increased opportunities, but does little to alleviate the issue of housing being unaffordable for the majority of the population.

Housing Stock and Vacancy Rate		Santa Barbara County	
Jurisdiction	Housing Stock	2011 Vacancy Rate	2008 Vacancy Rate
Santa Barbara	38,000	6.3	3.8
Goleta	11,472	5.0	2.5
Carpinteria	5,429	12.3	8.7
Buellton	1,855	4.5	3.4
Solvang	2,494	12.6	1.9
Lompoc	14,410	7.4	4.1
Santa Maria	28,301	4.9	2.9
Santa Barbara County	155,214	7.0	4.3

Second and Investment Homes

Home sales as secondary home purchases or for investment purposes make up a significant portion of sales along the South Coast. Secondary home purchases have been fairly consistent at approximately 14 percent of sales in recent years. Investment purchases vary more from year to year, but average 12 percent of sales. Secondary homes tend to be higher end, with a median price of 1.6 million, while investment properties are relatively more inexpensive with a median price of \$795,000. The fact that roughly one quarter of all homes sold are secondary or investment properties leaves less inventory available for owner-occupiers.



HOUSING AFFORDABILITY

Southern Santa Barbara County



Northern Santa Barbara County



Santa Ynez Valley



Southern Santa Barbara County

South Coast Santa Barbara is one of the most expensive housing markets in the nation. Despite a highly educated workforce that earns high wages, homeownership is out of reach for many workers. The population has aged substantially over the past three decades, as only those with sizeable accumulated wealth are able to purchase a home.

When assessing housing affordability the assumption is made that households can spend up to 40 percent of their pre-tax income on mortgage payments, after making a 20 percent down payment. This leads to the most generous estimate of how many households can afford to purchase a home, as many will not spend such a high percentage of their income on housing, and not all with the incomes to support the mortgage payment have the large sum required for a down payment.

As far back as 1980 only 16 percent of households could afford to purchase the median priced home. By 1990 affordability had improved as interest rates fell, but in the cities of Santa Barbara and Carpinteria only 19 and 16 percent, respectively, had the incomes required to support the required mortgage payments.

By 2000, housing along the South Coast had become slightly more affordable due in large part to falling interest rates. Twenty-seven percent of households could now afford to

purchase the median priced South Coast home and more than 20 percent of households could afford to buy in Santa Barbara and Carpinteria.

Goleta was the most affordable city, where 38 percent of residents could afford the median priced home and 45 percent could afford the 25th percentile home. Condos provided an even more affordable alternative: 55 percent of South Coast residents could afford the median priced condo in 2000. The least expensive option, a condo in the bottom 25th percentile, could be purchased by 64 percent of households living along the South Coast.

At the peak of the housing bubble in 2005 affordability had dropped sharply. Only 15 percent of households had the income required to support mortgage payments on the median priced home, and only 17 percent could afford the 25th percentile home. Even the condo market was out of reach for most, with 32 percent of households able to afford the median priced condo and 40 percent able to afford the 25th percentile condo.

By 2010 falling home values as well as declining interest rates had brought affordability back to approximately the levels that prevailed in 2000. However even the least expensive single-family homes remain out of reach for the majority of households. Condos are affordable to a larger segment of the population, but ownership,

even of the least expensive condo option is not possible for 36 percent of households.

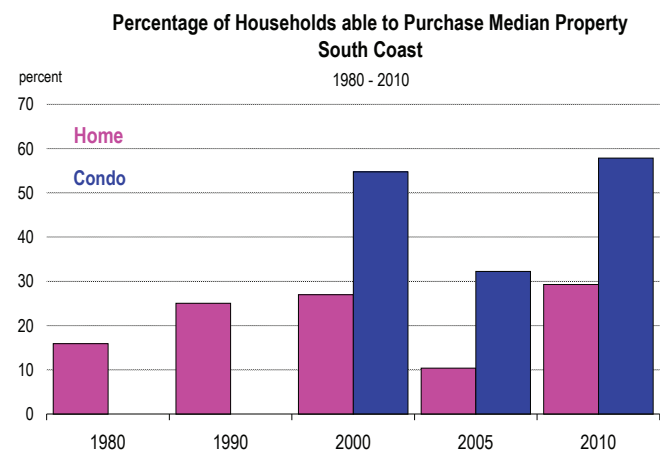
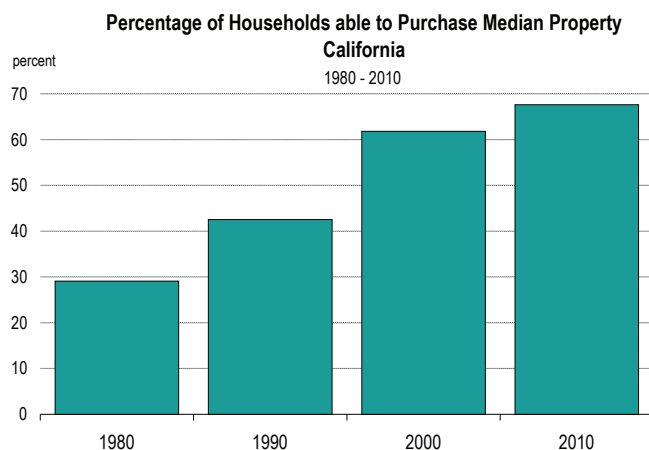
Furthermore, the supply of affordable homes is relatively low. In 2010, 367 homes were listed at the median price or below. However, there were 13,407 households that were able to afford these properties – a ratio of more than 35 to one. This ratio gets even larger when units become more affordable. In effect, there are far too few affordable units in the South Coast. As such, even though 64 percent of households can afford a condo in the 25th percentile, there are far too few units being sold in this price range.

In previous years, this was not necessarily the case. In the mid- to –late-1990's, the total number of affordable listings was much higher. Total homes available are calculated as the sum of all units sold, withdrawn, cancelled, and expired for the year. This will overstate the total supply of housing as some units will be listed in multiple categories for any given year.

However, using this methodology the quantity of units that are affordable to a household earning the median income has declined significantly since 1995. In 2005 when home prices were at their peak, there were just 18 units that were affordable to a household earning the median income. As prices and interest rates have come down over the past 10 years there are now more units that are affordable, reaching nearly 400 in 2010. However this remains far below the level of affordable units in the 1990's.

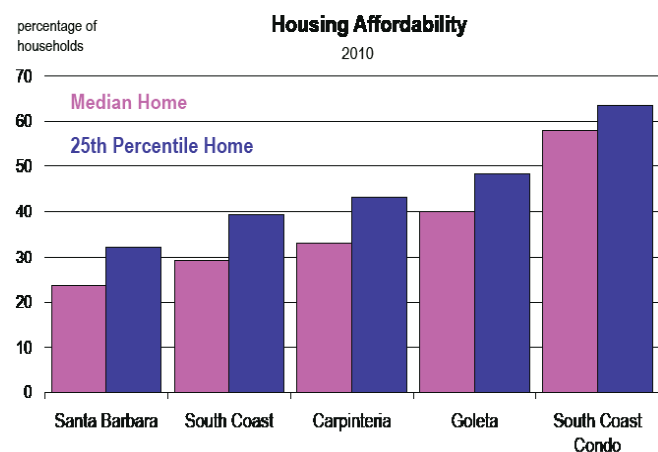
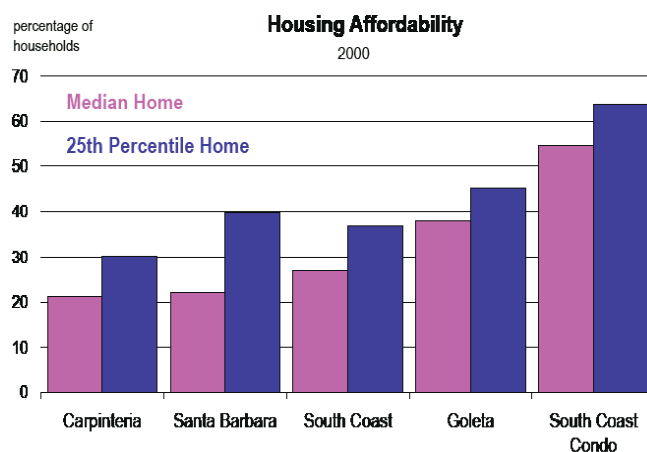
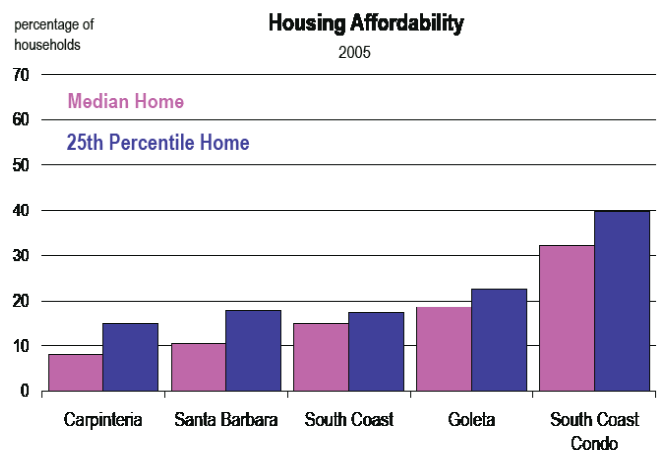
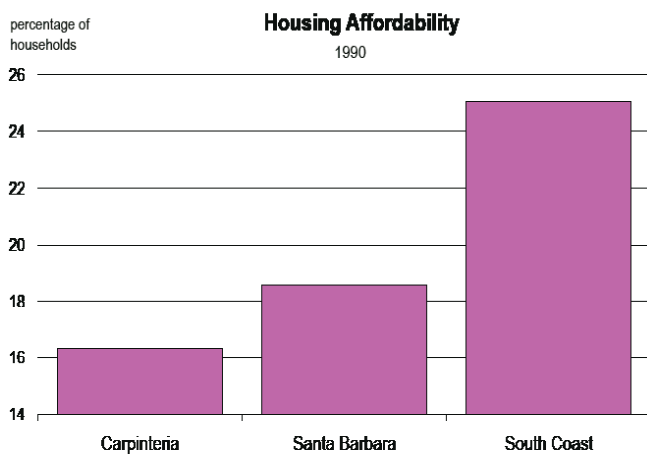
As a percentage of all listings those considered affordable make up a small minority. Even at the peak in 1995 only 43 percent of homes available were affordable. By 2005 this had fallen to just under one percent. By 2010, 17 percent of units listed were affordable to the median household.

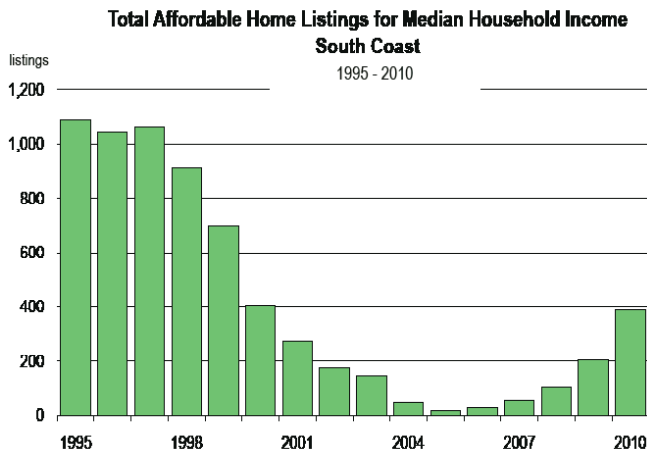
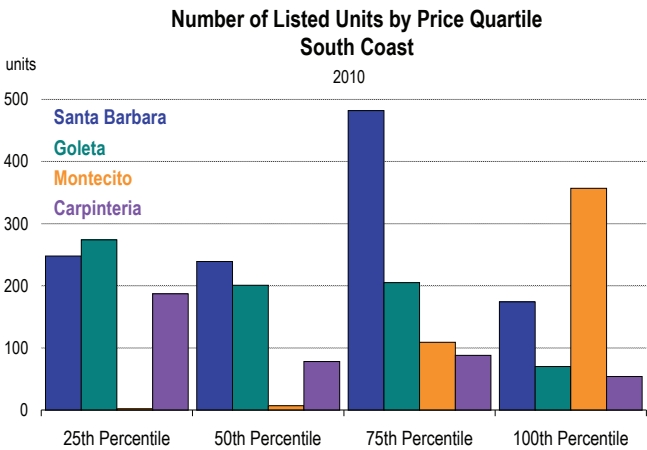
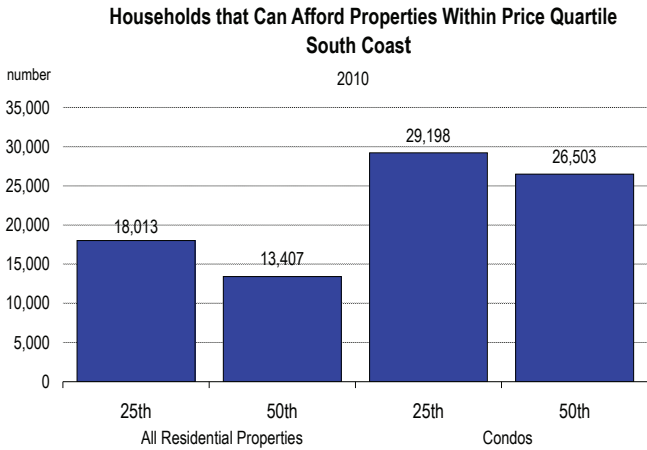
The ratio of total households per affordable unit highlights the dilemma that many buyers have in finding a suitable home. Clearly not every household is in the market to purchase, but when there are hundreds of households for every affordable unit for sale, competition for those units is likely to be fierce.



When looking at the regions of the South Coast, it becomes clear that even though Goleta and Carpinteria have lower median prices than the rest of the South Coast, there are still very few affordable listings. In all of 2010, there were just

under 500 units listed below the South Coast's median price in Goleta, while there were only 150 in Carpinteria. There were also about 500 such homes listed in Santa Barbara, but virtually none in Montecito.





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Bernanke Says Credit Still 'Too Tight' for Housing, Economy

By Craig Torres - Feb 10, 2012 10:41 AM PT

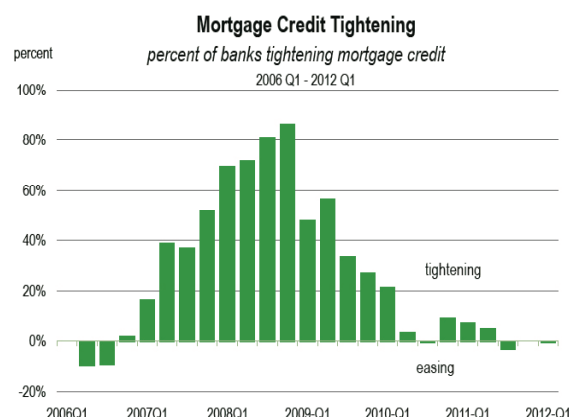
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Federal Reserve Chairman **Ben S. Bernanke** said credit is "too tight" for the U.S. housing market, impeding economic growth.

"Tight credit remains a problem for our economy as well as for the construction industry," the Fed chairman said in response to an audience question after a speech today to the National Association of Home Builders in Orlando, Florida.

Despite increases in home affordability over the past few years, many families are still unable to purchase a house. Loan standards, which became excessively loose during the housing bubble, have tightened precipitously since 2007, preventing a large number of households from qualifying for a mortgage.

Banks are now requiring that borrowers have credit scores well above the average, and are mandating down payments of 20 percent. **In the South Coast, a 20 percent down payment on the median home would be more than \$150,000.** Households that do not possess this level of savings, or those that have even average



credit scores, are effectively excluded from the home purchase market.

These stringent requirements should ease as the job market heals and as home prices rise, and there are signs that this process is already beginning. But given the fact that the unemployment rate and level of homeowner distress will remain elevated over the next few years, progress in lending standards will be slow. In the meantime, excessively tight requirements will limit homeownership opportunities for households in the South Coast.

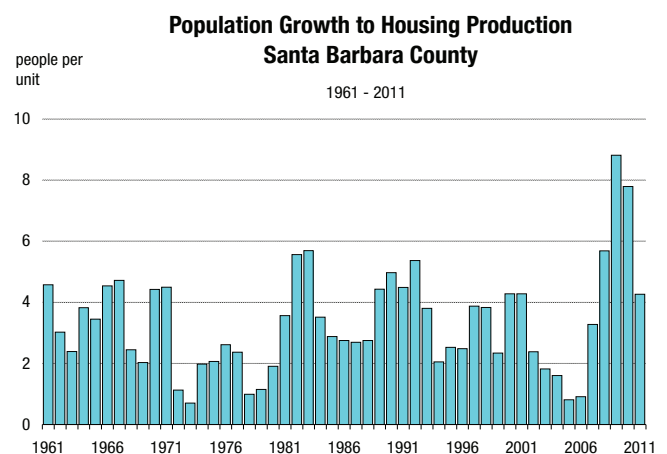
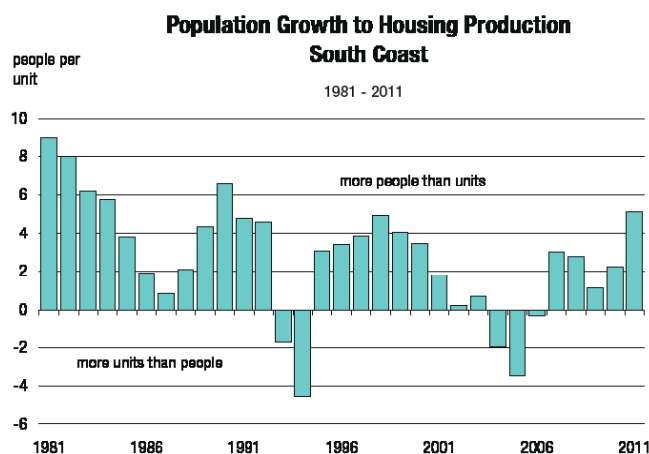
Home prices over time show a clear upward trend for all unit sizes along the South Coast. In 1995 the majority of all 2, 3 and 4+ bedroom homes were in the \$200,000 to \$400,000 dollar range. By 2000 the majority were in the \$400-600 thousand dollar range, with many more being sold in higher price brackets as well. Prices peaked in 2005, with very few sales below \$800,000 and the majority home sales with 3 or more bedrooms were over \$1,000,000. Prices had receded by 2010; the most common sales point for 2-3 bedroom homes was between \$600,000 and \$800,000. However, homes with 4 or more bedrooms remain very expensive, and overall prices are at their highest point since the peak of the housing bubble.

Homes in Montecito are by far the most expensive along the South Coast. Since the year 2000, nearly all listing sold were for a price of 1.5 million or more. Goleta, Santa Barbara,

and Carpinteria are all generally comparable regarding the percentage of homes that fall into each price range. Since 1995 the trend has been for slightly more Santa Barbara homes to be sold at the very high end, while Carpinteria homes have become the most affordable.

The lack of new housing production contributes to the high cost of real estate along the South Coast. Since 2001 just over 3,000 homes have been permitted, many of which were replacements for existing homes.

A slowdown in population growth has reduced the stress caused by low levels of housing production, but at the same time, it has lead to rising home prices and decreasing net migration. Despite accounting for nearly half of the county population, the South Coast has issued just 31 percent of housing permits during the past decade. Population growth closely



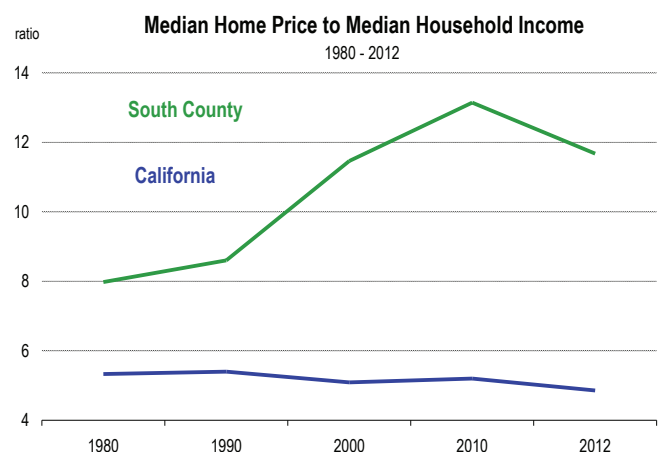
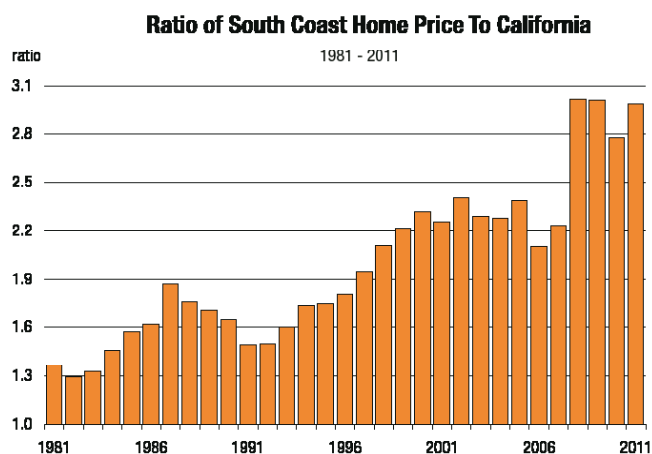
follows housing production, and the lack of construction is therefore one of the primary reasons the South County has not grown much in recent decades.

Furthermore, in Santa Ynez and regions of the North County, housing production over the last decade was primarily in single-family homes. However, in the South County, the majority of all new units were in multifamily structures. Because multifamily units are often renter occupied, there has been a severe lack of production for the owner-occupied market. This has contributed to supply constraints, making the affordability problem even more acute.

Distressed Sales and Housing Affordability

Research by the California Economic Forecast indicates that distressed properties account for a substantial portion of all sales. During the final 6 months of 2011, distressed properties – defined here as a foreclosure or short sale – accounted for 24 percent of all transactions in Southern Santa Barbara County. Housing distress has a significant impact on prices, and foreclosures and short sales are one of the primary reasons that home prices are still falling.

However, investors and second-home buyers account for 38 percent of all distressed sales. When distressed properties are purchased by such individuals, this serves to reduce opportunities for primary home buyers to acquire affordable properties.



Home prices have declined around the state and country since 2008, reducing the cost of housing. However home prices have fallen further in most areas of California than they have in Southern Santa Barbara County. The ratio of home prices along the South Coast to the median price of all homes in California reached an all time high in 2009 before declining slightly in 2010. Since 1980 there has been a general trend upward, with home prices along the South Coast increasing far more rapidly than the entire state. In 1980 home prices were 1.5 times more expensive in Southern Santa Barbara County than for the state as a whole, but by 2010 this had reached 2.8 times, implying that appreciation along the South Coast has been nearly double home price appreciation for the state.

In California the ratio of median household income to median home price has been fairly stable since 1980, declining slightly over the past decade. In Southern Santa Barbara County, on the other hand, home prices have risen substantially more than incomes. By 2010 the median home price was equivalent to over 13 years of the median households income, nearly triple the ratio for California, which is 5.2 years of income.

Home Prices and Local Businesses

“As the cost of housing on the South Coast has escalated over the last fifteen years a significant portion of our workforce has shifted to commuting from North Santa Barbara County and Ventura County. Commuting splits employee participation between communities and draws time away from the employee and their family, the community where the employee works, and the community where the employee lives.”

-- Dave Clark, President, Impulse Advanced Communications

“As a growing technology company in Santa Barbara, we are actively recruiting mid-management level talent from outside the area. Consistently, the greatest hurdle we face in bringing more employment to Santa Barbara is the shortage of affordable housing options. It is an ever-present limitation on growth and development opportunities on the South Coast.”

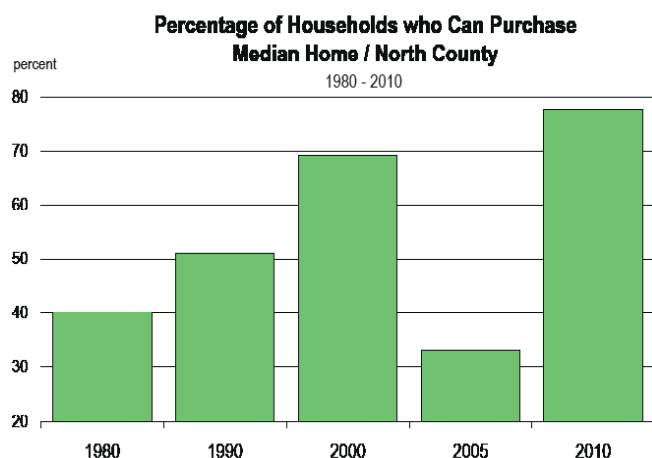
-- Jason Spievak, CEO, RingRevenue, Inc.

“One of the things we keep an eye on at the Workforce Investment Board is projected employment. With the aging population, many employers - including large public sector employers - are facing significant retirements in the coming years. We want to ensure that there are enough skilled workers to replace retiring workers in the years to come, and housing those new workers, particularly on the South Coast, will be a big challenge.”

-- Raymond L. McDonald, Workforce Investment Board of Santa Barbara County

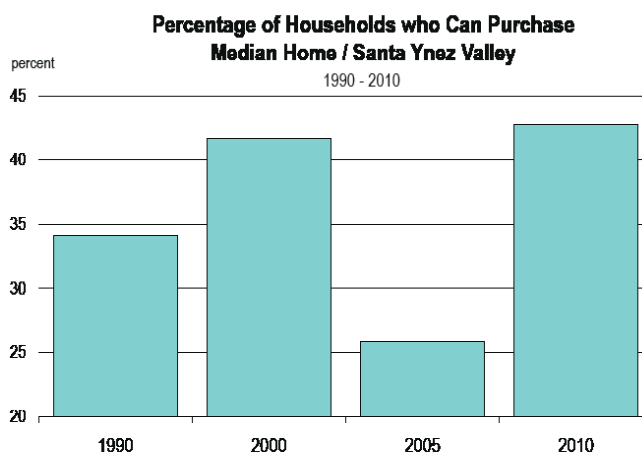
Northern Santa Barbara County

Affordability in the North County is far higher than in the South County. There has been a nearly uninterrupted rise in the percentage of households who can afford the median home, though during the housing boom it fell considerably. As prices and interest rates have fallen, affordability reached a record high in 2010, when over three quarters of all households could afford to purchase the median priced home. Nearly all households would be able to purchase a cheaper listing.



Santa Ynez Valley

In the Santa Ynez Valley affordability followed similar trends, declining to record lows during the peak of the housing boom in 2005 before rising to new highs in 2010. Affordability is better than in the South County, but far lower than the North County. Just under 43 percent of households can afford the mortgage payments on the median priced home as of 2010.



Preparers

This study was prepared by the California Economic Forecast, between September 2011 and May 2012.

The analysis and organization of the report was directed by Mark Schniepp. Matt Mullens and Ben Wright were the principal authors and analysts. Peter Holoien contributed Census research and produced the final layout of the publication. Tyler Paras assisted in the Census research.

Much of the information was obtained from the 1980 to 2010 decennial Census reports, the State Department of Finance, the State Labor Market Information Division, realtor reports and databases within Santa Barbara County, and the Dyer-Sheehan Apartment Market reports.