



INFORMATION CALENDAR

January 24, 2016

To: Honorable Mayor and Members of the City Council
From: Dee Williams-Ridley, City Manager
Submitted by: Jordan Klein, Acting Manager, Office of Economic Development
Subject: Berkeley Economic Dashboards, December 2016 Update

INTRODUCTION

The Office of Economic Development (OED) is pleased to present the Citywide Economic Dashboard with data updated as of December 2016 (Attachment 1), and the updated Commercial District Dashboards (Attachment 2). This report presents comprehensive indicators of the economic health of the city of Berkeley.

CURRENT SITUATION AND ITS EFFECTS

Economic growth continues to be strong in Berkeley relative to the City's historical performance and to other cities in the East Bay. By a variety of indicators, including employment, business growth, commercial occupancy, and sales tax revenues, Berkeley's economy continued to perform robustly in the first half of 2016. Key findings include:

- **The commercial ground floor vacancy rate in Downtown Berkeley continued its dramatic decrease in 2016.** The vacancy rate is now at 4.7%, down from 8.4% the previous year. This represents a major improvement over the last decade: between 2008 and 2014, the average vacancy rate was 12.6%. Based on analysis of sales tax revenue data, the economic recovery in Downtown Berkeley between 2014 and 2016 was led by the "Food and Beverage Services" and "Business and Professional Services" industry sectors.
- **The unemployment rate has begun to stabilize after several consecutive years of decline.** Unemployment for 2016 Q3 was 3.7%, a slight decrease from 3.8% in 2015 Q3, and down from a high of 12% at the peak of the Great Recession. Meanwhile, labor force participation has continued to increase.
- **Office availability has continued to decrease.** The vacancy rate dipped to 1.67% in 2016 Q3 from 3.61% in 2015 Q3. High regional demand and the absorption of existing office space by growing companies are contributing factors to the record low vacancy. The average asking rent increased slightly to \$2.65 (up from \$2.62 in 2015 Q3).

- **Sales tax performance rose substantially during the last four quarters:** Receipts increased by 6.8% during the four-quarter period ending in 2016 Q3, up to \$18,245,495 from \$17,087,422. The rate of increase for the nine-county Bay Area was 3.7%, while the rate was 2.4% for all of California, indicating that Berkeley's sales tax performance is outperforming its immediate neighbors and the state overall. The largest subcategory of sales tax revenue was Food Products (31.4%), followed by General Retail (28.5%).
- **Ground floor retail vacancy rates are also down in other commercial districts across the City.** As of Q3 of this year, the citywide vacancy rate is up slightly to 7.3% (from 5% last year), with significant decreases in the Downtown, Telegraph, and San Pablo districts and upticks in the West Berkeley, Solano, and University Avenue districts. In two districts, vacancy is below the threshold of "normal" or healthy commercial district vacancy rates (considered between 4 and 8%). In eight of nine commercial districts analyzed, 2016 sales tax revenue from the Food and Beverage sector increased from 2014 levels.
- **Employment in manufacturing increased slightly,** up 1.5% in 2016 Q1 from the previous year. There was also a 13% increase in the number of firms. Chemical Manufacturers added 130 jobs in the last year, while Food Manufacturers added 70 jobs. The growth in these sectors offset layoffs at Metal Manufacturing firms; these layoffs were major contributors to the 10% overall decrease in total manufacturing payroll over the last four quarters.
- **The high volume of construction and development activity has continued.** There are currently 2,148 units entitled or under construction in housing developments with five or more units, and an additional 1,107 units are proposed. By comparison, as of December 2015 there were 1,605 units entitled or under construction and 1,254 proposed. This surge in housing development follows a lull during the last decade (2005-2015), when only about 1,100 units were completed. However, there are indicators that housing rents are flattening across the region, which may slow the development pipeline in 2017.
- **Housing costs in Berkeley for both ownership and rental units rose in 2016, consistent with the entire core Bay Area region.** The median sales price for homes was \$1,145,000 in 2016 Q3, up 9% from 2015 Q3 despite some upward and downward fluctuations during the previous four quarters. Median rents have also increased to \$1,550 per month as of 2016 Q3, up from \$1,474 in 2015 Q4. The rate of increase in rental costs for 2016 is on track to match or exceed the rate of increase in previous years.

BACKGROUND

In its December 16, 2015 workshop, OED released a set of new publications, the Citywide Economic Dashboard and Commercial District Dashboards, which analyze a wide variety of economic trends and indicators in Berkeley. The dashboards are designed to make current economic information more accessible to Council, City staff, and the broader community. The dashboards were updated in June 2016, and this

December 2016 information report provides the third iteration of the dashboard documents and details a short summary of the findings within. All information was updated using the most recent data available; due to a lag in the availability of some data, the findings presented are relevant to the fourth quarter of 2015 through the third quarter of 2016, depending on the data source. OED updates these dashboards on a semi-annual basis, as staffing allows, and has posted the most recent version on the City's website at <http://www.ci.berkeley.ca.us/oed/reports/>.

To produce these publications, OED staff compiled and analyzed a wide variety of data sources including the American Community Survey (US Census Bureau), the Quarterly Census of Employment and Wages (Bureau of Labor Statistics), Monthly Labor Force Data (California Employment Development Department), commercial real estate data (Newmark Cornish & Carey), housing market MLS data (Red Oak Realty) and sales tax data (MUNI Services). Staff also analyzed data from City databases including business licenses, building permits and planning permits, and City publications such as the housing element and rent board reports. Finally, staff updated its Commercial District Dashboards (Attachment 2). The commercial district dashboards are updated routine OED publications that provide a more focused look at economic conditions in Berkeley's neighborhood shopping districts, including business occupancy, vacancy and sales tax performance. It is primarily intended as a tool for local stakeholders. OED intends to continue updating these documents twice per calendar year. The accompanying dashboards have vacancy data collected in the third quarter of 2016 (OED Vacancy database) and sales tax data from the second quarter of 2016 (MuniServices).

ENVIRONMENTAL SUSTAINABILITY

Many of the City's environmental sustainability goals are inextricably tied to the overall health of the City's economy. The strong health of Berkeley's economy indicates that the City is well-positioned to pursue those goals. Staff believes that the continued pursuit of environmental sustainability goals, as well as the programs and public policies that encourage that pursuit, represents a core economic strength for Berkeley and a competitive advantage of the City and the region.

POSSIBLE FUTURE ACTION

Staff will, as directed by Council through previous and future referral items, assist the Planning Commission and other partners to identify and frame policy ideas that support economic development priorities. Likely policy topics include possible reductions in permitting discretion for desirable uses, providing accurate data and projections for proposed hotel uses that boost tourism and increase visitor spending, and clarifying the allowances for incidental service and retail uses for manufacturers.

FISCAL IMPACTS OF POSSIBLE FUTURE ACTION

Actions that facilitate increased economic activity tend to boost revenues related to sales tax and property tax, and thus have positive fiscal impacts on the city.

CONTACT PERSON

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Attachments:

- 1: Citywide Economic Dashboard
- 2: Commercial District Dashboards