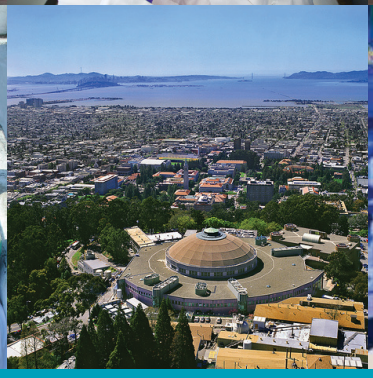
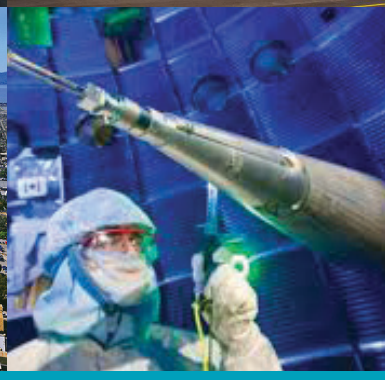
Economic
RecentTrends
Employment
HealthCare
Industry
Technology
&Innovation
Ports&Trade
Consumer
Demand
BusinessTrends
Residential
RealEstate
Commercial
Long-Run
Considerations
Education
TheImpactof
Educationon
Employment
andIncome
Health Insurance
andSocial
ServicesShifting
Demographics
RecessionEffects

East Bay ECONOMIC UPDATE





2012
NOVEMBER

EastBay
EDA

This publication was created for:

East Bay Economic Development Alliance

The East Bay Economic Development Alliance (East Bay EDA) is a public/private partnership serving the San Francisco East Bay (Alameda and Contra Costa Counties) whose mission is to establish the East Bay as a world-recognized location to grow businesses, attract capital and create quality jobs.

For new quarterly forecasts and updates visit www.eastbayeda.org.

This publication was prepared by:

Christopher Thornberg, Ph.D, Founding Partner
Jordan G. Levine, Economist & Director of Economic Research
Dustin Schrader, Senior Research Associate
Beacon Economics, LLC
310.571.3399
www.BeaconEcon.com

For further information about Beacon Economics, please contact:

Victoria Pike Bond
Director of Communications
Beacon Economics, LLC
415.457.6030
Victoria@BeaconEcon.com

Or visit our website at www.BeaconEcon.com.

Contents

Executive Summary

In our May report, we showed that while the economy of the East Bay was recovering much faster than that of many other regions, long-term concerns posed a serious risk to the health of the economy and the quality of life for East Bay residents. Nearing the close of 2012, we find that the economy is in many respects recovering even faster than before, while many of those long-term concerns are improving. At present, the economy of the East Bay is stronger than at any point since the onset of the economic recovery.

Household employment increased by 2.6% over the past year, leading to a steady drop in the unemployment rate even as more and more East Bay residents returned to the labor force. High-skilled labor sectors such as the Professional and Management sectors are growing quickly, as is the East Bay's substantial Health Care sector.

The East Bay continues to boast not only a thriving entrepreneurial climate, but a key role in the emerging niche of social entrepreneurship. The region's housing market continues to grow, especially in the most recent quarters in 2012, even as the commercial real estate market remains stable but slow to expand. Consumer spending continues to grow as well, with over 10% year-over-year growth in Restaurants and Hotels, and over 20% growth in Autos and Transportation. Business-to-business spending is also on a steep upswing, with over 19% growth year over year.

We showed special concern in our May report regarding the East Bay educational system and overall educational attainment in the region. Since then, newer data for 2011 shows most of our measurements of academic achievement and educational attainment in the region have gone up. More residents of the East Bay possess post-graduate degrees than before, more students at East Bay schools are graduating, and children are performing better in crucial areas for mathematics and English-language comprehension.

Yet, some of the long-term concerns we addressed in our May report persist. The differences in educational attainment across ethnic and racial groups are substantial, and these differences play a large role in determining residents' incomes and employment statuses. Young people in the East Bay continue to have difficulty finding work, in spite of the improvement in the East Bay labor market. Income inequality appears to be increasing in some communities and among certain ethnic groups. As promising as the economic outlook may be, it is important to remember that the recovery is not occurring everywhere and that several long-term factors could limit the region's economic growth even as the general trends point strongly upward.

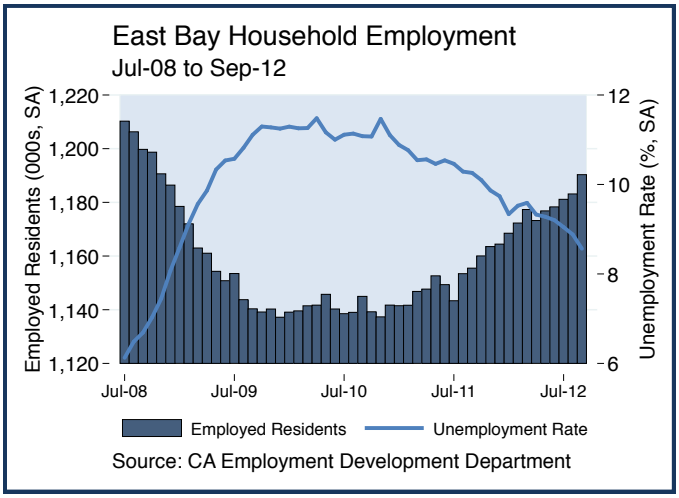
Current Trends

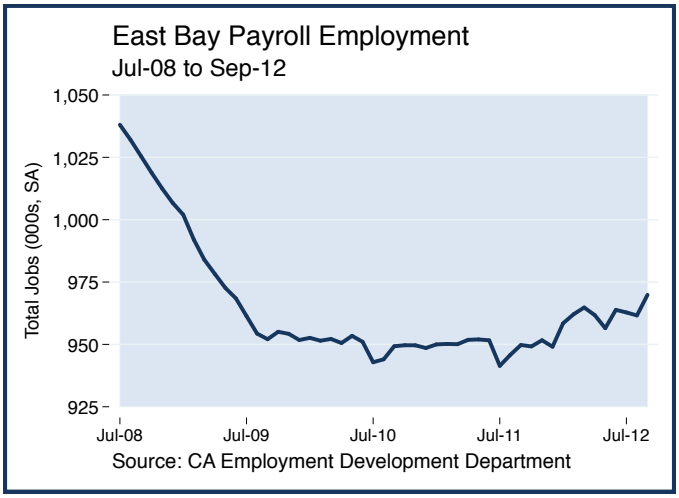
Employment

The employment outlook in the East Bay continues to be one of the most promising in the state of California. Household employment increased on a seasonally adjusted basis by 1.0% from June to September, and by 3.0% since September of 2011. The official unemployment rate declined over half a percentage point since June to 8.6%, while year over year, the unemployment rate declined by 1.7 percentage points.

Unlike some other parts of the Bay Area, where the unemployment rate has decreased in part because of a decrease in the total labor force (as the unemployment rate is calculated as the percentage of individuals in the labor force un-

able to find work), the unemployment rate in the East Bay has decreased while the labor force has actually increased by 1.1% year over year. In this respect, while the unemployment rate remains high from a historical perspective, the year-over-year decline in the unemployment rate is a clear sign of the increasing strength in the East Bay labor market.





Elsewhere, in the South Bay household employment was flat over the past three months, and up 2.6% over the past year. At the same time, the unemployment rate decreased by 1.6 percentage points year over year to 8.1%. The San Francisco labor market growth has been quite strong, even compared to the East Bay. Household employment increased by 3.4% year over year and the labor force grew by approximately 1.7%, while the unemployment rate decreased 1.5 percentage points to 6.6%.

Payroll employment growth in the East Bay has not been as strong as household employment growth, but the outlook remains positive. From September 2011 to September 2012, payroll employment in the East Bay increased by approximately 2.1% on a seasonally adjusted basis, compared to 2.5% growth in San Jose and 3.2% in San Francisco. In nominal terms, the East Bay added approximately 20,000 jobs in the past year, including approximately 8,000 from August to September.

The difference between the picture gained from the East Bay household employment survey and the payroll employment numbers is that in a Bay Area labor market recovery, many East Bay residents commute to other parts of the Bay Area for work. Even as East Bay businesses steadily add jobs, even more East Bay residents are finding work throughout the Bay Area. We remain optimistic that East Bay payroll employment growth will accelerate in the months to come, and at the same time it is encouraging that more and more residents are returning to the workforce, wherever those jobs may be.

East Bay Employment by Sector

Sector	Sep-12 Empl't (000s)	1-Month Change (000s)	1-Month Change (%)	1-Year Change (000s)	1-Year Change (%)	2-Year Change (000s)	2-Year Change (%)
Total Farm	1.6	1.5	1.6	-0.3	2.9	1.5	6.1
Total Nonfarm	968.3	960.1	948.2	2.1	0.9	947.8	2.2
Total Private	801.9	796.8	787.0	1.9	0.6	781.8	2.6
Construction	49.7	47.8	46.7	6.4	**4.0**	46.5	6.9
Information	23.0	22.5	22.6	1.6	**2.2**	23.0	-0.0
Leisure/Hospitality	89.4	87.6	86.3	3.5	**2.1**	86.3	3.6
Management	26.7	26.4	25.9	3.0	**1.2**	25.4	4.9
Professional	85.8	85.2	81.5	5.3	**0.7**	81.2	5.7
Financial Activities	45.7	45.4	47.4	-3.6	**0.7**	48.1	-5.1
Natural Resources/Mining	1.2	1.2	1.2	-0.2	**0.6**	1.2	-0.2
Wholesale Trade	44.6	44.4	42.6	4.7	**0.5**	41.5	7.5
Retail Trade	101.2	100.9	101.9	-0.6	**0.3**	99.7	1.5
Admin Support	45.6	45.4	47.0	-3.1	**0.3**	47.2	-3.4
Manufacturing	77.1	77.0	78.6	-2.0	**0.2**	79.0	-2.4
Education/Health	143.6	144.0	136.9	4.9	**-0.3**	136.4	5.3
Other Services	36.2	36.4	36.6	-1.0	**-0.4**	35.1	3.1
Trans/Warehouse/Util	32.2	32.7	31.8	1.4	**-1.6**	31.1	3.4
Government	166.4	163.3	161.2	3.2	1.9	166.0	0.2

Source: California Employment Development Department

At the sector level, Construction has been an especially bright spot for the East Bay. Approximately 3,000 jobs were added in the past year, for an increase of 6.4%. This should not come as a great surprise, since the East Bay housing market has already begun to turn the corner. As the housing market continues to emerge from its prolonged slumber, we should see the Construction sector continue to add workers at an especially strong rate.

The Construction sector has been a bright spot within a general trend of weak or no employment growth among low-skill sectors. For instance, the Retail Trade sector lost approximately 700 jobs in the last year, or 0.6%. The Manufacturing sector also lost approximately 1,500 jobs, or 2.0%, although the picture here is less clear. Over half the East Bay's manufacturing jobs are high-skilled and in what might be termed advanced manufacturing. There is no question that the labor market is recovering among high-skilled sectors, but the labor market among low-skilled sectors struggles as much or more than it did in 2011.

By contrast, high-skilled sectors lead the East Bay labor market expansion. The Professional sector added over 4,000 jobs in the past year, for 5.3% growth. The Management sector grew by 3.0% in that same time. Financial Activities contracted by 3.6%, but the Information sector grew by 1.6%.

The region's second-largest sector, the Education & Health sector, continues to make big gains, with 4.9% growth year over year, for a total of approximately 6,700 jobs. In our May report, we discussed the very positive impact that the

health care sector would have on the East Bay economy well into the future. The employment outlook continues to affirm our expectation.

Health Care & Social Assistance employment grew by 5.1% from September 2011 to September 2012, led by very strong 9.5% year-over-year growth in Ambulatory Services. The Ambulatory Services sector includes outpatient care centers, which continue to expand relative to inpatient care facilities. As noted in our May report, East Bay residents are increasingly opting for more affordable outpatient services. This trend should continue as will growth in other health care sectors. As we see, employment in every health care sector is up year over year.

East Bay Educational and Health Services

Sector	Sep-11	Aug-12	Sep-12	1-Mon Chg	1-Yr Chg
Educational & Health Services	135,800	142,700	142,700	0.0	5.1
Educational Services	19,900	20,100	20,900	4.0	5.0
Health Care & Social Assistance	115,900	122,600	121,800	-0.7	5.1
Ambulatory Health Care Services	52,500	58,200	57,500	-1.2	9.5
Hospitals	26,200	26,800	26,600	-0.7	1.5
Nursing & Residential Care Facilities	19,400	19,600	19,500	-0.5	0.5
Social Assistance	17,800	18,000	18,200	1.1	2.2

Source: California Employment Development Department

Technology and Innovation

The concentration of venture capital funding in the East Bay is among the highest in the country, and after a slow first quarter of 2012 with just $139 million, that funding rebounded somewhat in the second quarter to $229 million. East Bay venture capital funding for the year to date, at $368 million, nonetheless lags well behind funding in the first half of 2011, at $756 million.

Venture Capital Funding over Time ($ Millions)

Quarter	East Bay	San Francisco	South Bay	Los Angeles & Orange County	New York Metro Area	Midwest
Q4-09	150	999	729	463	466	155
Q1-10	239	549	632	453	566	234
Q2-10	385	1,058	1,362	675	344	291
Q3-10	190	641	817	225	322	221
Q4-10	213	1,012	714	305	508	376
Q1-11	456	824	1,183	393	580	323
Q2-11	300	1,278	1,380	542	624	344
Q3-11	196	1,554	897	401	891	280
Q4-11	512	1,400	1,097	469	545	201
Q1-12	139	1,167	755	567	378	285
Q2-12	229	1,466	1,479	533	568	297

Source: MoneyTree

Venture capital funding in the region also lags behind that of San Francisco and the South Bay. Funding grew by just over 25% in San Francisco from the first quarter of 2012 to the second quarter of 2012, and it grew by nearly double in San Jose over the same period. For the year to date, venture capital funding in San Francisco increased by 25.3% relative to the first half of 2011, while in San Jose it decreased by 12.8%.

Given the national decline in clean tech investment, in which the East Bay took the lion's share, and the larger tech sectors in San Francisco and the South Bay the decline in East Bay venture funding in the first half of 2012 should not come as a major surprise.

However, in general, the tech sector in the East Bay continues to grow. A recent American Express survey found that Fremont has more tech startups per capita than any other city in the nation–more than twice as many as the #2 ranked city, San Jose. And the most recent quarter of venture capital data suggests that on a sector-by-sector basis, venture capital funding in the East Bay is not far off recent historical trends. The major exception is Industrial Energy, the sector that includes clean technology. Industrial Energy received only $44 million in funding in the second quarter of 2012, compared to an average of approximately $117.7 million per quarter for the previous two years.

East Bay Venture Capital Funding by Sector, Q4-09 to Q2-12

Sector	Total Dollars (Millions)
Industrial Energy	1,059
Semiconductors	426
Software	415
Biotechnology	392
Medical Devices and Equipment	347
Electronics Instrumentation	110
Computers and Peripherals	77
Consumer Products and Services	70
Media and Entertainment	53
Business Products and Services	20
Networking and Equipment	10
Healthcare Services	8
IT Services	8
Telecommunications	6
Financial Services	6
Other	5
Total	3,010

Source: MoneyTree

In other sectors, though, such as Semiconductors and Software, venture capital funding was on par with quarterly averages in recent years. Funding in the Semiconductors sector totaled $44 million in the second quarter of 2012, compared to a quarterly average of approximately $47.3 million, while Software funding totaled $41 million, compared to a quarterly average of approximately $46.1 million. And even without substantial investment in clean tech venture East Bay, capital funding in the second quarter of 2012 was slightly over 40% of the value of venture capital funding in the Los Angeles and Orange County region and the New York Metropolitan Area, and approximately 77% of the value of venture capital funding for the entire Midwest region.

B Corporations in the East Bay

Corporation	Location	Corporation	Location	Corporation	Location
Berkeley Patents Group	Berkeley, CA	GreenHeart Global	Oakland, CA	Opticos Design, Inc.	Berkeley, CA
Bison Brewing Company, LLC	Berkeley, CA	Greenlight Apparel	Fremont, CA	Revolution Foods	Oakland, CA
BTTR Ventures	Emeryville, CA	Heller Consulting	Oakland, CA	Rubicon Bakery	Richmond, CA
Core Foods	Oakland, CA	Katovich & Kassan Law Group	Oakland, CA	Scientific Certification Systems	Emeryville, CA
Cultivating Capital	Berkeley, CA	Lotus Food	Richmond, CA	Solar Mosaic, Inc.	Berkeley, CA
Cutting Edge Capital	Oakland, CA	Mal Warwick Associates	Berkeley, CA	SolarNexus, Inc.	Berkeley, CA
Ditto Hangers, Inc.	Oakland, CA	Moving Forward Education	Emeryville, CA	Sun Light & Power	Berkeley, CA
Further The Work	Richmond, CA	Nest Collective	Emeryville, CA	Sungevity	Oakland, CA
Galileo ED	Oakland, CA	New Avenue	Berkeley, CA	VIASYN	San Ramon, CA
Give Something Back, Inc.	Oakland, CA	Numi Organic Tea	Oakland, CA	Weinreb Group	Berkeley, CA
Green Retirement Plans, Inc.	Oakland, CA	Oaklandish	Oakland, CA	Wendel Rosen Black & Dean	Oakland, CA
Greenerprinter	Berkeley, CA	OneRoof, Inc.	Berkeley, CA		

Source: B Lab

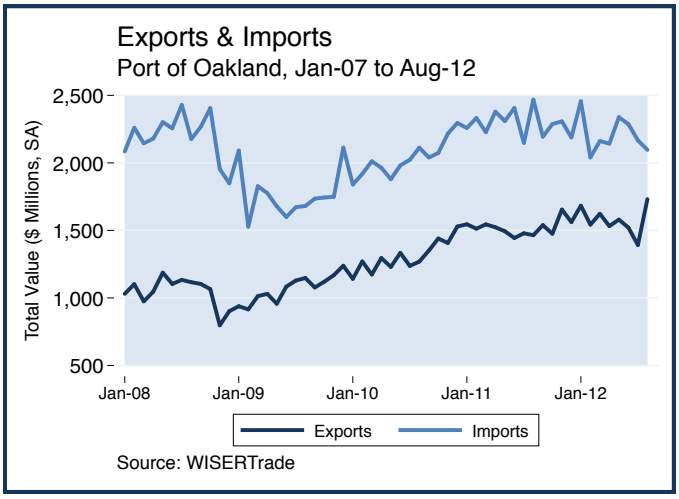
Over the past two quarters, B Lab has added 100 businesses to its list of B Corporations—corporations certified as promoting sustainable business and maintaining high social, environmental, and legal standards. Of these 100, five came from the East Bay, keeping the East Bay's proportion of all B Corporations at nearly 6%. Meanwhile, the share of B Corporations in California decreased only slightly, to just over 26% of all B Corporations. Looking at the proportion of all U.S. residents that live in the East Bay—0.83%--it is clear that the East Bay has maintained an outsized proportion of companies that promote socially responsible business practices. The East Bay continues to build a reputation as the center for social entrepreneurship nationwide.

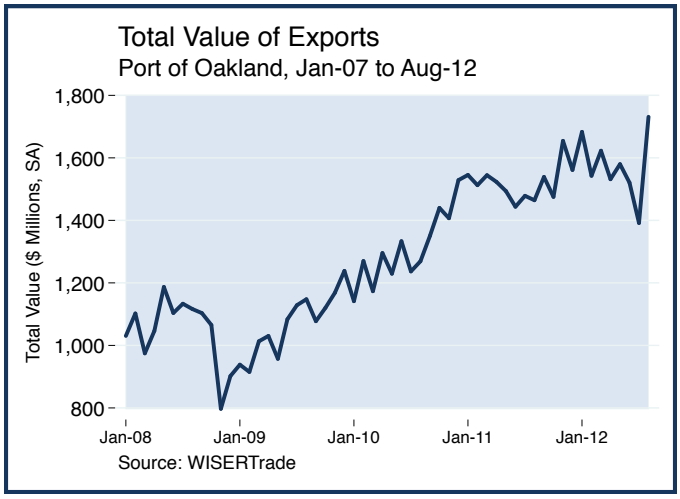
Comparing B Corporations

	Population 18 and Over	B Corporations	B Corporations Per 100,000 Population
United States	237,681,218	621	0.3
East Bay	1,994,475	35	1.8
San Francisco	1,473,144	71	4.8
Silicon Valley	1,377,022	4	0.3
California	28,424,476	165	0.6

Source: B Lab

Trade and Tourism





Despite other issues at the Port of Oakland, exports continue to lead the way. Total export values increased by 18.2% from August 2011 to August 2012, up from 15.4% growth from August 2010 to August 2011. Much of this growth occurred in the month of August 2012 alone, as total export values increased from $1.39 billion to $1.73 billion. Whether export values will fall back down to more historically normal levels remains to be seen.

Compare exports at the Port of Oakland to exports at other major ports in the state. Total export values at the Port of Los Angeles decreased by 12.8% year over year, while at the Port of Long Beach, total export values were flat over the same time period. Imports at the Port of Oakland are down significantly in 2012, by 15.1% year over year on a seasonally adjusted basis. By comparison, import values for August 2011 were up 16.8% from August 2010. At the Port of Los Angeles, the decline was far less steep, at -3.2%, while at the Port of Long Beach, import growth was steep, at 14.9%.

Port of Oakland Top Exports by Commodity

Commodity	Export Value			Percent of All Exports		
	2012 YTD (000s)	2011 YTD (000s)	Chg (%)	Port of Oakland	California	Difference
Edible Fruit/Nuts/Citrus Fruit/Melon Peel	2,479,790	2,087,756	18.8	20.3	3.3	17.0
Meat/Edible Meat Offal	1,670,173	1,551,391	7.7	13.7	2.7	11.0
Industrial Machinery, Incl Computers	721,557	752,858	-4.2	5.9	14.5	-8.6
Beverages/Spirits/Vinegar	564,302	548,717	2.8	4.6	0.7	4.0
Iron/Steel	493,410	526,857	-6.3	4.0	2.0	2.0
Inorg Chem/Rare-Earth Metals/Radioact Compds	425,404	492,843	-13.7	3.5	1.6	1.9
Medic or Surgical Instruments/Parts	403,681	305,793	32.0	3.3	8.6	-5.3
Electrical Machinery/Sound Equip/TV Equip	344,932	434,208	-20.6	2.8	14.5	-11.7
Dairy	332,866	292,544	13.8	2.7	0.9	1.8
Vehicles/Parts	331,209	453,233	-26.9	2.7	4.3	-1.6

Source: WISERTrade

Food products remain the leading exports out of the Port of Oakland. Presently, Edible Fruit and Meat constitute over one-third of total exports out of the Port, based on export values, compared to only approximately 6% of total exports out of California. Edible Fruit export values increased by nearly 19% year over year. On the other hand, while California has maintained heavy electronics exporting over the course of the past year—as Electrical Machinery and Industrial Machinery constitute over 30% of all exports in the state—at the Port of Oakland, exports of these two categories of goods has decreased. These exports now represent approximately 8.7% of the Port's total exports, compared to 9.6% in 2011. The decline in exports for Electrical Machinery was especially precipitous—export values decreased by 20.6% year over year.

Port of Oakland Advanced Manufacturing, 2012 YTD

Commodity	Export Value ($ 000s)	Port of Oakland Rank	Percent of Port's Total Exports	Percent of State's Export of Commodity
Industrial Machinery, Including Computers	721,557	3	5.91	3.89
Optic, Photo Etc, Medic Or Surgical Instrments Etc	403,681	7	3.31	3.68
Electrical Machinery/Sound Equip/TV Equip	344,932	8	2.83	1.86
Vehicles, Except Railway Or Tramway, And Parts Etc	331,209	10	2.71	6.01

Source: WISERTrade

Unsurprisingly, perhaps, the Port of Oakland's exports of advanced manufacturing goods have decreased from last year. Electrical Machinery slipped from the 7th largest export by value to the 8th largest, while Medical or Surgical Instruments dropped from the 9th largest export by value to the 10th largest. While vehicle exports out of the Port of Oakland represented approximately 8.2% of all vehicle exports out of California in 2011, they represent just 6.0% of all vehicle exports out of California in 2012. The Port of Oakland remains a hub for advanced manufacturing exports in the state, but as the Port's base of food exports has increased substantially, its base of advanced manufacturing exports has decreased.

In our May report, we showed that passenger traffic out of Oakland International Airport was down for the 2011 year to date (January to October) by approximately 3.7% relative to the 2010 year to date, while total pounds of freight had decreased by approximately 4.0%. Ultimately, that slight downward trend continued in the rest of 2011, such that passenger traffic out of Oakland International Airport decreased by 2.7% from 2010 to 2011, while total pounds of freight decreased by 2.8%.

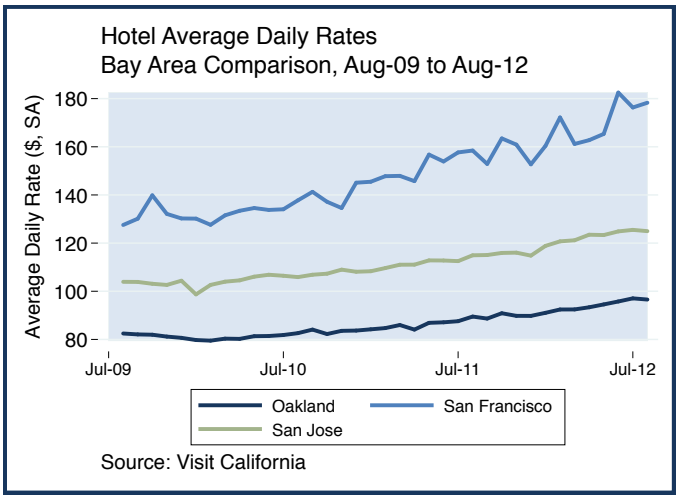
At the same time, the trends we observed at nearby San Francisco International Airport and California airports overall carried on in the remainder of the year. While total pounds of freight were down for the 2011 year to date at San Francisco International Airport by 8.1% and by 4.0% at California airports overall, by the end of the year, total pounds of freight at San Francisco International Airport had decreased by 6.7% and at California airports overall by 3.6%.

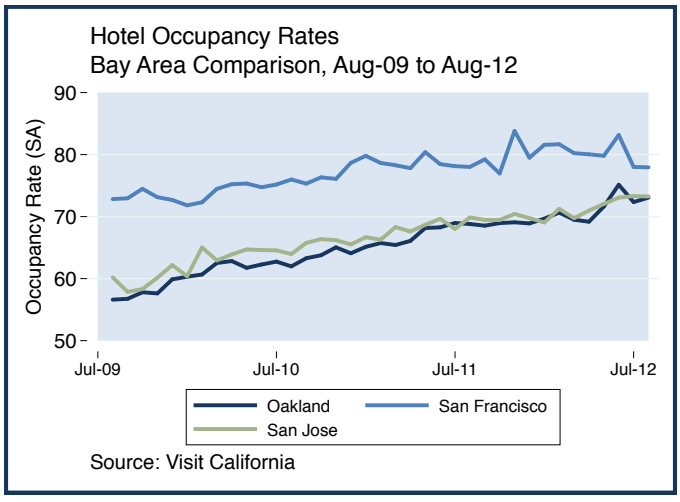
Meanwhile, passenger traffic out of San Francisco International Airport for the 2011 year to date was up by 3.0% and ended the year up 3.7%. In California airports overall, passenger traffic was up by 2.9% for the year to date and ended the year up 3.2%. Ultimately, while freight out of the Oakland International Airport followed the general path of the state overall, passenger traffic lagged behind the state trend in 2011.

Airport Traffic (in Thousands)

Month	Oakland		San Francisco		California	
	Passengers	Freight	Passengers	Freight	Passengers	Freight
Jan-10	339	40,768	1,401	32,493	10,976	523,540
Feb-10	315	39,366	1,240	29,497	9,800	530,043
Mar-10	381	44,508	1,530	34,055	12,060	608,176
Apr-10	384	46,501	1,536	31,289	11,955	606,291
May-10	386	46,050	1,661	46,161	12,481	622,605
Jun-10	428	46,596	1,800	44,684	13,444	627,473
Jul-10	432	47,271	1,811	39,889	14,154	607,138
Aug-10	434	46,625	1,816	36,790	13,972	582,798
Sep-10	386	48,401	1,654	35,359	11,986	595,676
Oct-10	408	50,356	1,738	33,564	12,601	617,048
Nov-10	385	43,341	1,571	27,116	11,802	577,166
Dec-10	395	56,781	1,587	32,014	12,197	654,927
All 2010	4,672	556,565	19,345	422,910	147,429	7,152,881
Jan-11	335	41,087	1,396	27,533	11,241	520,683
Feb-11	316	40,145	1,288	26,625	10,205	505,192
Mar-11	369	48,508	1,552	32,084	12,271	615,197
Apr-11	355	41,656	1,573	29,863	12,260	561,856
May-11	379	42,354	1,747	39,821	13,052	564,677
Jun-11	407	45,927	1,876	39,393	13,814	598,345
Jul-11	406	41,622	1,904	39,667	14,648	576,503
Aug-11	414	45,145	1,889	35,852	14,390	582,227
Sep-11	379	45,742	1,747	32,690	12,558	569,041
Oct-11	389	46,071	1,762	31,534	12,841	590,549
Nov-11	394	46,521	1,630	28,435	12,220	587,813
Dec-11	405	56,099	1,692	31,050	12,643	625,344
All 2011	4,547	540,876	20,056	394,546	152,142	6,897,428

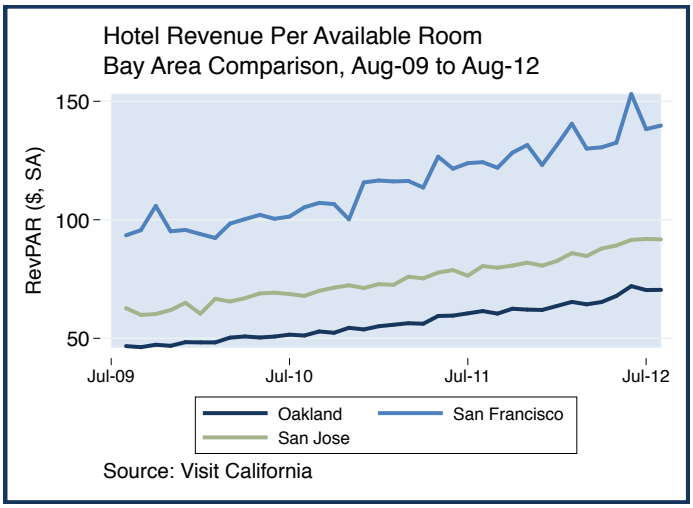
Source: U.S. Bureau of Transportation Statistics





Despite the fact that airport traffic is down in the East Bay, hotel data show that tourism in the East Bay is not. The average daily hotel rate in Oakland for June-August 2012 was up 9.5% from the average rate for June-August 2011. In San Jose, the average rate over those same periods of time was up 10.3%, and in San Francisco, 14.3%.

The seasonally adjusted revenue per available room (RevPAR) for Oakland hotels increased steeply, as well, by 17.2%, compared to 16.8% for San Jose hotels and 16.6% for San Francisco hotels. Yet, growth in seasonally adjusted hotel occupancy rates is where the East Bay has outpaced its neighbors. From June-August 2011 to June-August 2012, the average occupancy rate at Oakland hotels increased by nearly five percentage points to 73.5%. Over the same period of time, the occupancy rate in San Jose increased by four percentage points to 73.2%, and in San Francisco, the rate increased by 1.5 percentage points to 79.7%.



While the volume of visitors to the Bay Area continues to expand as the economic recovery proceeds, hotel data show that the growth in the number of visitors to the East Bay remains competitive with, and in some cases stronger than, that of neighboring regions.

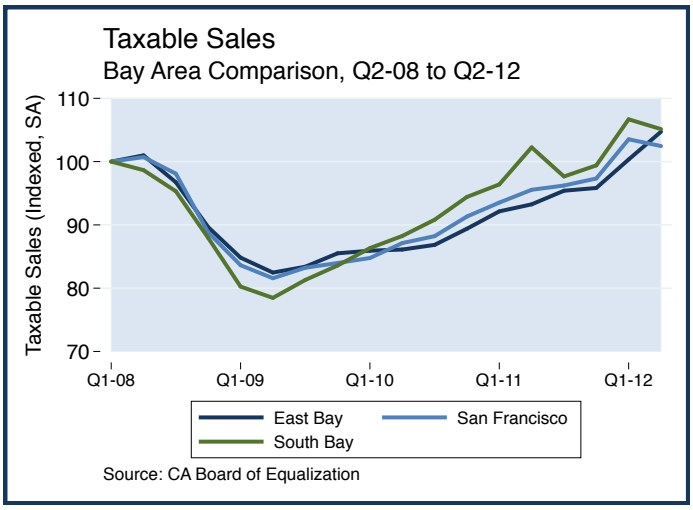
Consumer Spending

East Bay Taxable Receipts by Category ($)

	Fuel and Service Stations	Building and Construction	Autos and Transportation	Restaurants and Hotels	Food and Drugs	Consumer Goods	Business and Industry	Total Receipts
Q2-11	10,863,598	7,043,674	11,701,217	8,806,030	5,365,333	19,422,068	15,236,588	89,161,559
Q2-12	11,029,922	7,647,807	14,077,524	9,737,508	5,765,031	20,290,958	18,173,578	98,940,900
Change (%)	1.5	8.6	20.3	10.6	7.4	4.5	19.3	11.0

Source: HdL Companies

We can clearly see the impacts of the growth in visitors in the year-over-year increase in taxable receipts for the Restaurants and Hotels sector, 10.6% from the second quarter of 2011 to the second quarter of 2012. The increase in spending has not been solely due to visitors. Indeed, spending has increased in every sector year over year. Taxable receipts increased by over 20% in the Autos and Transportation sector alone. Reflecting the growth in the construction industry as we observed in the employment data above, taxable receipts for the Building and Construction sector increased by approximately



8.6%. Business-to-business spending has been strong, as well. Business and Industry taxable receipts grew by 19.3% year over year.

Growth in East Bay taxable sales has been steady over time, just as it has for neighboring regions. Since the first quarter of 2008, seasonally adjusted taxable sales in the East Bay have increased by approximately 4.7%, compared to 5.1% in the South Bay and 2.5% in San Francisco. Taxable sales in the East Bay were exceptionally strong in the first half of 2012, as well, growing by 9.3% to approximately $10.1 million.

Indeed, as the East Bay economy appears headed for more employment growth in the coming months, there is no reason to expect spending to slow down. In turn, with spending on the rise, the resulting increase in revenues should encourage East Bay businesses to bring on new employees as well as expand, which could come as a boost to both commercial real estate and the Construction sector.

Resource Conservation

Although the East Bay continues to set a great example for energy conservation in California, in the first half of 2012, the region slipped slightly in its rank for solar energy capacity in particular. Contra Costa County dropped from 8th to 9th among California counties in total solar megawatt capacity. Alameda County remained 10th. Even so, total solar capacity increased in both counties. Solar capacity in Contra Costa County increased by 56.8 megawatts, or 4.6%, while solar capacity in Alameda County increased by 52.9 megawatts, or 1.7%.

The decrease in total electricity consumption in the East Bay paints a bright picture of East Bay residents' and businesses' propensities for energy conservation. While most counties in the Bay Area have decreased their total electricity consumption relative to their total population, the East Bay has been especially successful in this regard. Both gross and residential electricity consumption in Alameda County were 1.4% lower in 2011 than in 2006, despite the fact that the population of the county increased by approximately 3.8% in that time.

Solar Energy Capacity

County	Megawatt Capacity	Rank in State
Los Angeles	147.5	1
San Diego	127.2	2
Santa Clara	101.4	3
Contra Costa	56.8	9
Alameda	52.9	10
San Mateo	23.3	16

Source: Go Solar California

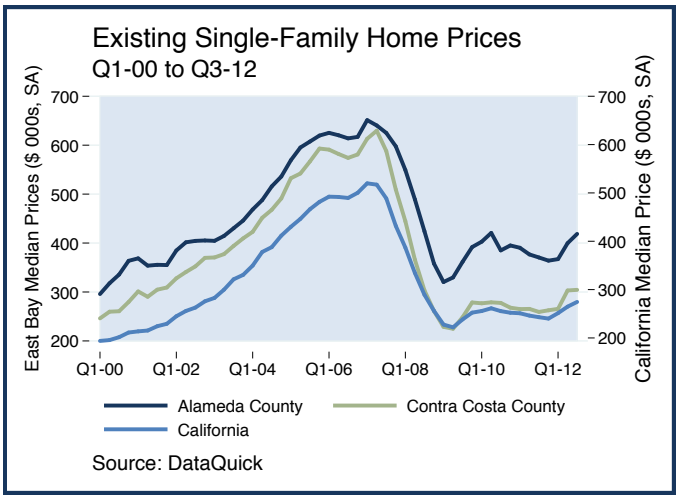
In Contra Costa County, gross electricity consumption rose fairly steeply over the same period of time—by 5.9%—but 2011 levels were 2.2% lower than 2010 levels, while residential consumption growth was virtually flat for the year, with an increase of just 0.02 billion kilowatt hours in total consumption. Residential consumption increased by only 1.9% from 2006 to 2011, while the population increased by 4.5%. Though the entire Bay Area has developed a reputation for clean energy and conservation, the East Bay in particular has earned as great a reputation as any region for promoting responsible energy consumption.

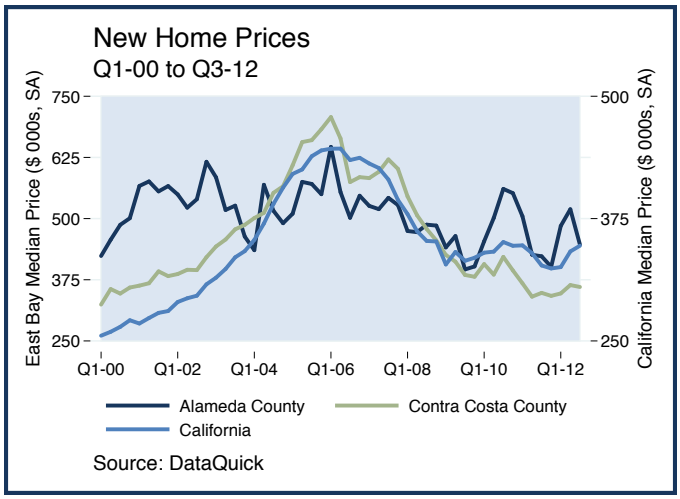
Electricity Consumption (Millions of kWh)

County	Sector	2006	2010	2011	5-Yr Chg (%)	1-Yr Chg (%)	5-Yr Pop. Growth
Alameda	Gross	11,098	10,878	10,940	-1.4	0.5	
	Residential	3,089	3,039	3,046	-1.4	0.3	3.8
Contra Costa	Gross	8,511	9,215	9,014	5.9	-2.2	
	Residential	2,719	2,747	2,770	1.9	0.8	4.5
Marin	Gross	1,412	1,422	1,398	-0.9	-1.7	
	Residential	695	706	706	1.6	0.1	2.5
San Francisco	Gross	5,515	5,855	5,838	5.9	-0.3	
	Residential	1,478	1,526	1,536	4.0	0.7	3.5
San Mateo	Gross	4,767	4,756	4,535	-4.9	-4.6	
	Residential	1,581	1,625	1,616	2.2	-0.6	3.4
Santa Clara	Gross	16,025	16,564	16,384	2.2	-1.1	
	Residential	4,070	3,937	4,025	-1.1	2.2	4.7

Source: CA Energy Commission

Residential Real Estate



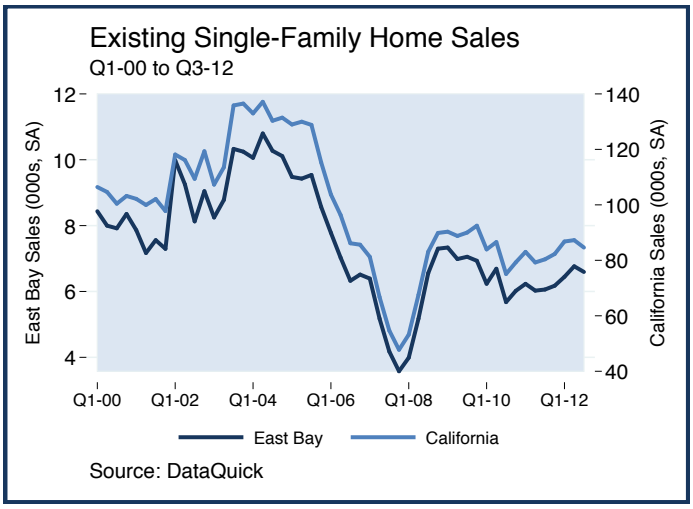


As growth in home prices and home sales show, the housing market in the East Bay has already turned the corner, and the recovery appears to be moving faster than before. The median prices of existing homes in the East Bay are increasing at approximately the same rate as the state overall, and more quickly than in San Francisco or the South Bay. In Alameda County, the median price of an existing home increased by 13.0% from the third quarter of 2011 to the third quarter of 2012, to approximately $417,000. In Contra Costa County, the median price increased by 17.4% to approximately $304,000.

Compare to the state overall, in which the median price increased by the same proportion as Alameda County, 13.0%, year over year to approximately $275,000. Over the same time period, the median price of an existing home in San

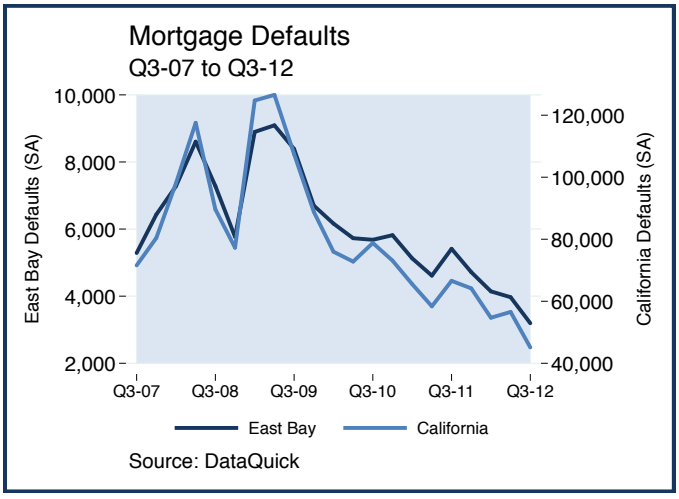
Francisco increased by 6.7% to approximately $706,000, and in San Jose, the median price increased by 11.8% to approximately $584,000. Much of the increase in home prices in the East Bay came in the second and third quarters of 2012. In Alameda County, the median price increased by 14% from the first quarter of 2012 to the third quarter of 2012, while in Contra Costa County, the median price increased by 14.6% in the same time period.

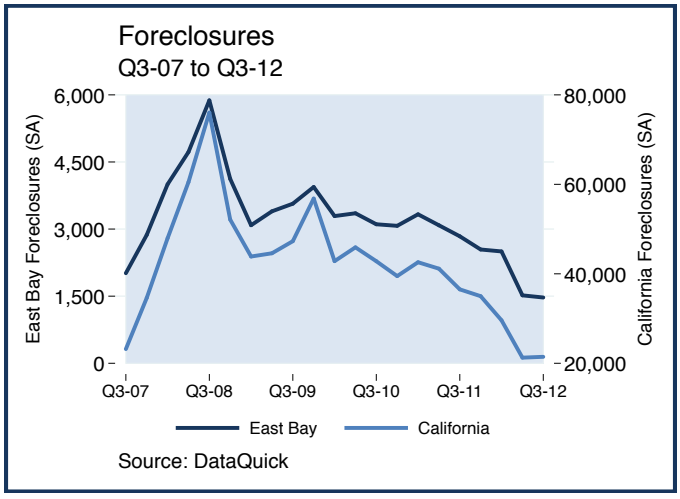
As home prices in the East Bay have continued to rise, home sales are growing as well, but more slowly. For the third quarter of 2012, existing homes sales are up 8.8% year over year. In San Francisco, existing home sales have increased by approximately 9% year over year, and by approximately 10.2% year over year in the South Bay. The East Bay is ahead of the state overall, though, as existing home sales in California have increased by approximately 5.3% year over year.



While home prices and sales in the East Bay are on the rise, defaults and foreclosures are on the decline. Notices of default continue to fall from their recession highs, with much of that decrease coming in the past year—in the third quarter of 2012, notices of default were 41.0% lower than in the third quarter of 2011 on a seasonally adjusted basis. This rate of decline is approximately even with that of San Francisco over the same period of time, while significantly higher than in the state overall, at 32.2%.

At the same time, foreclosures in the East Bay have decreased precipitously in the past year. Despite a relatively flat quarter for foreclosures in the third quarter of 2012, foreclosures have decreased by nearly half compared to the third quarter of 2011. Once again, this outpaces the state overall, where foreclosures have decreased by approximately 41.2%.

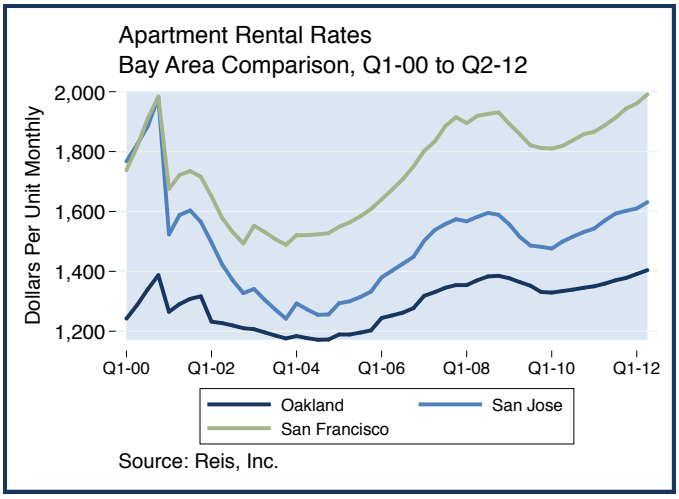


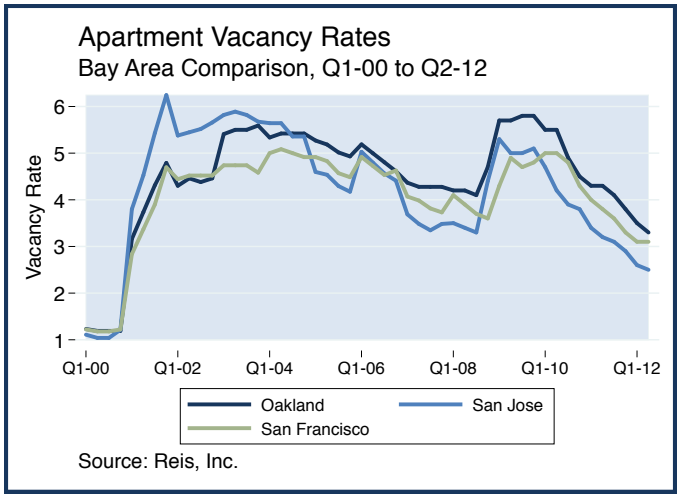


A statewide trend of increasing short sales may play a large role in the decline in foreclosures. According to the National Association of Realtors, from September 2011 to September 2012, the percentage of short sales relative to all

sales of existing homes increased from 23.8% to 27.0%.[1] A substantial number of homes throughout the state are avoiding foreclosure as banks are accepting short sales on homes underwater.

Of course, this is only part of the story. As the economy recovers, and more individuals are returning to work, more homeowners are able to keep up with their mortgages. The worst of the mortgage crisis has passed, and indeed as the economy continues to grow, expect foreclosures to continue to decline over time. Fears of a second wave of foreclosures are largely unfounded given the positive signs of economic growth not only in the East Bay but throughout California.





As home prices in the East Bay rise quarter after quarter, apartment rents in the region are rising, as well. As of the second quarter of 2012, the average rent for Oakland apartments was $1,404 per month, an increase of 3.3% from the second quarter of 2011. This growth in rent is comparable to that of other parts of the Bay Area. In San Francisco, the average apartment rent increased by approximately 5.5% year over year to $1,991 per month. In San Jose, the average rent increased by approximately 3.9% year over year to $1,631 per month.

At the same time, the relative affordability of apartments in the East Bay remains consistent with 2011 values. Apartments in Oakland continue to cost approximately 70% the monthly rent of apartments in San Francisco, and approximately 86% the monthly rent of apartments in San Jose.

As average apartment rent increases throughout the Bay Area, apartment vacancies are decreasing. In Oakland, the apartment vacancy rate decreased a full percentage point year over year to 3.3%. In San Francisco, the vacancy rate decreased 0.7 percentage points to 3.1% over the same time period, and in San Jose, the vacancy rate also decreased 0.7 percentage points to 2.5%.

Rising home and apartment prices will come to decrease housing affordability in the East Bay over time, even as the region's overall economy improves, but as housing prices still remain low relative to much of the last decade, housing affordability is actually on the rise at present. According to the U.S. Census Bureau American Community Survey, the proportion of Alameda County households that spend at least 35% of their income on housing decreased from 38.2% in 2010 to 36.1% in 2011. In Contra Costa County, that proportion decreased from 36.8% in 2010 to 35.9% in 2011. These declines are proximate to the decrease in the state overall: from 40.9% in 2010 to 38.6% in 2011.

[1] "NAR: Existing Home Sales Down Slightly On Seasonally Adjusted Basis; Inventories Dip." *Lawler Economic & Housing Consulting*. October 19, 2012.

As we noted in our May report, though, housing affordability not only in the East Bay but throughout the state will continue to be limited by state and municipal permitting and construction laws that substantially increase the cost of housing relative to other states. Until the state takes steps to remediate these sources of outsized costs for both single-family and multifamily housing, the proportion of residents in many parts of the state, including the East Bay, that spend more than what is often considered the peak reasonable cost for housing, 35% of gross income, will remain troublesomely high.

Households with Housing Costs over 35.0% of Income (%)

Year	Alameda County	Contra Costa County	California
2006	41.1	43.2	41.6
2007	32.3	34.9	32.8
2008	42.4	44.3	43.6
2009	38.6	40.8	42
2010	38.2	36.8	40.9
2011	36.1	35.9	38.6

Source: U.S. Census American Community Survey

Multi-Family Building Permits by City

City	2010	2011	2011 YTD	2012 YTD
Alameda	0	0	0	0
Albany	4	3	0	0
Antioch	0	0	0	0
Berkeley	16	38	38	0
Brentwood	0	0	0	0
Clayton	0	0	0	0
Concord	0	0	0	0
Danville	4	4	4	0
Dublin	116	543	208	61
El Cerrito	0	0	0	0
Emeryville	0	5	5	87
Fremont	215	379	72	81
Hayward	0	0	0	0
Hercules	96	0	0	0
Lafayette	0	2	2	0
Livermore	17	38	34	78
Martinez	0	0	0	0
Newark	0	0	0	0
Oakland	468	249	186	247
Oakley	44	0	0	44
Orinda	0	0	0	0
Piedmont	0	0	0	0
Pinole	0	0	0	0
Pittsburg	111	0	0	0
Pleasant Hill	0	0	0	0
Pleasanton	0	0	0	200
Richmond	49	0	0	20
San Leandro	0	0	0	0
San Pablo	11	0	0	0
San Ramon	39	0	0	0
Walnut Creek	0	52	52	15

Source: CIRB

Single-Family Building Permits by City

City	2010	2011	2011 YTD	2012 YTD
Alameda	16	24	22	0
Albany	1	3	2	0
Antioch	108	149	84	114
Berkeley	2	4	4	0
Brentwood	167	104	56	105
Clayton	2	6	0	3
Concord	0	2	2	0
Danville	19	13	9	8
Dublin	228	276	127	271
El Cerrito	2	0	0	0
Emeryville	0	1	1	0
Fremont	100	127	96	80
Hayward	276	223	158	114
Hercules	0	0	0	0
Lafayette	11	7	2	6
Livermore	78	60	34	48
Martinez	2	3	3	1
Newark	0	0	0	1
Oakland	140	40	29	179
Oakley	166	77	42	76
Orinda	12	5	3	4
Piedmont	2	0	0	0
Pinole	0	0	0	0
Pittsburg	67	130	67	55
Pleasant Hill	2	6	2	3
Pleasanton	46	43	25	17
Richmond	70	1	1	4
San Leandro	7	4	4	1
San Pablo	2	1	1	0
San Ramon	0	0	0	1
Walnut Creek	3	6	4	13

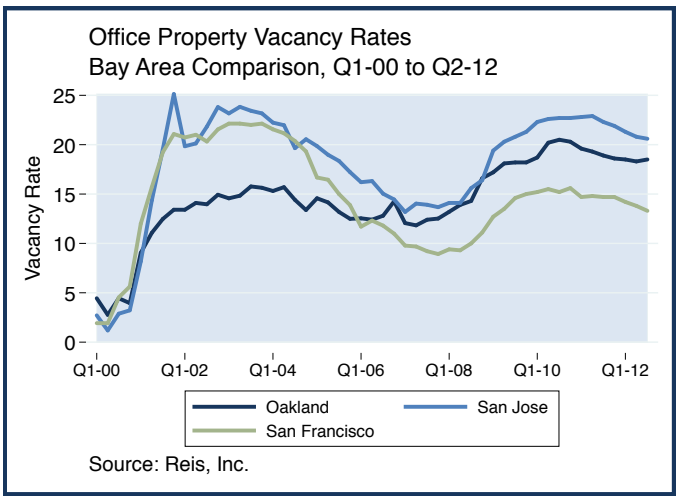
Source: CIRB

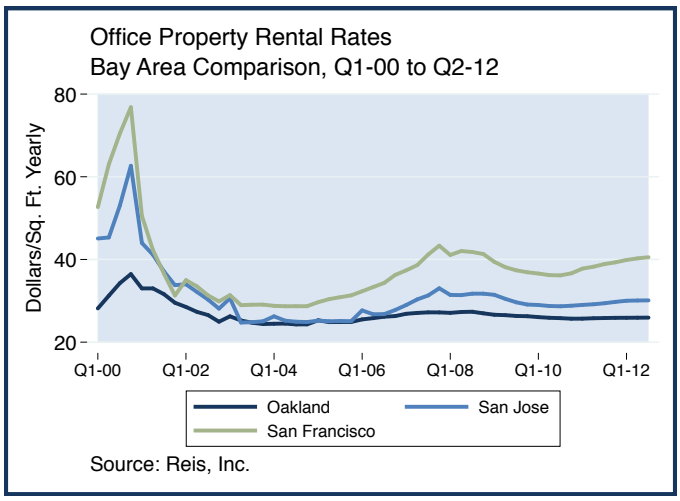
As the housing market continues to recover in the East Bay, we would expect to observe an increase in residential construction, as well. In fact, building permit records show that both multifamily and single-family residential construction is well on its way to a better year in 2012 than in 2011.

Through July 2012, the City of Oakland had already nearly matched its total number of multifamily building permits through all of 2011. Also, 179 single-family building permits were issued through July 2012, compared to just 40 in all of 2011. Multifamily residential construction in Pleasanton is having an especially strong year. Through July 2012, 200 multifamily building permits were issued, compared to zero in both 2010 and 2011. The City of Brentwood has already issued 105 single-family residential building permits, compared to 104 in all of 2011, while the City of Dublin has issued 271 single-family building permits, compared to 276 in all of 2011.

In all, rising home and apartment prices combined with increasing home sales and decreasing apartment vacancies are encouraging more residential development in the East Bay. As housing prices and sales continue to increase throughout the rest of the year, expect residential construction in 2012 to end far ahead of 2011 levels.

Commercial Real Estate





While we see positive trends continuing in the East Bay housing market, the market for commercial real estate remains very stable. Since the third quarter of 2010, the vacancy rate for office property in Oakland has dropped each quarter, but only slightly, such that the rate has decreased a total of two percentage points to 18.5% in approximately two years. The Oakland office property vacancy rate is substantially higher than that of San Francisco, at 13.3%, but remains lower than that of San Jose, at 20.6%.

As stable as East Bay office property vacancy rates have been, the region's average rents for office property have been even more stable. Since the second quarter of 2002, the average rent for office property in Oakland has never risen higher than $27.50 per square foot yearly or lower than $24.25 per square foot yearly, and the average rent has remained virtually flat at approximately $25.90 per square foot yearly since the fourth quarter of 2011. The relative affordability of office property continues to make the East Bay an attractive location for business, as the average rent for office property in the second quarter of 2012 was $30.10 per square foot yearly in San Jose and $40.54 per square foot yearly in San Francisco.

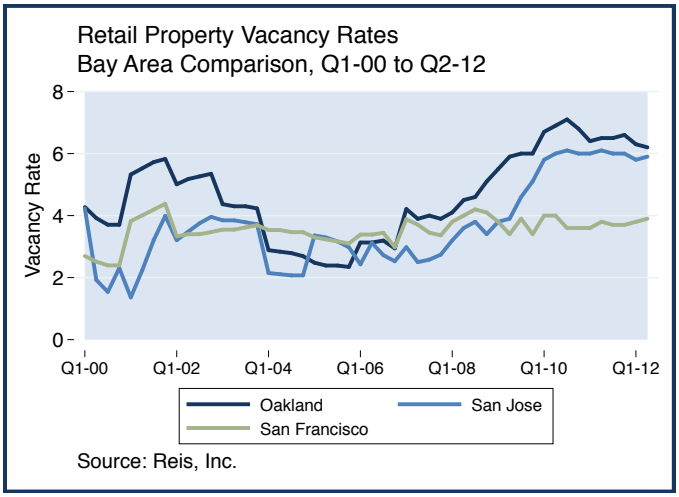
Much like the office property market in the East Bay, the retail property market has remained very stable since 2010. The vacancy rate for retail property in Oakland stood at 6.2% in the second quarter of 2012, which is a decrease of 0.3 percentage points since the second quarter of 2011. By comparison, in the same period of time, the vacancy rate for retail property in San Francisco decreased by 0.1 percentage point to 3.9%, and in San Jose, the vacancy rate decreased by 0.2 percentage points to 5.9%.

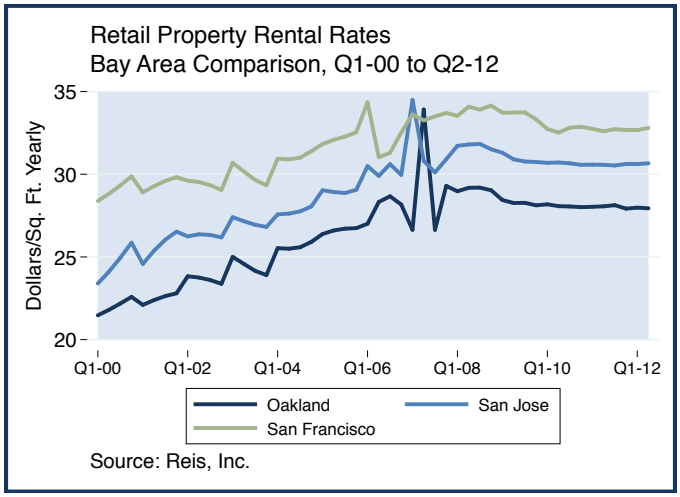
Office Property Rents and Vacancies by Submarket

Submarket	Average Rent ($)	Vacancy Rate (%)
West Contra Costa	23.22	14.5
North Contra Costa	27.29	16.7
North I-680	26.75	16.4
South I-680	23.83	29.0
Fremont/Newark	20.37	25.7
Airport/San Leandro	21.31	22.2
Central Business District	28.64	12.2
North Alameda	27.75	15.4

Source: Reis, Inc.

The average rent for retail property in Oakland has remained virtually flat since the end of the economic recession in mid-2009. As of the second quarter of 2012, the average rent for retail property in Oakland was $27.94 per square foot yearly, which was virtually unchanged from the second quarter of 2011 at $28.06. Though average rents are higher in both San Francisco and San Jose, the story is much the same. The average rent for retail property in San Francisco stood at $32.80 in the second quarter of 2012, an increase of just $0.20 from the second quarter of 2011. The average rent for retail property in San Jose stood at $30.66 in the second quarter of 2012, an increase of just $0.09 from the second quarter of 2011.





In effect, even as the market for existing commercial real estate in the East Bay appears to be recovering very slowly, the recovery is proceeding at much the same pace as that of San Francisco and San Jose. Indeed, even as businesses in the East Bay continue to grow, recent, Bay Area-wide trends suggest that it may be some time before the region's market for existing commercial real estate fully rebounds.

Anchored Retail Property Rents and Vacancies by Submarket

Submarket	Average Rent ($)	Vacancy Rate (%)
Central Contra Costa	16.59	0.6
East Alameda	19.29	3.7
East Contra Costa	17.12	0.9
Central/North Alameda	20.28	1.2
South Alameda	14.31	3.8
West Contra Costa	19.19	4.5

Source: Reis, Inc.

Non-Anchored Retail Property Rents and Vacancies by Submarket

Submarket	Average Rent ($)	Vacancy Rate (%)
Central Contra Costa	30.56	9.3
East Alameda	26.45	12.3
East Contra Costa	23.55	16.4
Central/North Alameda	28.03	10.7
South Alameda	25.29	6.9
West Contra Costa	32.87	7.1

Source: Reis, Inc.

Unfortunately, we see that even as the existing commercial real estate market is stable but growing only slowly, commercial real estate construction through the first three quarters of 2012 is well behind construction in 2010 and 2011. At approximately $6.6 million in building permit values, office construction in the Oakland-Fremont-Hayward MD for the first three quarters of 2012 is only approximately 11% of the total for office building permit values in the first three quarters of 2011, at approximately $58.9 million.

Retail construction permits in 2012 is also lagging 2011 values. The $13.6 million in retail property building permit values in the first three quarters of 2012 is only approximately 14% of the retail property building permit values in the first three quarters of 2011, at $98.3 million. Industrial property building permit values for 2012, at $15.5 million in the first three quarters, may reach the total of $24.7 million in all of 2011, but only with a very strong fourth quarter. Meanwhile, 2011 proved an exception rather than a trend for hotel construction, as it appears unlikely that any permits for hotels will be issued in the Oakland-Fremont-Hayward MD in 2012, as in 2010.

Non-Residential Building Permit Values ($ 000s)
Oakland-Fremont-Hayward MD

Property Type	2010	2011	2011 YTD	2012 YTD
Office	3,517	67,525	58,872	6,614
Retail	43,019	102,789	98,311	13,628
Industrial	112,096	24,674	22,674	15,540
Hotels	0	3,400	3,400	0
Non-Residential Alterations	568,623	606,683	456,410	266,018
Total Non-Residential	850,071	1,029,819	726,640	350,937

Source: CIRB

Even as businesses in the East Bay have been reluctant to build new properties—which stands to reason, given that the vacancy rate for office property is still high—so also have these businesses been reluctant to invest in alterations to existing properties. Non-residential alterations permit values for the first three quarters of 2012 were less than 60% of non-residential alterations permit values for the first three quarters of 2011. Altogether, non-residential building permit values for the 2012 year to date are less than half of non-residential building permit values for the same period of time in 2011.

As the existing commercial real estate market shows positive signs for the year ahead, even as the market has not yet turned the corner, commercial real estate construction is lagging in 2012. Indeed, it may take much more growth in the market for existing properties before very much new construction takes place. There remains a large supply of available commercial property in the East Bay, especially in comparison to San Francisco.

Long-Term Trends

Education

In our May report, we showed in detail how a lack of quality education puts a child at a skills disadvantage in the workforce that could persist throughout the child's whole career. The difficulty an individual with less education will have finding well-paying, long-term employment in an increasingly high-skilled labor market can have a substantial impact on that individual's overall quality of life. In that report, we stressed that there is room for improvement in the East Bay education system for preparing students for the increasingly competitive labor market.

Since that report, we have seen improvement in many measures of academic achievement in the East Bay that bode well for the region in the future. Even so, there remains room to improve academic achievement much further, to ensure that East Bay students will meet the growing labor needs of high-skilled industries in the region.

Cohort Graduation Rates (%)
Select Counties and California

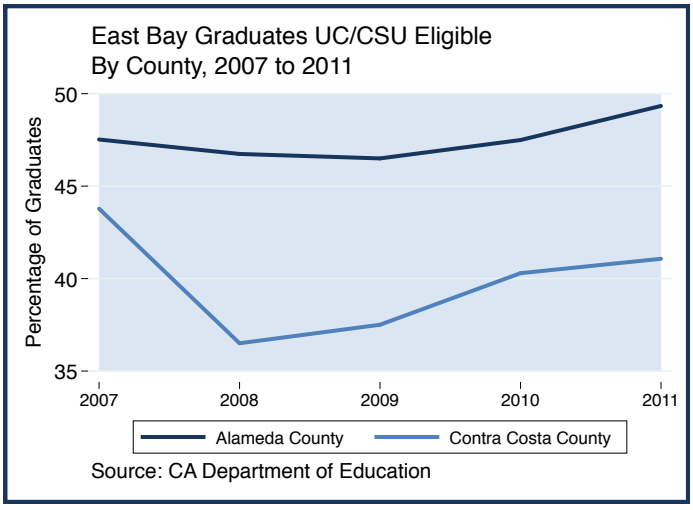
County	2010	2011
Alameda	75.8	78.4
Contra Costa	79.9	82.2
San Francisco	69.1	50.8
San Mateo	81.8	83.7
Santa Clara	80.5	79.7
Marin	89.7	90.9
California	74.7	76.3

Source: CA Dept. of Education

The cohort graduation rates for Alameda County and Contra Costa County schools are increasing, and the East Bay graduation rates remain competitive with other counties in the Bay Area and with the state overall. In 2011, the cohort graduation rate in Contra Costa County increased to 82.2% from 79.9% in 2010. In Alameda County, the cohort graduation rate increased from 75.8% in 2010 to 78.4% in 2011.

These graduation rates are higher than in San Francisco County, at 50.8%, comparable to or higher than in Santa Clara County, at 79.7%, and higher than in the state overall, at 76.3%. While there remains room for improvement, as close to one-fifth of students in a high-school cohort in Contra Costa County fail to graduate and nearly one-fourth of students in a high-school cohort in Alameda County fail to graduate, the outlook is still very positive in the East Bay relative to other parts of the Bay Area and the state overall.

At the same time, the proportion of graduates of schools in the East Bay that qualify for enrollment at University of California or California State University schools is also increasing. In Alameda County, the proportion of qualifying students reached a low of 46.5% in 2009, but that proportion has since increased to 49.3% in 2011. In Contra Costa County, the proportion of qualifying students reached a low of 36.5% in 2008, but that proportion has since increased to 41.1% in 2011.



Algebra I Testing Results, 2012
Percentage of Scores at Test Benchmarks

Achievement	Alameda County	Contra Costa County
Advanced	15	13
Proficient	22	24
At or Above Proficient	37	37
Basic	21	21
Below Basic	28	27
Far Below Basic	15	15
Total Number of Test Scores	23,109	18,229

Source: CA Department of Education

Algebra I Testing Results by School District, 2012
Percentage of Scores at Test Benchmarks

School District	Advanced	Proficient	At or Above Proficient	Basic	Below Basic	Far Below Basic	Total Number of Test Scores
W Contra Costa	15	26	40	32	15	13	2,241
Oakland	15	27	42	29	16	13	3,155
Berkeley	34	32	66	22	9	4	668
San Francisco	21	30	51	28	13	9	4,017
San Jose	24	29	52	25	13	10	2,408
California	19	29	48	29	13	10	441,075

Source: CA Department of Education

3rd Grade English-Language Arts Testing Results, 2012
Percentage of Scores at Test Benchmarks

Achievement	Alameda County	Contra Costa County
Advanced	25	25
Proficient	29	31
At or Above Proficient	54	56
Basic	26	26
Below Basic	12	10
Far Below Basic	8	7
Total Number of Test Scores	16,102	12,277

Source: CA Department of Education

3rd Grade English-Language Arts Testing Results by School District, 2012
Percentage of Scores at Test Benchmarks

School District	Advanced	Proficient	At or Above Proficient	Basic	Below Basic	Far Below Basic	Total Number of Test Scores
W Contra Costa	1	8	10	16	44	30	3,437
Oakland	5	16	21	20	35	24	3,360
Berkeley	24	24	47	16	22	15	855
San Francisco	17	22	38	19	27	16	5,844
San Jose	12	20	32	21	32	15	4,245
California	11	23	35	23	29	13	709,758

Source: CA Department of Education

Test scores for East Bay students in crucial academic subjects are increasing, as well. In 2010 in Alameda County, the proportion of students testing at or above proficient in Algebra I was 35%; 34% in Contra Costa County. A year later, 37% of students in each county tested at or above proficient.

Third-grade English-language arts proficiency, which is considered a crucial benchmark for a child's English comprehension, also increased from 2010 for students in the East Bay. The proportion of Alameda County third-grade students testing at or above proficient increased one percentage point to 54% in 2011, while the proportion of Contra Costa County third-grade students testing at or above proficient increased three percentage points to 56%.

Yet, even as the educational outlook is improving in the East Bay overall, substantial disparities persist across school districts within the region. For example, 13% of Algebra I students tested at far below basic level in both the West Contra Costa Unified School District and the Oakland Unified School District, compared to just 4% of students in the Berkeley Unified School District. While 34% of Algebra I students in the Berkeley Unified School District tested at advanced level, just 15% of Algebra I students in both the West Contra Costa Unified School District and the Oakland Unified School District tested at advanced level. In the Berkeley Unified School District, 24% of third-grade students tested at advanced level in English-language arts, compared with only 1% of third-grade students in the Oakland Unified School District and 5% of third-grade students in the West Contra Costa Unified School District.

Although serious concerns persist regarding the quality of education from school district to school district within the East Bay, the region nonetheless continues to show exceptionally high educational attainment among the general population. According to the U.S. Census Bureau American Community Survey for 2011, a greater proportion of East Bay residents possess post-graduate degrees than in 2010—10.9% of residents, compared to 10.4% in 2010. At the same time, a smaller proportion of residents in the East Bay do not possess a high school diploma or GED relative to residents throughout the State of California: approximately 12.9% compared to 19.3%, respectively.

Across racial and ethnic groups in the East Bay, the educational attainment picture is improving, but wide gaps persist. According to the American Community Survey, as of 2011, 16.1% of Latino residents in the East Bay possessed a bachelor's degree or higher, compared to approximately 15.3% in 2010. On the other hand, this is substantially lower than the proportion of white and Asian residents of the East Bay that possess bachelor's degrees or higher, at approximately 49% and nearly 53%, respectively. At the same time, the proportion of Latino residents in the East Bay without a high school diploma or GED stood at 34.5% in 2011, compared to just 4.1% of white residents and 8.7% of black residents.

Educational Attainment by Region, 2011

Educ. Attainment	East Bay	San Francisco	South Bay	California	United States
8th Grade or Less	6.0	6.0	5.7	10.5	6.0
8th to 12th Grade	6.9	6.3	7.1	8.8	8.1
HS Diploma/GED	39.9	32.8	34.4	43.0	49.6
Associate's Degree	6.9	6.2	6.9	7.6	7.8
Bachelor's Degree	24.1	29.8	25.6	19.1	17.9
Master's Degree	10.9	12.3	14.2	7.3	7.5
Professional Degree	2.8	4.1	2.6	2.3	1.9
Doctorate	2.5	2.5	3.5	1.4	1.2

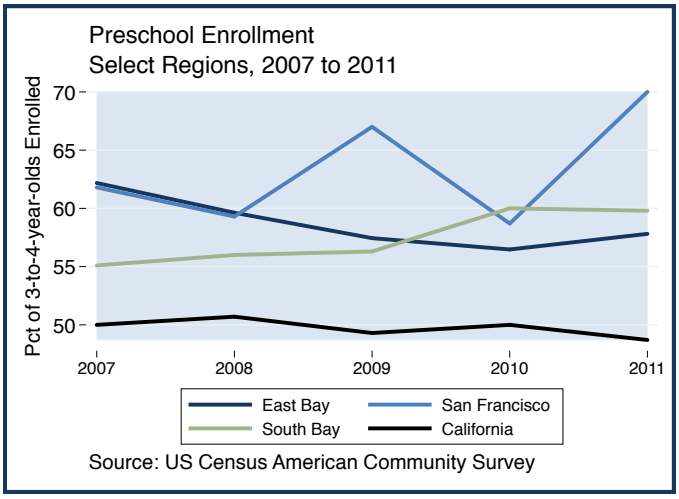
Source: U.S. Census American Community Survey

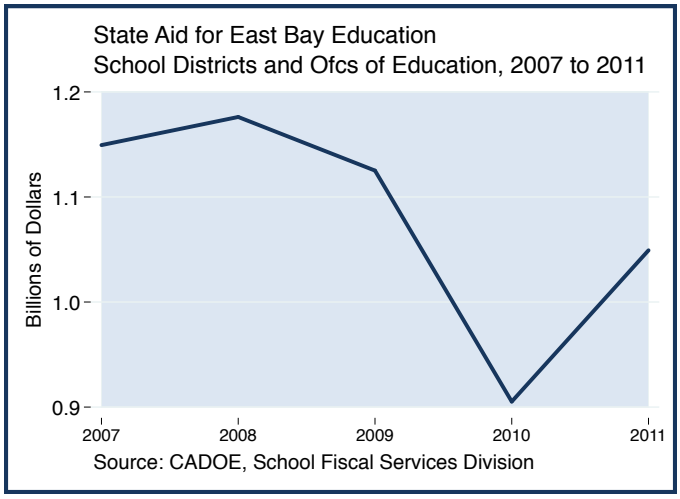
East Bay Educational Attainment by Ethnic Group, 2011

Educational Attainment	White Alone (not Hisp./Latino)	Black or Afr. American	Hispanic/Latino (of any race)	Asian	American Indian or Alaskan Native	Native Hawaiian or Pacific Islander	Some Other Race	Two or More Races
Less than HS Diploma	4.1	8.7	34.5	13.8	16.8	15.6	35.6	14.6
HS Diploma/GED	18.1	26.1	26.7	13.9	21.4	31.5	31.3	19.2
Some College/Associate's	28.9	39.4	22.7	19.4	38.1	38.5	21.2	33.5
Bachelor's or Higher	48.9	25.8	16.1	52.8	23.7	14.5	11.9	32.7

Source: U.S. Census American Community Survey

Turning briefly back to childhood education in the East Bay, the percentage of children enrolled in early education may be beginning to turn around after a several-year slide. From 2010 to 2011, the proportion of 3-to-4-year-old children enrolled in preschool increased from 56.5% to 57.8%. In the South Bay, the proportion of 3-to-4-year-old children enrolled in preschool remained flat at approximately 60% year over year. In San Francisco, the proportion increased substantially, from 58.7% in 2010 to 70.0% in 2011, though data for San Francisco each year tend to vary widely, which may reflect a measurement problem in the region rather than actual variance.





Fortunately, as East Bay education is improving at all levels, the region does not appear to be at major risk of losing state support for education. Indeed, state aid for education increased from approximately $0.9 billion in 2010 to approximately $1.05 billion in 2011.

The Relationship between Education, Employment, and Income

Income and Unemployment by Educational Attainment, 2011
San Francisco-Oakland-Fremont MSA

Educational Attainment	Median Earnings ($)	Unemployment Rate (%)
Less than high school diploma	20,471	12.5
High school graduate (or GED)	30,176	11.8
Some college or associate's degree	39,504	10.8
Bachelor's degree	60,554	5.6
Graduate or professional degree	84,197	N/A

Source: U.S. Census American Community Survey

As shown in the median annual earnings and unemployment levels for residents of the San Francisco-Oakland-Fremont MSA relative to educational attainment, there remains an enormous premium in the labor market for possessing more education. Even as the unemployment rate decreased from 2010 to 2011, there remains a very wide disparity in the unemployment rate across education levels. Residents with a bachelor's degree earn approximately three times the annual income of residents that do not possess a high school diploma or GED, while the unemployment rate for residents with a bachelor's degree or higher is less than half that for residents without a high school diploma or GED. Indeed, just by completing high school or a GED requirement will gain a worker in the region on average approximately $10,000 in income per year.

Employment and Income

As we observed above, though educational attainment levels improved across ethnic and racial groups in the East Bay in 2011, substantial disparities remained. And given the relationship between education and employment status and income, it should not come as a surprise to see big gaps in employment and income levels across these ethnic and racial categories.

Unemployment by Ethnic Group*

Ethnicity	East Bay			San Francisco			California		
	2010	2011	Chg	2010	2011	Chg	2010	2011	Chg
White Alone	9.6	9.5	-0.1	7.8	6.5	-1.3	11.0	10.5	-0.5
Hisp./Latino (any race)	14.7	14.9	0.2	11.1	9.1	-2.0	14.9	14.3	-0.6
Black or Afr. American	19.9	20.5	0.6	14.4	19.7	5.3	18.5	19.1	0.6
Asian	9.7	9.0	-0.7	9.0	8.7	-0.3	9.9	9.5	-0.4
Some Other Race	14.8	14.7	-0.1	13.6	8.6	-5.0	14.7	14.3	-0.4
Two or More Races	16.5	15.0	-1.5	11.3	10.9	-0.4	16.8	17.1	0.3

Source: U.S. Census American Community Survey

*Data unavailable for Am. Indian & Nat. Hawaiian/Pac. Islander groups

Indeed, that is exactly what we see in the data. Even as the unemployment rate in the East Bay fell in 2011, the unemployment rate for black residents stood at over 20%, and nearly 15% for Latino residents, while the unemployment rate for white residents stood at 9.5% and the unemployment rate for Asian residents stood at 9.0%.

The gaps are quite substantial in San Francisco and in the state overall, as well. In San Francisco, the unemployment rate for black residents in 2011 was 19.7%, compared to 6.5% for white residents. In the State of California, the unemployment rate was 19.1% or black residents, but 10.5% for white residents.

Median Household Income by Ethnic Group ($)

Ethnicity	Alameda County		Contra Costa County		San Francisco County		Santa Clara County		California	
	2010	2011	2010	2011	2010	2011	2010	2011	2010	2011
Total population	67,169	67,558	73,721	74,353	71,745	69,894	85,002	84,895	57,708	57,287
Asian alone	79,963	80,124	91,653	90,544	60,914	60,585	106,373	103,407	71,988	71,815
White alone	82,029	81,710	82,271	86,358	91,064	91,468	92,229	94,084	66,638	67,040
Hispanic/Latino (any race)	52,265	54,189	55,659	52,147	56,861	51,176	49,996	54,318	43,805	44,377
Black or Afr. American	38,188	42,124	52,635	46,575	29,409	30,992	52,972	60,769	40,709	40,703

Source: U.S. Census American Community Survey

Median household income levels vary widely across ethnic and racial groups, as well. In Alameda County, the median black household earned approximately $42,124 annually in 2011, compared to $81,710 for the median white household. In Contra Costa County, the median Latino household earned approximately $52,147 annually in 2011, compared to $90,544 for the median Asian household.

These disparities are fairly consistent with those at the state level. The median black household in the State of California earned approximately $40,703 annually in 2011, and the median Latino household earned approximately $44,377, while the median white household earned approximately $67,040.

Although the median household income in Alameda and Contra Costa Counties was high relative to the state overall in 2011, residents of some races or ethnicities earned substantially less than residents of other races or ethnicities, and the problem continues to be rooted heavily in big gaps in educational attainment levels.

A significant employment gap persists across age levels, as well, and it appears to have widened slightly in the East Bay. In 2011, 20.9% of residents age 20-24 were unemployed, compared to 9.3% of residents age 55-64 and 9.7% of residents age 45-54. In 2010, 20.4% of residents age 20-24 were unemployed, compared to 9.8% of residents age 55-64 and 9.5% of residents age 45-54. Thus, as unemployment has decreased among most older age groups, bringing down the overall unemployment rate in the East Bay, young residents coming out of high school and college are having difficulty finding work. It should be expected that younger workers would be better prepared than older workers for the high-skilled, technical jobs that already constitute a significant proportion of jobs in the East Bay labor market, so an exceptionally high and growing unemployment rate among younger workers is a troublesome sign.

Unemployment by Age Group

Age	East Bay			San Francisco			California		
	2010	2011	Chg	2010	2011	Chg	2010	2011	Chg
16-19	40.3	41.3	1.0	29.5	22.3	-7.2	36.6	37.9	1.3
20-24	20.4	20.9	0.5	14.7	12.2	-2.5	19.0	19.4	0.4
25-44	10.9	10.8	-0.1	7.5	5.8	-1.7	11.6	10.9	-0.7
45-54	9.5	9.7	0.2	9.2	7.5	-1.7	10.4	10.1	-0.3
55-64	9.8	9.3	-0.5	8.7	11.0	2.3	10.3	9.7	-0.6
65-74	10.1	8.9	-1.2	8.5	5.9	-2.6	10.2	9.3	-0.9
75+	6.4	3.6	-2.8	7.2	0.0	-7.2	8.9	8.1	-0.8

Source: U.S. Census American Community Survey

On the other hand, in a positive sign for the quality of life in the East Bay, income distribution appears to be slightly less concentrated than it was a year ago, according to data from the American Community Survey. Although the proportion of households earning less than $25,000 in income increased by 1.8 percentage points from 2010 to 2011, there was no growth in that same income group in Alameda County. While the proportion of households in Alameda County earning $150,000 or more grew by 0.7 percentage points from 2010 to 2011 and the proportion of households earning $100,000 to $149,999 grew by 0.1 percentage points, the proportion of households earning $25,000 to $49,999 shrank by 0.7 percentage points, while the proportion of households earning $50,000 to $74,999 grew by 0.4 percentage points. While the data are rather disparate, there appears to be no trend of income categories at the extremes growing at the expense of the middle class.

East Bay Distribution of Household Income

Income ($)	Alameda County			Contra Costa County		
	2010	2011	Chg	2010	2011	Chg
Under 25,000	19.7	19.7	0.0	14.6	16.4	1.8
25,000 to 49,999	18.5	17.8	-0.7	19.1	19.0	-0.1
50,000 to 74,999	16.5	16.9	0.4	17.2	15.0	-2.2
75,000 to 99,999	12.2	11.7	-0.5	12.6	11.7	-0.9
100,000 to 149,999	16.5	16.6	0.1	17.0	18.5	1.5
150,000 and Over	16.6	17.3	0.7	19.7	19.5	-0.2

Source: U.S. Census American Community Survey

Distribution of Household Income

Income ($)	Berkeley			Richmond			Oakland			San Francisco			California			United States		
	2010	2011	Chg	2010	2011	Chg	2010	2011	Chg	2010	2011	Chg	2010	2011	Chg	2010	2011	Chg
Under 25,000	25.7	25.8	0.1	26.6	24.0	-2.6	29.6	28.8	-0.8	22.0	22.0	0.0	21.6	22.1	0.5	24.9	25.0	0.1
25,000 to 49,999	18.9	17.8	-1.1	25.6	24.3	-1.3	20.9	20.8	-0.1	16.1	16.3	0.2	22.3	22.1	-0.2	25.0	24.5	-0.5
50,000 to 74,999	13.8	14.5	0.7	17.4	19.8	2.4	17.0	15.6	-1.4	13.1	14.3	1.2	17.5	16.9	-0.6	18.3	18.0	-0.3
75,000 to 99,999	11.1	9.8	-1.3	10.8	12.1	1.3	10.6	10.3	-0.3	11.7	10.8	-0.9	12.3	11.9	-0.4	11.8	11.7	-0.1
100,000 to 149,999	12.3	11.8	-0.5	11.6	11.5	-0.1	10.8	12.5	1.7	16.7	16.2	-0.5	14.3	14.2	-0.1	11.8	12.1	0.3
150,000 and Over	18.1	20.3	2.2	8.0	8.3	0.3	11.1	12.1	1.0	20.4	20.4	0.0	12.1	12.7	0.6	8.1	8.7	0.6

Source: U.S. Census American Community Survey

This appears to be true at the city level, as well. For instance, in Richmond, the proportion of households earning $49,999 and under decreased by 3.9 percentage points from 2010 to 2011, and the proportion of households earning $100,000 or more increased by just 0.2 percentage points, while the proportion of households earning $50,000 to $99,999 increased by 3.7 percentage points. Indeed, it is only at the state and national level where we see incomes moving closer to the extremes. For example, in the State of California, the proportion of households earning $25,000 or less increased by 0.5 percentage points, and the proportion of households earning $150,000 or more increased by 0.6 percentage points, while the proportion of households in all income categories in between shrank.

On the other hand, a different measurement of income inequality, the Gini index, suggests that income inequality has increased in the past year. Where 1.000 represents perfect income inequality and 0.000 represents perfect income equality, the Gini index for Alameda County increased from 0.459 in 2010 to 0.471 in 2011. The Gini index for Contra Costa County increased from 0.445 in 2010 to 0.470 in 2011. These indices are both below the State of California index, at 0.481, but based on this measurement, income inequality would appear to be growing in the East Bay as the economy recovers. Yet, the evidence is by no means clear.

Income Inequality (GINI Index)

Year	Contra Costa County	Alameda County	California
2006	.453	.45	.466
2007	.451	.458	.469
2008	.456	.455	.473
2009	.456	.449	.467
2010	.445	.459	.471
2011	.47	.471	.481

Source: 2011 U.S. Census Am. Comm. Survey

Percentage of East Bay Population at Each Income Level, by Ethnic Group

Income ($)	White Alone, 2010 (not Hisp./Latino)	White Alone, 2011 (not Hisp./Latino)	1-Year Change	Hispanic or Latino, 2010	Hispanic or Latino, 2011	1-Year Change	Black or Afr. American Alone, 2010	Black or Afr. American Alone, 2011	1-Year Change
Under 25,000	13.5	14.3	0.8	19.1	19.7	0.6	33.4	34.1	0.7
25,000 to 49,999	16.5	16.0	-0.5	27.9	26.5	-1.4	24.3	21.0	-3.3
50,000 to 74,999	15.9	15.4	-0.5	20.0	19.1	-0.9	16.8	17.3	0.5
75,000 to 99,999	12.6	11.7	-0.9	12.7	12.8	1.6	9.8	10.8	1.0
100,000 to 149,999	19.0	19.2	0.2	12.7	14.3	1.6	9.8	10.8	1.0
150,000 and Over	22.5	23.4	0.9	7.6	7.5	-0.1	7.3	6.8	-0.5

Source: U.S. Census American Community Survey

Percentage of East Bay Population at Each Income Level, by Ethnic Group (contd.)

Income ($)	Asian Alone, 2010	Asian Alone, 2011	1-Year Change	Some Other Race Alone, 2010	Some Other Race Alone, 2011	1-Year Change	Two or More Races, 2010	Two or More Races, 2011	1-Year Change
Under 25,000	16.0	16.7	0.7	20.6	17.1	-3.5	18.1	18.7	0.6
25,000 to 49,999	12.5	14.3	1.8	27.0	28.8	1.8	23.3	19.9	-3.4
50,000 to 74,999	16.6	15.0	-1.6	22.0	21.4	-0.6	15.8	14.0	-1.8
75,000 to 99,999	13.6	11.8	-1.8	10.8	12.5	1.7	15.6	13.3	-2.3
100,000 to 149,999	19.1	20.0	0.9	15.0	14.6	-0.4	13.1	18.2	5.1
150,000 and Over	22.2	22.3	0.1	4.6	5.6	1.0	14.1	15.9	1.8

Source: U.S. Census American Community Survey

Across ethnic and racial groups in the East Bay, income distribution appears to relatively unchanged among lower income earners, but the distribution appears to be moving to the extremes among the highest income earners. For example, the proportion of white households earning $49,999 or less increased by 0.3 percentage points from 2010 to 2011, and the proportion of white households earning $100,000 or more increased by 1.1 percentage points, while, in turn, the proportion of white households earning $50,000 to $99,999 decreased by 1.4 percentage points.

Among Asian households in the East Bay, the contrast is even starker. The proportion of households earning under $49,999 increased by 2.5 percentage points, and the proportion of households earning $100,000 or more increased by one percentage point, while the proportion of households earning $50,000 to $99,999 decreased by 3.5 percentage points.

As income levels become more polarized across some ethnic and racial groups in the East Bay from 2010 to 2011, the proportion of residents living in poverty has increased in that same time, as well. The poverty level as defined by the U.S. Census Bureau in 2011 is an individual under 65 years of age earning $11,702 or less per year, and an individual 65 years of age or older earning $10,788 or less per year. In 2011, 12.7% of residents in the East Bay were living in poverty, up a full percentage point from 2010, and up 2.7 percentage points from 2008. The poverty rate has increased across all age groups and has grown especially high for youths, at 16.0% of the total population under 18 in 2011. Also of great concern is the fact that a growing number of seniors in the East Bay are living in poverty: 8.8% of the total population 65 and older in 2011, which is near the high of 8.9% in 2008.

Percentage of East Bay Population Below Poverty Level

Year	Total Population	Under 18	18-64	65 and Over
2006	9.8	12.3	9.4	6.5
2007	10.1	13.2	9.5	7.1
2008	10.0	12.9	9.1	8.9
2009	10.2	13.5	9.8	6.0
2010	11.7	15.3	11.1	8.0
2011	12.7	16.0	12.2	8.8

Source: U.S. Census American Community Survey

Demographics

East Bay Population by Age Group
By Percentage of Total Population

Year	0-14	Chg	15-24	Chg	25-44	Chg	45-54	Chg	55-64	Chg	65 and Over	Chg
2006	20.4		13.3		29.1		15.3		10.9		11.0	
2007	19.7	-0.7	13.7	0.3	28.6	-0.5	15.5	0.2	11.4	0.5	11.2	0.2
2008	19.7	0.0	13.7	-0.0	28.1	-0.5	15.5	0.0	11.7	0.3	11.4	0.2
2009	19.8	0.1	12.7	-0.9	29.3	1.2	15.4	-0.2	11.4	-0.3	11.4	0.1
2010	19.4	-0.4	13.3	0.5	28.7	-0.6	15.1	-0.3	11.9	0.5	11.7	0.3
2011	19.2	-0.2	16.7	3.4	28.5	-0.2	14.9	-0.1	12.2	0.3	12.0	0.3

Source: U.S. Census American Community Survey

We showed in our May report that as the population of the East Bay increased throughout the latter half of the 2000s, it also got proportionally older. In 2011, the trend was generally similar, with one large exception. The proportion of residents age 15-24 increased substantially in 2011, from approximately 13.3% of the population to approximately 16.7% of the population. Yet, every other age group under 55 decreased in proportion to the overall population in 2011. On the other hand, the proportion of East Bay residents age 55 and over increased by 0.6. In essence, the population of the East Bay strangely seemed to get younger in 2011, even as the proportion of children and adults age 25-54 decreased. Again, though, we see that more and more residents of the East Bay are nearing retirement age, and thus East Bay leaders and leaders at the state level must be prepared for an increase in demand for social services such as health services and social security. On the other hand, as we observed in the case of health insurance, these demands are already to some degree undersupplied.

Population Increase Over Time

Year	East Bay		San Francisco		South Bay	
	Natural Increase	Net Migration	Natural Increase	Net Migration	Natural Increase	Net Migration
2006	18,027	-7,196	2,441	832	17,741	-3,423
2007	18,767	3,942	3,081	5,325	18,400	4,088
2008	18,413	9,008	3,215	4,124	18,438	4,769
2009	17,015	5,240	3,226	-100	17,097	-1,741
2010	16,594	1,763	3,088	2,290	15,555	-2,892
2011	15,919	5,183	3,138	3,773	15,000	3,308

Source: CA Dept. of Finance

Year after year, the majority of the increase in population in the East Bay comes from natural increase rather than net migration. In 2011, the population grew over three times greater through births than through in-migration. Clearly, though, the East Bay continues to appeal to individuals from other parts of the United States and from other countries, as net migration has remained positive since 2006. Indeed, after a comparatively slow year for net migration in 2010, with just 1,763 new residents, net migration rebounded in 2011 with a total of 5,183 new residents. In contrast, though the South Bay gained over 3,300 new residents through net migration in 2011, it marked the first time since 2008 that net migration was positive in the region. Though the East Bay population is much higher than that of San

Francisco or the South Bay, the high proportion of population growth due to net migration each year shows that the East Bay remains an especially desirable destination for individuals relocating to the Bay Area.

Conclusion

The East Bay economy has shown very positive signs in the labor market, the housing market, in tourism, and in consumer spending. Quality of life measures like education are moving up quickly, as well. But there remains much to be done before the region's economy is truly in full recovery. The demand for important social services like food assistance is still on the rise. Substantial differences in levels of education across ethnic and racial groups leave some residents at a fundamental disadvantage as they attempt to find work in an increasingly high-skill labor market. Yet, even as these obstacles may limit both the economic growth of the region and the quality of life of its citizens, the East Bay has taken some important steps forward and is poised for an even stronger year ahead.

About Beacon Economics

Beacon Economics is a leading provider of economic research, forecasting, industry analysis, and data services. The firm's internationally recognized forecasters were among the first and most accurate predictors of the U.S. mortgage market meltdown that began in 2007—and among a relatively small handful of researchers who correctly calculated the depth and breadth of the financial and economic crisis that followed. By delivering independent, rigorous analysis, Beacon Economics gives its clients the knowledge they need to make the right strategic decisions about investment, growth, revenue, and policy. The firm's clients span both the public and private sector, ranging from the California State Controller's Office to major universities to one of Wall Street's most successful hedge funds. Core service areas include economic and revenue forecasting, economic impact analysis, economic policy analysis, regional economic analysis, real estate market and industry analysis, and EB-5 Visa analysis. Visit Beacon Economics' website at www.BeaconEcon.com to learn more.

Services

- Economic & Revenue Forecasting
- Business, Industry, & Market Analysis
- Economic Development Analysis
- Ports & Infrastructure Analysis
- Public Speaking
- Expert Testimony

Contacts

- **Sherif Hanna**
  Managing Partner
  (424) 646-4656
  Sherif@BeaconEcon.com
- **Victoria Pike Bond**
  Director of Communications
  (415) 457-6030
  Victoria@BeaconEcon.com