



## **South Bay Regional Outlook Spring 2019**

The South Bay continues to benefit from the strength of its booming knowledge-based job sectors, and the region's impressive economic acceleration has been essentially unmatched outside of San Francisco. Sectors such as Durable Goods Manufacturing are feeling the effects of this prosperous regional economy. Meanwhile, affordable housing remains a highly challenging issue.

### **South Bay Employment Rolling Along**

From January 2018 to January 2019, the unemployment rate in the South Bay remained unchanged at 2.7%. This is a remarkable outcome because it means that the local labor market readily absorbed recent growth in the labor force, which saw an impressive 3.1% increase year-over-year as of January 2019. Compared to the rest of the Bay Area, the unemployment rate was higher in the near by East Bay (3.3%) and lower only in the red hot San Francisco Metropolitan Division (MD)<sup>1</sup> (2.4%). The unemployment rate in California as a whole stood at 4.2% in January 2019, a 0.2% year-over-year decrease. Meanwhile, from January 2018 to January 2019, the South Bay experienced a steady increase in total nonfarm employment as payrolls grew by 2.4% or 26,200 positions, to reach a total of 1.1 million jobs. Over the same annual period, nonfarm employment grew by 3.8% in San Francisco and 1.3% in the East Bay.

The South Bay's Arts and Entertainment sector experienced the largest growth in percentage terms from January 2018 to January 2019, expanding by 18.1% or 2,800 jobs<sup>2</sup>. Over the same period, the Information sector continued its striking expansion, adding 9,100 jobs at a pace of 10.4%. Notably, the Information sector may be only a couple of quarters away from reaching total sector employment of 100,000. Manufacturing (mainly Durable Goods Manufacturing), one of the region's largest sectors alongside Professional, Scientific and Technical Services, continued to post strong absolute gains at 6,400 jobs added. Professional, Scientific, and Technical Services grew at a pace of 2.5% or 3,900 jobs. The largest employment contractions in the South Bay over this annual period were experienced by the Construction and Utilities sectors, which declined by 6.4% and 11.2%, respectively.

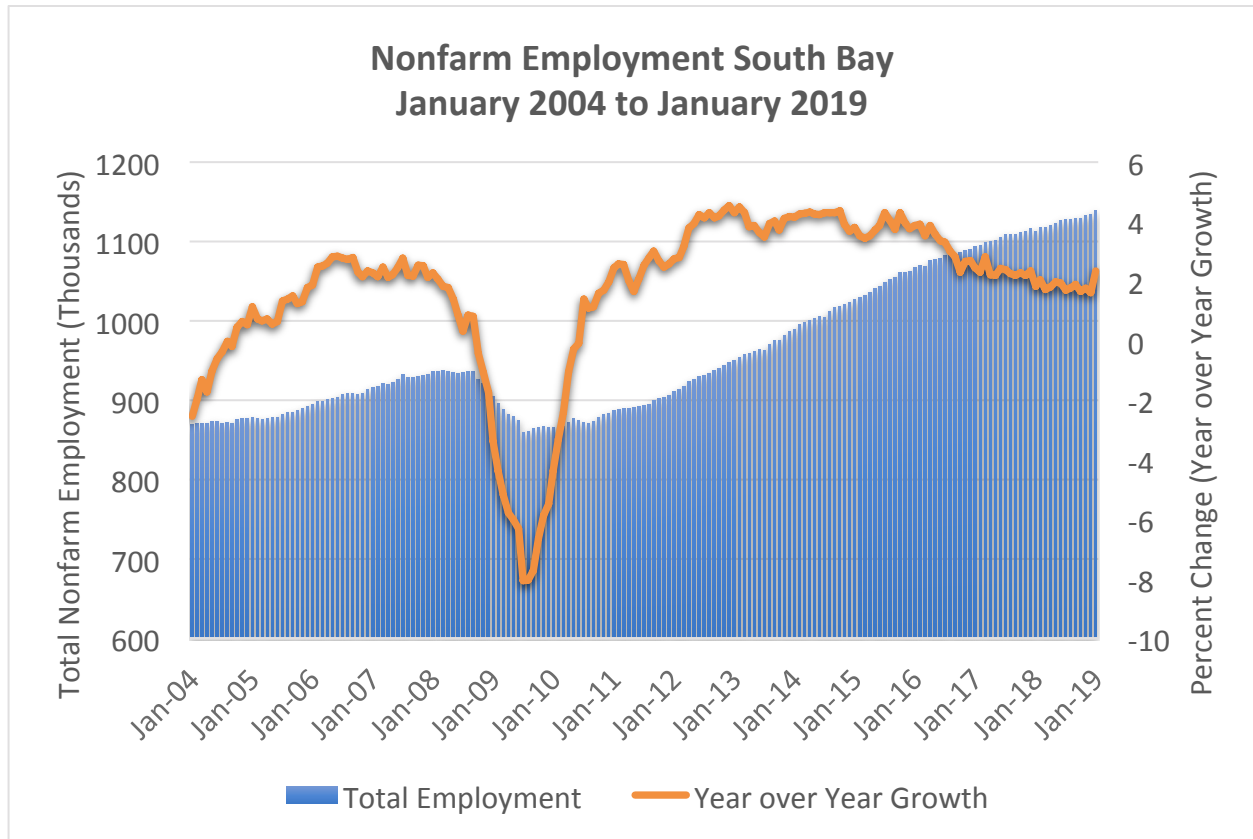
Beacon Economics is forecasting the South Bay's unemployment rate to remain in a narrow range around its current reading through 2019. Nonfarm job growth for the year as a whole is expected to come in at around 2.0%.

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

<sup>2</sup> This figure may be subject to substantive revision due to odd seasonality.

As *household* employment in the South Bay picked up its pace in January 2019, increasing to 3.1% growth year-over-year, the question remains about how working residents will cope with the availability and affordability of housing. Home price growth slowed significantly on a year-over-year basis in the South Bay but this may prove to be transient, leaving the region’s employment base with a renewed set of obstacles.



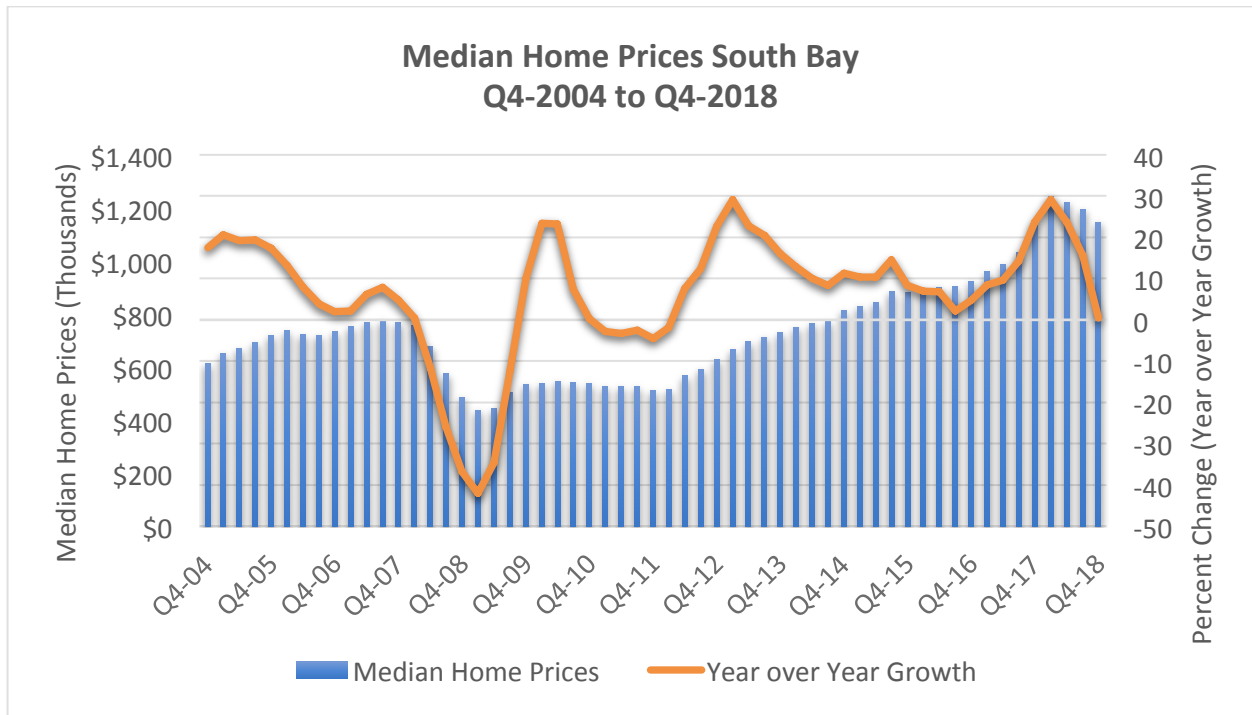
### Single-Family Home Prices Hit the Brakes; Apartment Rents Maintain Velocity

Despite an ongoing statewide housing shortage, from the third to the fourth quarter of 2018, the median home price in the South Bay region actually decreased to \$1.14 million from \$1.19 million. This is a story that has been repeated across the state recently due in part to a typical seasonal slowdown, which was then exacerbated by interest rates peaking in November. On a year-over-year basis, home prices grew by 0.5% in the South Bay, trailing price growth in the East Bay (4.5%) and San Francisco (5.6%).

Home sales of existing single-family residences declined 15.8% from the fourth quarter of 2017 to the fourth quarter of 2018 in the South Bay, a greater decrease than in San Francisco (-9.6%) and the East Bay (-14.6%). Since existing home sales are tracked by closed contracts, they

reflect market and mortgage rate conditions one to two months earlier than when sales open escrow. The 30-year mortgage rate peaked in November 2018 and likely caused the decline in January 2019 sales (the most recent available sales' numbers). However, mortgage rates have since decreased and home sales are expected to stabilize or improve in the next few months as the market ramps up during peak season. Meanwhile, South Bay home prices will continue to advance.

Given the nature of the housing market in the South Bay, the median home price is subject to considerable fluctuation. Beacon Economics expects the median price of an existing single-family home in the region to increase in 2019, but at a slower pace compared to the last few years.



From the fourth quarter of 2017 to the fourth quarter of 2018, average apartment rent in the South Bay increased 4.9% to reach \$2,682/month, outpacing rent growth in the East Bay (4.1%) and San Francisco (2.6%). The South Bay's average rent costs are higher than they are in the East Bay and in every major Southern California metro area. A household in the South Bay would have to earn greater than or equal to \$107,280 annual, pre-tax income to not be rent burdened, on average<sup>3</sup>.

<sup>3</sup> Rent Burden is defined as spending 30% or more of monthly, pre-tax income on rent.