

The Bay Area Economy—Has Housing Peaked?

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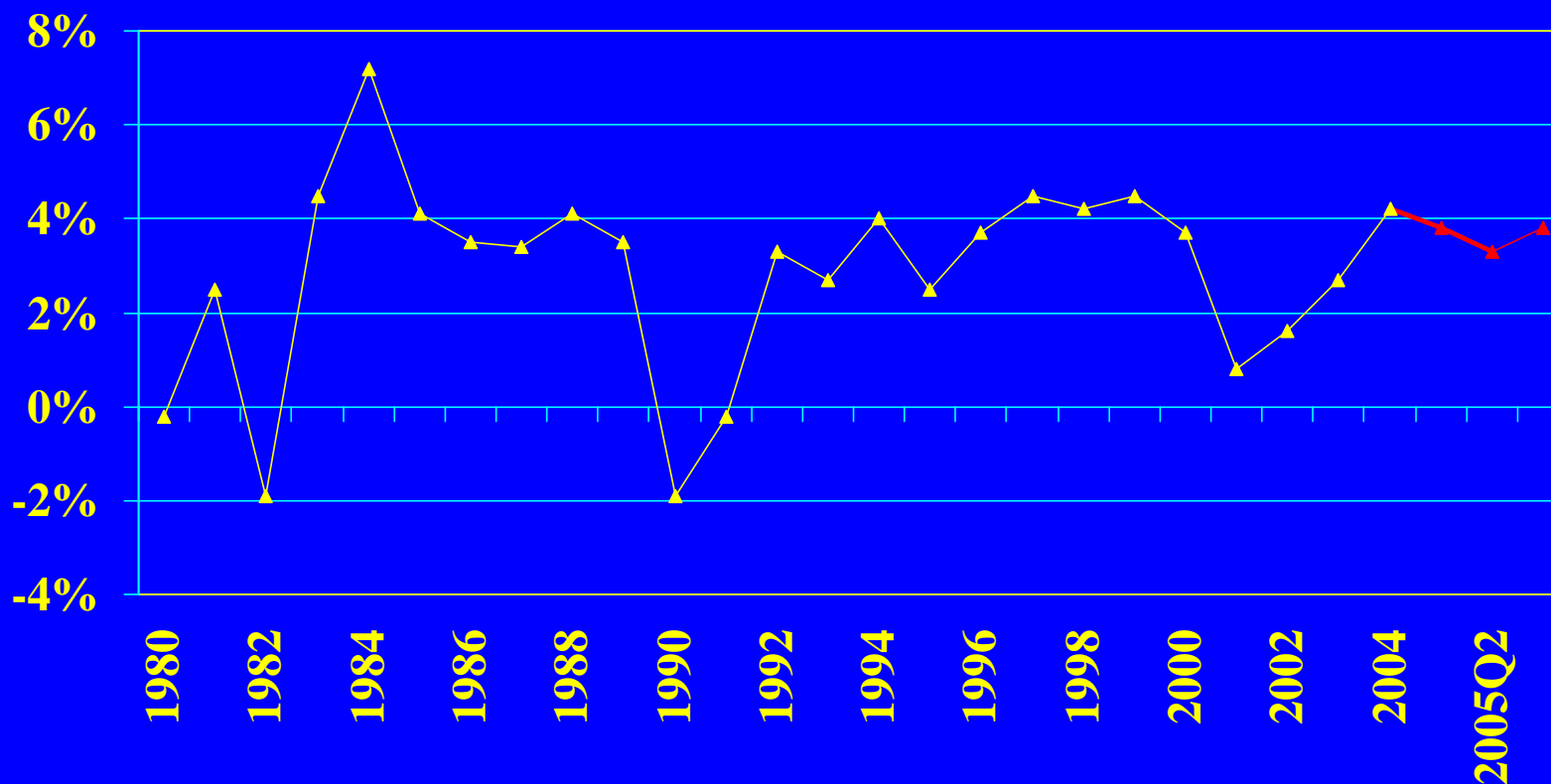
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Topics

- US and California economic context
 - Modest economic pace continues
 - Is real estate driving current growth?
- Bay Area turnaround
 - Is employment growing?
 - Has the housing boom finally cooled?
 - The office market—picking up at last?

US GDP Growth

1980-2004, 2005Q1-Q3 Annual
% Change – Chained 2000 Dollars



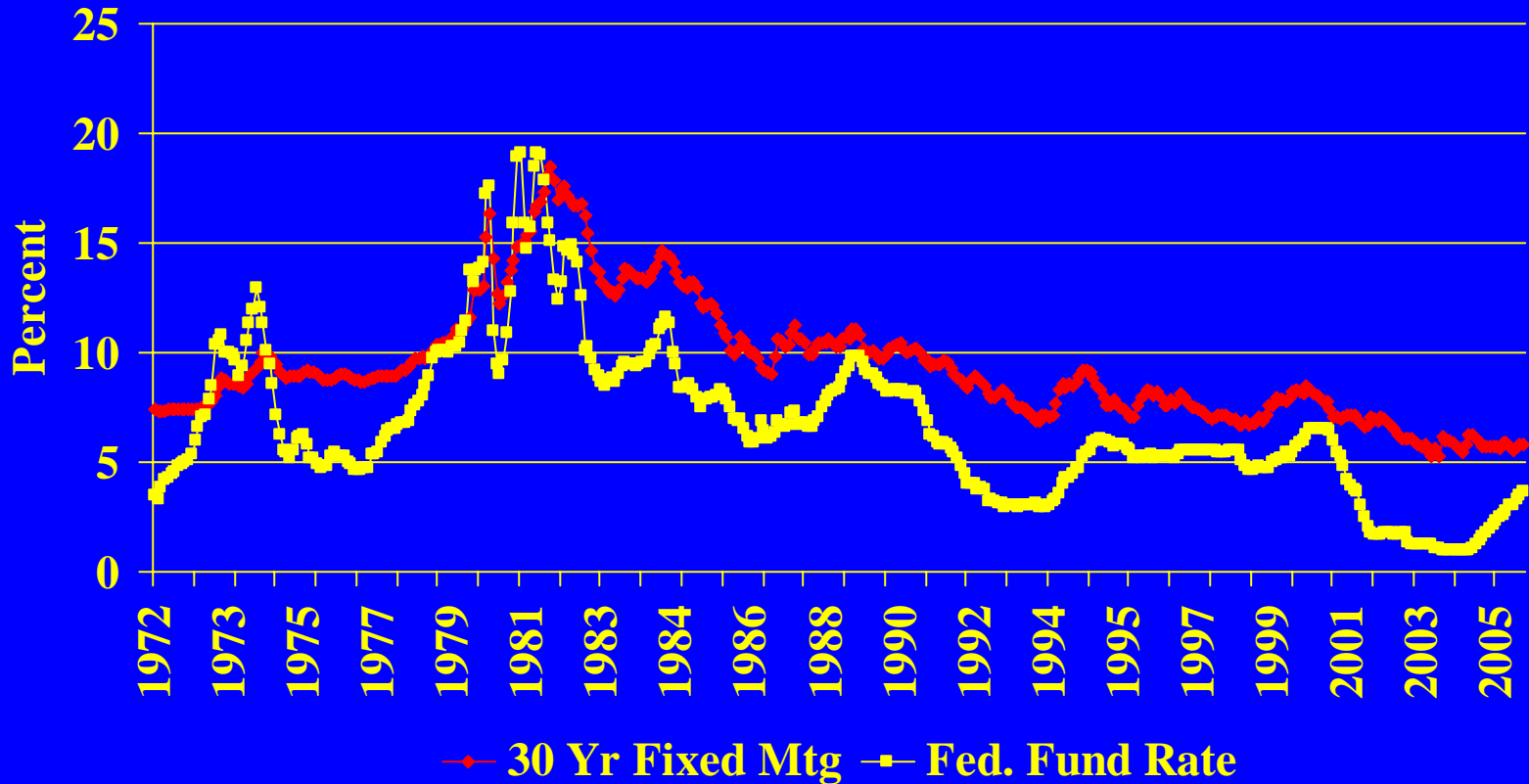
Source: US Bureau of Economic Analysis

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Interest Rates

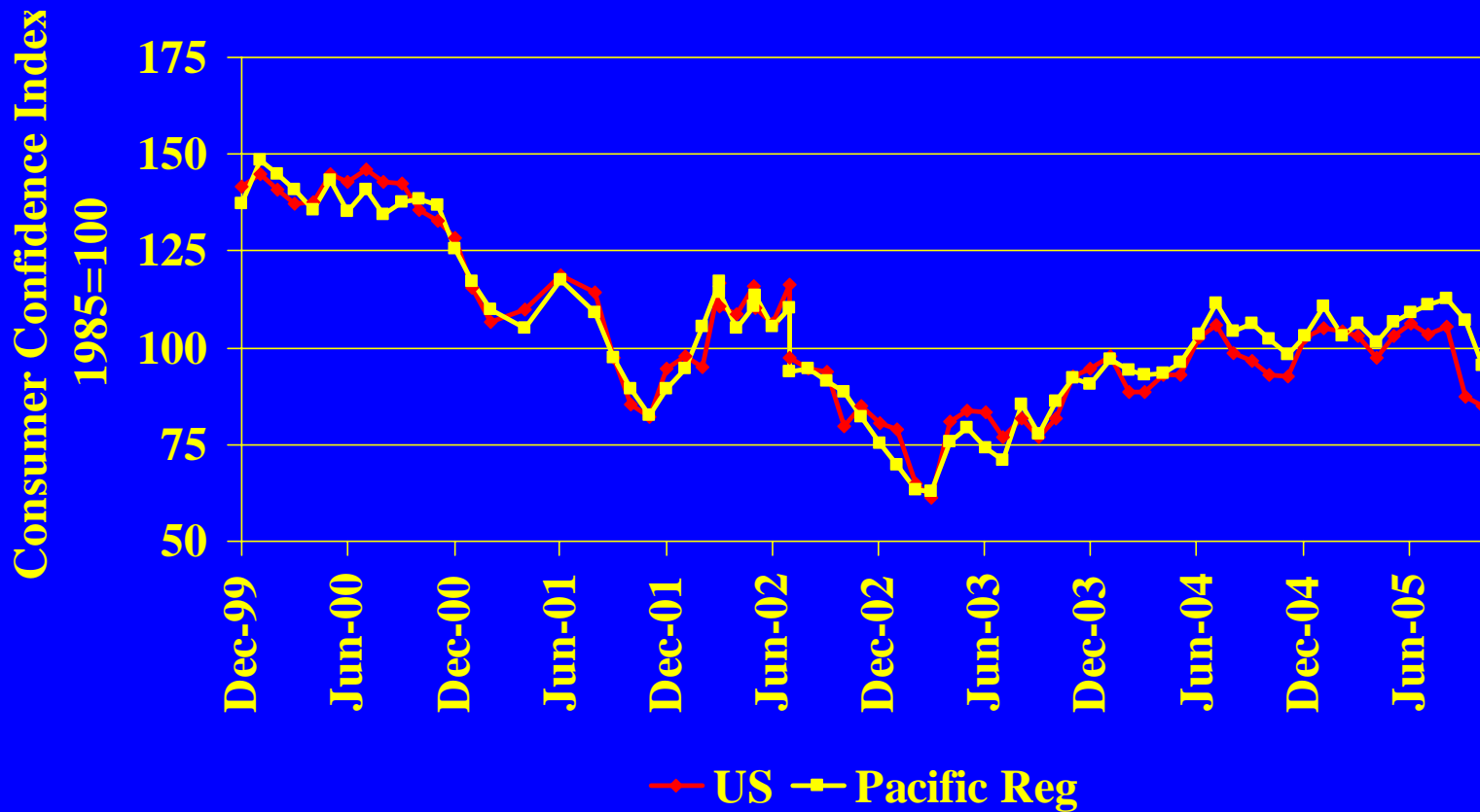
January 1972 – September 2005



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

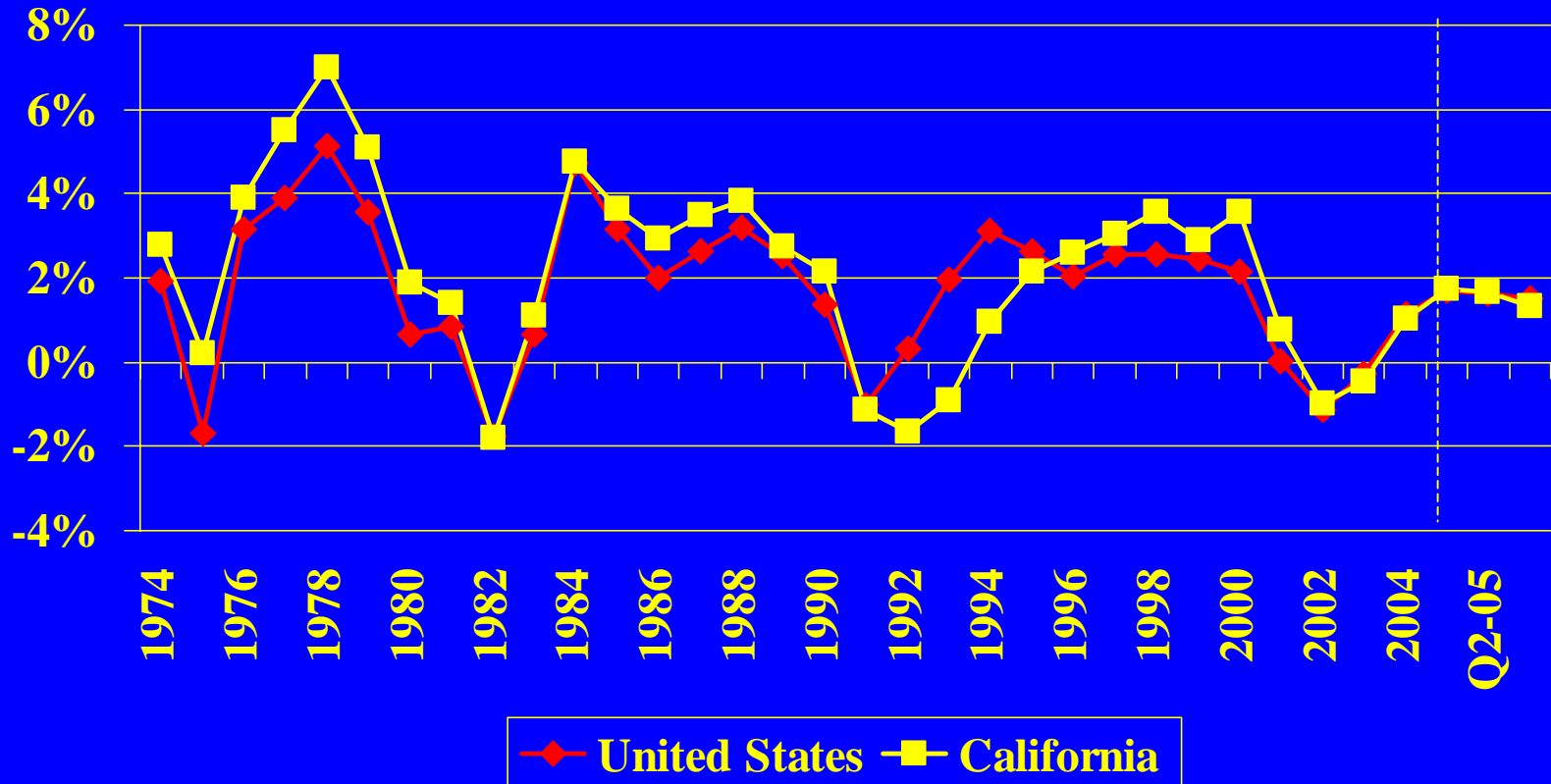
Consumer Confidence

December 1999 - October 2005 (P)



Source: Conference Board, February and March 2002 data preliminary.

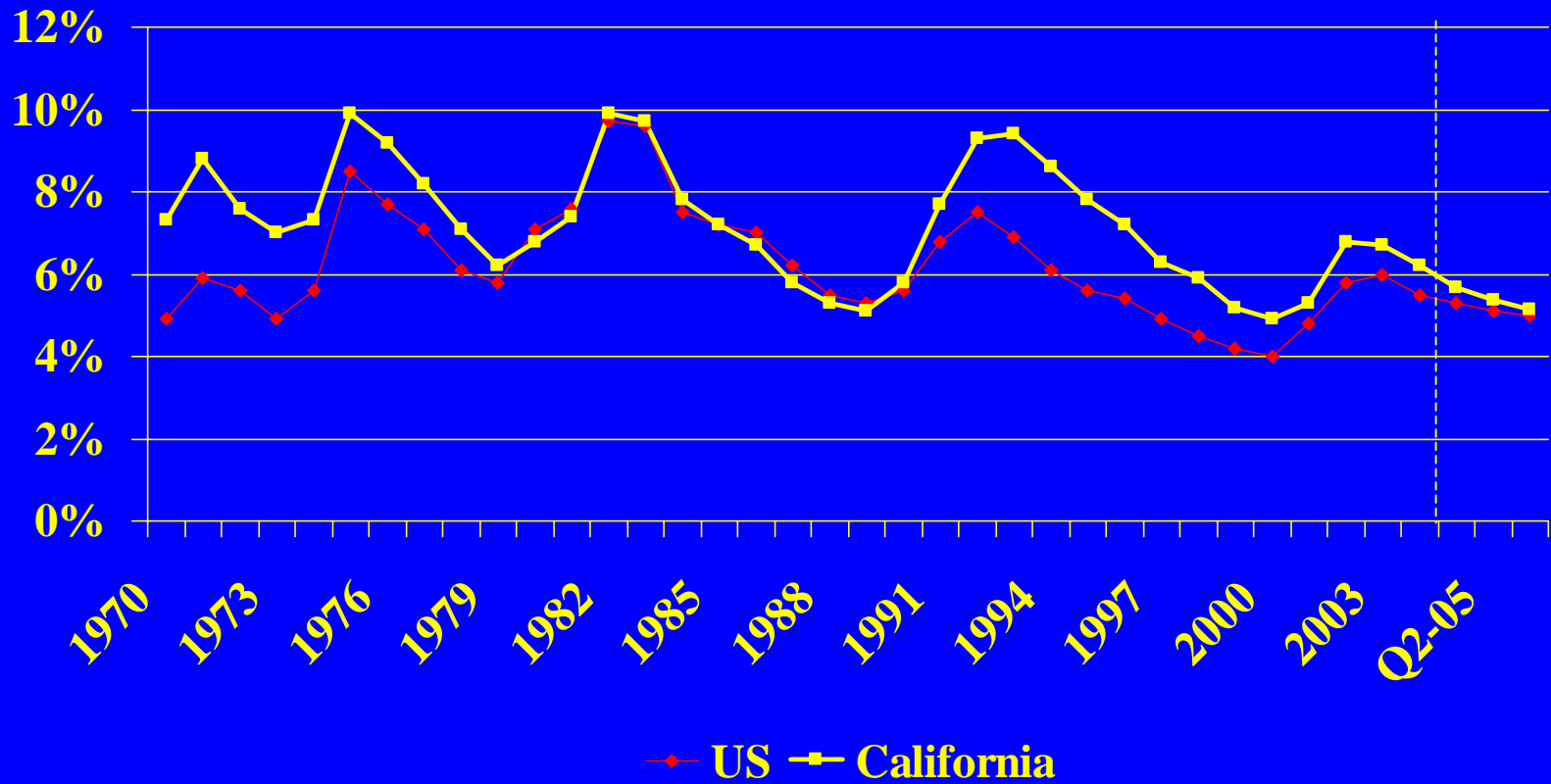
Employment Rate of Change, US and California 1974-2004, Q1-Q3(p) 2005



Source: FCREUE from BLS and California EDD data.

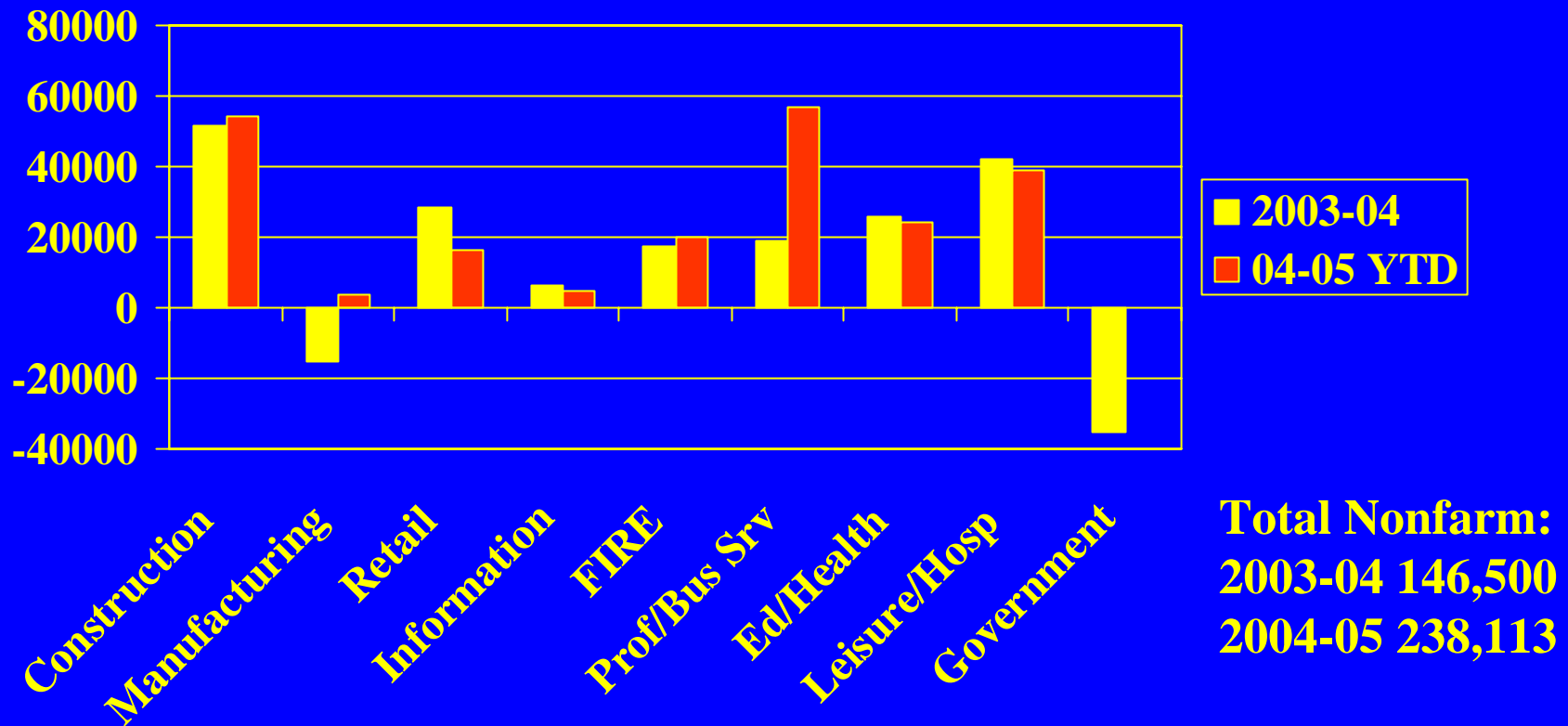
US and California Unemployment Rates

1970-2004, Q1-Q3 2005 (SA)



Source: California Employment Development Department.

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

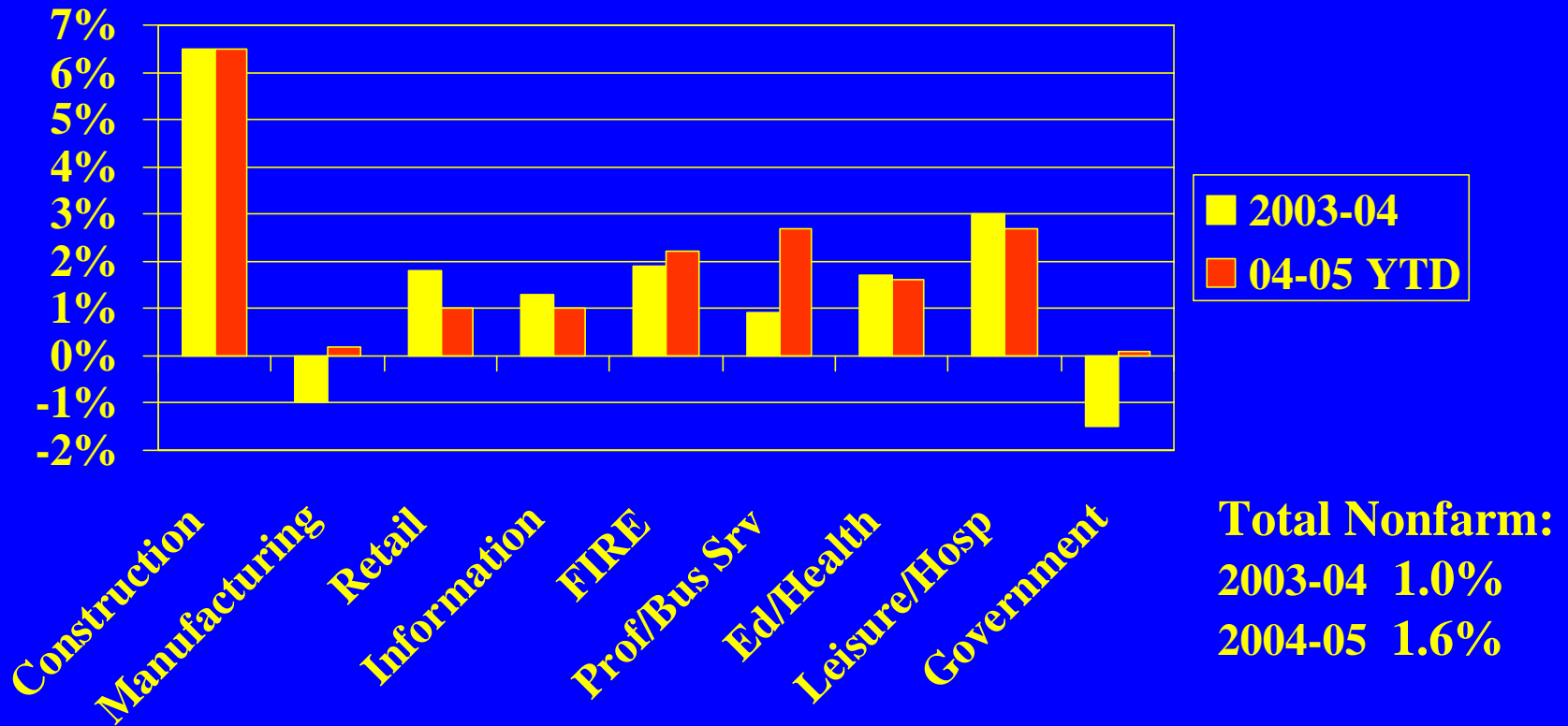


Source: California Employment Development Department.

California Employment Rate of Change

Selected Major Industry Categories

2003-2004; 2004-2005 (Year to date)



Source: California Employment Development Department.

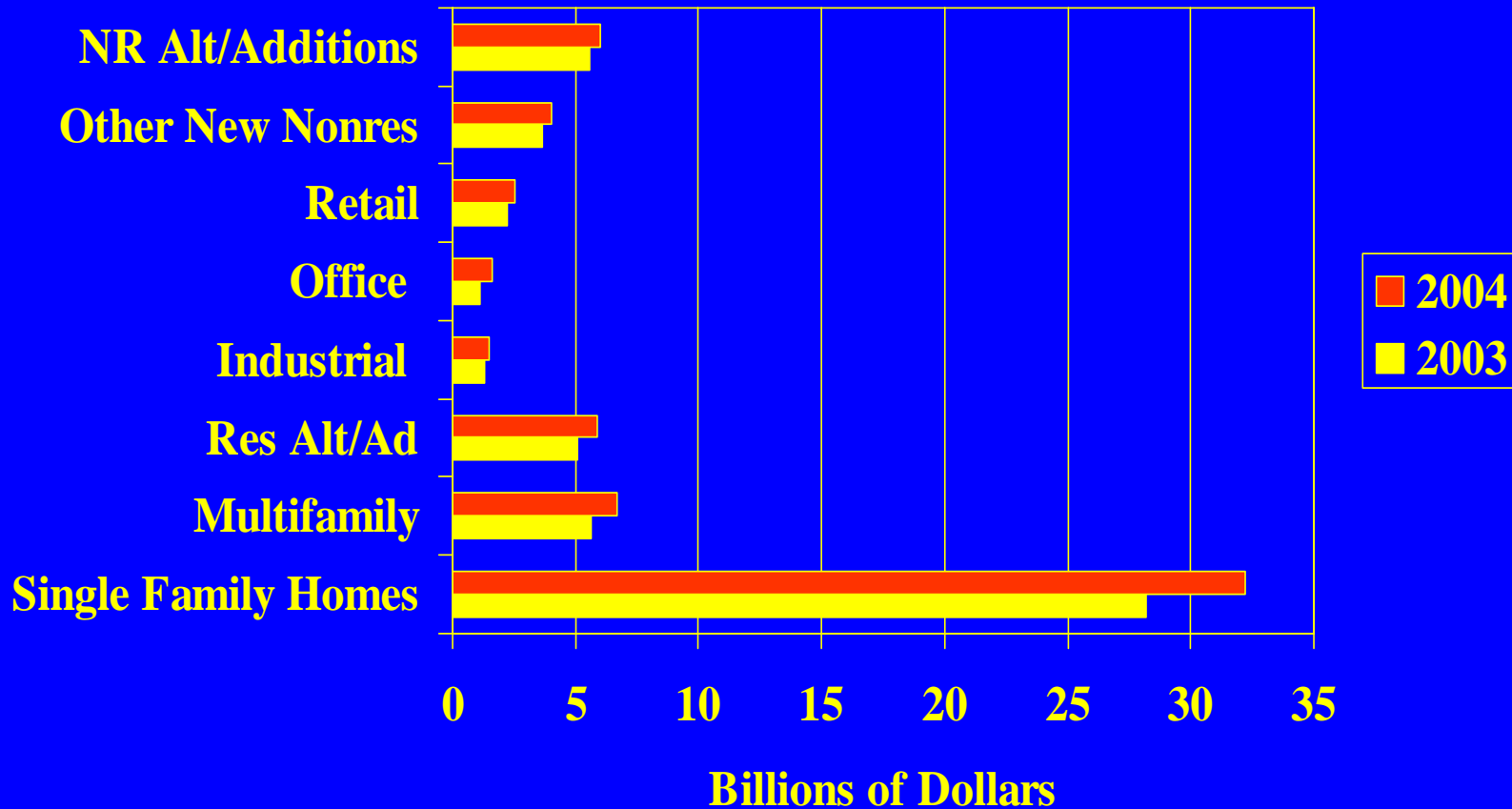
Fastest Growing Employment Sectors

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	Motion Picture and Sound Recording Industries, Information, Performing Arts, etc.
2.5%-5%	Support Activities for Transportation, Internet Service Providers, Other Miscellaneous Retailers etc	Administrative and Support Services, Computer and Peripheral Manufacturing, etc.	Construction, Clothing, Architectural Services, etc.
0-2.5%	Restaurants, Waste Management, Investigation and Security Services, etc.	Wholesale Trade. Education and Health Services, Financial Activities, etc.	Accounting, Leisure, Services to Buildings and Dwellings, etc.

In California, Residential Building Dominates

Value of California Building Permits 2003 and 2004



Source: FCREUE from Construction Industry Research Board data.

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

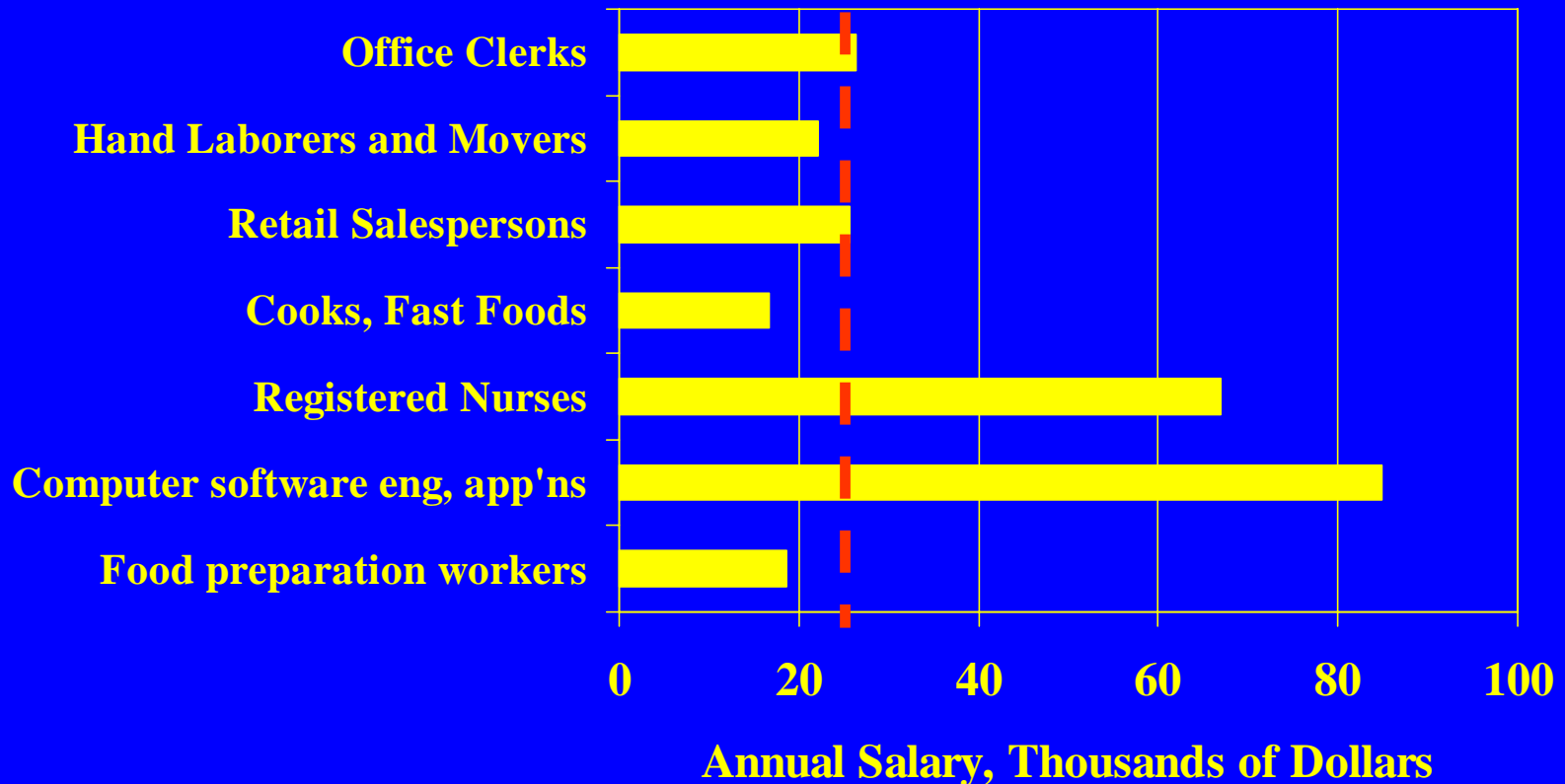
	Average 2004 Wage Level	Average Wage Gain, 2002-2004
All Occupations	\$41,510	4.7%
Growing Occupations	\$37,908/ \$41,709	4.3%/ 4.2%
Shrinking Occupations	\$46,369/ \$44,941	5.5%/ 5.2%

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.

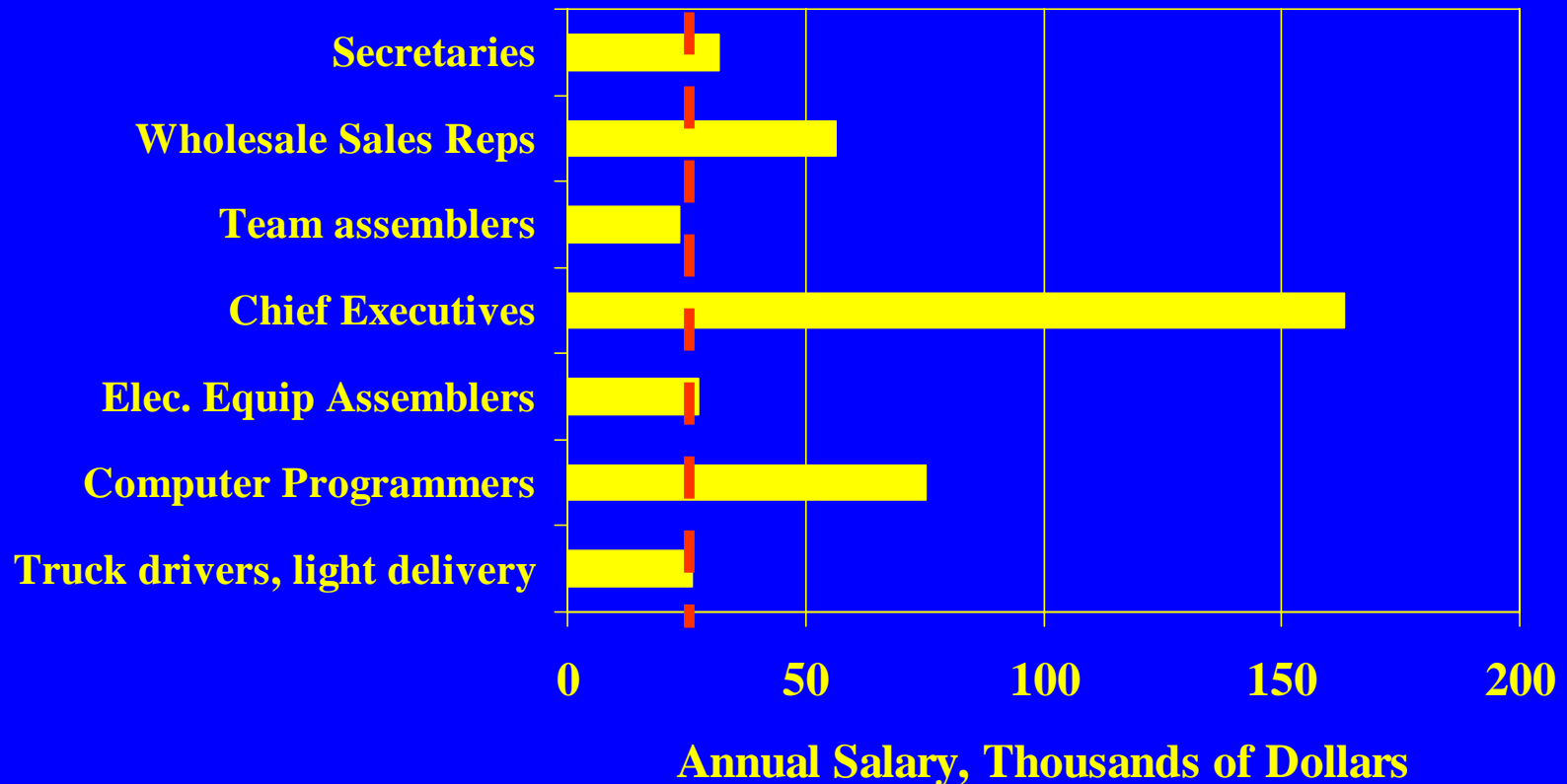
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California Top 7 Growing Occupations 2004 Wage Levels



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

California Top 7 Shrinking Occupations 2004 Wage Levels

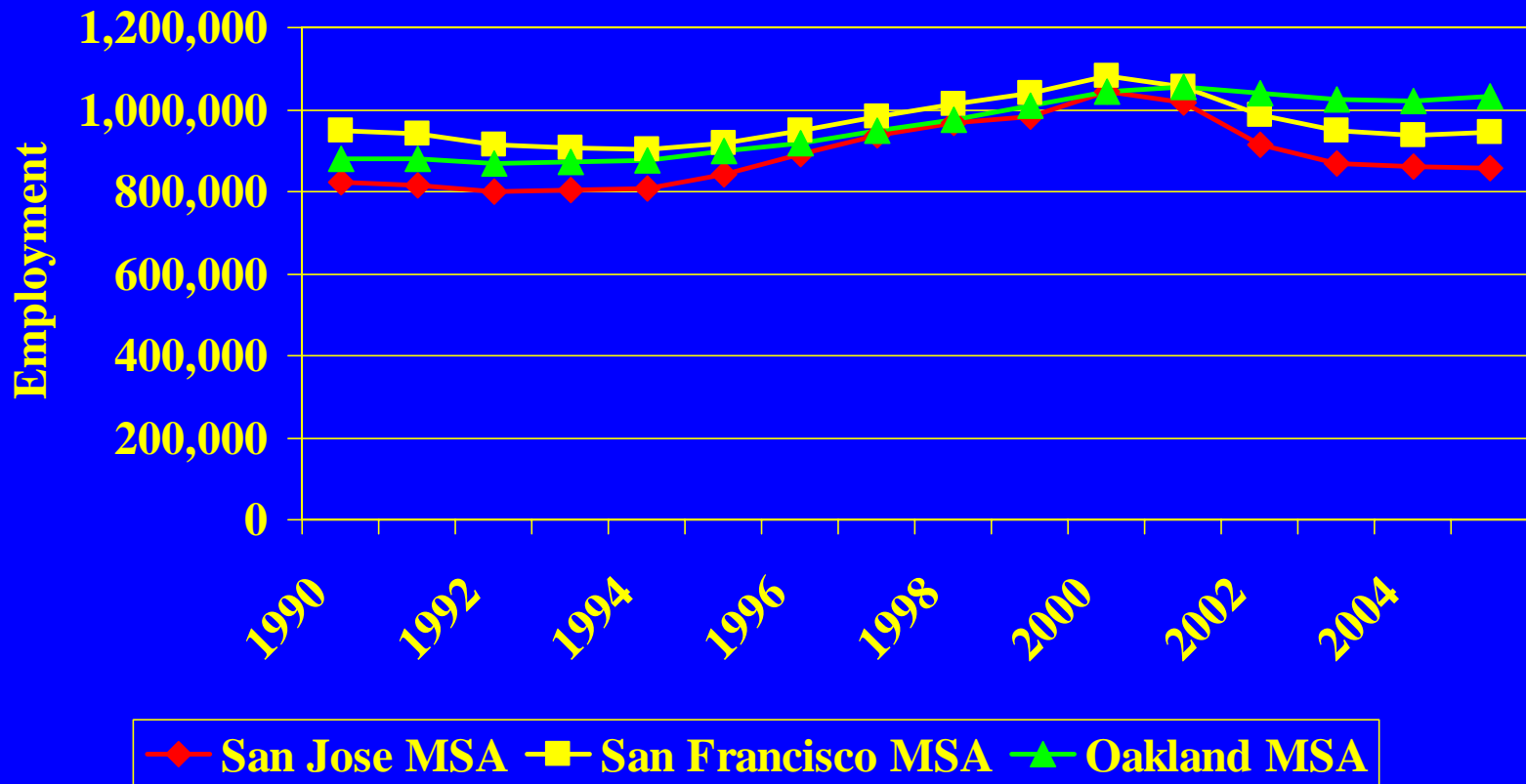


Source: FCREUE from US Bureau of Labor Statistics, OES data, 2004.

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 continued to soar into mid 2005

Employment, Major Bay Area MSAs 1990-2005E

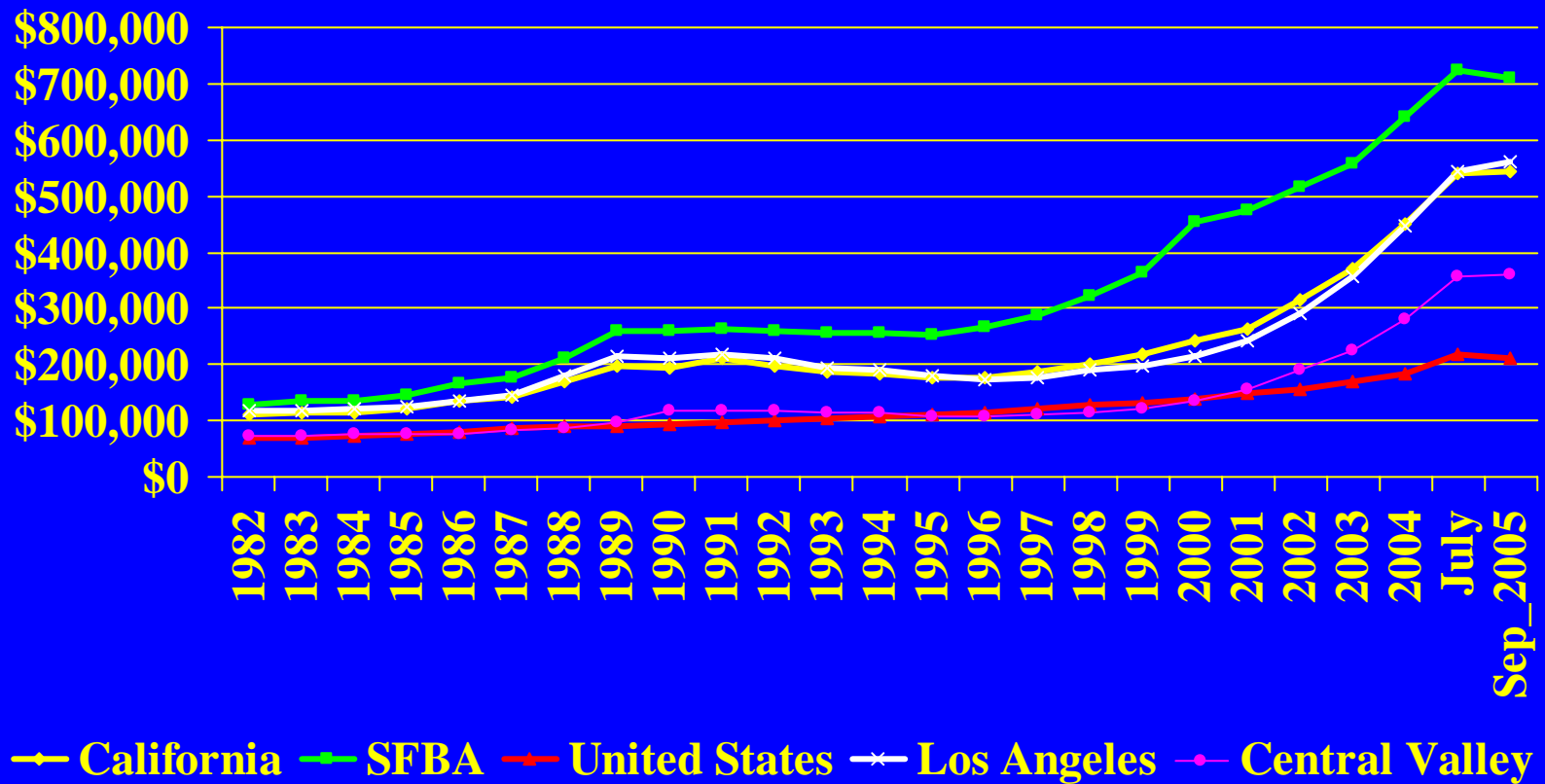


Source: FCREUE from Employment Development Department data.

Median Home Price, Existing Homes

California, US, SFBA, LA and Central Valley

1982-2004, Sep 2005

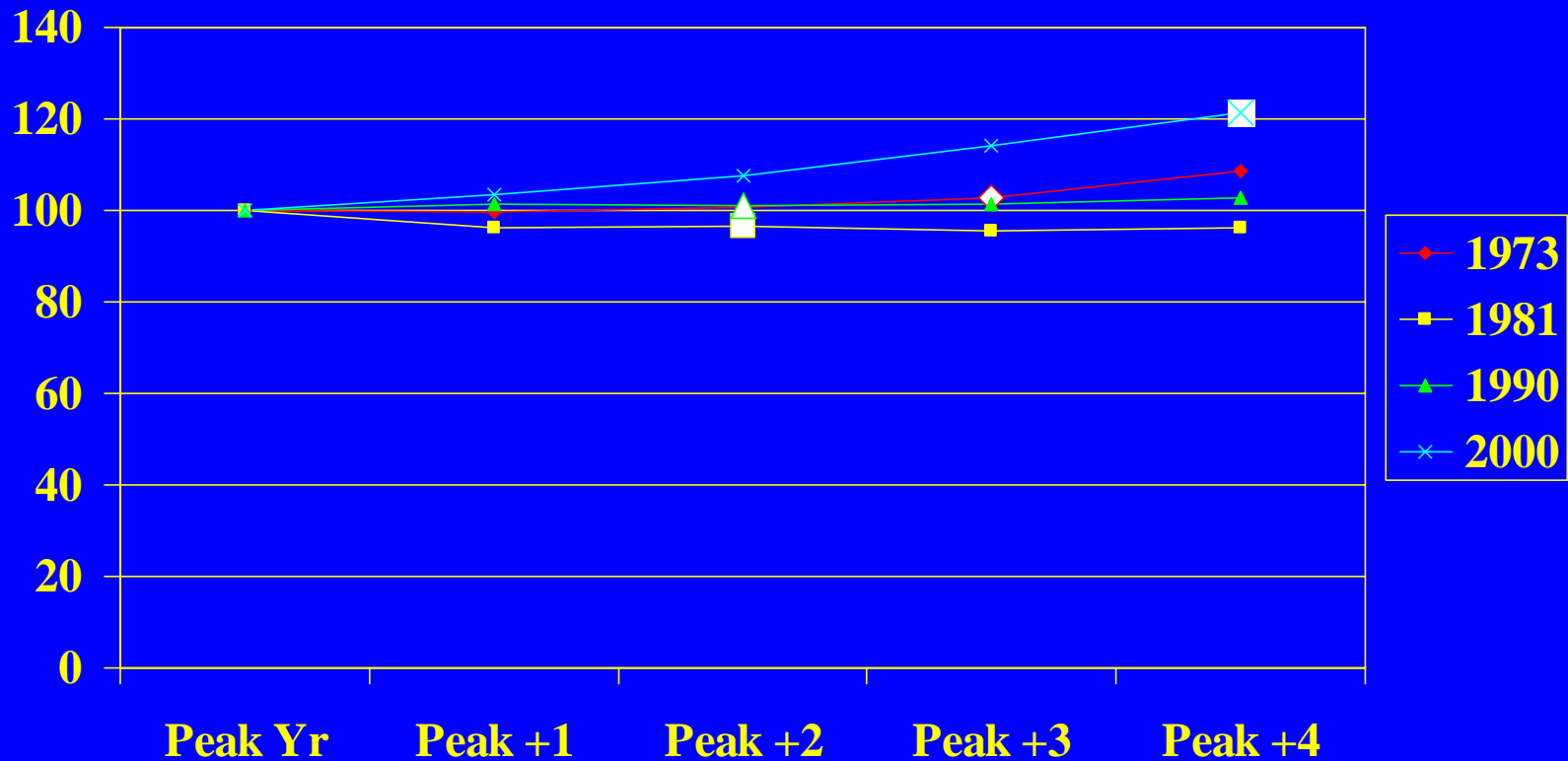


Source: California Association of Realtors & National Association of Realtors

Home Prices over the Business Cycle

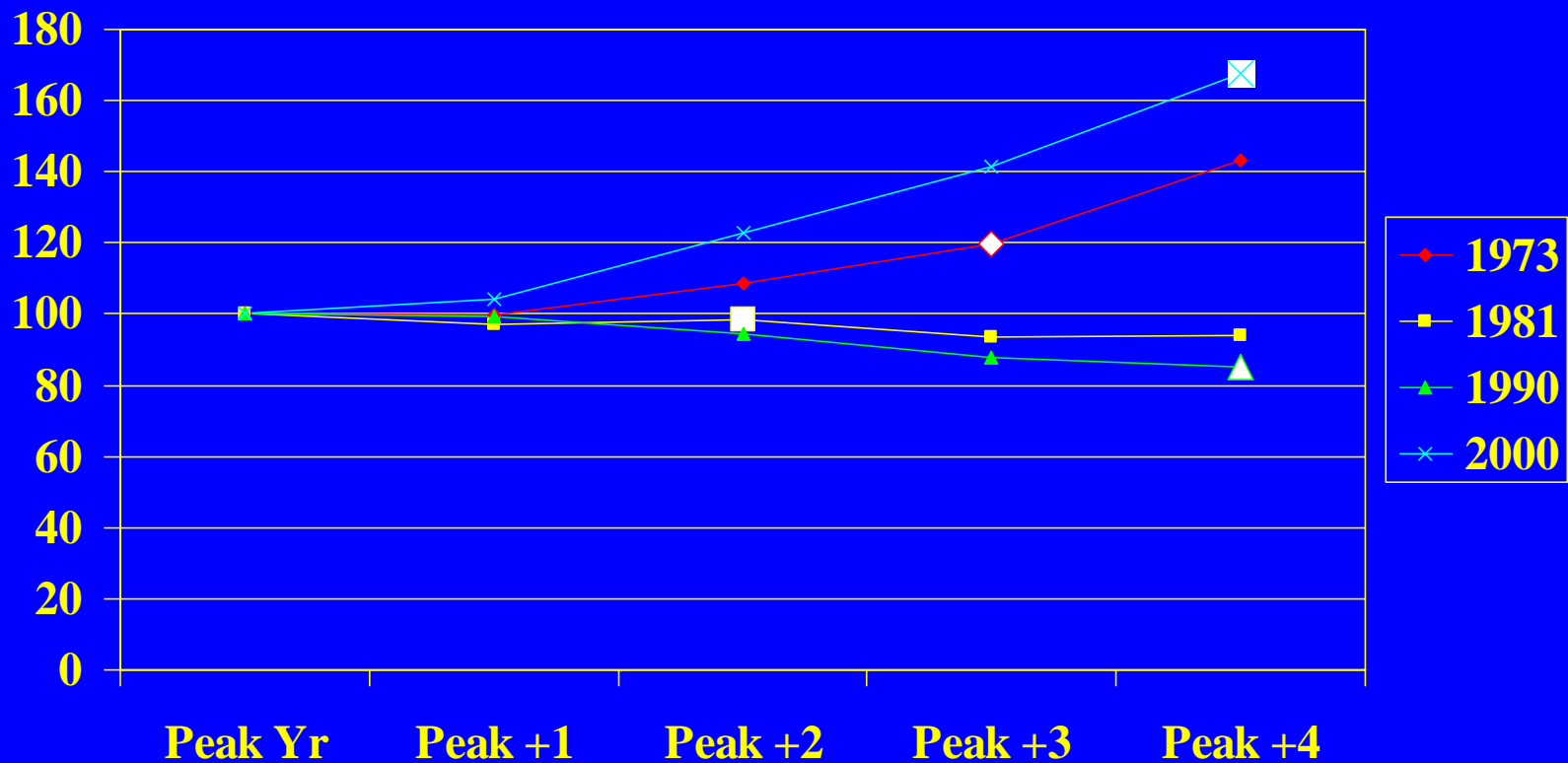
US Median—Inflation Adjusted

Indexed to Price at Peak of Economic Cycle



Source: FCREUE from CAR housing data and BLS CPI data.

Home Prices over the Business Cycle California Median—Inflation Adjusted Indexed to Price at Peak of Economic Cycle

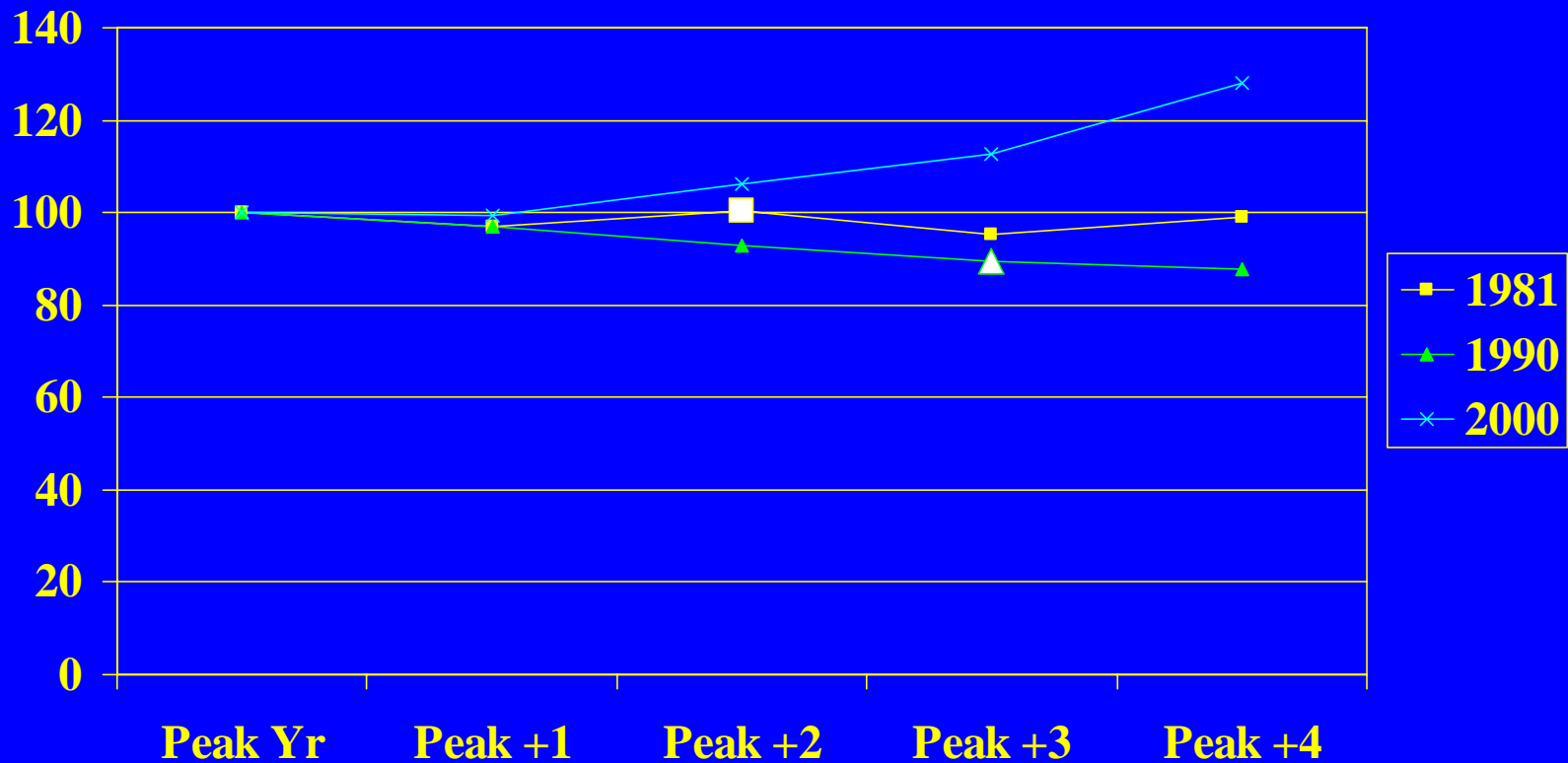


Source: FCREUE from CAR housing data and BLS CPI data.

Home Prices over the Business Cycle

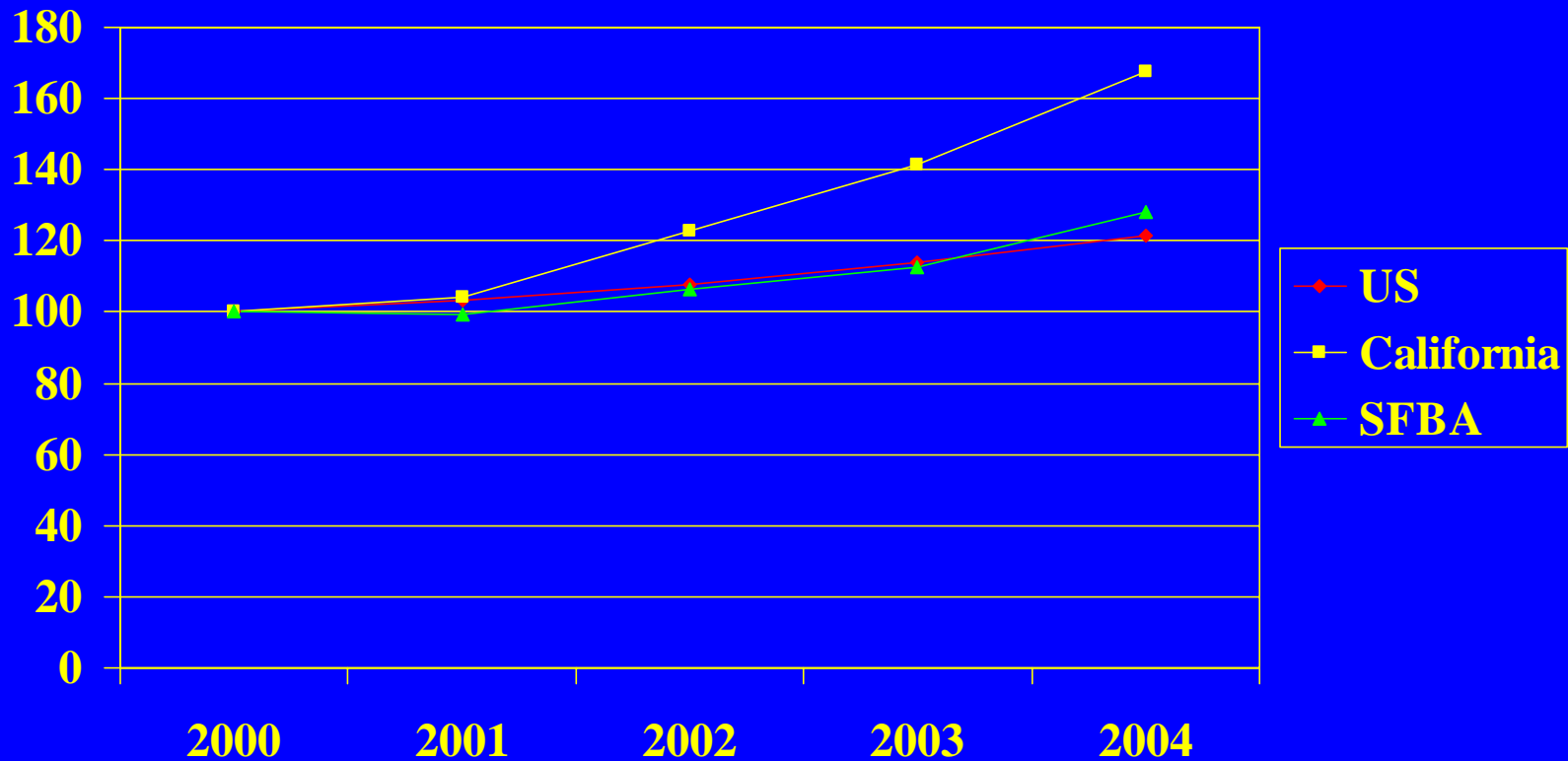
SFBA Median—Inflation Adjusted

Indexed to Price at Peak of Economic Cycle



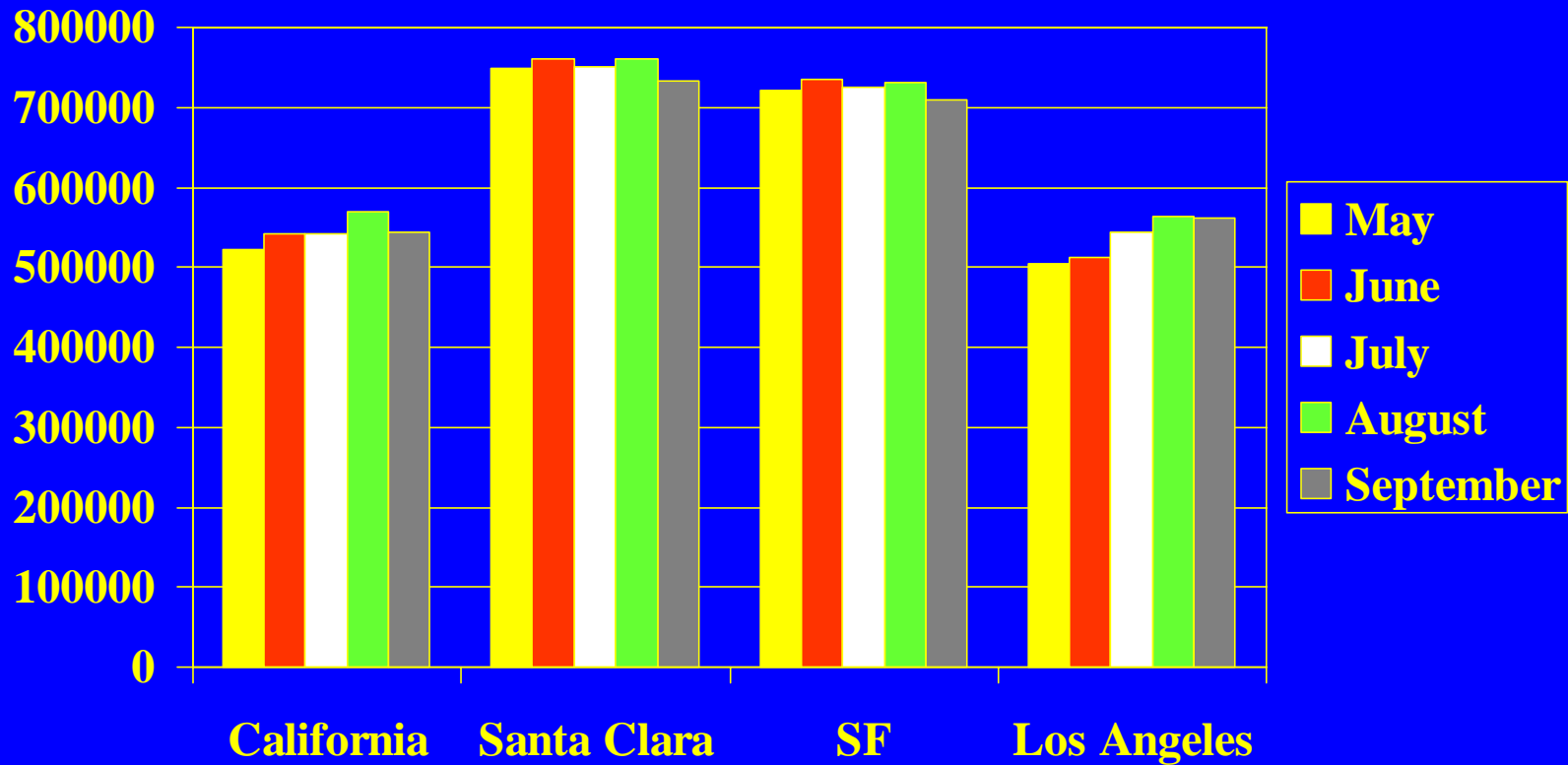
Source: FCREUE from CAR housing data and BLS CPI data.

Inflation Adjusted Home Prices Indexed to 2000 Price US, California and SFBA



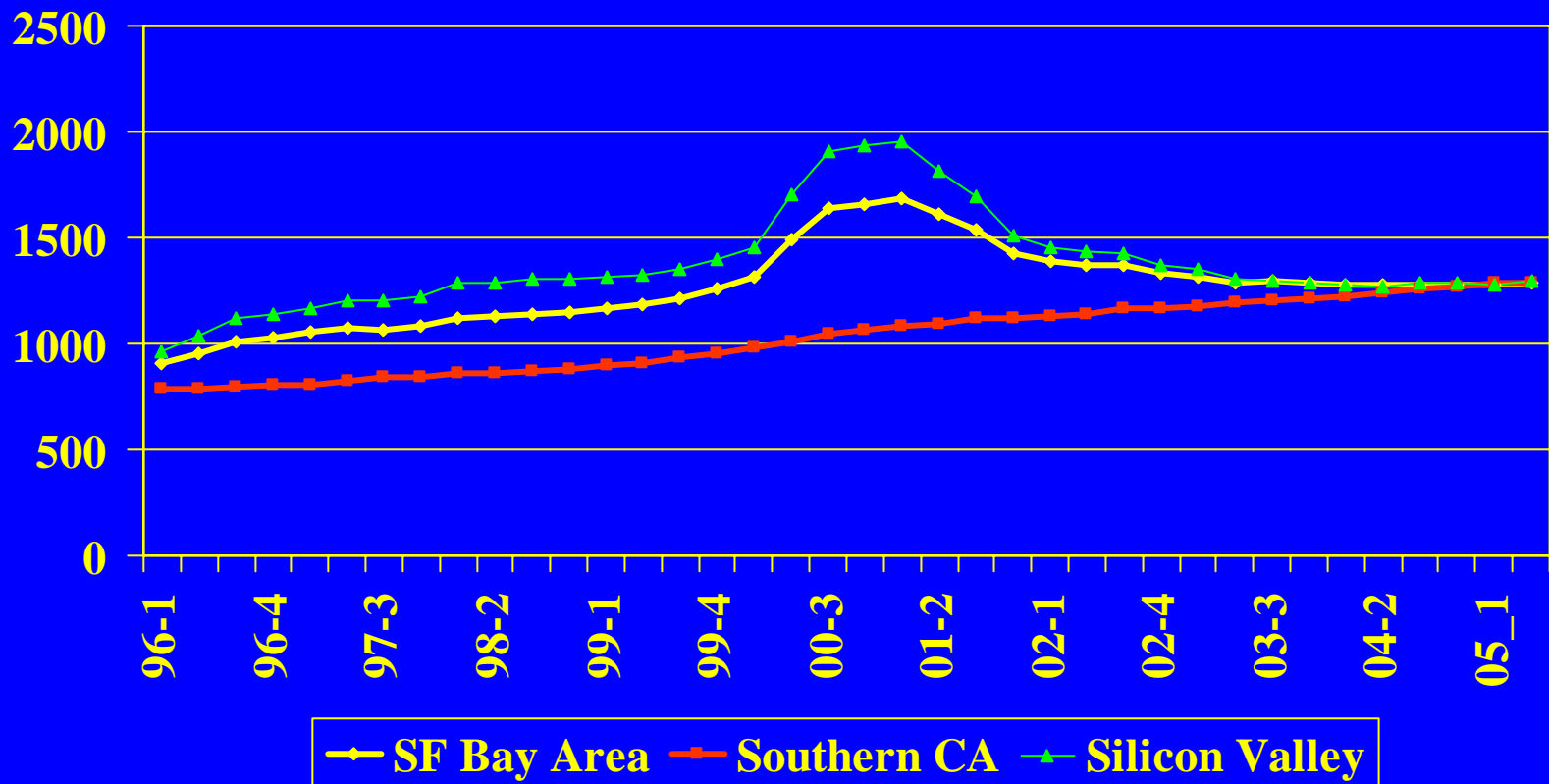
Source: FCREUE from CAR housing data and BLS CPI data.

Home Prices, Selected California Markets, May-Sep 2005



SFBA Rents Down 23%, Silicon Valley Down 33%

Rent Levels, SF Bay Area, Silicon Valley and Southern California, 1996-Q2 2005



Source: Real Estate Research Council from RealFacts.

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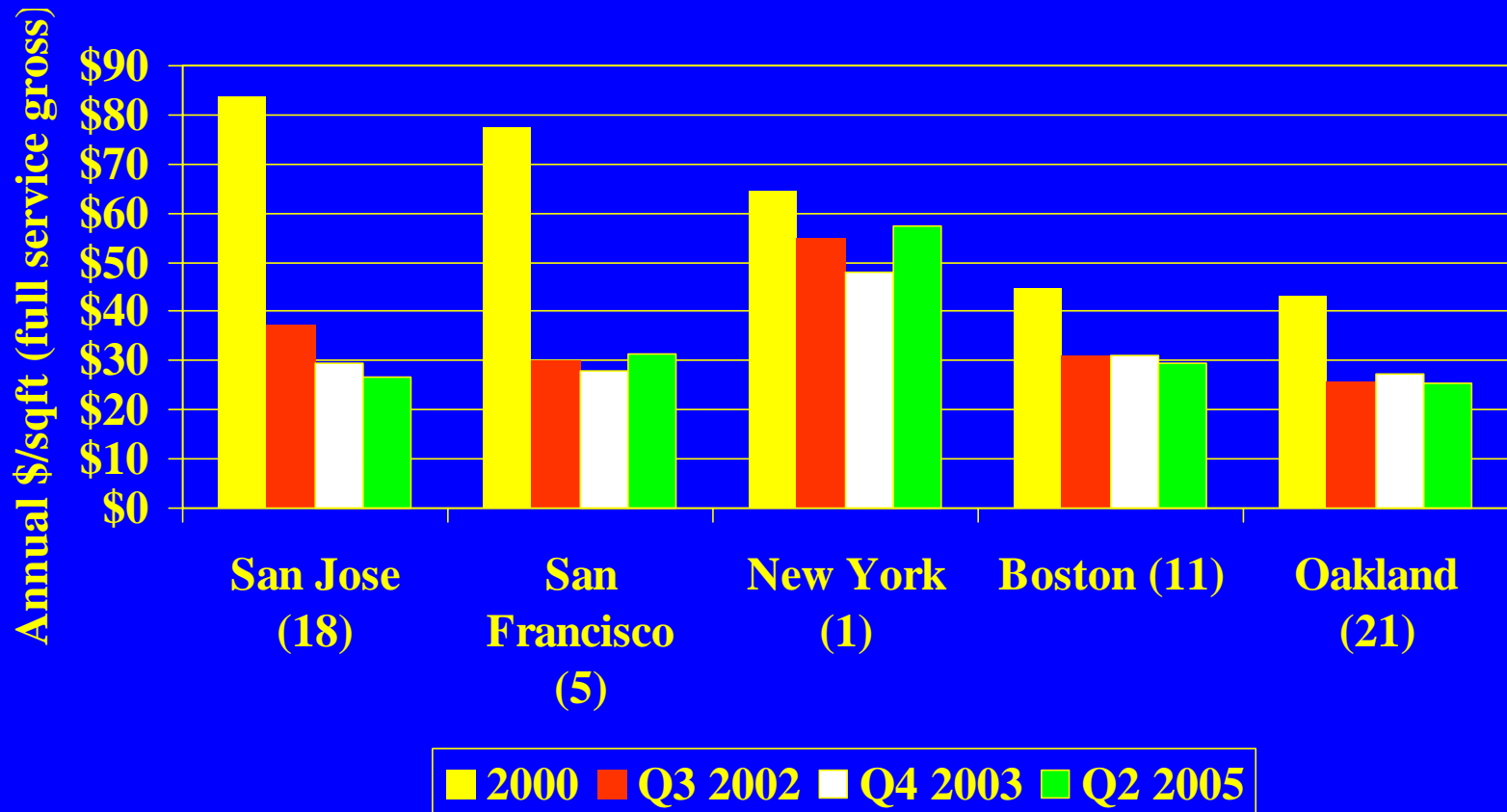
FCREUE
UCB

Why Home Ownership and Rental Markets Differ

- Who was laid off
- Disenchantment with stocks as long term investment
- Low interest rates
- Pent-up demand

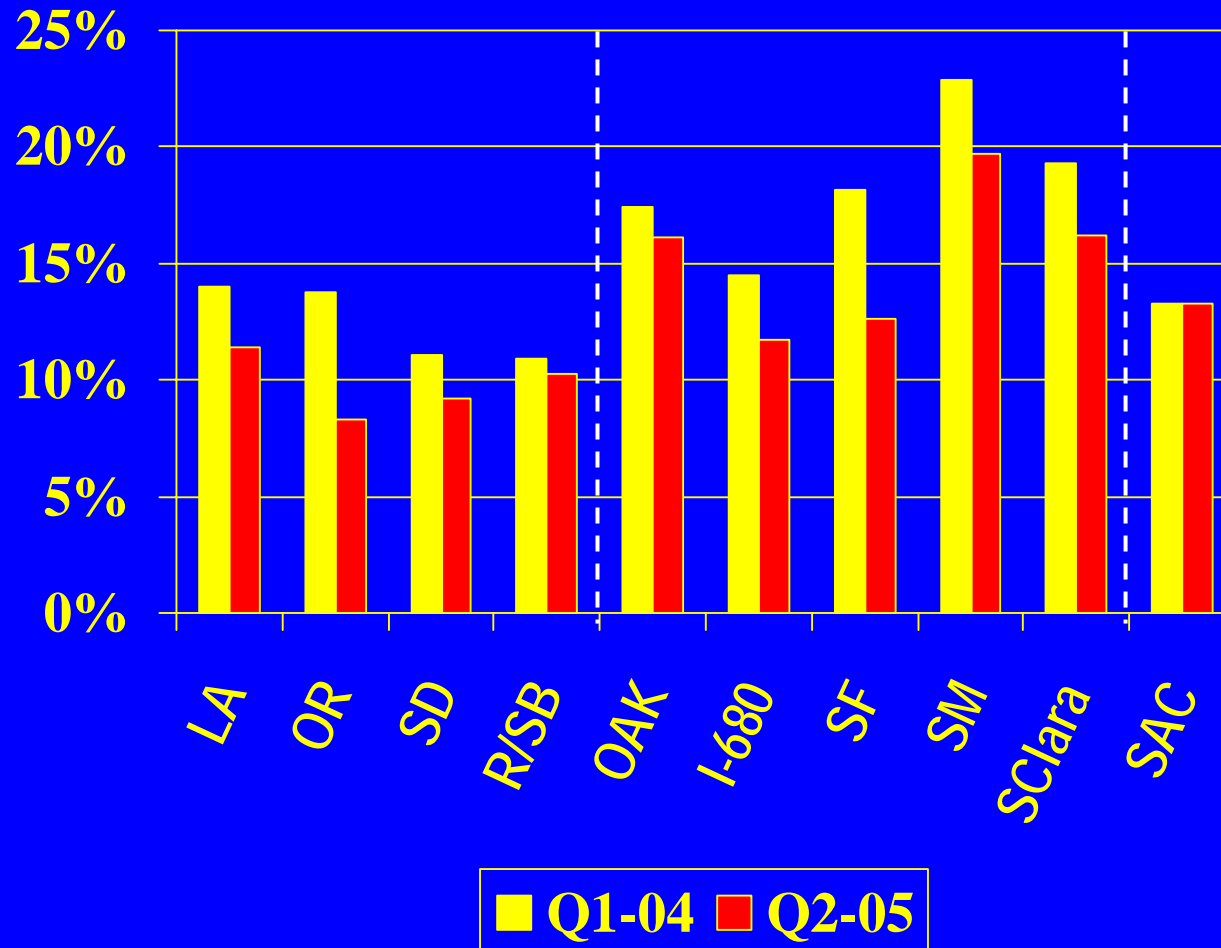
Top 5 US Office Markets at 2000 Peak

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



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

California MSA Office Vacancy Rates Q1-2004 and Q2-2005



Source: FCREUE from CB-Richard Ellis data.
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Challenges Ahead

- Near term challenges
 - Energy costs
 - Cost of Materials
 - Interest Rates
 - Consumer Confidence
- Longer term challenges
 - High living costs
 - Infrastructure
 - Intellectual capital investment
 - Disaster risks

Thank You

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