

  
**BEACONECONOMICS**

## East Bay Metropolitan District Economic Forecast: 2009-2013



**Jon Haveman**  
*September 30, 2010*

## A Hard Time for the East Bay...

**East Bay jobless rate soars to highest level since 1990**  
By George Avalos  
 Contra Costa Times  
 Posted: 09/10/2009 11:11:03 AM PDT


**Falloff in Port of Oakland container traffic could impact region's economy in many ways**  
By George Avalos  
 Contra Costa Times

**Oakland revs up parking tax collection**  
Chip Johnson  
 Tuesday, September 1, 2009

**Wells Fargo makes more job cuts**  
By George Avalos  
 Contra Costa Times

**Fremont mourns loss of NUMMI**  
By Matthew Artz

**East Bay's Watergate joins flood of foreclosures**  
By George Avalos

  
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# Unemployment

**Oakland (MD) Unemployment Rate to August**



California Employment Development Department

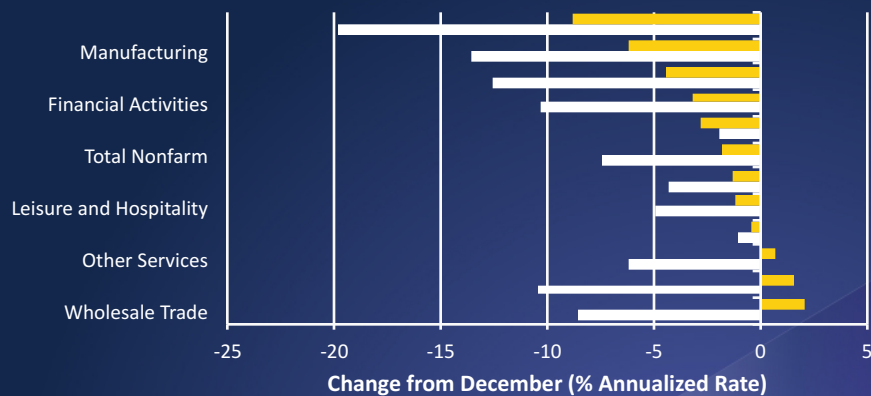
Unemployment (% SA)	Aug-10	Aug-09	Aug-08
California	12.4	12.0	7.5
<b>Bay Region</b>			
Oakland (MD)	11.1	10.9	6.5
San Francisco (MD)	8.9	9.0	5.2
San Jose	11.0	11.6	6.4
<b>Other Regions</b>			
Los Angeles (MD)	12.6	12.1	8.0
Inland Empire	14.0	13.4	8.7
San Diego	10.3	10.0	6.3
Stockton	17.6	16.1	10.7

Source: California Employment Development Department

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# Payroll Employment

**Oakland (MD) Employment by Industry  
Year-to-Date Employment Change, Jan-Aug**



2010 2009

Source: California Employment Development Department

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## Recent statistics suggest...



Light at the end  
of the tunnel!

Or Oncoming Train?

There's still more tunnel to come...but less than for other Bay regions.



## Forecast Outline

- Short-Term
  - What's housing got to do with it?
  - Where's the Consumer?
  - Secondary Effects
- Long-Term
  - Manufacturing: Bad or Good?
  - Social Issues
- Summary

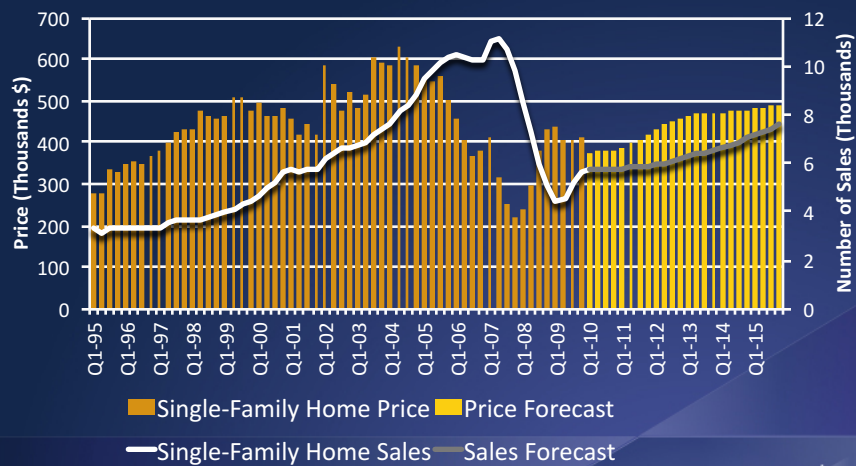


# Bursting Housing Bubble and Subsequent Financial Crisis



## Housing Market

Beacon Forecast: Housing Forecast to Q4-15 as of Q1-10



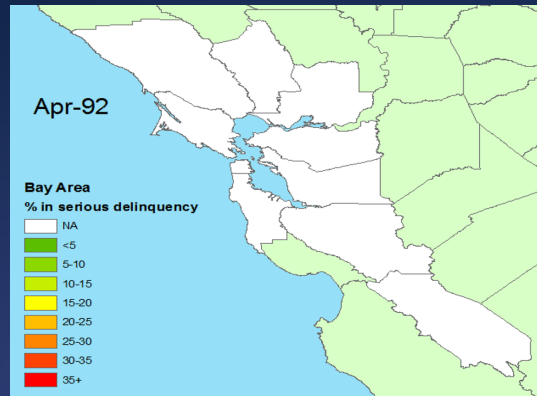
Source: DataQuick,  
Forecasts by Beacon Economics



## Bay Area: Sub Prime & Alt-A Issues

### Subprime and Alt-A Usage

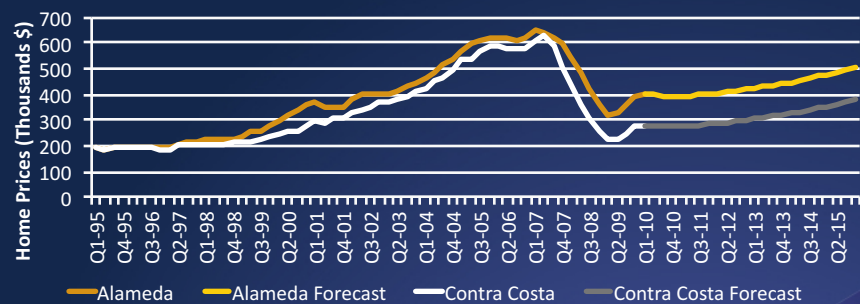
	Percent of All Mortgages	
	2000	2007
San Francisco (MD)	5.9	24.7
<b>East Bay (MD)</b>	<b>4.7</b>	<b>32.8</b>
South Bay (MSA)	4.9	28.2
North Bay	4.4	37.3
Bay Area	5.0	30.6



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## Median Values by County

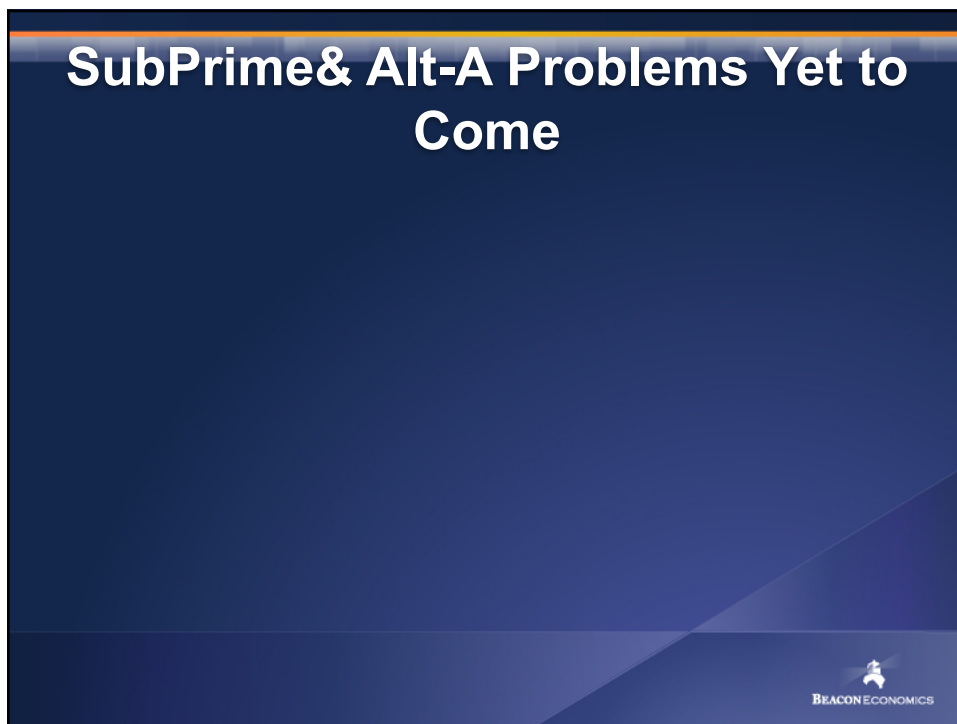
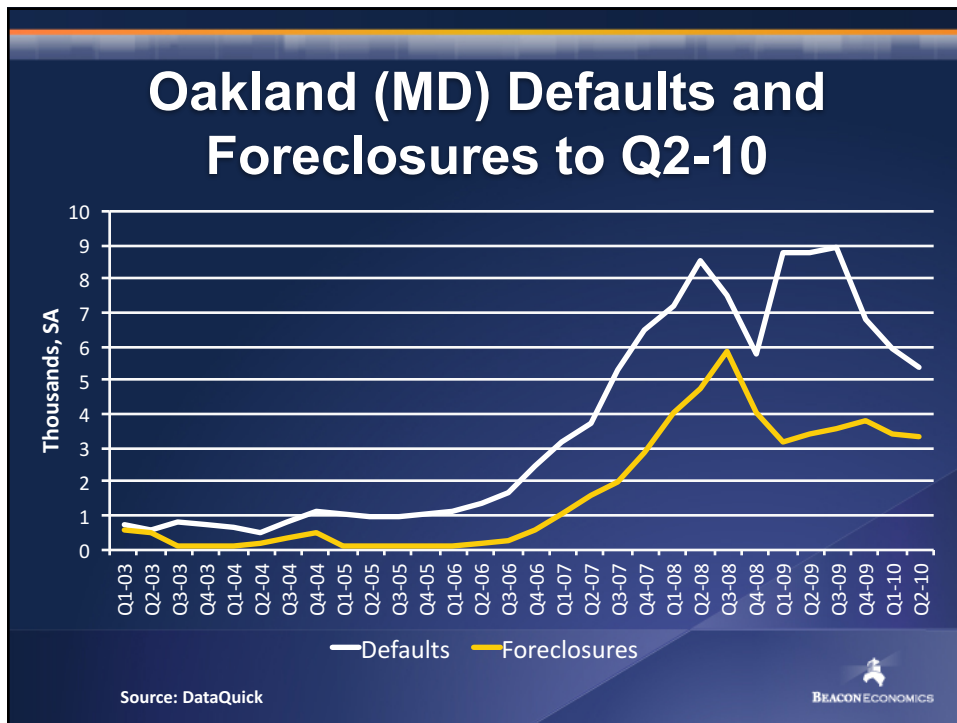
Beacon Forecast: Single-Family Median Home Prices  
to Q4-15 as of Q1-10

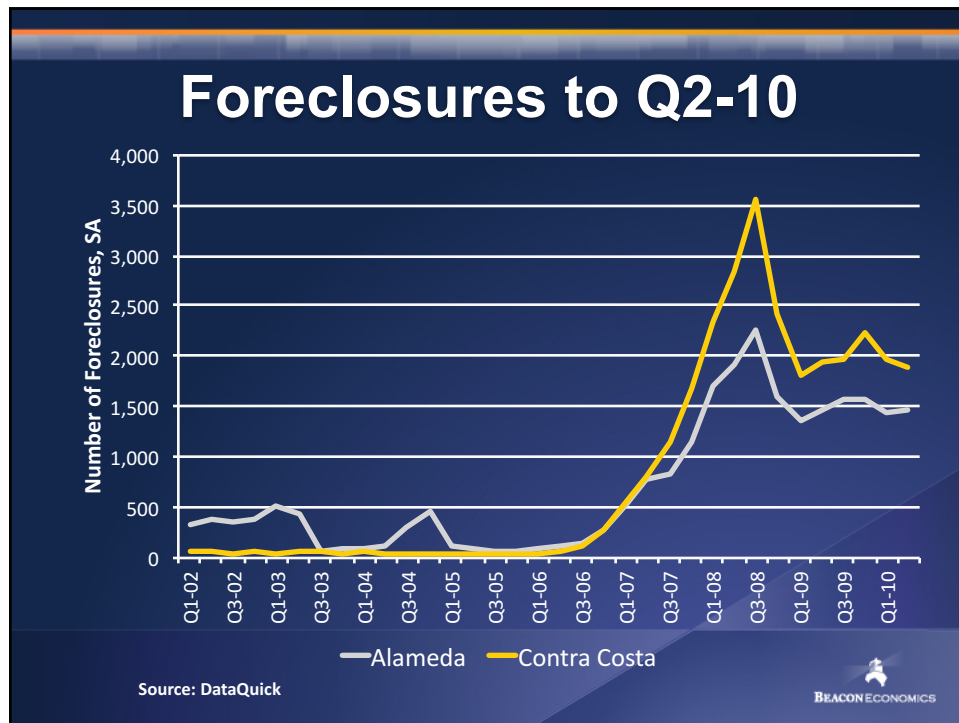


County	Prices (\$ 000s)	Peak - Current (%)	Peak - Trough (%)	Bottom Quarter
Alameda	324,295	-49.7	-51.5	Q1-2009
Contra Costa	220,636	-64.6	-65.0	Q2-2010

Source: DataQuick,  
Forecasts by Beacon Economics

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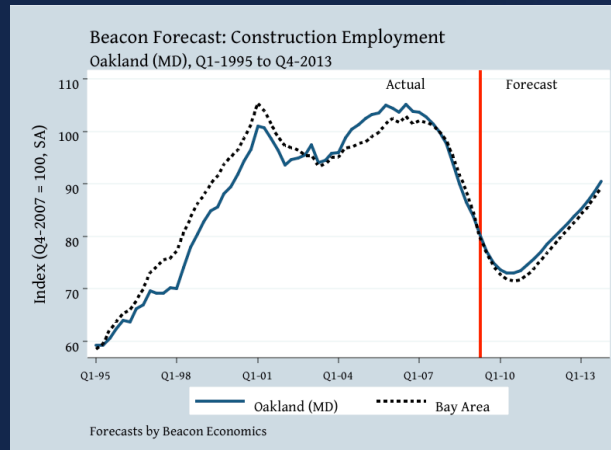
## Employment Implications of Bursting Housing Bubble

	California	East Bay (MD)	San Francisco (MD)
Finance and Insurance	Dec-05	Jul-05	May-07
Construction	Feb-06	Jun-06	Feb-08
Retail Trade	Jan-07	Jan-06	Jan-07
Professional/Business	Oct-07	Oct-07	Jul-08
Total Nonfarm	Jul-07	Mar-07	Apr-08

Source: California Employment Development Department

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## Construction's Loss



- 17,600 jobs (-23.8%) lost to date.

- Total losses of 22,600 jobs (-30.6%) are expected.

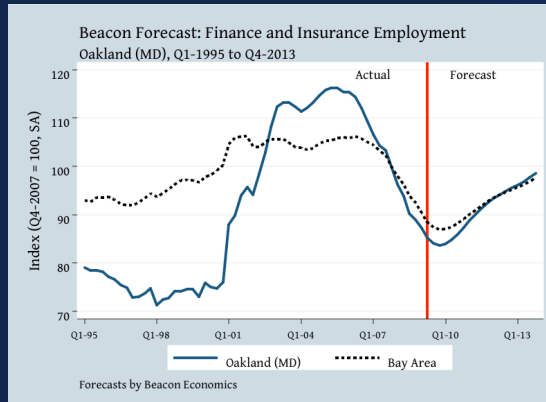
- Infrastructure stimulus will help, but when?

## Bay Area Stimulus Funding Recipients

Recipient	Headquarters Location	Contract Amount (\$ 000s)	Purpose
Bechtel Group, Inc.	San Francisco	175,291	Hazardous material removal, cleanup, and disposal
University of California, Lawrence Berkeley National Laboratory	Berkeley	166,473	Operation of government-owned facilities
URS Corporation	San Francisco	136,339	Hazardous material removal, cleanup, and disposal
Stanford University	Palo Alto	59,200	Research and development
California Transportation Commission	San Francisco	50,000	Highway construction and repair
M. Arthur Gensler Jr. & Associates, Inc.	San Francisco	22,500	Architectural and engineering services

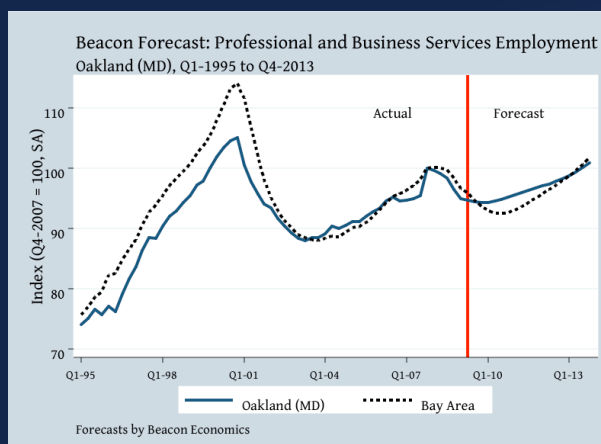


## Finance & Insurance



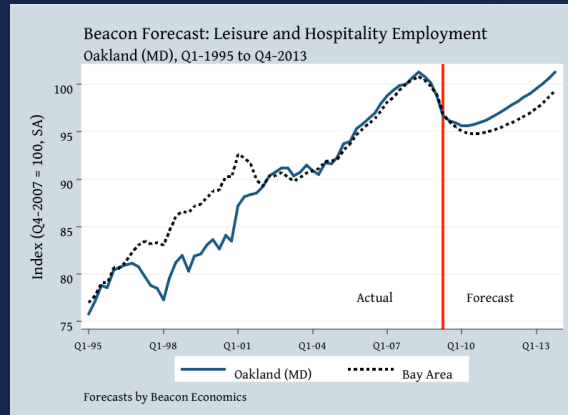
- Hotbed of mortgage origination activity
- 13,600 jobs (-26.8%) lost to date
- Total losses:  
14,300 jobs (-28.1%).

## Professional & Business



- Down: 8,700 jobs, 5.3%
- Only 640 more jobs are expected to disappear.

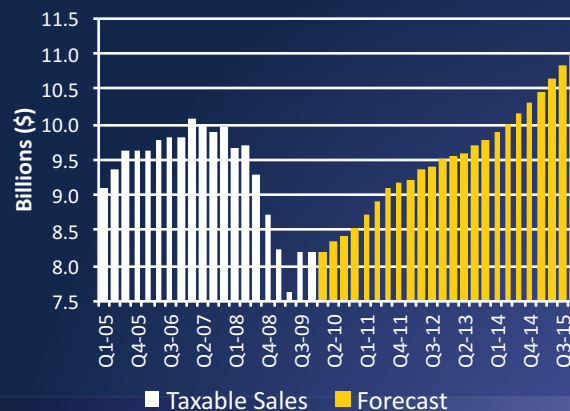
## Leisure & Hospitality



- Lesser effect here than in San Francisco
- Down: 4,100 jobs (-4.5%) to date
- Final employment losses just under 5,000 jobs, -5.6%

## Big Story: The Consumer

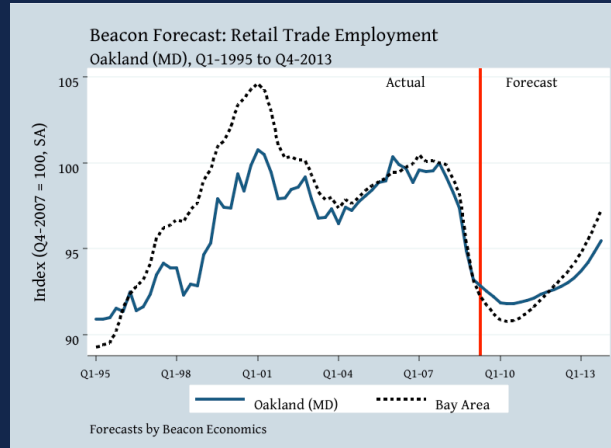
Beacon Forecast: Taxable Sales  
to Q4-15 as of Q1-10



- Biggest driver of the current recession. Will be the key to recovery.
- Down 18.8% to date.
- Overall declines: 24.4%.
- Result: serious reductions in state and local government revenues

Source: California Board of Equalization,  
Forecast by Beacon Economics

## Retail Trade is Suffering



- The East Bay has the largest retail trade sector in the Bay Area

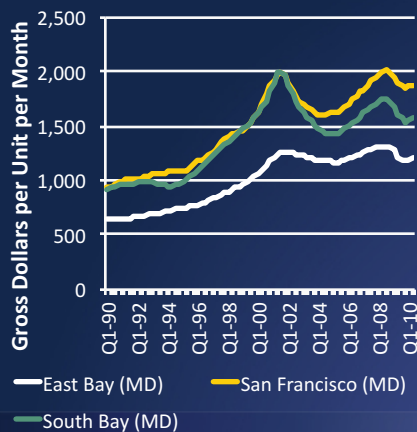
- Down: 8,100 jobs, 7.2% to date

- Total losses: 9,300 (-8.2%) are expected.



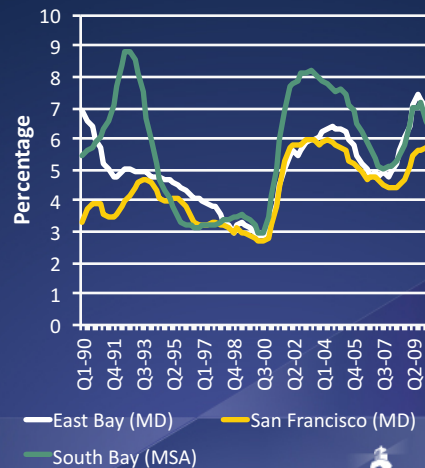
## Apartment Market

Apartment Rental Rates  
to Q2-10



Source: Property and Portfolio Research

Apartment Vacancy Rates  
to Q2-10



Source: Property and Portfolio Research BEACONECONOMICS

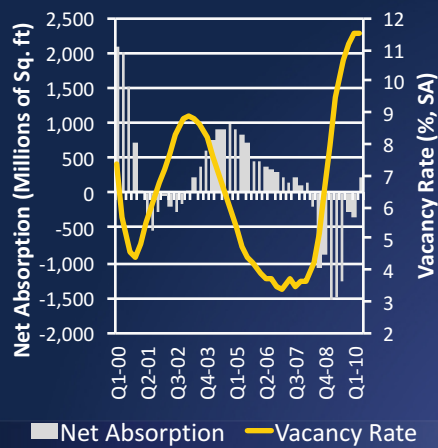
## Commercial Problems

- Vacancies      ↑ Up  
                     ↓ Down
- Net absorption      ↑ Up  
                             ↓ Down
- Cap rates      ↑ Up  
                     ↓ Down
- Rents      ↑ Up  
                 ↓ Down



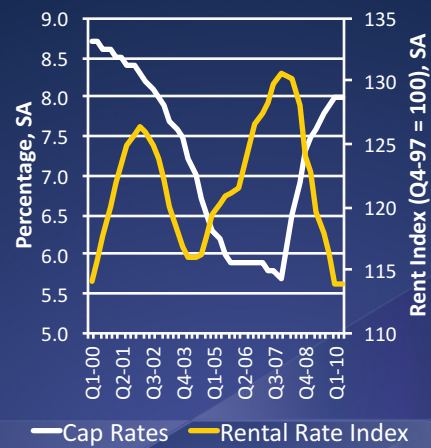
## Oakland (MD) Retail Market

Retail Net Absorption & Vacancy Rates to Q2-10



Source: Property and Portfolio Research

Retail Rent and Cap Rates to Q2-10



Source: Property and Portfolio Research

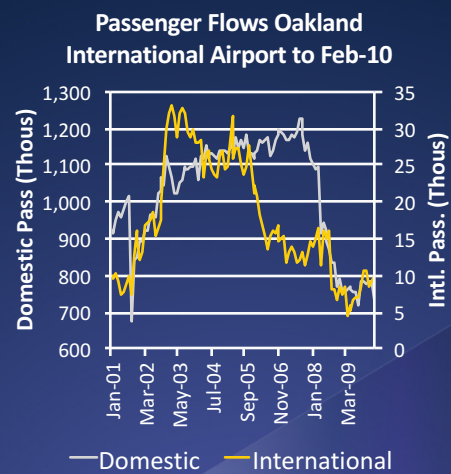
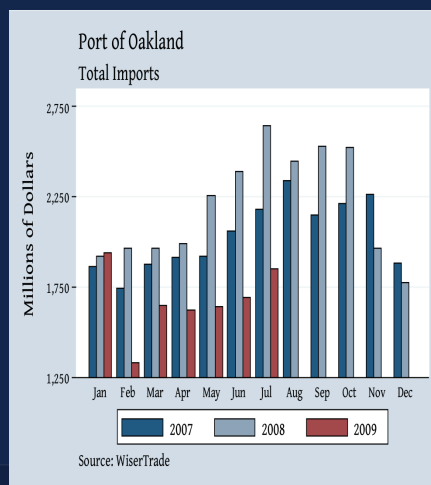


## Secondary Effects

- Ports
- Tourism and Travel
- Venture Capital

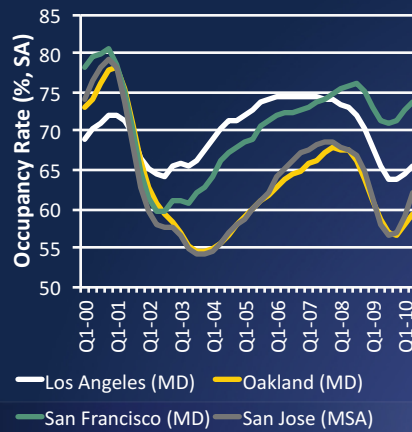


## Ports



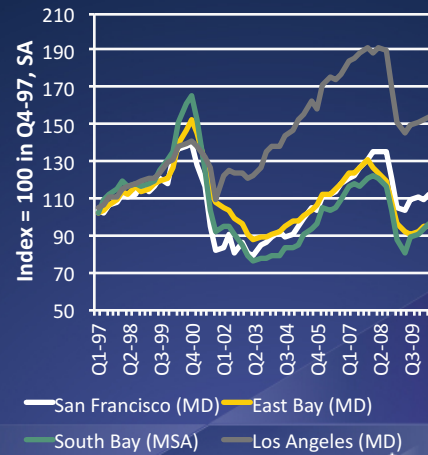
## Tourism and Travel

Hotel Occupancy Rates  
to Q2-10



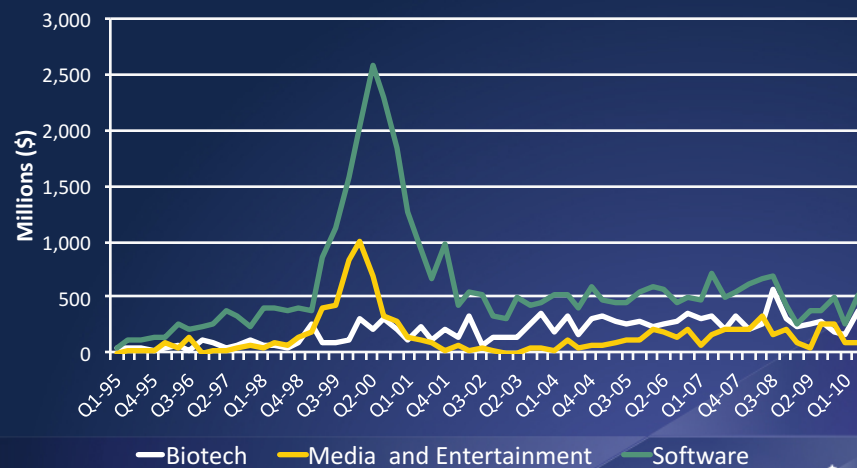
Source: Property and Portfolio Research

Hotel RevPAR Index to Q2-10



Source: Property and Portfolio Research BEACONECONOMICS

## Silicon Valley Venture Capital Investment to Q2-10

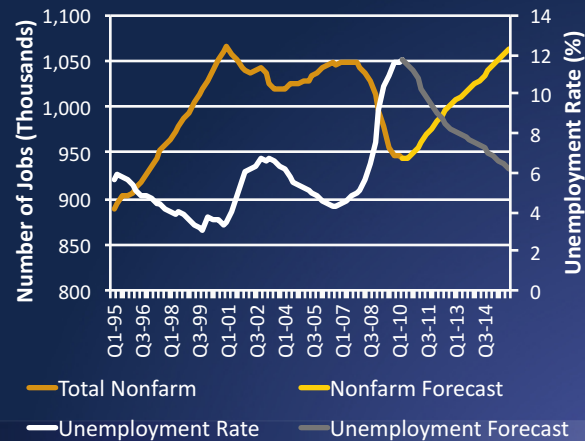


Source: PricewaterhouseCoopers

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## Net Effect on the Labor Market

Beacon Forecast: Oakland (MD) Employment  
Situation to Q4-15, as of Q2-10



- Unemployment peak:  
10.8% in Q1-2011  
Trough to Peak:  
+7.5%

- Employment trough:  
944,091 in Q2-2010

Peak to Trough:  
104,859 jobs lost  
(10.0%)

- Employment Trough  
comes before rest of  
Bay Area

Source: California Employment Development Department



## Forecast Summary

- Housing near its bottom, but no bounce
- Commercial markets will lag the housing market
- Unemployment Rate will peak at 11.2% in Q1-2010
- Payroll employment will bottom out in Q2-2010
  - We will lose almost 19,300 more positions by then
- Consumer spending will be the driver to get us out of this, but not yet
- Temporary agency employment will lead job recovery.





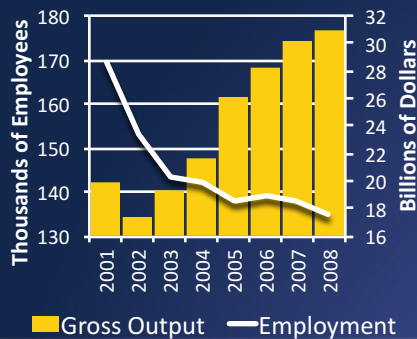
## Where do we go from here

- Manufacturing?
- Age and Healthcare
- Education
- Income Effects



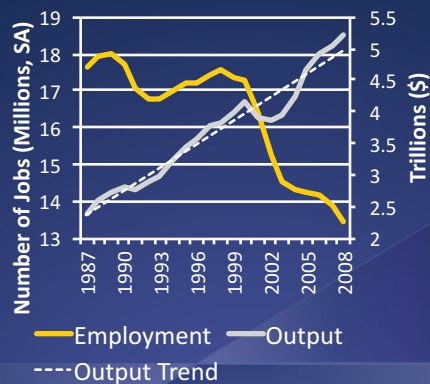
## Beyond the Recession: Manufacturing

San Francisco (MSA)  
Manufacturing Productivity  
to 2008



Source: Bureau of Labor Statistics, Bureau of Economic Analysis

US Manufacturing Sector  
to 2008



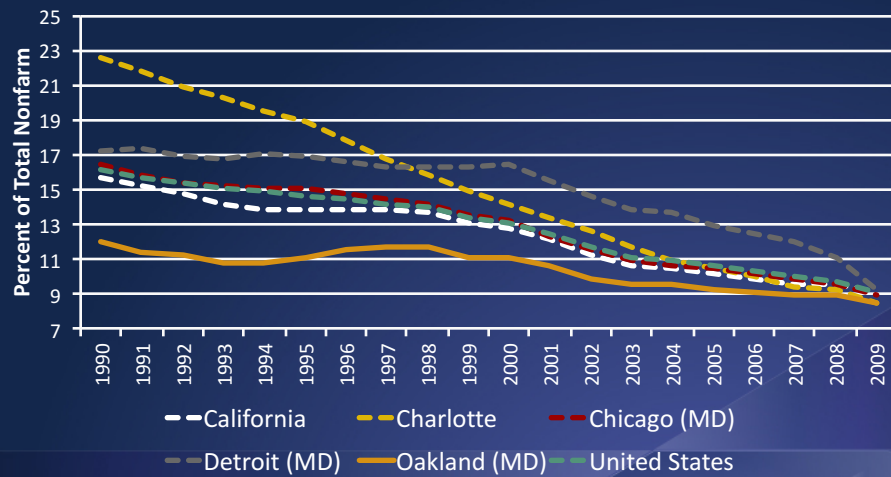
Source: Bureau of Labor Statistics, Bureau of Economic Analysis





## National Phenomenon

Manufacturing's Share of Total Employment to 2009

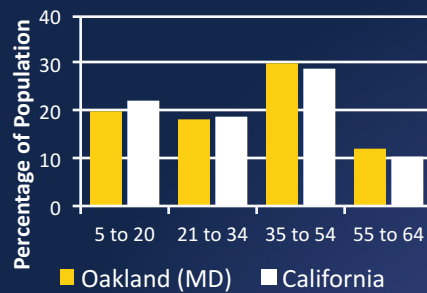


Source: Bureau of Labor Statistics



## Age Related Challenges

2009 Population By Age

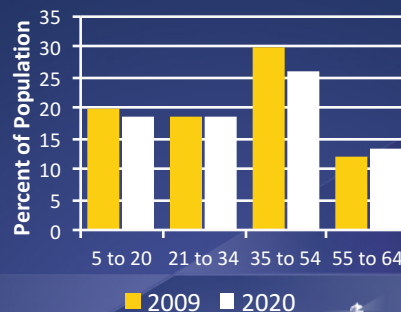


Source: CA Department of Finance

- The future will see an increase in demand for health care services.
- Although aging, the East Bay has a younger population than the rest of the Bay Area.

- Retirements will rise quickly over the next 20 years.
- The workforce overall will have less workplace experience.

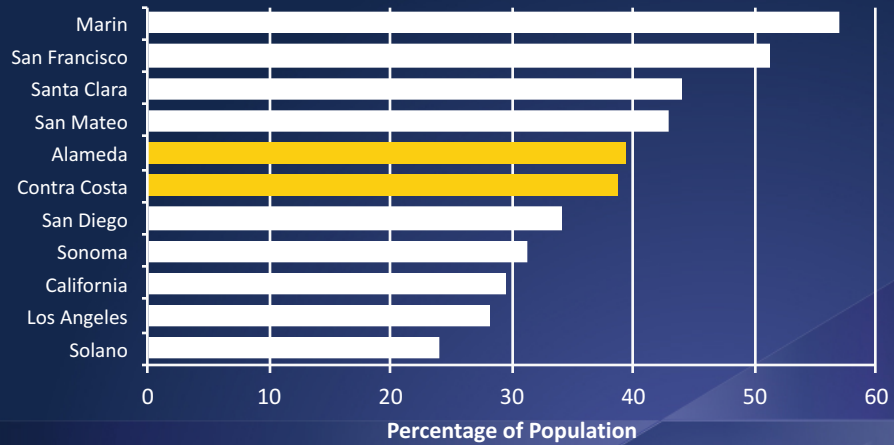
2009 Population Forecast by Age



Source: CA Department of Finance BEACONECONOMICS

## Educational Opportunity

2008 Percentage of Population with Bachelors Degree or Higher

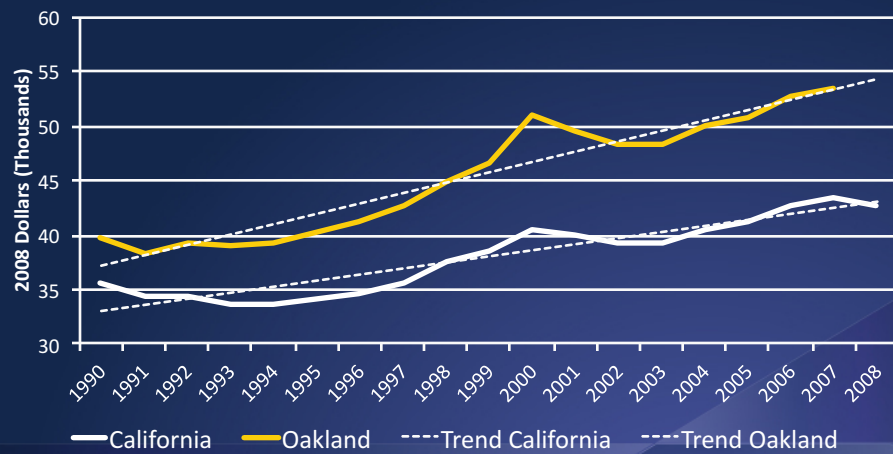


Source: US Census Bureau

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## Income

Per Capita Income to 2008



Source: Bureau of Economic Analysis

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## Regional Summary

- Manufacturing is likely to continue as a source of growth – though not increased employment
- The region is aging, which will bring challenges
- High relative levels of education will help sustain income growth and to meet challenges



## Forecast Summary

	Change from Peak to Current (%):	Change Yet to Come (%):	Bottom Reached In:
Home Prices			
<i>Alameda</i>	-49.7	-0.5	Q1-2009*
<i>Contra Costa</i>	-64.6	-1.4	Q2-2010
Taxable Sales			
<i>Alameda</i>	-20.9	-5.8	Q1-2010
<i>Contra Costa</i>	-14.4	-4.1	Q2-2010
Personal Income	-1.0	-1.0	Q4-2009
Nonfarm Employment	-5.5	-1.9	Q2-2010
Unemployment Rate	6.5	0.5	Q1-2010



## Key Takeaway Points

- The Oakland MD got an early start – will also start the recovery
- Housing is near bottom, but recovery will be slow
- Expect local budgets to be strained for a while
- Commercial real estate
  - The unwinding of historically low cap rates
- The region is very adaptable!

**East Bay Green Corridor grows, cash pours in**

Carolyn Jones, Chronicle Staff Writer  
Saturday, June 27, 2009

**Solar deal energizes East Bay**

By George Avalos



## Analysis. Answers.

- *Economic Forecasting*
- *Regional Intelligence Reports*
- *Business & Market Analysis*
- *Real Estate Market Analysis*
- *Ports & Infrastructure Analysis*
- *Economic Impact Analysis*
- *Public Policy Analysis*

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