



## **East Bay Regional Outlook Spring 2019**

Economic growth in the East Bay continues to be primarily driven by population serving sectors such as Health Care and Arts and Entertainment, although the growing local tech sector is making a name for itself. In terms of housing costs, life continues to be more affordable in the East Bay relative to neighboring Bay Area regions but it is more expensive than most other areas in the state, including Los Angeles County and major portions of Southern California.

### **Employment Slowing but Labor Force Jump May Provide Boost Down the Stretch**

From January 2018 to January 2019, the unemployment rate in the East Bay increased 0.1 percentage points to 3.3%, however this was mainly due to a sizable 2.4% increase in the local labor force over that period. Unemployment rates in the neighboring South Bay and in the San Francisco Metropolitan Division (MD)<sup>1</sup> were 2.9% and 2.4%, respectively, as of January 2019; the unemployment rate for California as a whole decreased 0.2% year-over-year, falling to 4.2%.

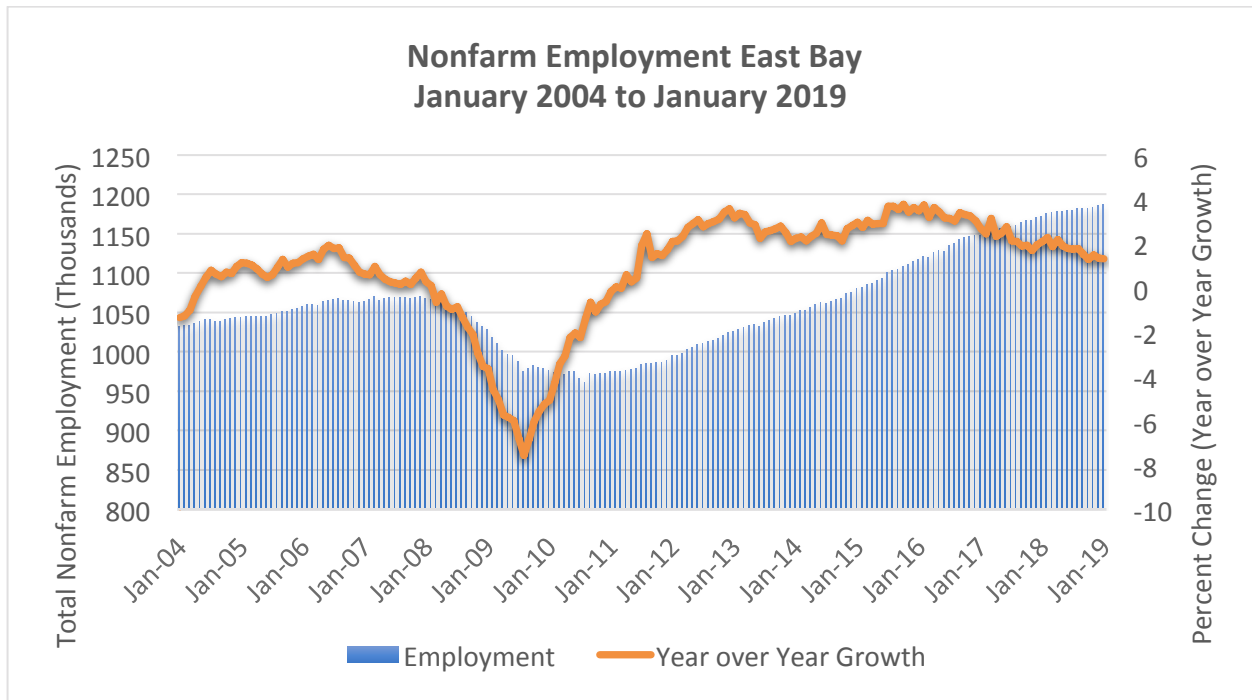
Over this same period, total nonfarm payrolls in the East Bay increased by just 1.3%, the smallest yearly gain since June 2011. The 15,500 jobs added in the East Bay represented significantly less growth compared to San Francisco (MD) (42,600 jobs added) and the South Bay (26,200 jobs added).

From January 2018 to January 2019, the East Bay's Administrative Support sector experienced the largest job growth in both absolute and percentage terms, expanding by 4,200 positions or 6.4%. Health Care, the region's largest job sector grew by 2.4% and experienced the second largest absolute increase with 4,100 positions added. The Arts and Entertainment sector saw the second largest percentage increase at 5.9% over this period. The Professional Scientific and Technical Services sector in the East Bay saw its employment expand by 3.5% or 3,400 payrolls. Among all the East Bay's job sectors, the largest year-over-year contraction was experienced in Finance and Insurance, which shed 1,600 positions, a loss of 4.1%.

Beacon Economics is forecasting the East Bay's unemployment rate to remain in a narrow range around its current reading through 2019 and, for the year as a whole, expects total nonfarm employment to grow by 1.6%.

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<sup>1</sup> Hereafter referred to as San Francisco



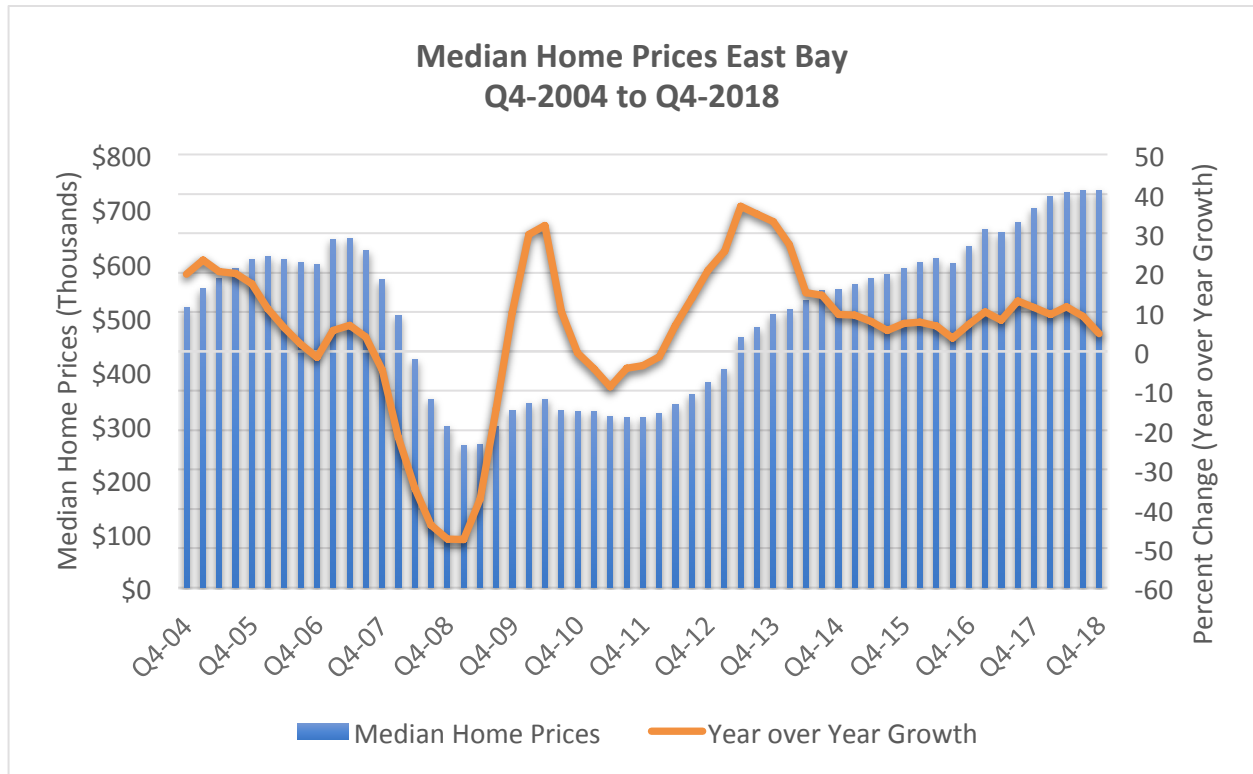
### East Bay Home Prices To Continue Growth, Straining Affordability

From the third to the fourth quarter of 2018, the median price of an existing single-family home in the East Bay decreased from \$734,000 to \$732,600. This decline is a common recent story throughout the state due, in part, to the typical seasonal slowdown, which was exacerbated by interest rates peaking in November. On a year-over-year basis, home prices grew by 4.5% in 2018 the East Bay, outpacing growth in the South Bay (0.5%), but trailing growth in San Francisco (5.6%). Although home prices in the East Bay pale in comparison to the sky-high costs in the South Bay and San Francisco, they remain significantly higher than prices in other major metros across the state including the Inland Empire and Los Angeles and San Diego Counties. This exemplifies how prosperous the economic climate is in the Bay Area overall.

Home sales, however, fell across the Bay Area in 2018, similar to many locations in the state. This is due to both a lack of home supply and eroding affordability stemming from continued price increases and rising interest rates over most of the past year. Sales of existing single-family residences in the East Bay declined 14.2% from the fourth quarter of 2017 to the fourth quarter of 2018, a smaller decrease than in the South Bay where sales fell by 14.6%, but larger than in San Francisco (-9.6%). Because existing home sales are tracked by closed contracts, they reflect market and mortgage rate conditions one to two months earlier when sales opened escrow. The 30-year mortgage rate peaked in November 2018 and likely caused the decline in January sales. However, mortgage rates have since decreased, so home sales are expected to

stabilize or improve in the next couple of months as the market ramps up during peak season. Meanwhile, home prices will continue to advance as demand outstrips supply.

Beacon Economics expects that the median existing single-family home price for the region will increase in 2019, but at a slower pace compared to the last couple of years.



From the fourth quarter of 2017 to the fourth quarter of 2018, the average apartment rent in the East Bay rose 4.1% to \$2,252/month, outpacing rental price increases in San Francisco (+2.6%), but trailing increases in the South Bay (+4.8%) With rent in the East Bay higher than in every major Southern California metro area, a household here would have to earn greater than or equal to \$90,080 annual, pre-tax income to not be rent burdened, on average<sup>2</sup>.

<sup>2</sup> Rent Burden is defined as spending 30% or more of monthly, pre-tax income on rent.