

The Bay Area Economy—Has Housing Peaked?

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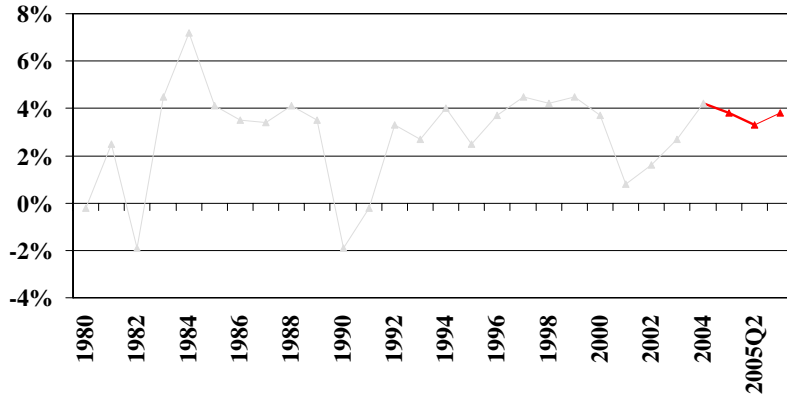
Topics

- 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?

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US GDP Growth

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



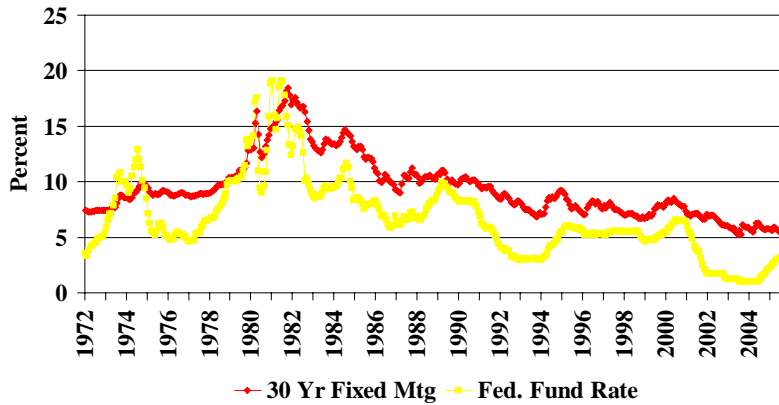
Source: US Bureau of Economic Analysis

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Interest Rates

January 1972 – September 2005

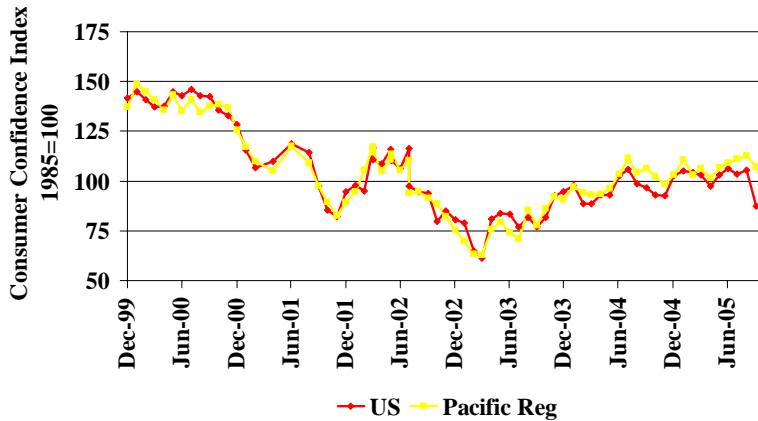


Source: Federal Reserve Board, Federal Home Loan Mortgage Corporation.

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Consumer Confidence

December 1999 - October 2005 (P)

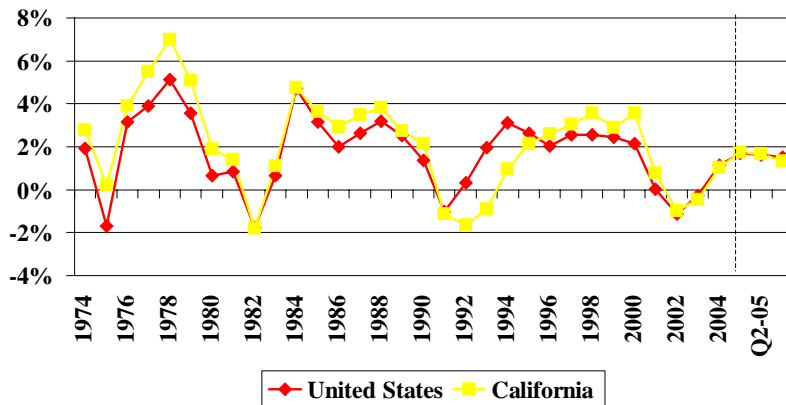


Source: Conference Board, February and March 2002 data preliminary.

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Employment Rate of Change, US and California

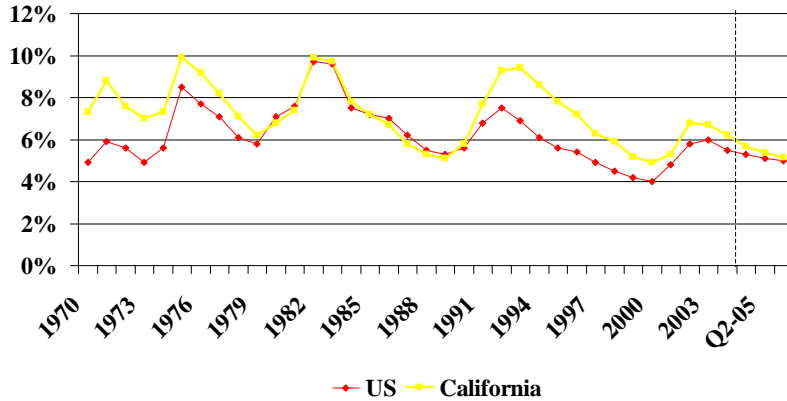
1974-2004, Q1-Q3(p) 2005



Source: FCREUE from BLS and California EDD data.

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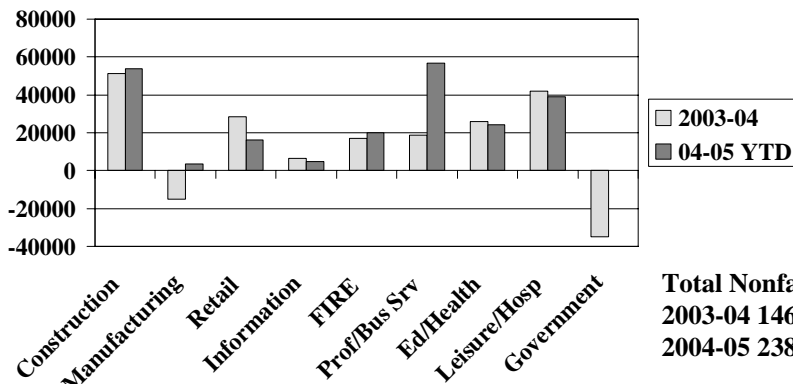
US and California Unemployment Rates 1970-2004, Q1-Q3 2005 (SA)



Source: California Employment Development Department.

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

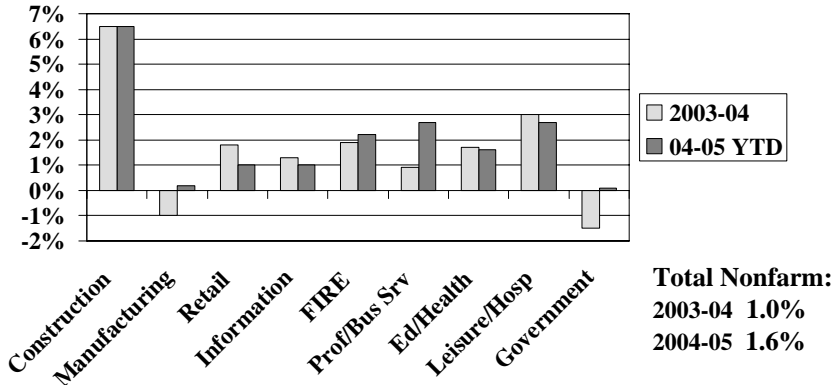


Total Nonfarm:
2003-04 146,500
2004-05 238,113

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

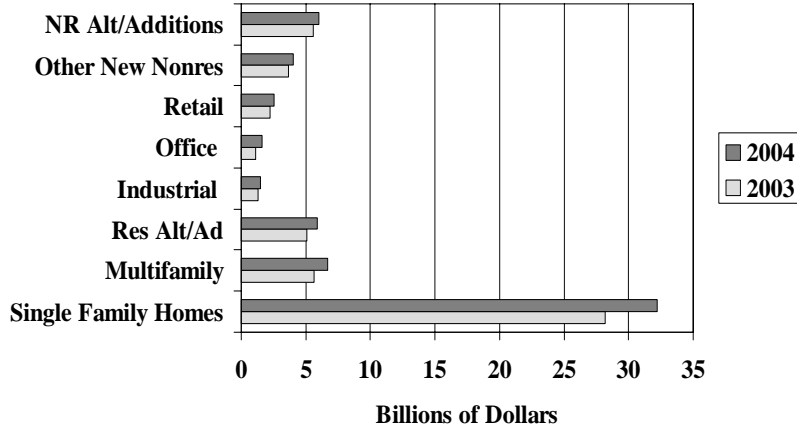
Q1, Q2 2005, California and Selected MSAs

Annual Rate of Growth	California	San Jose MSA	Los Angeles
>5%	Motion Picture and Video Production, Residential Building Construction, etc	Information	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.

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

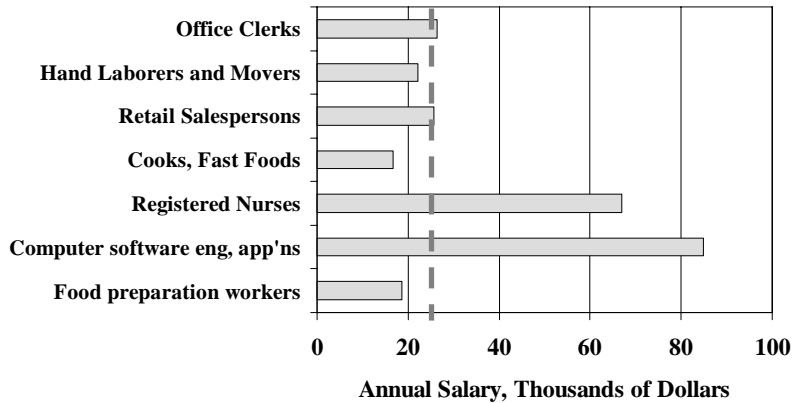
	Average 2004 Wage Level	Average Wage Gain, 2002-2004
All Occupations	\$41,510	4.7%
Growing Occupations	\$37,908/ \$41,709	4.3%/ 4.2%
Shrinking Occupations	\$46,369/ \$44,941	5.5%/ 5.2%

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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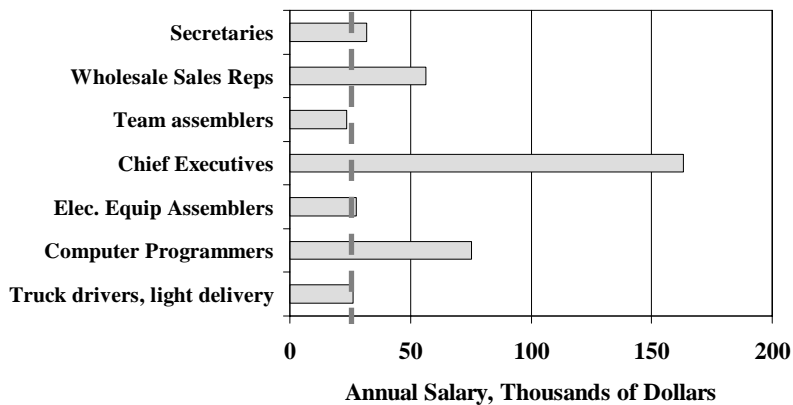
California Top 7 Growing Occupations 2004 Wage Levels



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.

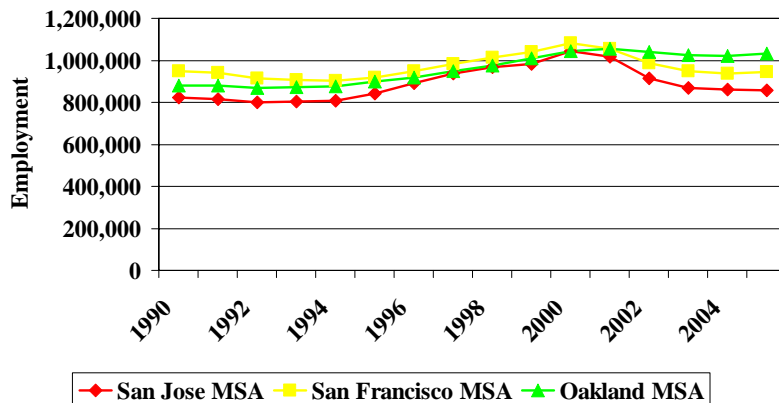
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Bay Area Economy

- 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

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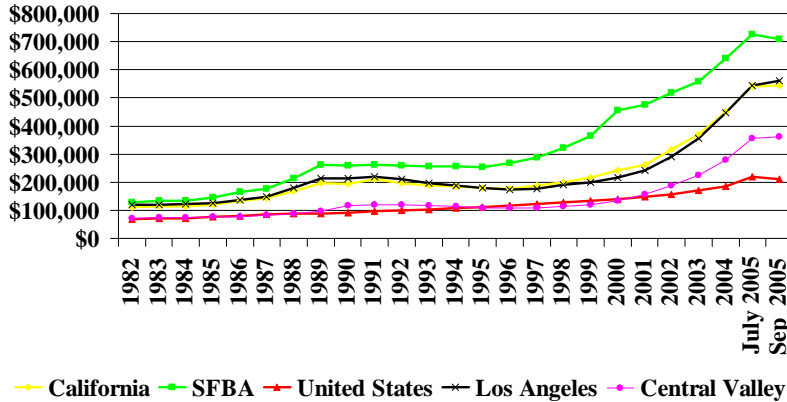
Employment, Major Bay Area MSAs 1990-2005E



Source: FCREUE from Employment Development Department data.

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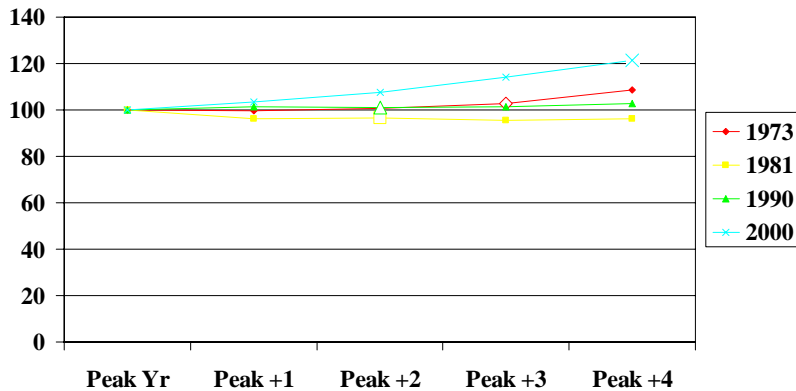
Median Home Price, Existing Homes California, US, SFBA, LA and Central Valley 1982-2004, Sep 2005



Source: California Association of Realtors & National Association of Realtors

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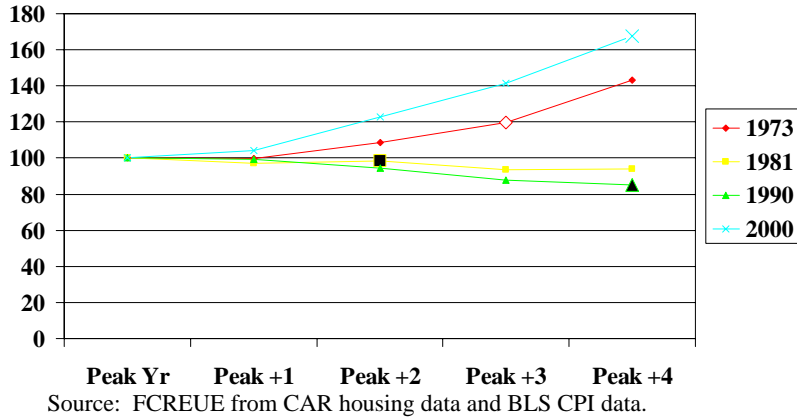
Home Prices over the Business Cycle US Median—Inflation Adjusted Indexed to Price at Peak of Economic Cycle



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

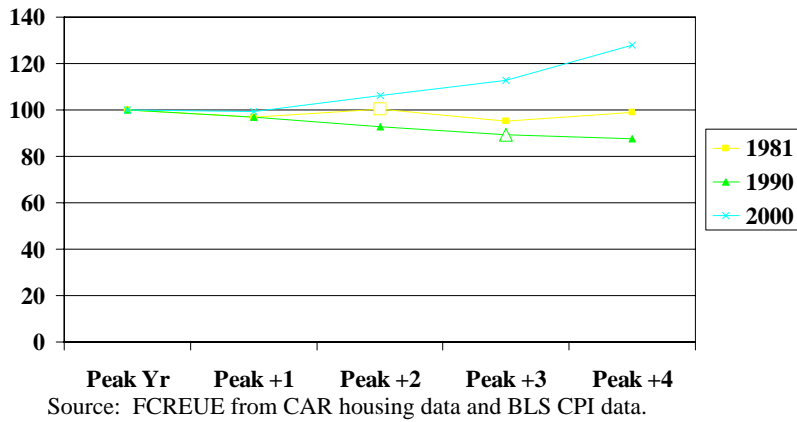
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Home Prices over the Business Cycle California Median—Inflation Adjusted Indexed to Price at Peak of Economic Cycle



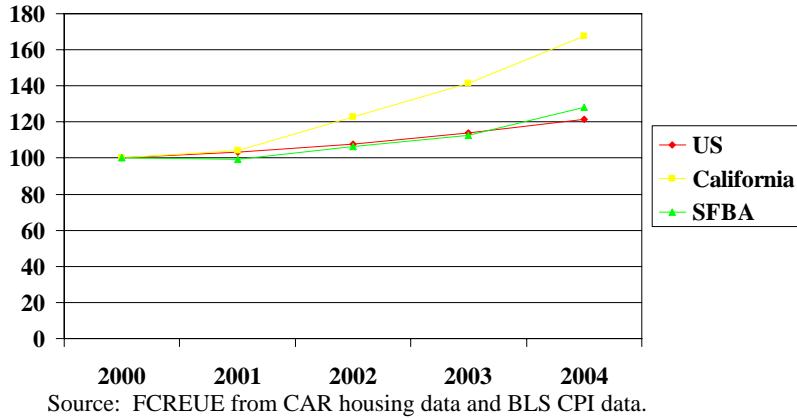
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Home Prices over the Business Cycle SFBA Median—Inflation Adjusted Indexed to Price at Peak of Economic Cycle



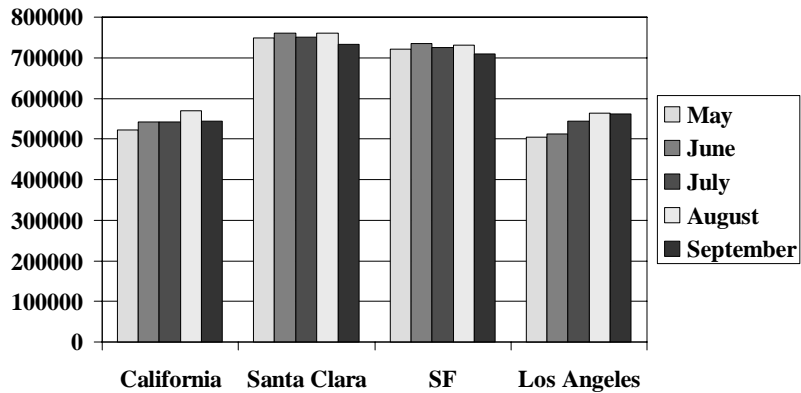
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Inflation Adjusted Home Prices Indexed to 2000 Price US, California and SFBA



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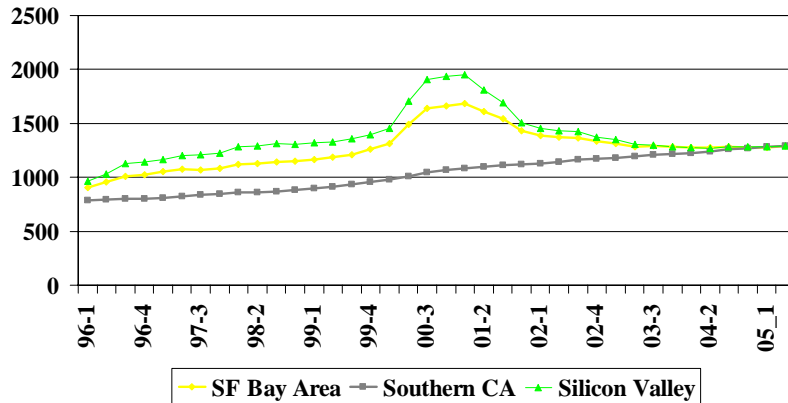
Home Prices, Selected California Markets, May-Sep 2005



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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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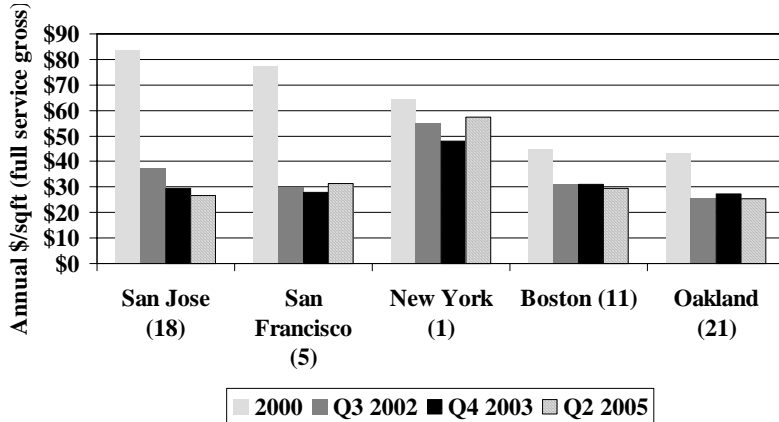
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Why Home Ownership and Rental Markets Differ

- 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

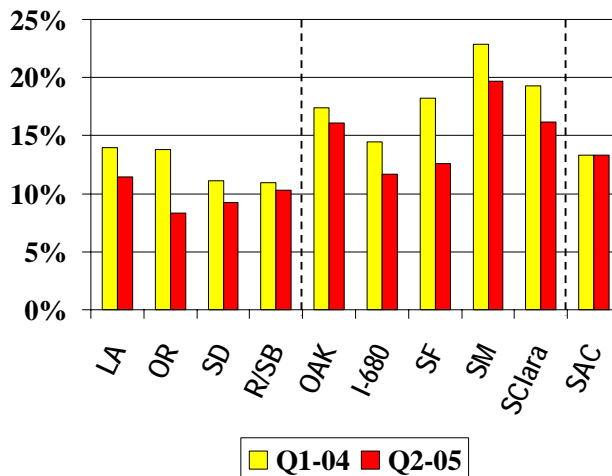
Class A Asking Rents Q4 2000-Q2 2005 (US Q2 2005 rank in parentheses)



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

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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

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