CALIFORNIA ACADEMY FOR ECONOMIC DEVELOPMENT

CALIFORNIA ECONOMIC SNAPSHOT

Revitalizing the Commercial Strip with Housing

Recent statewide initiatives and the changing nature of retail are creating new opportunities for housing development that can transform California's commercial corridors in the years to come. A more aggressive approach to implementing state Housing Element Law, combined with Governor Newsom's approval of several housing bills, can spur the redevelopment of California's aging and underutilized commercial arterials into much-needed housing while also increasing tax revenues. The retail paradigm shifts over the last decade, coupled with California's acute housing shortage, make this an opportune time for developers, property owners, and local officials to pursue reinvestment along strategically located corridors that are underperforming from both an economic and tax revenue perspective.

With the proliferation of e-commerce shifting the way we shop–a trend accelerated by the Pandemic–traditional retail strips are struggling across the nation. Even before these market shifts, the U.S. was over-retailed, standing way ahead of other countries with 23.5 retail square feet per person (compared to 16.8 in Canada, 11.2 in Australia, and no other nation achieving more than five). At the same time, "brick-and-mortar" retail space faces shifting consumer preferences that are gravitating to online shopping. According to the U.S. Census Bureau, e-commerce as a percent of total retail sales almost tripled over the past decade, from around 5 percent in early 2012 to over 14 percent early this year, peaking at over 16 percent in early 2020 at the start of the pandemic.

This trend is echoed by jobs data, with the U.S. Bureau of Labor Statistics predicting retail to experience the most significant employment decline in any sector between 2020-2030, and nonstore retailers (which include electronic shopping) projected to gain a larger share of industry employment.[1] With experiential retail offerings (shopping experiences intertwined with dining and entertainment) and large-format or "big box" retailers out-competing the older, auto-oriented formats, many commercial arterials are facing a growing supply of vacant and underutilized commercial buildings ripe for residential redevelopment.

While many brick-and-mortar retail formats face a dim future, 2022 saw the state advance several initiatives that may crack economic, political, and legal logjams that have contributed to California's housing crisis. For example, the Department of Housing and Community Development (HCD), which administers the eight-year RHNA process, is pursuing more aggressive housing targets and enforcement protocol for the sixth cycle compared to years past. The newest housing targets for the San Francisco Bay Area, Los Angeles, and Sacramento regions (about 75 percent of the state's population) call for over 1.9 million units for the current 8-year cycle (starting between 2021-2022), a 175 percent increase over the 5th Cycle RHNA.[2] These more aggressive targets are paired with a new Housing Accountability Unit at HCD, tasked with aiding communities to meet their goals and empowered to enforce compliance through housing element decertification if necessary.

Meanwhile, the California Legislature recently approved several bills to make it easier for developers to build housing on commercial properties. Chief among them is Assembly Bill 2011, dubbed the "Affordable Housing and High Road Jobs Act of 2022," which helps residential developers overcome local regulatory barriers by ensuring properties on commercial corridors (that meet relevant criteria) can be used for much-needed housing, with development allowed "by-right" and regardless of preexisting zoning. According to one estimate, AB 2011's regulatory changes can unlock up to 2.4 million housing units statewide.[3]

A frequent concern raised against residential development is that the cost to provide new residents with city services represents an immense strain on local budgets. While actual outcomes will differ depending on unique factors (e.g., nature of existing versus new uses, property tax sharing agreements, market conditions, etc.), tax revenues from new residential development, particularly infill, often exceed both previous uses and additional public service costs. While successful retail is a fiscal "winner," vacant or underperforming properties provide little benefit and often contribute to blight and/or nuisance uses that increase public service costs.

Most importantly, adding much-needed residential density can reinvigorate commercial corridors into more vibrant mixed-use districts that enhance the prospects (and sales) of retailers that remain. Additionally, a new housing development that replaces an old commercial use will "reset" the assessed value and property taxes that are artificially depressed due to Proposition 13. Of course, builders will only replace commercial properties with housing if it makes financial sense, so high-performing retail properties are unlikely to redevelop (because they generate secure revenue streams for owners and tenants), further mitigating sales tax losses. Over time, redeveloping struggling retail strip centers will be a "win-win" for local communities and the state, breathing new life into centrally located corridors while providing much-needed housing and increased tax revenues to boot.

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1 U.S. Bureau of Labor Statistics: Retail trade employment: before, during, and after the pandemic
2 These regions include counties covered by the Association of Bay Area Governments, the Southern California Association of Governments, and the Sacramento Area Council of Governments.
3 Urban Footprint: Can commercial corridors solve California's housing crisis?

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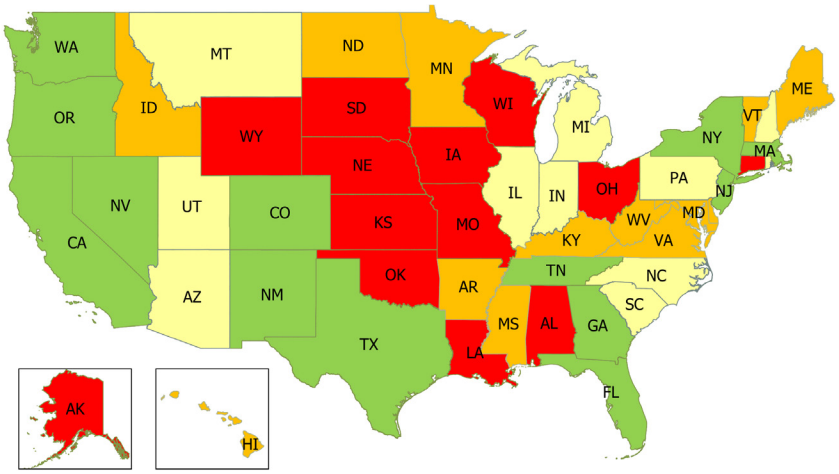
CALIFORNIA ECONOMIC SNAPSHOT

Annual Nonfarm Job Growth Rate By State



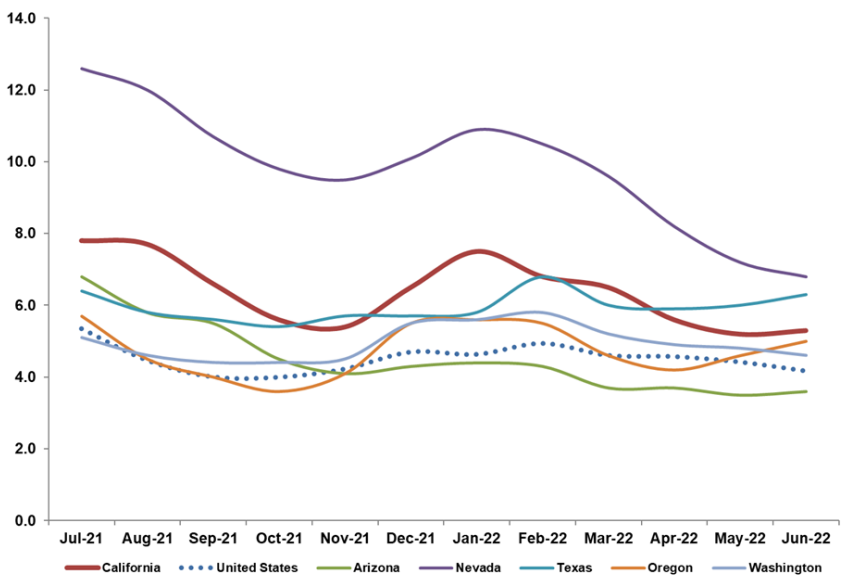
Upper		Upper-Middle		Lower-Middle		Lower	
Nevada	6.8%	Illinois	4.2%	Maryland	3.3%	Connecticut	2.8%
Texas	6.3%	Pennsylvania	3.9%	Virginia	3.3%	Iowa	2.7%
Florida	5.6%	North Carolina	3.8%	Vermont	3.2%	Alaska	2.6%
New Jersey	5.6%	South Carolina	3.8%	North Dakota	3.2%	Nebraska	2.5%
New Mexico	5.4%	Michigan	3.7%	Idaho	3.1%	Oklahoma	2.5%
Georgia	5.4%	Montana	3.7%	Arkansas	3.1%	Missouri	2.4%
California	**5.3%**	Arizona	3.6%	West Virginia	3.1%	South Dakota	2.3%
New York	5.2%	Rhode Island	3.6%	Minnesota	3.1%	Louisiana	2.2%
Oregon	5.0%	Utah	3.5%	Kentucky	3.0%	Ohio	2.1%
Massachusetts	4.8%	Indiana	3.4%	Mississippi	3.0%	Alabama	2.1%
Washington	4.6%	New Hampshire	3.4%	Hawaii	2.9%	Kansas	2.0%
Tennessee	4.5%	District of Columbia	3.3%	Maine	2.9%	Wyoming	1.8%
Colorado	4.4%			Delaware	2.9%	Wisconsin	1.7%

Source: CA Employment Development Department, June 2022; U.S. Bureau of Labor Statistics; EPS

Highlights

- All states continue to experience positive job growth rates in the second quarter with just over half, 27 states, experiencing rates higher than those experienced in the previous quarter.
- California remains in the upper tier with a job growth rate of 5.3%, an increase over the previous quarter.
- Nevada experienced the highest job growth rate at 6.8 percent.
- Consistent with the trend seen in the previous quarter, Hawaii experienced the largest decrease in job growth rate, falling to the lower-middle tier.

State Annual Nonfarm Job Growth Rate



Source: CA Employment Development Department; U.S. Bureau of Labor Statistics; EPS

Highlights

- All analyzed states except, with the exception of Nevada, remained at stable job growth rates throughout the second quarter with only slight shifts experienced since the first quarter.
- Following the trend experienced by all analyzed states, job growth rates for the United States remained stable in the second quarter showing positive job growth rates slightly below those experienced in the previous quarter.
- Despite falling sharply throughout the quarter, job growth rates in Nevada remain above all other analyzed states ending the quarter with the highest job growth rate.

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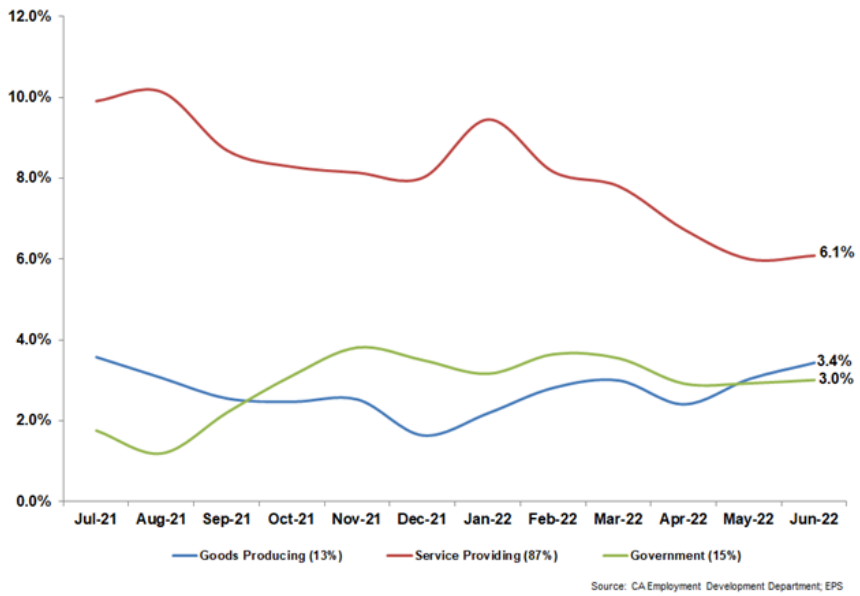
CALIFORNIA ECONOMIC SNAPSHOT

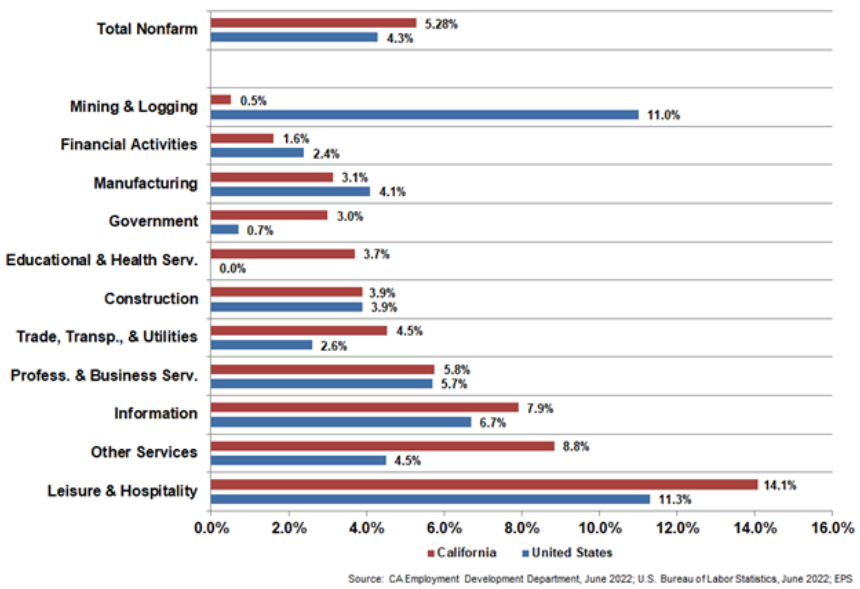
California Annual Industry Segment Job Growth Rate



Highlights

- Remaining consistent with the previous quarter, job growth rates in California's Service-Providing sectors—comprising 87 percent of Nonfarm jobs—remained highest among all three major industry sectors.
- Job growth rates in Goods-Producing sectors increased throughout the second quarter, ending above the Government sectors.
- Government sector job growth remained steady throughout the second quarter, ending the quarter with the lowest job growth rate among analyzed sectors.

California & United States Annual Major Sector Job Growth Rate



Highlights

- California's annual job growth rate exceeded the nation in seven of the 11 major sectors and total Nonfarm job growth. Positive or Neutral job growth was experienced in all sectors, for both the state and nation.
- The most drastic increases in state job growth rates occurred in Leisure and Hospitality.
- Despite strong growth in real estate and rental occupations, Financial Activities occupations job growth was mitigated due to negative growth in credit, securities, and investment occupations.

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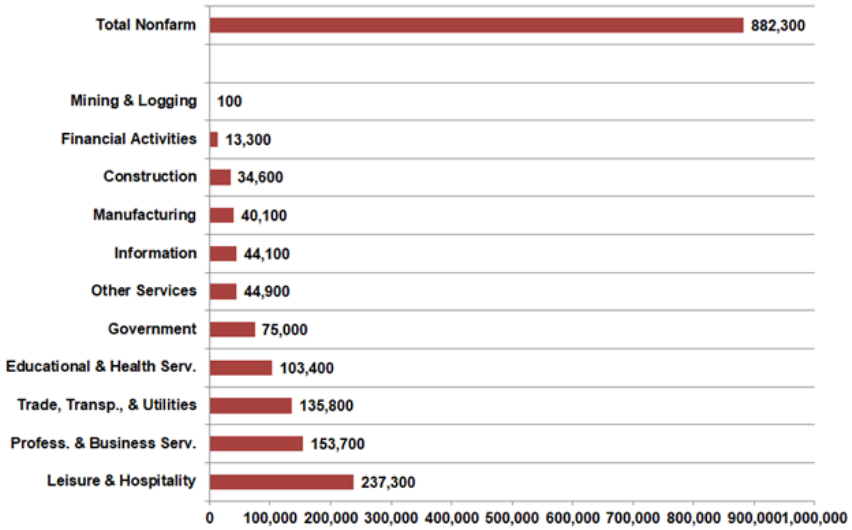
CALIFORNIA ECONOMIC SNAPSHOT

California Absolute Annual Job Gains and Losses

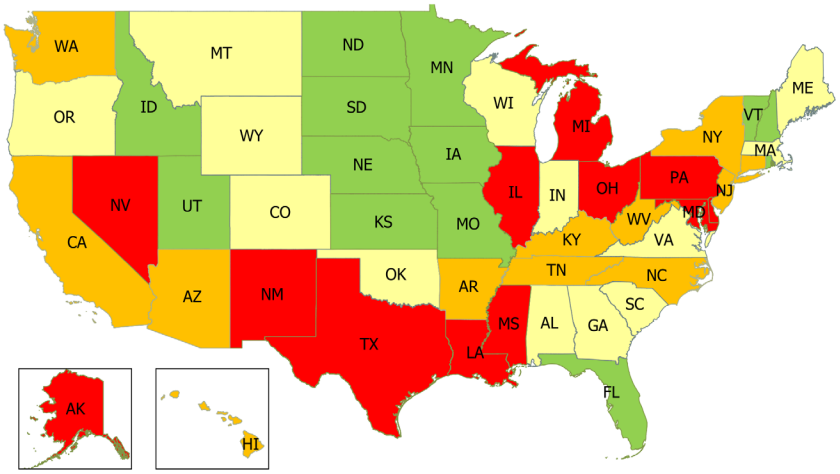


Source: CA Employment Development Department, June 2022; EPS

Highlights

- Nearly 900,000 Nonfarm jobs were gained in California in the 12 months prior to June 2022.
- California's absolute job growth was strongest in Leisure and Hospitality, led by growth in employment in Amusement Park and Drinking Place occupations.
- California experienced positive job growth across all sectors.

State Annual Average Unemployment Rate



Upper		Upper-Middle		Lower-Middle		Lower	
New Hampshire	2.0%	Montana	2.9%	New Jersey	3.6%	Texas	4.4%
Minnesota	2.2%	Virginia	3.0%	Arkansas	3.8%	Mississippi	4.5%
Missouri	2.3%	Maine	3.0%	Washington	3.9%	Ohio	4.5%
Utah	2.4%	Indiana	3.2%	Arizona	4.0%	Louisiana	4.6%
South Dakota	2.4%	Alabama	3.3%	**California**	**4.0%**	Pennsylvania	4.6%
Nebraska	2.5%	Georgia	3.3%	Hawaii	4.1%	Alaska	4.6%
Vermont	2.5%	Colorado	3.3%	North Carolina	4.1%	Maryland	4.7%
North Dakota	2.6%	Wyoming	3.3%	Connecticut	4.1%	Illinois	4.7%
Idaho	2.7%	South Carolina	3.4%	Tennessee	4.2%	Michigan	4.8%
Iowa	2.7%	Oklahoma	3.5%	Kentucky	4.2%	Delaware	4.9%
Kansas	2.8%	Wisconsin	3.5%	West Virginia	4.3%	New Mexico	5.0%
Rhode Island	2.8%	Massachusetts	3.5%	New York	4.3%	Nevada	5.1%
Florida	2.9%	Oregon	3.6%			District of Columbia	5.4%

Source: CA Employment Development Department, June 2022; U.S. Bureau of Labor Statistics; EPS

Highlights

- Unemployment increased slightly from the previous quarter in 31 states with the largest increase experienced by Arizona.
- With an unemployment rate of 4.0 percent, 0.3 percentage points lower than the previous quarter, California rose to the lower-middle tier.
- Approximately 27.3 percent of unemployed Californians have been out of work for more than 27 weeks, a figure higher than the national average of 22.6 percent.
- California's "real" unemployment rate, accounting for underemployed and marginally attached workers, was 9.2 percent, higher than the national average of 7.1 percent.

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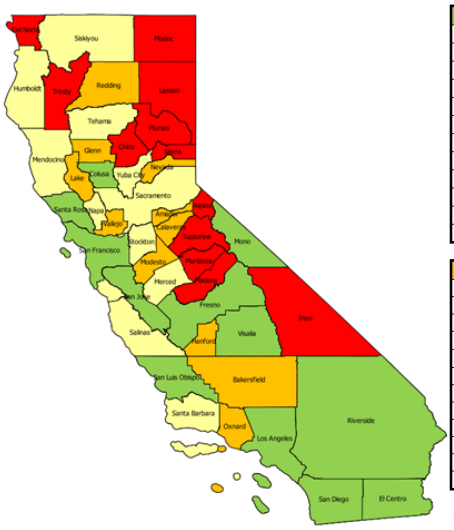
CALIFORNIA ECONOMIC SNAPSHOT

Annual Nonfarm Job Growth Rate for Metropolitan and Non-Metropolitan Areas



Upper		Upper-Middle	
Mono County	11.5%	Merced MSA	4.5%
Colusa County	8.4%	Siskiyou County	4.5%
Los Angeles MSA	**7.2%**	Santa Maria MSA	4.4%
Riverside MSA	**6.1%**	Stockton MSA	4.3%
San Francisco MSA	**5.8%**	Mendocino County	4.2%
San Jose MSA	**5.7%**	**Sacramento MSA**	**4.1%**
San Diego MSA	**5.4%**	Napa MSA	4.1%
San Luis Obispo MSA	5.2%	Yuba City MSA	4.0%
El Centro MSA	5.1%	Salinas MSA	4.0%
Santa Rosa MSA	4.9%	Humboldt County	3.8%
Visalia MSA	4.9%	Santa Cruz MSA	3.8%
Fresno MSA	4.7%	Tehama County	3.7%

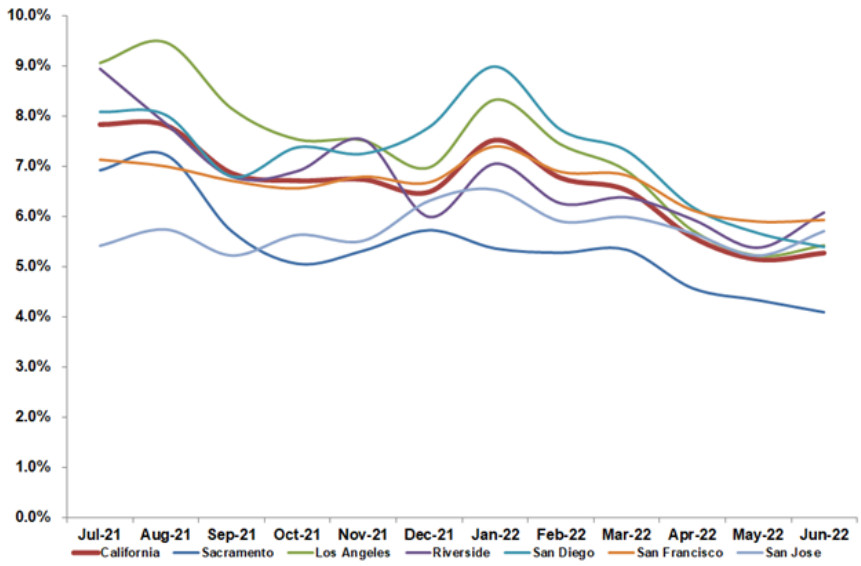
Lower-Middle		Lower	
Glenn County	3.5%	Madera MSA	2.7%
Modesto MSA	3.4%	Del Norte County	2.4%
Amador County	3.3%	Chico MSA	2.0%
Lake County	3.1%	Sierra County	1.4%
Redding MSA	3.1%	Inyo County	0.9%
Vallejo MSA	3.1%	Modoc County	0.0%
Nevada County	3.1%	Tuolumne County	-0.1%
Hanford MSA	3.0%	Lassen County	-0.3%
Oxnard MSA	2.9%	Mariposa County	-0.5%
Calaveras County	2.9%	Trinity County	-1.6%
Bakersfield MSA	2.7%	Plumas County	-1.7%
		Alpine County	-6.3%

Source: CA Employment Development Department, Jun 2022; EPS

Highlights

- All but six California metros experienced positive job growth rates in the second quarter, with 37 metros experiencing a decrease in job growth from the first quarter.
- With job growth rates consistent with those seen in the previous quarter, the San Francisco metro rose to the upper tier joining the Los Angeles metro. The Los Angeles metro accounts for 36 percent of the state's absolute job gains alone and 52 percent when combined with the San Francisco metro.

California Large MSA Annual Nonfarm Job Growth Rate



Source: CA Employment Development Department; EPS

Highlights

- Job growth rates in all of the major California metros, excluding Riverside, followed the same trends as seen throughout the state, with positive job growth rates fall slightly below those seen at the end of the previous quarter.
- The Riverside metro ended highest among all major metros, experiencing a slight increase in job growth rates in the second quarter.
- The Sacramento metro ended the second quarter with the lowest job growth rates among all major metros analyzed.

Q2 2022

CALIFORNIA ECONOMIC SNAPSHOT

Annual Average Unemployment Rate for Metropolitan and Non-Metropolitan Areas

Upper		Upper-Middle	
San Jose MSA	**3.4%**	Mendocino County	4.5%
San Luis Obispo MSA	3.7%	Oxnard MSA	4.6%
Santa Rosa MSA	3.9%	**San Diego MSA**	**4.7%**
Nevada County	4.0%	Trinity County	4.8%
Calaveras County	4.2%	**Sacramento MSA**	**4.8%**
Napa MSA	4.2%	Amador County	5.2%
Santa Maria MSA	4.2%	**San Francisco MSA**	**5.3%**
Inyo County	4.3%	Chico MSA	5.3%
Humboldt County	4.5%	Redding MSA	5.3%
Mono County	4.5%	Tuolumne County	5.3%
Sierra County	4.5%	Santa Cruz MSA	5.3%
Lassen County	4.5%		

Lower-Middle		Lower	
Modoc County	5.4%	Stockton MSA	6.8%
Tehama County	5.4%	Yuba City MSA	7.1%
Glenn County	5.6%	Madera MSA	7.2%
Riverside MSA	**5.6%**	Fresno MSA	7.5%
Mariposa County	5.7%	**Los Angeles MSA**	**7.6%**
Vallejo MSA	5.7%	Plumas County	7.7%
Del Norte County	5.7%	Hanford MSA	8.0%
Lake County	5.8%	Bakersfield MSA	8.3%
Siskiyou County	6.4%	Merced MSA	8.6%
Salinas MSA	6.6%	Visalia MSA	9.0%
Alpine County	6.6%	Colusa County	10.7%
Modesto MSA	6.7%	El Centro MSA	15.4%

Source: CA Employment Development Department, Jun 2022; EPS

Highlights

- The San Jose, San Luis Obispo, and Santa Rosa markets experienced the lowest average unemployment rates for the 12 months ended in June 2022.
- The San Francisco metro fell to the upper-middle tier.
- Throughout the second quarter, unemployment rates have decreased throughout California with all markets seeing unemployment rates in the second quarter lower than or equal to those experienced in the previous quarter.

State Leading Index

The State Leading Index indicator predicts the six-month growth rate of the Coincident Index for each state, combining several indicators of current conditions.

Given the sudden, extreme impact of the COVID-19 outbreak on initial unemployment claims in recent weeks, our researchers' standard approach for estimating the six-month change in coincident indexes is not appropriate. Therefore, the Federal Reserve Bank has suspended the release of the state leading indexes indefinitely.

Economic Trends to Follow:

- Economic data demonstrate that economic activity remains resilient. Consumer confidence rose to the highest level in six months in September revealing stabilization in demand and strength ahead of Q3 spending.
- October inflation relief allows for a slowing of Federal Open Market Committee rate increases

Quarterly Highlights

- All states continue to experience positive job growth rates in the second quarter with 27 states experiencing job growth rates higher than the previous quarter.
- All but six California metros experienced positive job growth rates in the second quarter, with 37 metros experiencing a decrease in job growth from the first quarter.
- Unemployment rates have decreased or remained constant in all California metros from the previous quarter.

For questions regarding the report findings, please contact Sean Fisher, EPS Associate, at (916) 649-8010 or sfisher@epssac.com.
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