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October 5, 2005

County's economy improves: Housing in area among most costly

By **JENNIFER PITTMAN**
Sentinel correspondent

Local housing prices have slowed their upward spiral and the Santa Cruz regional economy has nearly recovered the jobs it lost in the 2001 recession, but the area is holding on to its ranking as one of the least affordable cities in the country, according to a report released Tuesday by the Federal Deposit Insurance Corp.

According to the new quarterly report, "FDIC State Profiles," in the second quarter of 2005, Santa Cruz outpaced California and California outpaced the nation.

"Basically California as a state has weak affordability but from a growth perspective both California and Santa Cruz are doing well," said Catherine Phillips-Olsen, head of the FDIC Division of Insurance and Research in San Francisco. "California has finally recovered from its recession-related job losses."

Strong employment growth in California and a busy construction industry pushed the state's job count above pre-recession levels, Phillips-Olsen said.

California had an overall job-growth rate of 1.7 percent, ranking it 16th nationally. A year ago, when the state was still struggling to recover from the 350,000 jobs lost during and after the 2001 recession, the state ranked 42nd.

Santa Cruz County had a job-growth rate of 1.9 percent in the last year, adding a total of 1,800 jobs — 467 jobs were added in the construction sector, 433 jobs in manufacturing, and 400 in professional and business services. The biggest loss — 500 jobs — was in education and health services.

"You had broad-based improvements," Phillips-Olsen said, noting that Santa Cruz benefited from having its top employers — UC Santa Cruz and Dominican Hospital — operating in less affected sectors. "Those two industry sectors didn't get hit as hard as the manufacturing sector did, for example, in the San Francisco Bay Area."

Although housing appreciation slowed in most California markets from second quarter 2004 to the same quarter in 2005, Santa Cruz prices skyrocketed, climbing nearly 19.5 percent. Still, the region wasn't among the nation's fastest-increasing areas.

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The Santa Cruz-Watsonville metropolitan area ranked 56 of 265 markets for appreciation. Only seven California markets (Bakersfield, Merced, Stockton, Visalia, Modesto, Yuba City and Fresno) ranked among the nation's top 20 for home-price appreciation during the second quarter, down from 14 in the first quarter.

Midyear housing affordability in California, however, fell to its lowest level in more than a decade. The FDIC said pending bankruptcy-law changes may have contributed to a spike in second quarter personal bankruptcy filings. Santa Cruz ranked as the second least affordable in the nation behind the Salinas/Monterey market.

Last month, the California Association of Realtors reported only 10 percent of households in the Santa Cruz region could afford a median-priced home in June, down from 16 percent the year before.

After climbing a whopping \$100,000 to \$650,000 in 2004, the median price for a home in Santa Cruz County climbed another \$135,000 in just six months, peaking in June 2005 at \$785,000, said Gary Gangnes, of Real Options Realty in Santa Cruz. Since then, the price has bounced between \$750,000 and \$780,000.

"What happened in 2005 was astonishing," Gangnes said. "There are numerous signs that the red hot real estate market is starting to cool."

More local listings seems to have taken off some pricing pressure and the amount of housing stock has been increasing with autumn rather than following its normal decreasing trend.

"The number of sales is down 17 percent from a year ago," Gangnes said. "This tells me at least prices will not go up in the next 12 months as they have in the last 12 months."

Contact Jennifer Pittman at atjrpittman@comcast.net.

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