



Office of the City Manager

INFORMATION CALENDAR

September 13, 2018

To: Honorable Mayor and Members of the City Council

From: Dee Williams-Ridley, City Manager

Submitted by: Jordan Klein, Economic Development Manager

Subject: Berkeley Economic Dashboards

INTRODUCTION

The Office of Economic Development (OED) is pleased to present the Citywide Economic Dashboard update for September 2018 (Attachment 1) and the updated Commercial District Dashboards (Attachment 2).

CURRENT SITUATION AND ITS EFFECTS

Over the past five years, Berkeley has experienced economic growth comparable with that of the Bay Area region. By a variety of indicators, Berkeley's economy continued to perform healthfully through the end of 2017 and the first quarter of 2018. However, there are also some indicators of slowed or flattening growth, such as decreasing sales tax revenues and increasing commercial vacancy. Key findings include:

- **Berkeley's unemployment rate remains extremely low.** Berkeley's average unemployment rate for Q2 2018 (April – June) was 2.3 percent, down one tenth (0.1) of a percentage point from the same period during the previous year.
- **Office vacancy rates in Berkeley have increased notably from 2016, but remain low compared to the East Bay.** Overall office availability was essentially flat from Q3 2017 (4.97%) to Q1 2018 (5.03%), well above its lowest point of 0.76% in Q4 2016. However, Berkeley continues to have the lowest office availability rate of any municipality in the immediate East Bay sub-market. This is a function of several factors, including limited inventory, high regional demand for transit-adjacent workplaces, and the quick absorption of new office space by growing Berkeley companies. The average asking rate for office space stayed constant from Q3 2017, at \$3.34 per square foot.
- **Annual sales tax performance decreased from 2017 to 2018.** Annually, sales decreased 3.9% citywide from 2017 to Q1 of 2018, inconsistent with the 9-county region (+2.8%) and lagging behind the state (+3.6%). Sales tax revenues in Q4 2017 were lower than those in Q4 2016 by 2.2%, due almost entirely to a decrease in sales tax generated by Business to Business activities (-24.4%). As

of Q4 2017, the Food & Beverage Services subsector was the largest contributor to the city's sales tax revenue (36%), with Retail next at 30%.

- **Overall citywide ground floor commercial vacancy rates increased to 6.2% in Q2 2018 (from 4.6% in Q4 2017).** In general, increased competition from the Internet is contributing to the decline of commercial occupancy nationally¹ and Berkeley is not immune to these impacts. In particular, the University and Elmwood districts have increased commercial vacancy rates this quarter, owing to key property turnovers that have larger square footages (2,000-10,000 square feet). The newly vacant spaces are being actively marketed for tenants purveying soft goods which typically take longer to secure new leases. In the other seven of Berkeley's commercial districts however, vacancy rates have remained nearly flat, and continue to fall within or below the threshold of "healthy" vacancy rates (4 to 8%). This is due primarily to low turnover in the San Pablo, Solano, and Downtown districts; each of these districts have showed improvements in vacancy rates since Q3 2016. In North Shattuck, ground floor commercial vacancy has remained below 1% for a year (0.4%), and is the lowest consistent rate posted for a commercial district in the decade that OED has been tracking this data.
- **Retail in commercial districts, as a share of total square footage, continues to decline, even as vacancy rates have largely remained stable (or slightly increased).** The percentage of ground floor commercial square footage occupied by retail uses has decreased from 44.8% in 2015 to 37.0% in 2018. This quarter, two large floor plate retailers in West Berkeley are in the process of turning over to new tenants, which has resulted in a notable decline of commercial square footage occupied by retail uses. During the same period, the overall citywide vacancy rate only increased three tenths of a percent from 5.9% to 6.2%. As retail has declined, ground floor commercial spaces have been increasingly occupied by office uses, personal services, and other non-retail uses (including non-conforming uses, leased spaces and pending development projects).
- **Construction activity continues to increase.** Over the past three years, the number of housing units in the development pipeline has increased. As a result of this, construction activity has increased slightly since the first quarter of 2018. As of June 2018, there are 30 housing developments of 5 or more units that are entitled for development or under construction, which will contain 1,919 net new units; this represents a slight increase from the number of units that were entitled or under construction as of December 2017 (1,731). An additional 1,589 units (in 25 distinct projects) are proposed.

¹ Derek Thompson, [What in the World Is Causing the Retail Meltdown of 2017?](#), The Atlantic, 2017.

- **Housing costs in Berkeley have risen for buyers and have been essentially flat for renters over the past 6 to 12 months, consistent with the Bay Area region overall.** Home sale prices in Berkeley have reached an all-time high in 2018, driven by a strong overall economy and limited housing inventory. After a slight decrease in 2017 to \$1.15 million, as of June 2018 the median sale price for single family homes was \$1.3 million. However, median citywide rents in Berkeley have decreased slightly over the past year: the reported median price for a two bedroom was \$2,580, a 3.4% decrease from the prior year.² The City of Berkeley Rent Stabilization Board data from 4Q 2017 (released in mid-March 2018) indicates the median rent for a studio is \$1,600, down from \$1,800 in the third quarter of 2017.

BACKGROUND

In a December 2015 information report to City Council, 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. This information report provides the updated dashboard documents for July 2018. The dashboards contain data from the second half of 2017 and first half of 2018 and details a short summary of the findings within. OED staff 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, Redfin) and sales tax data (MUNI Services/Avenu Insights). Staff also analyzed data from City databases including business licenses, building permits and planning permits, and City publications such as rent board reports and start up information from and websites such as Crunchbase, LinkedIn, and those of Berkeley's startup incubators and accelerators. Finally, early in the second quarter of 2018 OED staff updated its periodic occupancy survey of ground floor commercial spaces in commercial districts around the City. Due to a lag in availability of some data, many of the findings presented in the attached publications are most relevant to the second half of 2017, but others reflect the first two quarters of 2018.

² See Brinklow, *Berkeley has Bay Area's lowest rents, says reports*, Curbed, <https://sf.curbed.com/2018/5/3/17316196/berkeley-rent-median-numbers-san-francisco-2018-cost> (May 3, 2018).

ENVIRONMENTAL SUSTAINABILITY

Many of the City's environmental sustainability goals are inextricably tied to the overall health of the City's economy. 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. Policy topics outlined in OED's Small Business Support Worksession Report (delivered January 16, 2018) and referral response to Council (published May 15, 2018) include proposed modifications to the zoning ordinance to support small businesses, increased support for small businesses navigating the permitting and licensing processes, and recruitment of nonprofit partners to pilot new small business retention programs.

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