

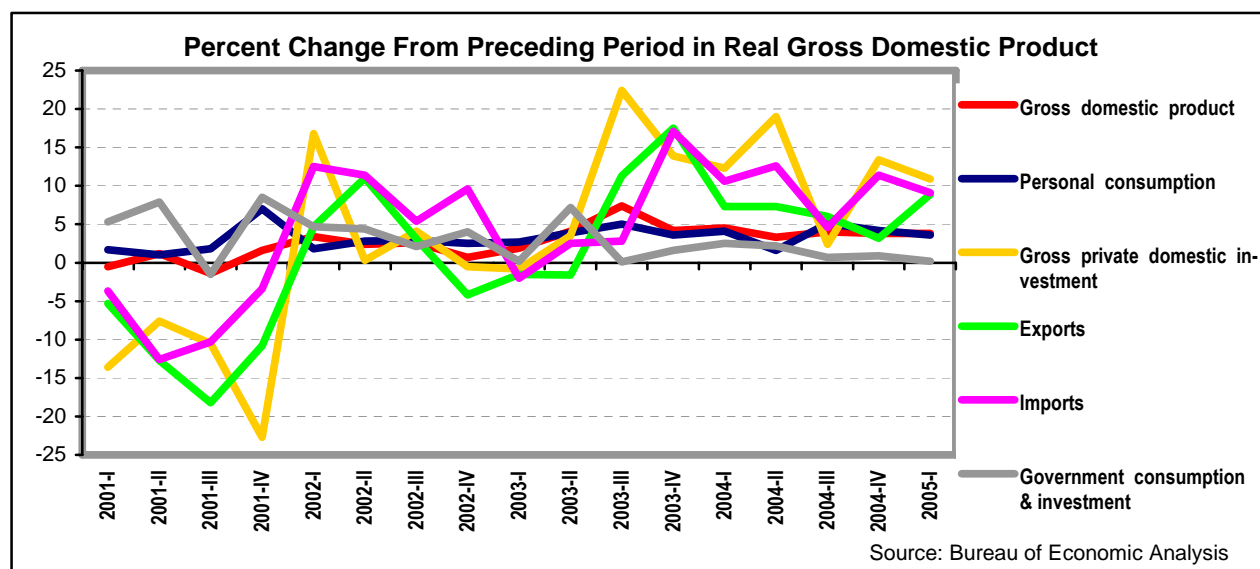
# JUNE 2005 EAST BAY MONTHLY ANALYSIS

Prepared by the Economic Development Alliance for Business.

The East Bay Monthly Analysis is prepared by EDAB staff to augment the East Bay Quarterly Forecast authored by economists at the UCLA Anderson Forecast. Monthly and quarterly reports may be viewed and subscribed to for free by going to: [www.edab.org/newsletter.html](http://www.edab.org/newsletter.html). EDAB welcomes your comments and suggestions. Send your email to [analysis@edab.org](mailto:analysis@edab.org) or call us at (510) 272-3885.

## GDP SUMMARY

Real gross domestic product -- the output of goods and services produced by labor and property located in the United States -- increased at an annual rate of 3.8% in the first quarter of 2005. Also, profits from current production increased \$76.1 billion in this quarter.



The major contributors to the increase in real GDP in the first quarter were personal consumption expenditures, exports, private inventory investment, residential fixed investment, and equipment and software. Imports, which are a subtraction in the calculation of GDP, increased and were only slightly above exports.

Final sales of computers contributed 0.48% to the first quarter change in real GDP down from 0.56% from the previous quarter's change. Motor vehicle output contributed 0.24% to the first quarter 2005 change compared to a 0.86% change in the fourth quarter.

Real exports of goods and services had a strong increase of 8.9% in the first quarter of 2005, compared with an increase of 3.2% in the fourth. Meanwhile, real imports of goods and services increased 9.6%, compared with an increase of 11.4 percent the previous quarter.

Real federal government consumption expenditures and gross investment increased 0.6% in the first quarter, compared with an increase of 1.2% in the fourth. National defense increased 0.5%, while non-defense increased 0.9%.

## COST OF LIVING

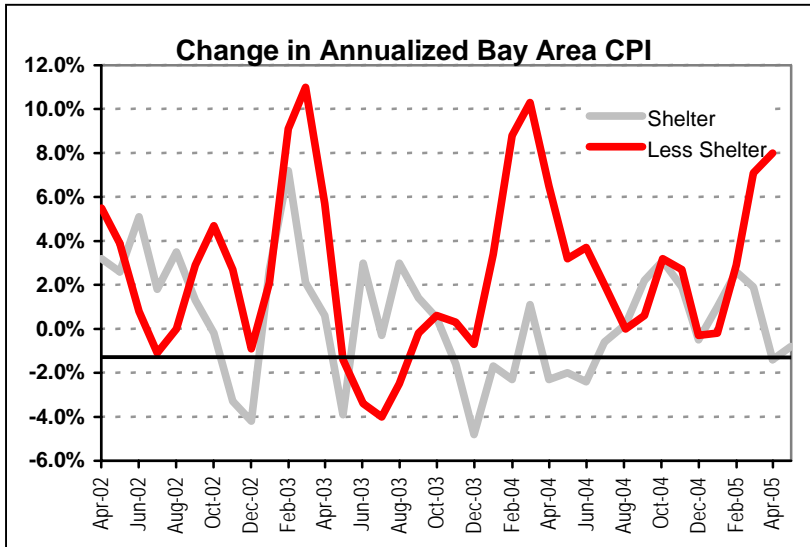
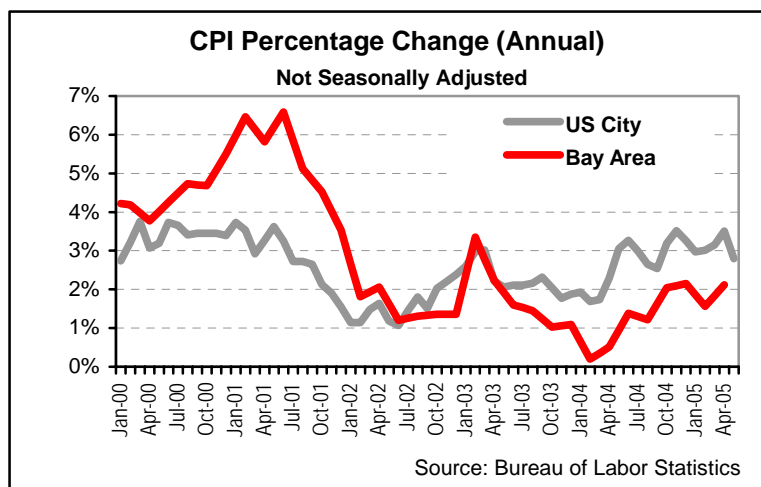
The Consumer Price Index for All Urban Consumers (CPI-U) decreased 0.1% in May 2005, before seasonal adjustment, according to the Bureau of Labor Statistics of the U.S. Department of Labor. This May level of 194.4 (1982-84=100) was 2.8% higher than in May 2004.

On a seasonally adjusted basis, the CPI-U declined 0.1% in May, following an increase of 0.5% in April. Energy costs, which advanced sharply in each of the preceding three months, declined 2.0% in May. The index for food rose 0.1%, following a 0.7% increase in April. Shelter costs were virtually unchanged for the second consecutive month as a decline in the index for lodging while away from home offset increases in the indexes for rent and owners' equivalent rent.

San Francisco - Oakland – San Jose CPI-U: The special aggregate index for energy rose 0.8% in May and advanced 13.9% over the year. Household fuels rose 6.8% for the month

and they were the primary contributor to the energy increase. Within household fuels, prices for utility piped gas service index increased 11.6% for May 2005 and measured 35.7% higher than a year ago. Electricity prices increased 3.9% for the month and were 3.4% higher than in May 2004. Gasoline prices decreased 2.1% over the month, but compared to a year ago were 13.7% higher.

Area grocery prices, as measured by the Consumer Price Index (CPI) food at home index, were down 0.9% for the month. Compared to one year ago, grocery prices were 0.4% higher. Grocery shoppers in the greater Bay Area spent \$206.50 in May for a basket of food items that cost \$100.00 in 1982-84.

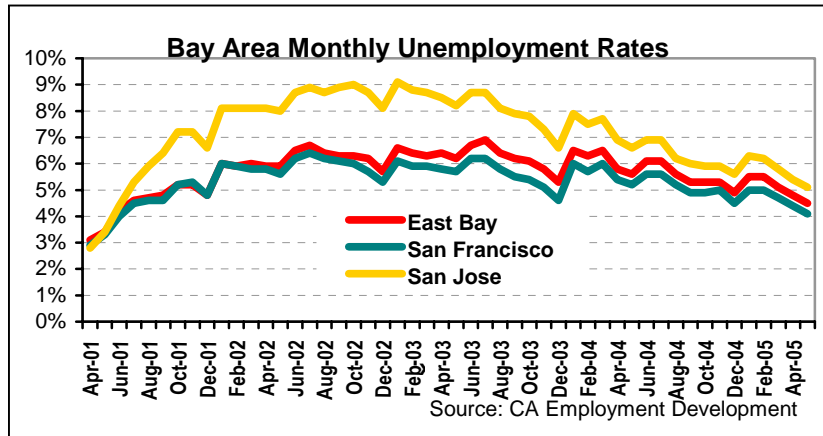


In the Bay Area, Annualized CPI data for Shelter increased from a nine-month low point of -1.4% in April 2005 to an annualized rate of -0.4% in May 2005. May 2005 data for All Items Less Shelter was not available - it is only available bimonthly.

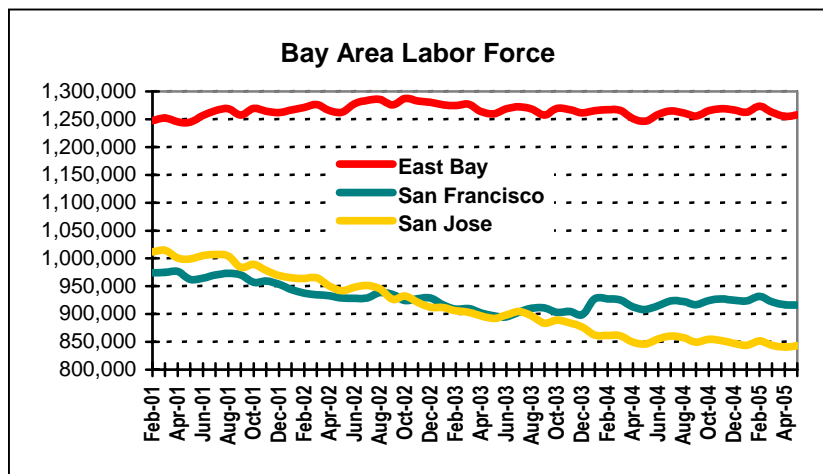
# WORKFORCE AND UNEMPLOYMENT

Note: Historical labor force data before January 2004 in all three of the indicators in this section show significant changes in January 2004 due to the State of California's implementation of new labor force data methodology.

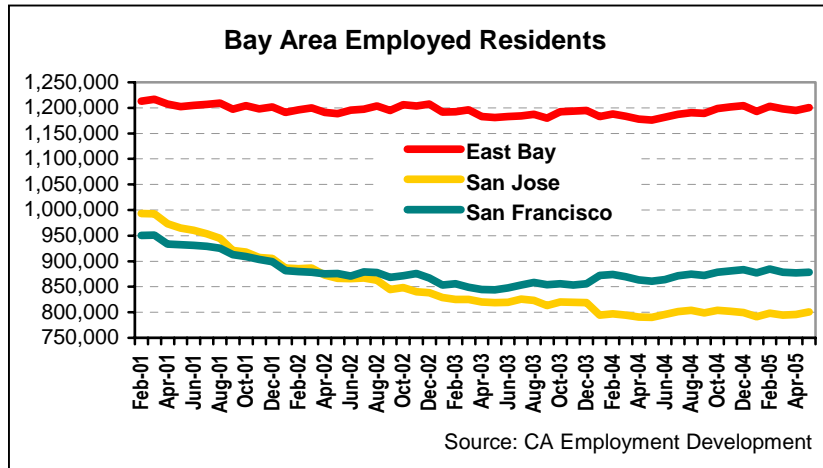
Unemployment rates (not seasonally adjusted) for the Bay Area MSAs continue to decline. In the East Bay, it decreased to 4.5% in May 2005, while San Francisco had the lowest with 4.4% and San Jose's was 5.1%. The East Bay's is still well below California's 5.0% and the nation at 4.9%. In Alameda County, the May 2005 unemployment rate was 4.6% and it was only 4.4% in Contra Costa County.



For San Jose in particular, this unemployment rate decrease has resulted largely from a reduction in its labor force. Since January 2001, San Jose has lost 168,000 of its workforce. Those numbers have leveled out in the last year, as San Jose lost only 400 since January 2005 and has actually gained 2,500 from April to May 2005.



The East Bay has actually gained 10,700 workers since January 2001, and though it has lost 4,700 since January 2005, it gained 2,700 in the last month.



San Francisco's labor force has also increased by 9,300 since January 2001, decreased by 7,600 since the first of the year and 800 from April to May 2005.

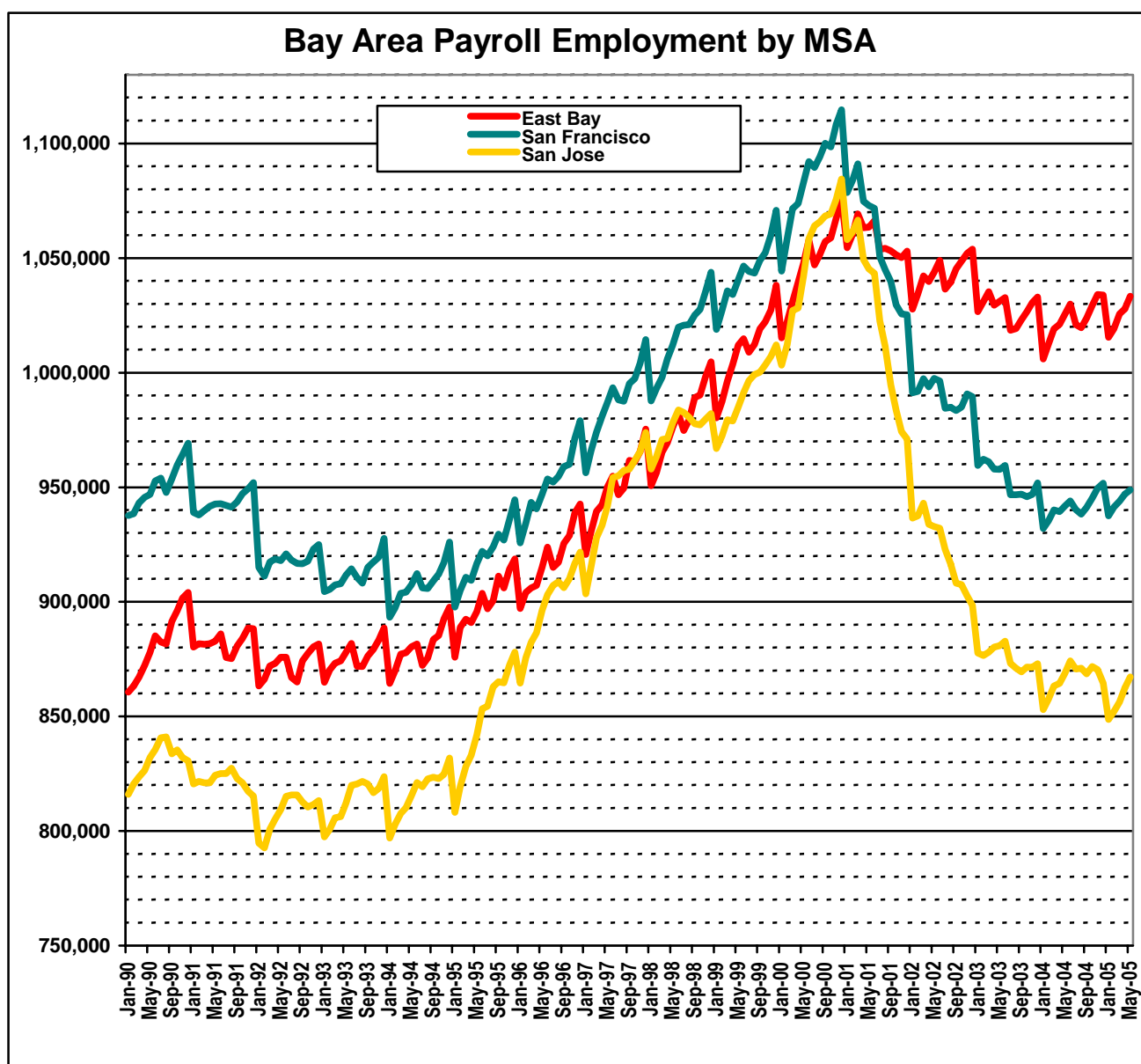
All of the MSA's experienced a reduction in the number of employed residents since January 2001: San Francisco has 72,400 fewer employed residents; San Jose, 193,600; and the East Bay, 11,200. But all three MSAs increased the number of employed residents since January 2005 and from April to May, 2005; the East Bay has 5,800 more, San Francisco 1,500 and San Jose 5,100.

## EAST BAY PAYROLL EMPLOYMENT BY SECTOR

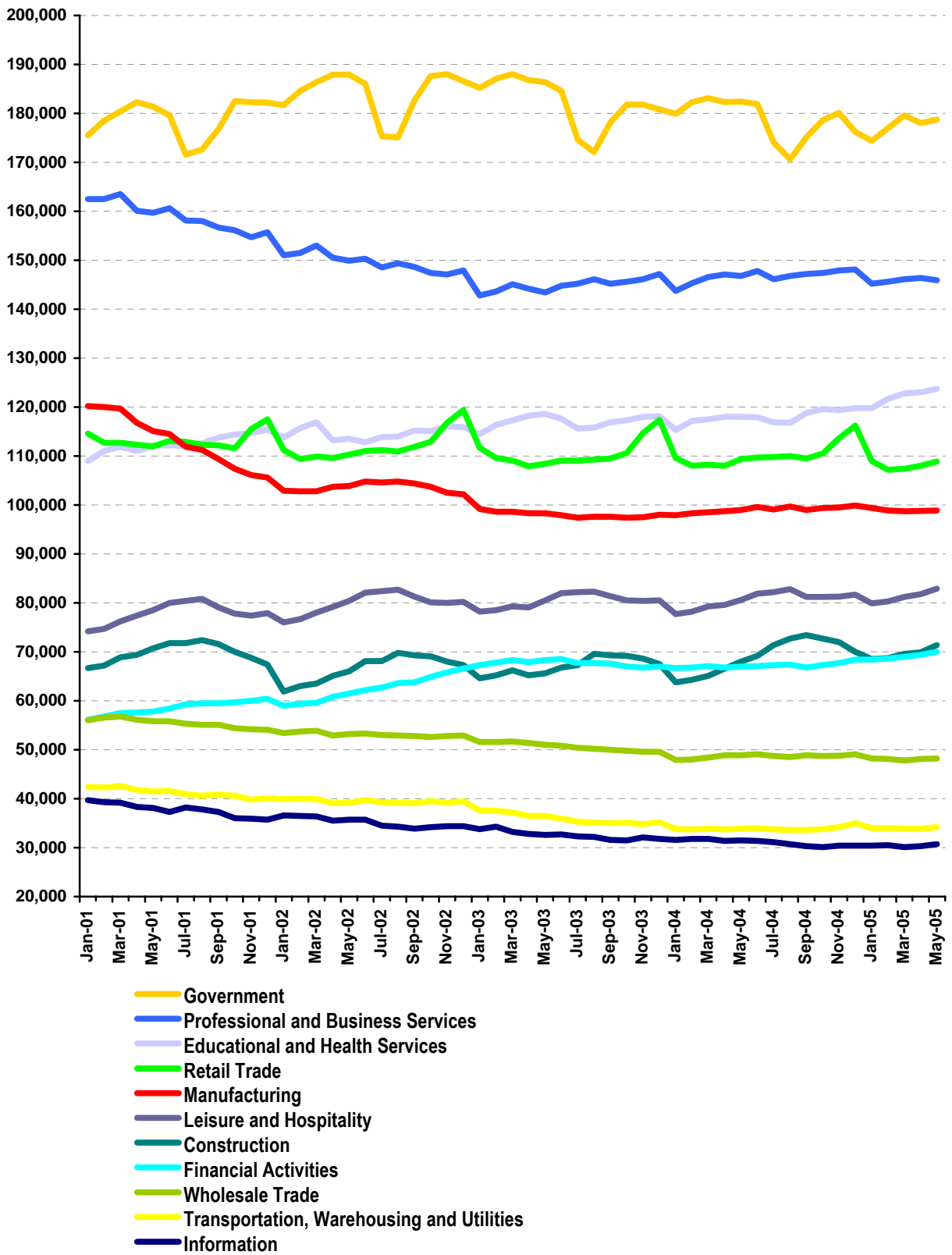
In January 1990, the East Bay had 77,100 fewer jobs than the San Francisco MSA and 44,600 more than San Jose and it fell to third in December 2000 with 1,075,700 jobs, when San Francisco hit its peak of 1,114,800 followed by San Jose with 1,084,500. But since then, the East Bay has become the leader in jobs by losing the fewest, and, in May 2005, it leads the Bay Area with 1,033,400 jobs while San Francisco has 948,800 and San Jose is at 867,300.

Since January 2001, the East Bay lost 21,200, San Francisco lost 129,800 and San Jose lost 190,800.

Between April and May 2005, total payroll employment in the East Bay increased by 5,500, San Francisco has added 1,800 and San Jose 4,900 (Note: employment data has not been smoothed).



## East Bay Sector Employment Summary



Source: CA Employment Development

In a year-to-year comparison (May 2004 to May 2005), payroll employment increased by 7,900 jobs (0.8%), extending the East Bay's growth period to eleven months.

Educational and health services added 5,700 jobs, a 4.8% gain over the year, with healthcare and social assistance leading with 4,100 jobs.

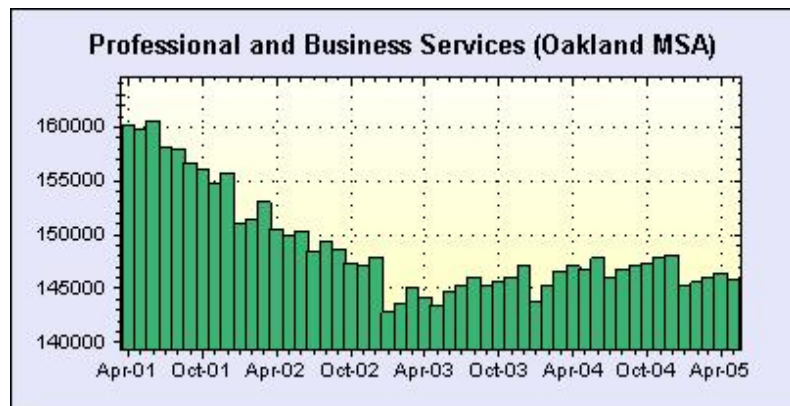
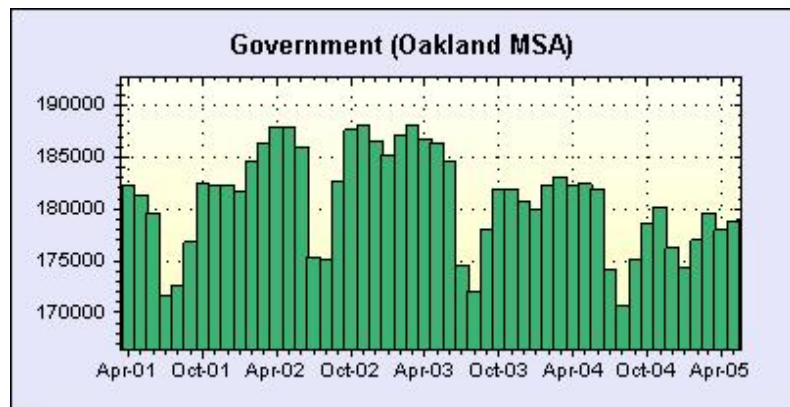
The construction industry extended its growth trend to fourteen consecutive months, with the addition of 3,400 more jobs, mostly in non-residential construction.

The other big gainer was financial activities, which added 3,000 jobs, still assisted by the strong real estate markets and financing.

The other industry with job growth was leisure and hospitality, which gained 2,300 jobs.

Manufacturing remained fairly stable with a loss of only 100 jobs, with residual food manufacturing, non-durable goods and primary metals adding a total of 1,900 jobs that were offset by losses in durable goods, computers, communications and transportation equipment manufacturing.

Government continued its cutbacks, which began in April 2003, with a reduction of 3,700 jobs over the year, primarily in state and local government.



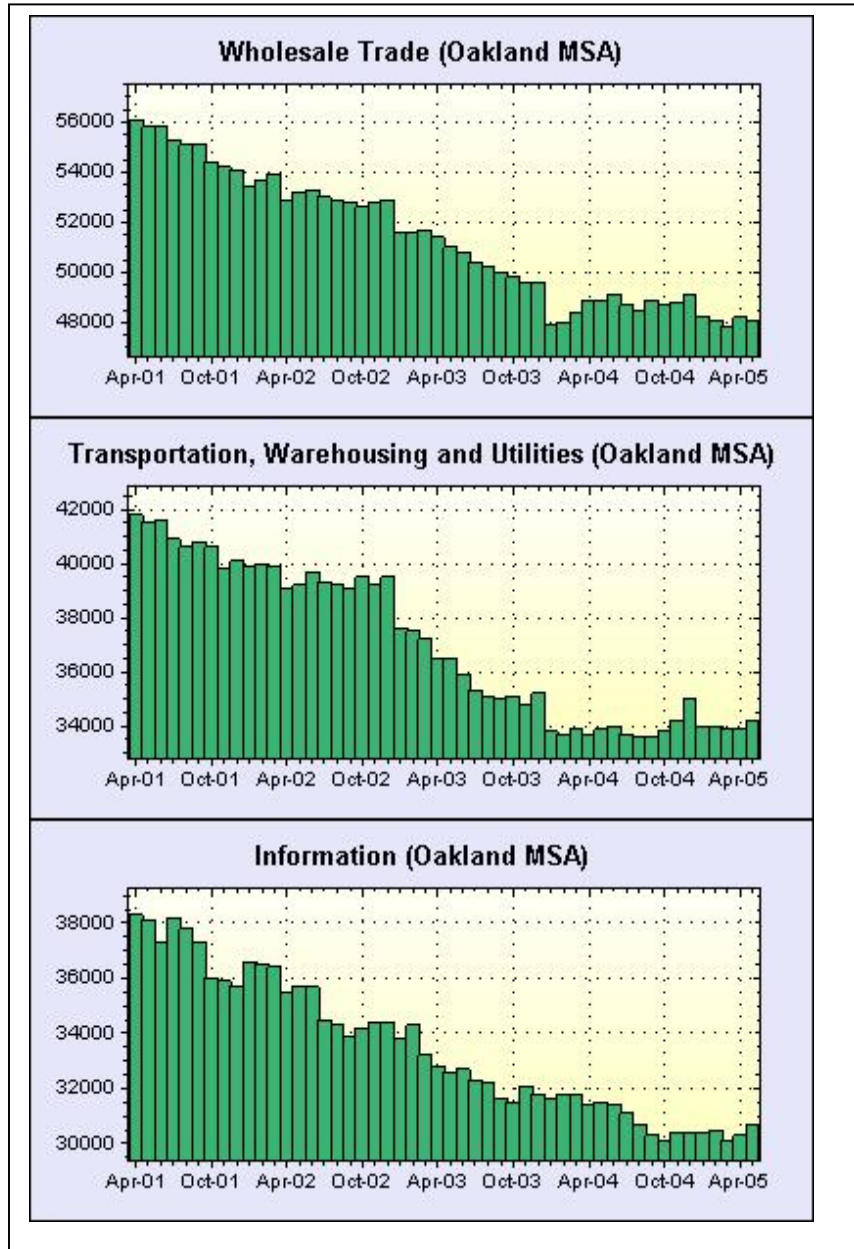
In looking at the last month (between April and May 2005), the East Bay added 5,500 jobs, with most of the growth continuing to be in construction, which added 1,500 seasonal jobs, mostly in specialty trade contractors (1,100 jobs).

Meanwhile, job gains in arts, entertainment, and recreation provided most of the increase (also seasonal) in leisure and hospitality, which grew by 1,100 jobs.

Good news - manufacturing added 100 jobs in the last month, while trade, transportation and utilities added 1,100, with 900 coming from retail (seasonal) trade.

Information, which lost 800 jobs over the last year, continued to show some signs of improving with the addition of 400 jobs during the last month.

However, professional and business services lost 500 jobs, primarily in administrative and support services.



# HOUSING

Home prices in the Bay Area continued their upward climb last month, although at a slower pace. Sales were strong, but not record-breaking, according to DataQuick Information Systems.

"Market trends are remarkably stable. There are still more buyers out there than there are sellers, putting upward pressure on prices. The only change we see for the immediate future is a slowing rate of appreciation," said Marshall Prentice, DataQuick president.

A total of 11,308 new and resale houses and condos were sold in the nine-county region last month. That was up 1.3% from 11,158 for April 2005, and down 6.0% from 12,028 for May 2004.

So far this year, 48,748 Bay Area homes have been sold, down 2.5% from last year's 49,978 for the same five month period. Sales in 2004 were the highest on record.

The median price paid for a Bay Area home in May 2005 was \$595,000, a new record. That was up 1.5% from \$586,000 in April, and up 17.6% from \$506,000 for May a year ago.

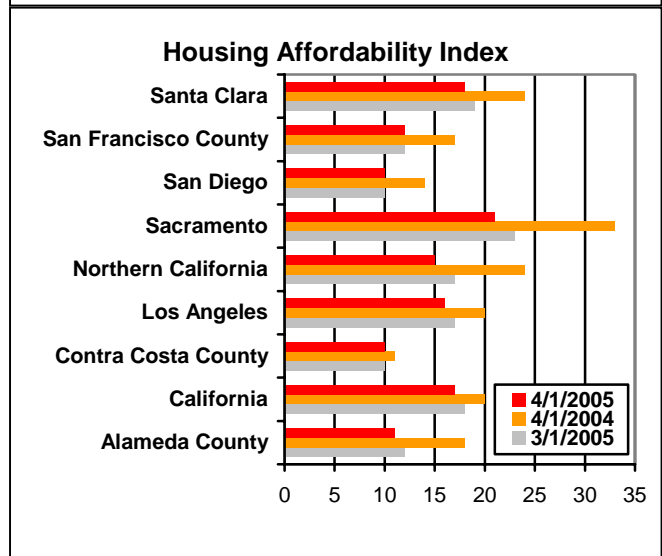
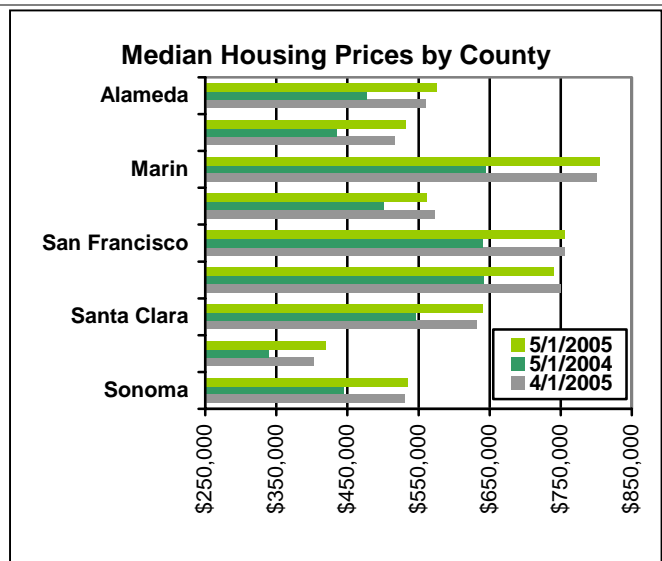
Year-over-year price increases hit 20.5% in January 2005 and have declined steadily since.

The California Association of REALTORS® (C.A.R.) monthly housing affordability index, which measures the percentage of households that can afford to purchase a median-priced home in California stood at 17% in April 2005, a 3% decrease compared with the same period a year ago when the Index was at 20%.

California's May Housing Affordability Index declined 3% from April 2005, when it stood at 20%.

All Homes	No Sold Apr-05	Pct. Chg	Median Apr-05	Pct. Chg
Alameda	2,244	-11.9%	\$552K	18.2%
Contra Costa	2,119	-12.4%	\$530K	22.7%
Marin	481	-10.1%	\$779K	17.0%
Napa	205	10.8%	\$574K	20.3%
San Francisco	681	-10.3%	\$751K	20.2%
San Mateo	850	-1.3%	\$731K	19.8%
Santa Clara	2,830	-15.4%	\$619K	17.7%
Solano	1,037	9.9%	\$409K	18.9%
Sonoma	711	-14.1%	\$534K	28.7%
Bay Area	11,158	-10.2%	\$586K	19.1%

Source: DataQuick Information Systems



The minimum household income needed to purchase a median-priced home at \$509,230 in California in April 2005 was \$120,290, based on an average effective mortgage interest rate of 5.92% and assuming a 20% down payment.

The minimum household income needed to purchase this median-priced home was up from \$102,350 in April 2004, when the median price of a home was \$452,680 and the prevailing interest rate was 5.42%.

In comparison, the minimum household income needed to purchase the U.S. median-priced home (of \$206,000) in April 2005 was \$48,660.

The High Desert region was the most affordable C.A.R. region in the State at 34%, followed by the Sacramento region at 21%. The Northern Wine Country region was the least affordable in the State at 8%.

The Contra Costa Index remained unchanged from the previous two months at 10%. Alameda County's index decreased from 12% in April 2005 to 11% in May.

In the East Bay, Lafayette continued to claim the highest median priced home at \$1,062,500 and Richmond the lowest priced at \$415,000. Brentwood has experienced the highest year-to-year gain, from \$440,000 in May 2004 to \$608,500 in May 2005 - a 38.3% increase.

County/City/Area	May 2005	May 2004	Y-to-Y Percent Change
<b>Alameda County</b>	<b>\$575,000.00</b>	<b>\$477,250.00</b>	<b>20.5%</b>
Alameda	\$642,500.00	\$551,000.00	16.6%
Berkeley	\$717,500.00	\$649,250.00	10.5%
Castro Valley	\$587,500.00	\$525,000.00	11.9%
Dublin	\$725,000.00	\$538,000.00	34.8%
Emeryville	\$445,000.00	\$376,750.00	18.1%
Fremont	\$625,000.00	\$517,500.00	20.8%
Hayward	\$530,000.00	\$433,000.00	22.4%
Livermore	\$626,000.00	\$510,000.00	22.7%
Newark	\$610,000.00	\$460,000.00	32.6%
Oakland	\$470,000.00	\$379,000.00	24.0%
Pleasanton	\$700,000.00	\$673,500.00	3.9%
San Leandro	\$520,000.00	\$430,000.00	20.9%
San Lorenzo	\$527,500.00	\$423,000.00	24.7%
Union City	\$620,000.00	\$472,500.00	31.2%
<b>Contra Costa County</b>	<b>\$531,750.00</b>	<b>\$435,000.00</b>	<b>22.2%</b>
Antioch	\$475,000.00	\$365,000.00	30.1%
Brentwood	\$608,500.00	\$440,000.00	38.3%
Byron	\$612,250.00	\$455,000.00	34.6%
Concord	\$503,500.00	\$400,000.00	25.9%
Danville	\$950,000.00	\$762,500.00	24.6%
Hercules	\$416,000.00	\$426,500.00	-2.5%
Lafayette	\$1,062,500.00	\$835,000.00	27.2%
Martinez	\$532,000.00	\$422,250.00	26.0%
Moraga	\$755,000.00	\$780,000.00	-3.2%
Oakley	\$462,250.00	\$361,500.00	27.9%
Orinda	\$1,025,000.00	\$932,500.00	9.9%
Pinole	\$537,500.00	\$425,000.00	26.5%
Pittsburg	\$434,500.00	\$350,000.00	24.1%
Pleasant Hill	\$625,000.00	\$490,000.00	27.6%
Richmond	\$415,000.00	\$320,000.00	29.7%
San Pablo	\$440,000.00	\$342,000.00	28.7%
San Ramon	\$749,000.00	\$630,000.00	18.9%
Walnut Creek	\$620,000.00	\$500,000.00	24.0%

## HOTEL OCCUPANCY

The PKF Consulting report on hotel trends for April 2005 shows an increase in room rates in all of Northern California. The entire Bay Area also saw an increase in occupancy rates, with only the Monterey/Carmel area in Northern California experiencing a decline.

The East Bay's Average Daily Room Rate is the lowest in the Bay Area at \$101.69 and its percentage increase from a year ago was only 3.4%, substantially below the Northern California Average of 6.8%. But its Occupancy percentage is higher than the San Jose/Peninsula area and its year-to-year percentage increase of 10% was second only to the San Jose/Peninsula.

PKF Consulting noted in its April 2005 report that rising gas prices are indirectly affecting consumer travel patterns, as well as the cost of goods purchased by hotels. Directly, hotels will have to pay more for electricity, gas, and fuel.

"According to the Travel Industry Association, gas prices have not impacted the number of trips taken by Americans. We continue to observe increases in the demand for hotel rooms and are projecting the highest summer occupancy rates since 2000," said R. Mark Woodworth, Executive Managing Director of Atlanta-based PKF-HR. "The bump in operating expenses is where we have seen the most impact on hotels. Fuel surcharges have started to pop up on the bottom of invoices for the delivery of goods and supplies purchased by hotels. In addition, hotel utility bills are on the rise; electricity has gone up 4.1%, gas/fuel 10.7%, and water/sewer 7.2%."

According to Craig Thomas, Chief Economist at Torto Wheaton Research, high oil prices are here to stay. If so, then PKF-HR believes that hotel utility expenses will continue to rise at roughly the long-term average of 6.0 percent. Fortunately, the near-term outlook for hotel revenue growth is 7.4%. "As we've seen in the past, strong revenue growth will mask the increases in operating expenses absorbed by hotels," Woodworth said. "With strong labor requirements and relatively fixed expenses like utilities, the lodging industry historically has seen its costs of operations increase at a much greater pace than other industries. You cannot automate most front-of-the-house functions, and you can only control your energy consumption to a certain degree."

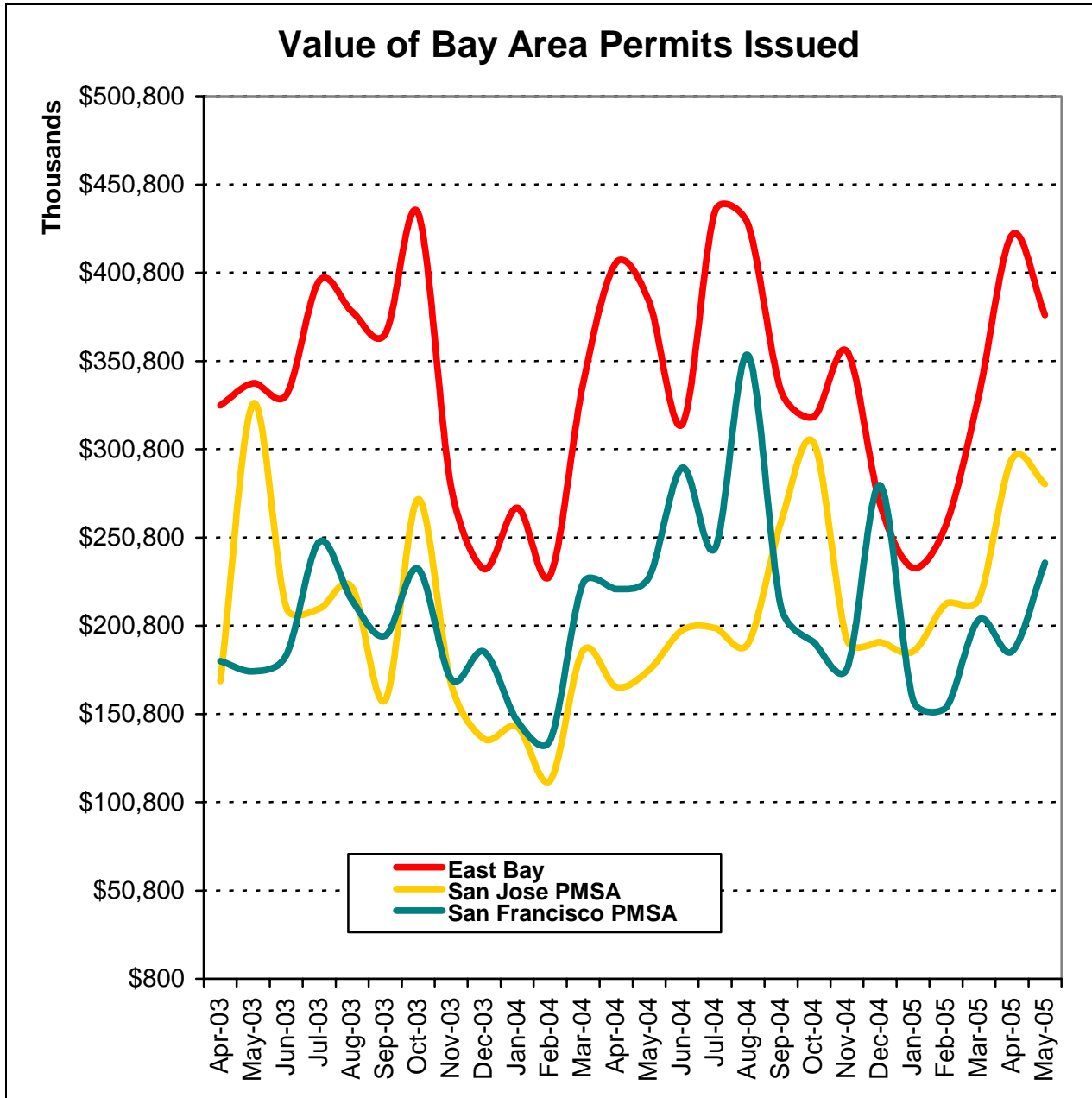
APRIL 2005	Average Daily Room Rate			Occupancy%		
	2005	2004	VAR	2005	2004	VAR
SAN FRANCISCO	\$157.31	\$142.54	10.4%	75.8%	73.2%	3.6%
SAN FRANCISCO AIRPORT	107.81	106.08	1.6%	68.6%	67.2%	2.1%
SAN JOSE/PENINSULA	102.67	98.64	4.1%	61.1%	54.7%	11.6%
OAKLAND/EAST BAY	101.69	98.37	3.4%	64.0%	58.1%	10.0%
MONTEREY/CARMEL	219.28	200.48	9.4%	68.3%	72.8%	-6.2%
CENTRAL VALLEY	66.09	60.48	9.3%	75.9%	74.5%	1.9%
SACRAMENTO	97.07	91.62	5.9%	77.1%	74.9%	2.9%
MARIN COUNTY	125.42	119.34	5.1%	73.7%	66.8%	10.3%
NAPA/SONOMA COUNTIES	127.41	106.73	19.4%	68.5%	64.7%	5.9%
OTHER NORTHERN CALIFORNIA	80.97	78.32	3.4%	60.1%	59.5%	1.0%
OVERALL AVERAGE	\$120.96	\$113.30	6.8%	69.7%	66.6%	4.6%

Source: PKF Consulting

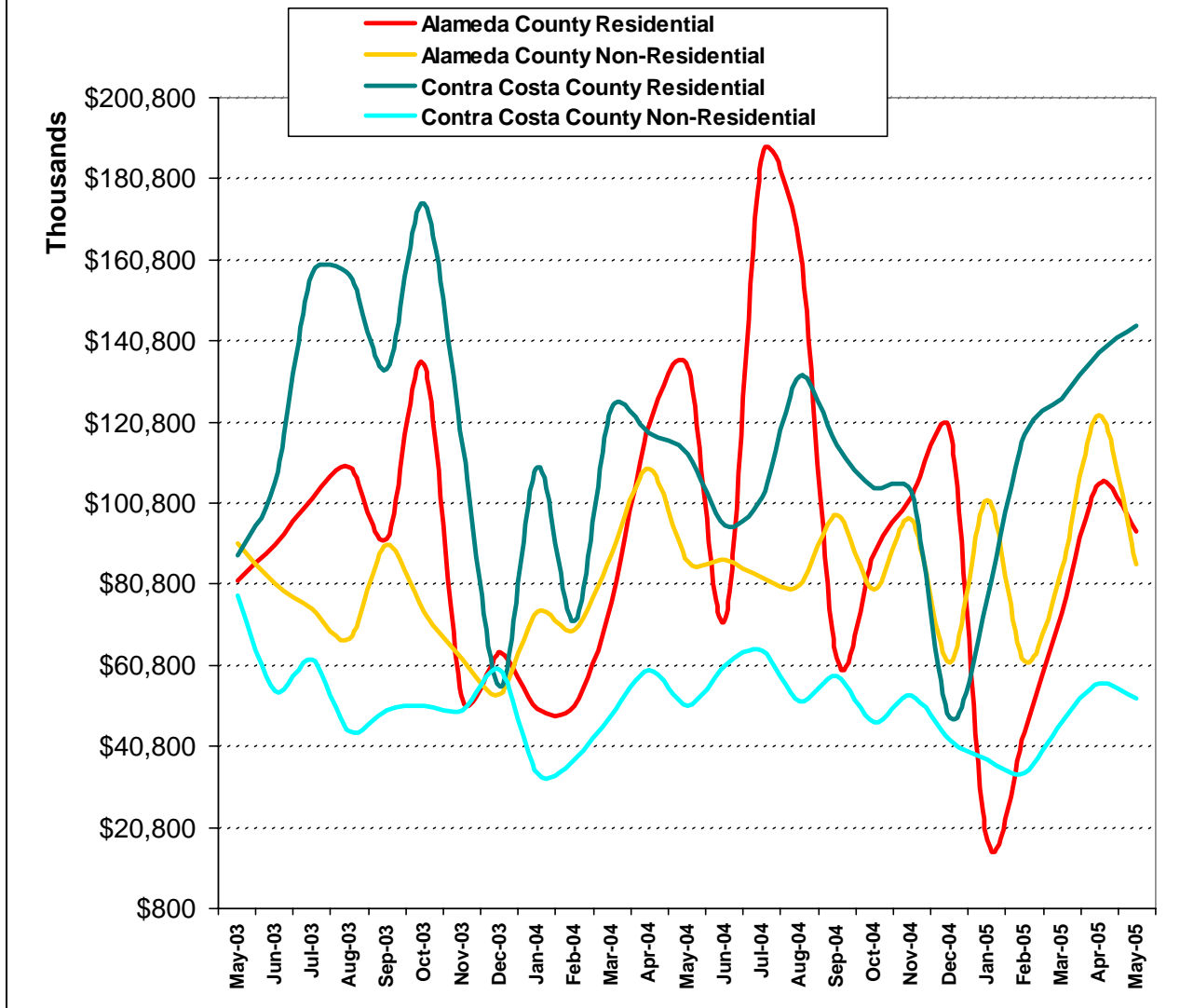
# CONSTRUCTION PERMITS

In the last 12 months ending May 2005, the East Bay has issued over \$4.08 billion in construction permits, \$35 million more than in the previous 12 month period ending May 2004. San Jose issued \$2.7 billion in the last 12 months, a \$563.5 million increase over the previous year, while San Francisco issued \$2.69 billion, a \$298 million increase.

In the last 12 months ending May 2005, the East Bay issued \$1.35 billion more than San Jose and \$1.39 billion more than San Francisco.



## Value of East Bay Permits Issued

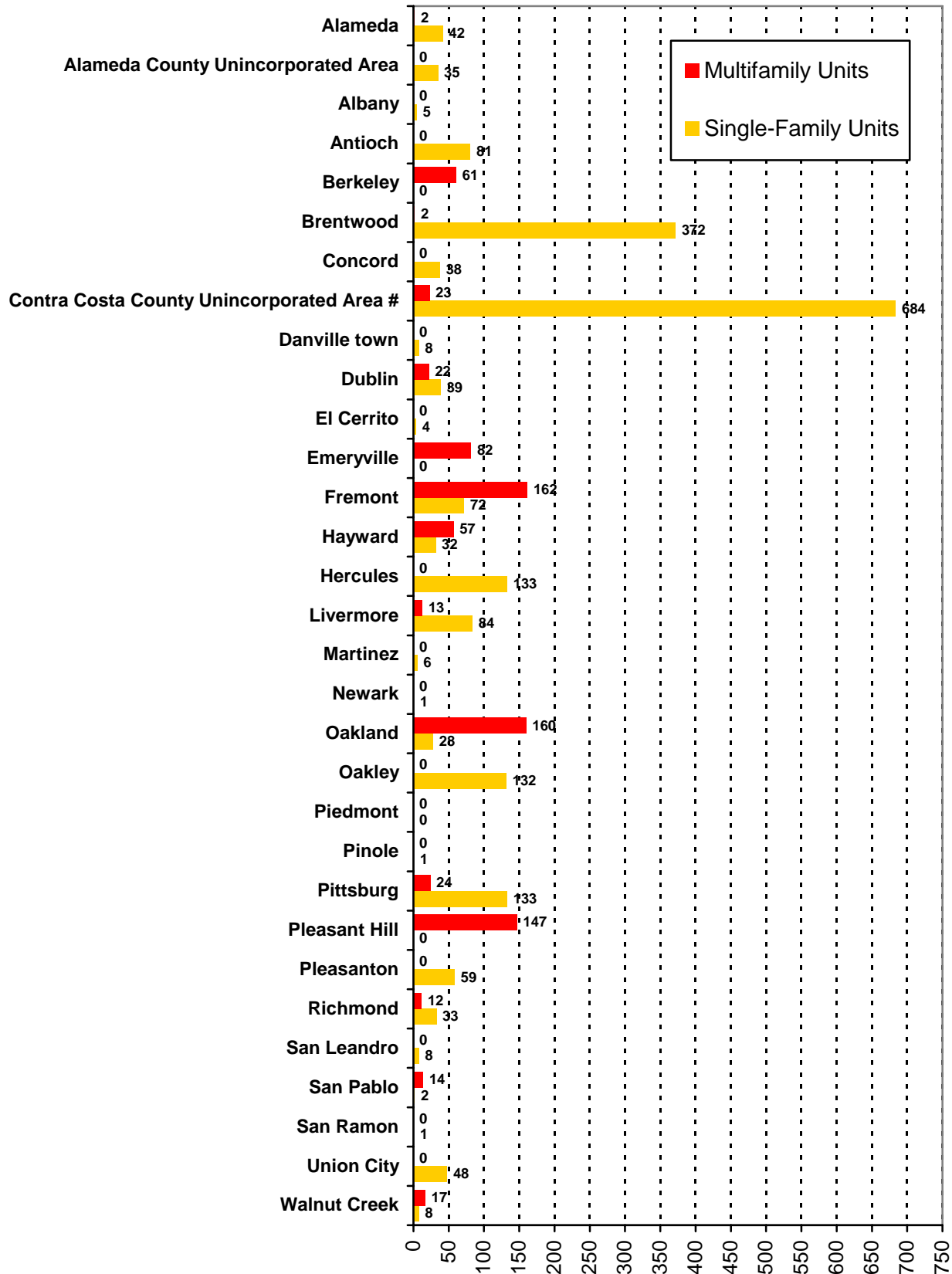


Despite the decline in permits issued in the East Bay's Counties the first quarter of 2005 (a seasonal trend), Contra Costa County issued \$144,594,363 in residential and \$52,639,866 in non-residential permits, and Alameda County issued \$93,981,137 in residential and \$85,632,597 in non-residential permits in May 2005.

Alameda County has issued \$1.129 billion in residential and \$1.042 billion in non-residential permits during the last 12 months (June 2004 through May 2005), a \$52.8 million increase in residential and a \$110.7 million increase in non-residential permits over the previous 12 months total (June 2003 through May 2004).

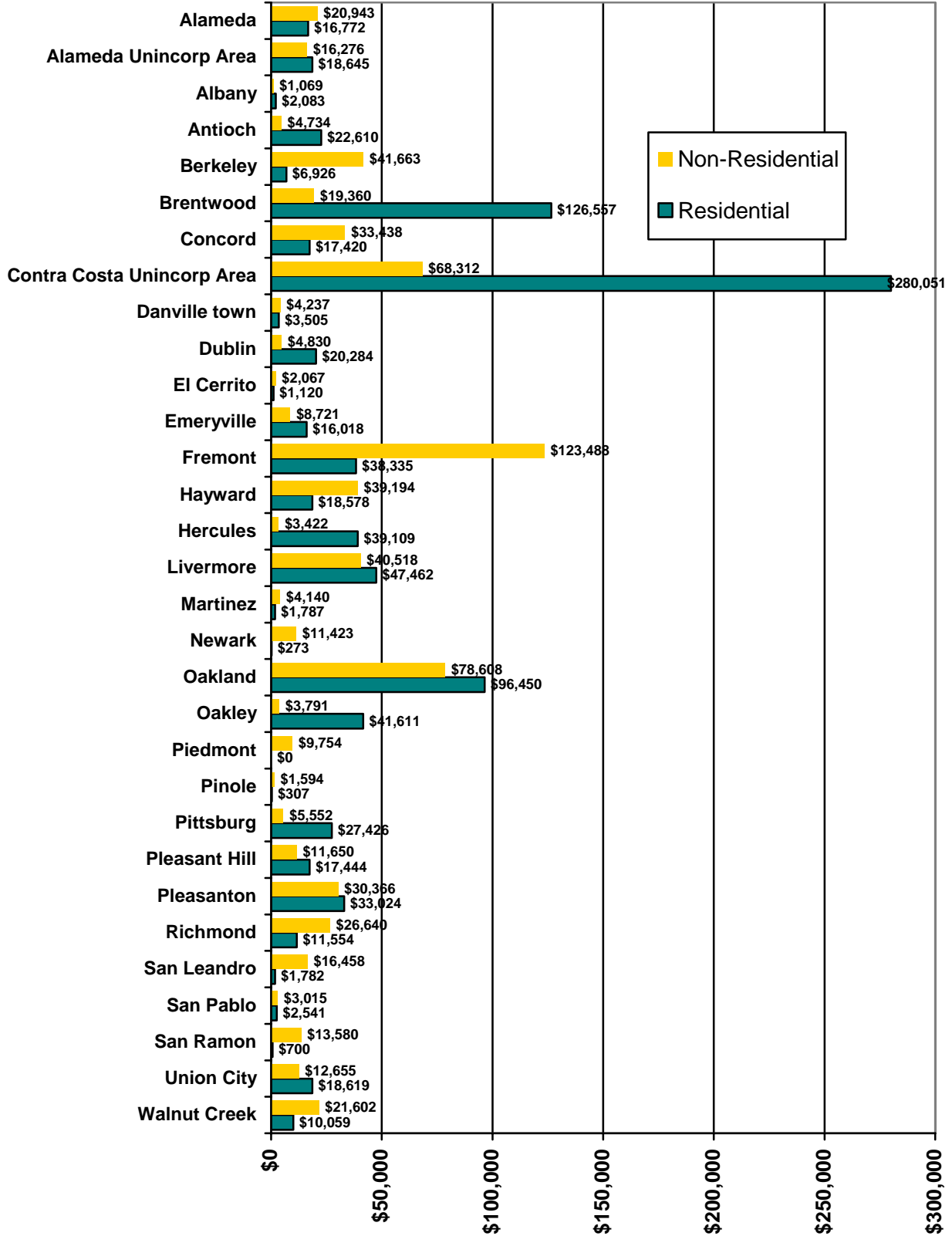
Contra Costa County has not been so fortunate, as it issued \$1.304 billion in residential and \$604.6 million in non-residential within the last 12 months, a decline of \$131.3 million in residential along with a \$2.9 million increase in non-residential permits using the same 12-month to 12-month comparison.

## East Bay Residential Permit Units by City Year-To-Date As of April 2005



Source: Construction Industry Research Board

## East Bay Total Permit Value by City, Year-To-Date As of April 2005 (Thousands of \$)



Source: Construction Industry Research Board