

The San Francisco Bay Area Economy— On Track Again?

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Topics

- US and California economic context
 - Modest economic pace continues
 - Role of real estate in current growth
- Bay Area turnaround
 - Employment
 - Residential real estate
 - The office market
- Challenges going forward
 - Oil Prices and construction costs—effects on outlook
 - Home prices and education base—the local challenges

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US GDP Growth

1980-2004, 2005Q1-Q2 Annual
% Change – Chained 2000 Dollars



Source: US Bureau of Economic Analysis

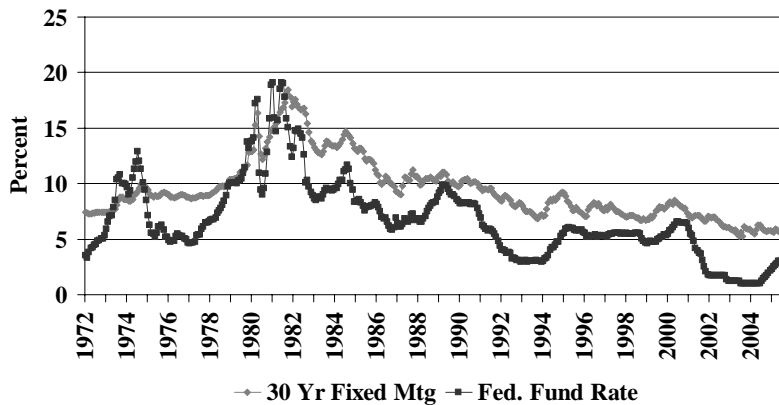
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Low Rates Continue to Bolster the Economy

Interest Rates

January 1972 – August 2005



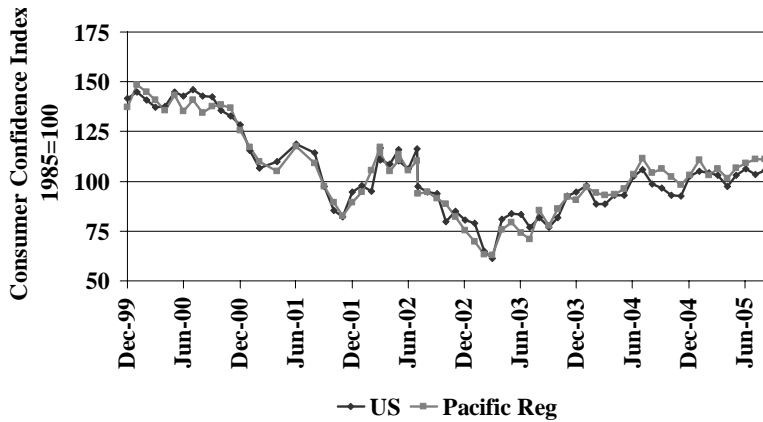
Source: Federal Reserve Board, Federal Home Loan Mortgage Corporation.

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Consumer Confidence

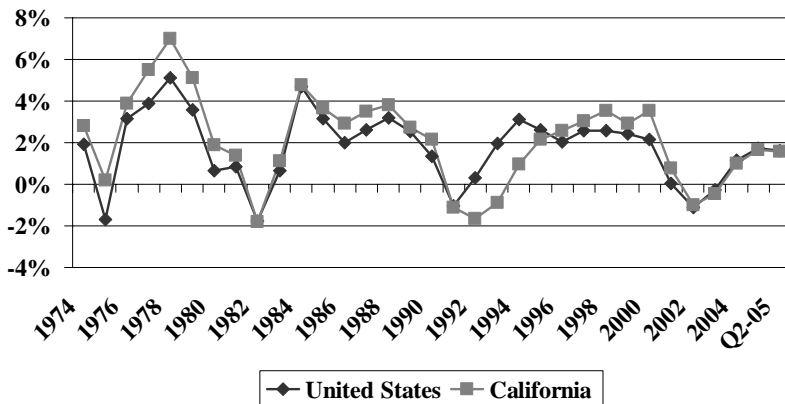
December 1999 - August 2005 (P)



Source: Conference Board, February and March 2002 data preliminary.
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Employment Rate of Change, US and California

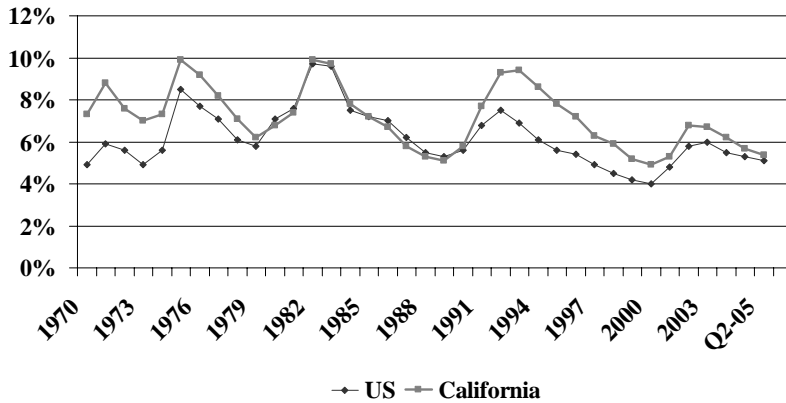
1974-2004, Q1-Q2(p) 2005



Source: FCREUE from BLS and California EDD data.

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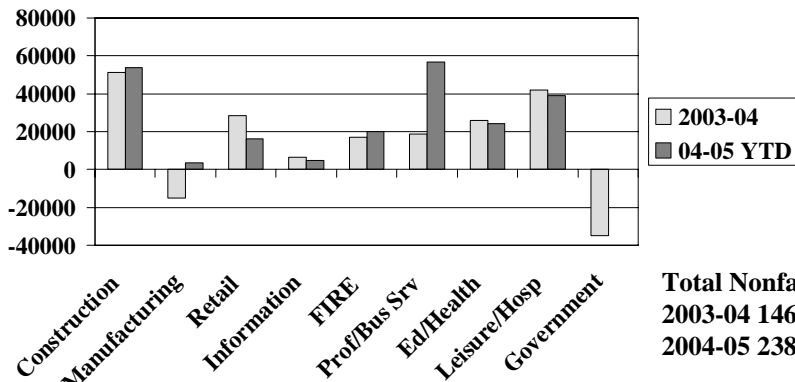
US and California Unemployment Rates 1970-2004, Q1-Q2 2005 (SA)



Source: California Employment Development Department.

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Jobs Added in California by Major Industry Categories 2003-2004; 2004-2005 (Year to date)

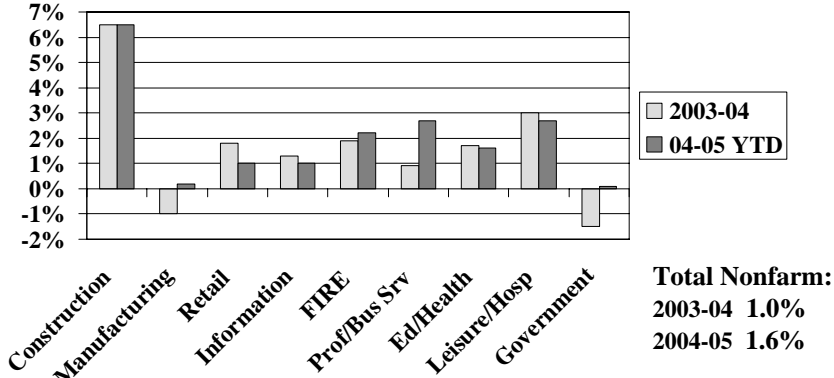


Total Nonfarm:
2003-04 146,500
2004-05 238,113

Source: California Employment Development Department.

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California Employment Rate of Change Selected Major Industry Categories 2003-2004; 2004-2005 (Year to date)



Source: California Employment Development Department.

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Fastest Growing Employment Sectors

Q1, Q2 2005, California and Selected MSAs

Annual Rate of Growth	California	San Jose MSA	Los Angeles
>5%	Motion Picture and Video Production, Residential Building Construction, etc	Information	Support Activities for Transportation,
2.5%-5%	Construction, Wholesale Electronic Markets and Agents and Brokers, Specialty Trade Contractors, Performing Arts, etc	Administrative and Support Services, Computer and Peripheral Manufacturing, etc.	Offices of Dentists, Colleges, Universities, and Professional School, Architectural, Engineering, and Related Services, etc.
0-2.5%	Consumer Goods Rental, Finance and Insurance, Radio and Television Broadcasting, Accommodation etc.,	Wholesale Trade. Education and Health Services, Financial Activities, etc.	Transportation and Utilities, Employment Services, etc.

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The Wage Question—Are We Losing High-Wage Jobs?

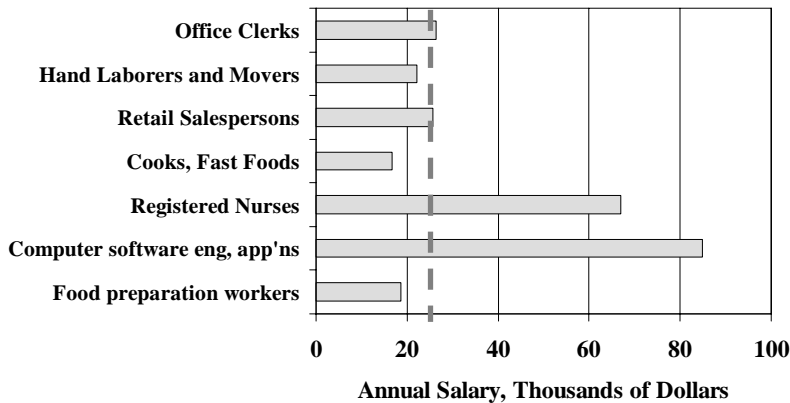
	Average 2004 Wage Level	Average Wage Gain, 2002-2004
All Occupations	\$41,510	4.7%
Growing Occupations	\$37,908/ \$41,709	4.3%/ 4.2%
Shrinking Occupations	\$46,369/ \$44,941	5.5%/ 5.2%

Source: FCREUE from Bureau of Labor Statistics OES data.

Note: 1st wage average is for all changing sectors, 2nd is weighted by amount of change.

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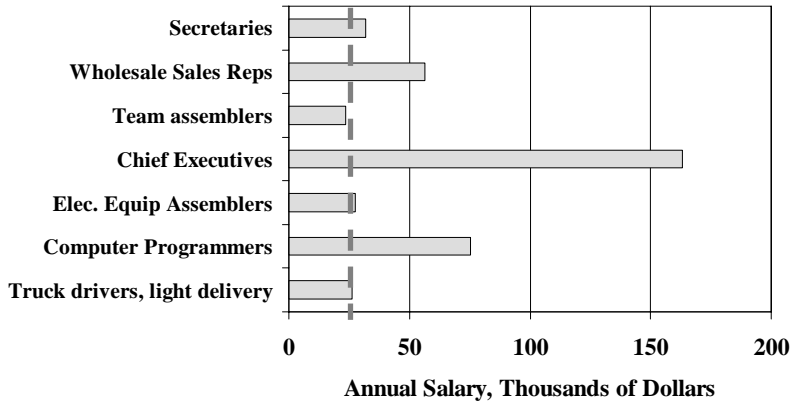
California Top 7 Growing Occupations 2004 Wage Levels



Source: FCREUE from US Bureau of Labor Statistics, OES data, 2004.

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California Top 7 Shrinking Occupations 2004 Wage Levels

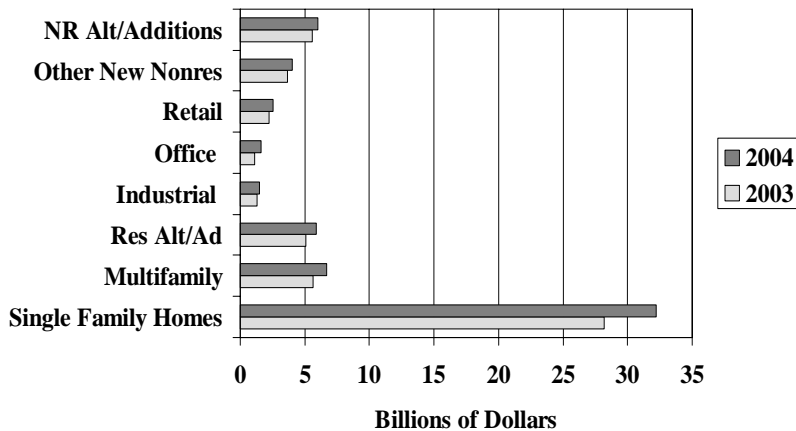


Source: FCREUE from US Bureau of Labor Statistics, OES data, 2004.

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In California, Residential Building Dominates

Value of California Building Permits 2003 and 2004



Source: FCREUE from Construction Industry Research Board data.

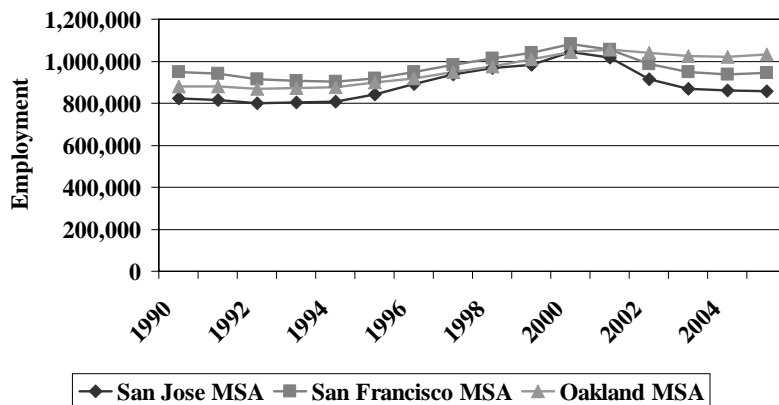
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Bay Area Economy

- 337,800 nonfarm jobs lost since 2000; growth returning in 2005.
- Regionwide office vacancies: <3% in 2000, >18% in 2003, now about 15%
- Rent bubble collapsed
- Home prices continue to soar

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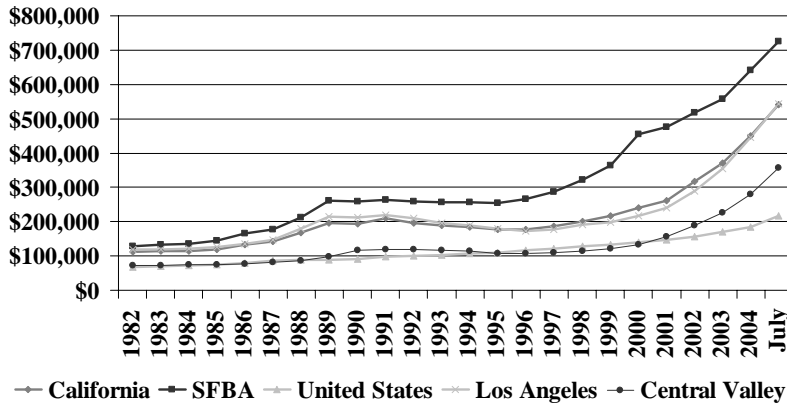
Employment, Major Bay Area MSAs 1990-2005E



Source: FCREUE from Employment Development Department data.

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Median Home Price, Existing Homes California, US, SFBA, LA and Central Valley 1982-2004, July 2005

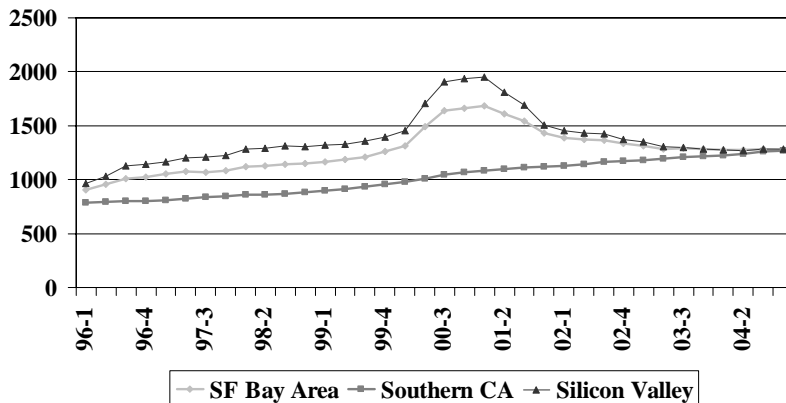


Source: California Association of Realtors & National Association of Realtors

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SFBA Rents Down 23%, Silicon Valley Down 33%

Rent Levels, SF Bay Area, Silicon Valley and Southern California, 1996-2004

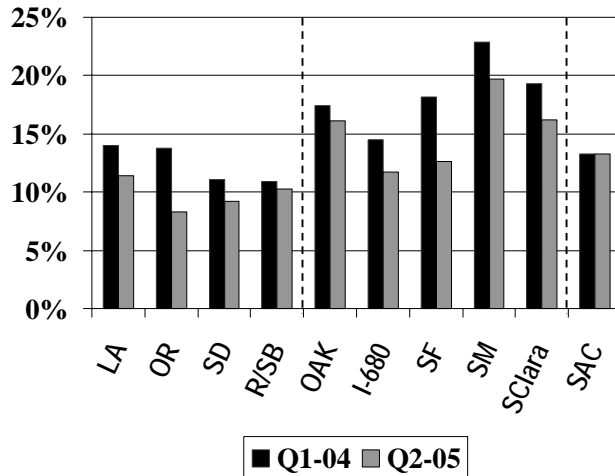


Source: Real Estate Research Council from RealFacts.

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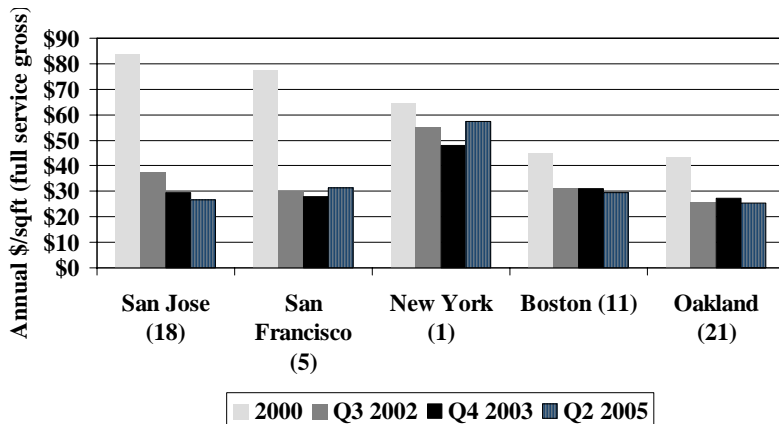
California MSA Office Vacancy Rates Q1-2004 and Q1-2005



Source: FCREUE from CB-Richard Ellis data.
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Top 5 US Office Markets at 2000 Peak

Class A Asking Rents Q4 2000-Q2 2005 (US Q2 2005 rank in parentheses)



Source: Grubb & Ellis, Office Market Trends, 2000, 2002, 2004, 2005.

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Hurricanes, Quakes and Other Challenges

- Near term challenges
 - Energy costs
 - Cost of Materials
 - Interest Rates
- Longer term challenges
 - Education
 - Housing costs/COL
 - Infrastructure
 - Intellectual capital investment
 - Disaster preparedness

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