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Analysis of the Oakland, California Housing Market As of July 1, 2004



ECONOMIC RESEARCH

U.S. Department of Housing and Urban Development

Foreword

This analysis has been prepared for the assistance and guidance of the U.S. Department of Housing and Urban Development (HUD) in its operations. The factual information, findings, and conclusions may also be useful to builders, mortgagees, and others concerned with local housing market conditions and trends. The analysis does not purport to make determinations regarding the acceptability of any mortgage insurance proposals that may be under consideration in a particular locality or the housing market area.

The factual framework for this analysis follows the guidelines developed by HUD's Economic and Market Analysis Division. The analysis and findings are as thorough and current as possible based on information available on the "as-of" date from local and national sources. As such, any findings or conclusions may be modified by subsequent developments. HUD wishes to express its appreciation to those industry sources and state and local government officials who provided data and information on local economic and housing market conditions.

This analysis takes into consideration changes in the economic, demographic, and housing inventory characteristics of the market area during three periods: from 1990 to 2000, from 2000 to the as-of date of the analysis (Current date), and from the Current date to a Forecast date. The analysis presents counts and estimates of employment, population, households, and housing inventory as of the 1990 Census, 2000 Census, Current date, and Forecast date. For purposes of this analysis, the forecast period is 36 months.

The prospective demand expressed in the analysis should not be construed as a forecast of building activity; rather, it presents the prospective housing production that would maintain a reasonable balance in the demand-supply relationship given the market's condition on the as-of date of the analysis. This analysis was prepared by Lall B. Ramrattan, the Division's Field Economist in the California State Office, based on fieldwork conducted in May 2004. Questions regarding the findings and conclusions of the analysis may be addressed to Mr. Ramrattan at 415-489-6519 and at lall_b._ramrattan@hud.gov.

Housing Market Area

The Oakland, California Housing Market Area (HMA), which comprises Alameda and Contra Costa Counties, is referred to locally as the East Bay area. For the purposes of this analysis, Alameda and Contra Costa Counties are two submarkets of the Oakland HMA.

Summary

A widespread slowdown in nonfarm employment began in 2002 when the number of nonfarm jobs declined from 1,054,800 in 2001 to 1,039,800 in 2002, or by 1.5 percent, affecting all sectors except government, other services, and financial activities. The unemployment rate has increased to 6 percent as of July 1, 2004 (the Current date), due to the continued growth in the labor force and the decline in employment.

For the 12 months ending June 2004, the service, construction, financial, and trade/transportation/utilities sectors are showing strong growth, an indication of the start of a potential net growth in the local economy.

The HMA has had a relatively stable rate of population growth since 1990. From 1990 to 2000, the population grew 1.4 percent annually. From 2000 to the Current date, the rate was 1.3 percent annually. Housing demand and construction have remained relatively strong through the current period.

The rental market in the HMA remains relatively tight. As of the Current date, the rental vacancy rate is estimated to be 4.5 percent.

The HMA sales market remains very strong. As of July 1, 2004, the supply of vacant, available units for sale was less than 1 percent. Local sources estimate that demand for sales housing is, on average, twice the supply. Because of the relatively high prices and low supply in the HMA, many potential buyers are purchasing homes in nearby housing markets, such as Stockton, Modesto, Sacramento, and Monterey.

The strength of the sales market and price appreciation have encouraged an increase in multifamily condominium construction and conversions. Recent changes in state laws governing condominiums have encouraged an increase in the supply of condominiums.

Job creation has been sluggish in the HMA since 2001. Additional job growth is expected over the forecast period, however, led mainly by the service, construction, and trade/transportation/utilities sectors.

Economy of the Area

The economic base of the Oakland HMA differs from the neighboring San Francisco area's reliance on banking, professional services, and tourism. Oakland also differs from the adjacent San Jose-Silicon Valley area's concentration on technological research and

development. The primary engines for growth in the Oakland HMA are transportation, shipping, education, and scientific research.

The Port of Oakland ranks third in the nation in container shipping activity. It also operates the Oakland International Airport, which offers more than 1,000 weekly flights worldwide.

The HMA is also gaining a reputation for its biotechnology research activities centered at the University of California, Berkeley (UC Berkeley); the Lawrence Berkeley National Laboratory; and the Lawrence Livermore National Laboratory. Of the approximately 600 biotechnology companies in Northern California, approximately one-third operate in the East Bay area.

The East Bay's leading private sector employer is the Kaiser Foundation Health Plan with 22,500 employees in the managed healthcare sector. The second leading private employer in the HMA is SBC Communications (Southern Bell) with 11,800 employees in telecommunication services in 2003. Other leading employers in the HMA include UC Berkeley with approximately 15,500 employees and the Lawrence Berkeley National Laboratory with 3,150 employees. The Alameda County Government employs an estimated 11,000 employees, followed by the Oakland Unified School District with approximately 7,400 employees.

Because the economy of the Oakland HMA is less dependent on high-technology jobs than Silicon Valley or the types of services San Francisco offers, the factors that led to the employment losses in these neighboring areas since 2000 have not had nearly as significant an impact on the HMA.

From 1990 to 1995, nonfarm employment in the Oakland HMA expanded by approximately 3,650 jobs, or 0.4 percent, annually. In the second half of the 1990s, the number of jobs increased dramatically by approximately 22,900 jobs annually, a 2.4-percent annual gain. In 2001, only 10,200 jobs were added to the economy, followed by a loss of 15,000 jobs in 2002. For the 12 months ending June 2004, nonfarm employment averaged approximately 1,020,700 jobs, an increase of approximately 3,000 jobs annually, or 0.3 percent, from 2000. During the 12 months ending June 2004, the service, construction, and trade/transportation/utilities sectors demonstrated strong growth, adding 1,700, 1,500, and 1,100 jobs, respectively, compared with the same period ending June 2003. Approximately 1,800 financial sector jobs were added during the period. The manufacturing, wholesale, and government sectors lost 4,850, 4,300, and 4,800 jobs, respectively, during the 12 months ending June 2004.

Recent activity in the economy suggests that the HMA is in the early stages of a recovery. Net employment growth is expected to occur at an increasing rate during the 3-year forecast period. The slowly recovering high-technology base in the adjacent Silicon Valley area is anticipated to contribute to the economic improvement in the Oakland HMA, especially in the telecommunications sector.

Stable job growth sectors during the forecast period will be research, government, and education at institutions such as UC Berkeley, California State University in Hayward, Lawrence Livermore National Laboratory, and the Lawrence Berkeley National Laboratory.

Trends in the annual average civilian labor force and total employment from 1992 to 2003 are presented in Table 1. Similar trends for nonfarm employment by industry sector from 1992 to the Current date are presented in Table 2. Since 2001, job creation has been sluggish in the HMA.

Household Incomes

According to HUD's Economic and Market Analysis Division, the Fiscal Year 2004 median family income in the Oakland metropolitan area was \$82,200.

Population

Despite the slowdown in the economy, the HMA continues to register a healthy rate of population growth and in-migration. As of July 1, 2004, the population of the HMA was 2,523,800 people, an average annual gain of 1.3 percent since the 2000 Census, only slightly below the 1.4-percent annual rate of growth that occurred between 1990 and 2000. Population growth from 2000 to the Current date has been more rapid in Contra Costa County, at approximately 1.7 percent a year, than in Alameda County with an estimated 1-percent average annual increase. As of the Current date, the population of Contra Costa County is estimated at 1,013,800. Much of the difference in the growth rates between the two submarkets is due to the greater availability of land in its suburban areas, such as the cities of Antioch, Brentwood, Pleasanton, and Fremont. This land availability has also facilitated construction of more relatively affordable housing.

The trends in population for the HMA and its two submarkets from 1990 through the Forecast date are presented in Table 3. The components of population change in the HMA indicated a net natural increase (resident births minus resident deaths) of approximately 18,500 people annually from 1990 to 2000—11,900 people in Alameda County and 6,600 people in Contra Costa County. During the forecast period, the net natural increase is expected to be 18,400 people annually. The increase in net migration averaged 12,450 people annually during the 1990s and slightly less, 12,250 annually, from 2000 to the Current date.

According to a November 2003 Census Bureau press release, of the 20 largest metropolitan areas, the Bay Area (San Francisco-Oakland-San Jose Consolidated Metropolitan Statistical Area) had the largest net in-migration of single college graduates in the 25- to 39-year age group.

During the forecast period, the population of the HMA is expected to increase by an average of 30,650 annually to a total of 2,614,800. The pattern of growth since 2000 will continue through the forecast period.

Households

Household growth rates have closely followed population growth rates in the Oakland HMA. From 1990 to 2000, the average annual increase in the number of households was 8,775, or 1.1 percent. As the economy and in-migration slowed, growth in households declined to an average of 7,650 annually, or 1.0 percent, from 2000 to the Current date. Similar to the trend in population growth, the growth in the number of households is occurring faster in Contra Costa County than in Alameda County. As of the Current date, the number of households in the HMA totaled 900,000. Table 3 presents the trends in households from 1990 through the Forecast date for the HMA and its submarkets.

During the forecast period, a 1.0-percent annual increase in household growth is expected. Current characteristics of household size and the rate of population growth expected as a result of employment increases and increased in-migration indicate an increase of 9,200 households annually during the 3-year forecast period for a total of 927,600 households by July 2007.

Housing Inventory

As of the Current date, an estimated 930,600 housing units are in the HMA, indicating an annual average increase of 8,425 since the 2000 Census. Construction activity in Alameda County has added approximately 3,725 units each year, and the housing inventory in Contra Costa County has grown by an estimated 4,700 units annually. The housing inventory, occupancy, and vacancy by tenure in the HMA for 1990, 2000, and the Current date are presented in Table 4.

From 1990 through 1994, single-family building permit activity averaged 5,000 homes annually. Activity rose significantly to an annual average of 6,825 permits from 1995 through 1999, reflecting demand spurred by lower interest rates and stronger economic growth. From 2000 through 2003, single-family permit activity averaged approximately 6,975 homes annually. The downturn in the local economy has had little effect on demand for new homes.

Building permit activity for single-family and multifamily housing for the HMA and Alameda and Contra Costa Counties from 1992 to 2003 is presented in Table 5. Single-family construction has increased from 75 percent of total building permit activity during the first half of the 1990s to 80 percent from 2000 to the Current date.

From 1990 to 1999, multifamily building activity increased at a slower pace than single-family activity. From 1990 to 1994, multifamily unit permit authorizations averaged 1,700 units annually, and from 1995 to 1999, they averaged 1,900 units a year. From 2000 to the Current date, multifamily building permits averaged 2,800 units annually. Approximately 4,200 units were authorized in 2003 alone.

Condominium units accounted for 2 percent of the owner housing stock in the HMA in 1990, 5 percent in 2000, and an estimated 8 percent in 2003. During the last 15 years, this rate of growth might have been higher, as legal issues in California related to builder

liability for condominium construction defects resulted in increased insurance costs for developers and made insurance coverage more difficult to obtain; these factors reduced developers' interest in condominium projects and delayed planning approvals for proposed condominiums. A recent state law that applies to condominiums sold after January 1, 2003, and enables builders to fix defects before owners can sue them, however, has already rekindled interest in condominium construction. As of the Current date, new condominiums are being constructed in the Fremont, Berkeley, and Oakland areas in Alameda County and Danville in Contra Costa County.

Manufactured housing is a small and declining share of the housing inventory in the HMA; no manufactured housing parks have been built in recent years. According to counts from the 1990 and 2000 Censuses, the number of manufactured homes decreased from 13,512 in 1990 to 13,294 in 2000. State data also indicate that the number of units of manufactured housing remained fairly constant from 2000 to 2003, going from 7,650 to 7,630 units in Alameda County and from 7,579 to 7,589 units in Contra Costa County.

Housing Vacancy

During the 1990s, housing production could not keep pace with the growing demand. As a result, vacancy rates declined significantly as the number of available units decreased. The vacancy rate for units for sale declined from 1.6 percent in 1990 to 0.7 percent in 2000. The rental vacancy rate declined from 5.8 to 2.6 percent during this same period. Given current and anticipated construction volumes, the vacancy rate for units for sale is expected to remain very low during the forecast period.

Sales Market Conditions

The sales market in the HMA is very strong. Total new home sales increased from 5,250 units in 2002 to 6,707 units in 2003, an increase of 27.8 percent.

Planning, zoning, and land use controls have lengthened the development process in the HMA. Local sources indicate, however, that adequate supplies of undeveloped buildable land exist in the outlying rural areas. Local housing experts, including the Association of Bay Area Governments and UC Berkeley, indicate that meeting the new construction needs for the next 20 years may require building approximately 223,800 new homes and apartment units.

Rental Market Conditions

The current rental market condition in the HMA is tight, and demand for new units is strong. The tight market conditions are the result of the limited supply of both affordable rentals and sales housing. The overall housing shortage in the HMA encourages apartment construction; this situation is expected to prevail over the next 20 years. According to local analysts, the rate of apartment production since 1990 was approximately 50 percent below potential demand. Although conditions are balanced in some cities, such as Antioch, Brentwood, Livermore, and San Ramon, continued

shortages are reported in the cities of Oakland, Hayward, Fremont, and Alameda, and in other areas.

Forecast Housing Demand

The demand for new housing will be strong in the 3-year forecast period ending July 1, 2007. Based on current market conditions, expected household growth, and the need to replace units lost from the inventory, demand is estimated for approximately 22,000 new units of sales housing and 6,000 new rental units.

Table 6 presents the annual demand in the HMA for new rental units distributed by the number of bedrooms and rent levels. Using building permits as an indicator, the annual forecast of approximately 2,000 rental units is in line with the annual building permit volume for the 3 years ending in 2003. The rental unit demand forecast reflects slow growth for the first 2 years—approximately 1,450 units annually—and a third year of increased demand for 3,100 units. The demand distribution by bedroom sizes and rents is based on data from the 2000 Census related to the distribution of renter households by size, the distribution of the rental inventory and production, and current trends in market conditions.

Table 6 shows that the annual demand through the Forecast date is highest for two-bedroom units—1,180 units with minimum gross rents of \$1,375 a month. The demand for one-bedroom units is estimated to total 400 units annually, with minimum rents of \$1,200. A 400-unit demand each year for three-bedroom units with minimum monthly rents of \$1,575 is also estimated. During the 3-year forecast period, limited additional demand for approximately 60 efficiency or studio units is anticipated.

Table 1
Labor Force and Total Employment
Oakland HMA
1992 to 2003

	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Labor Force	1,121,100	1,118,200	1,134,700	1,127,500	1,132,600	1,163,200	1,177,200	1,198,000	1,233,900	1,256,900	1,276,400	1,268,000
Employment	1,047,700	1,044,600	1,065,300	1,062,700	1,076,600	1,113,200	1,131,000	1,158,700	1,198,600	1,206,100	1,197,900	1,188,300
Unemployment	73,400	73,600	69,400	64,800	56,000	50,000	46,200	39,300	35,300	50,800	78,500	79,700
Rate (%)	6.5	6.6	6.1	5.7	4.9	4.3	3.9	3.3	2.9	4.0	6.2	6.3

Note: Numbers may not add to totals due to rounding.

Source: California State Employment Department

Table 2
Nonfarm Employment by Industry
Oakland HMA
1992 to 2003

Employment Sector	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	Current 12 Mos.
Total Nonfarm	870,200	873,500	877,400	897,500	916,400	947,800	976,200	1,008,000	1,044,600	1,054,800	1,039,800	1,020,667
Goods-Producing	142,300	137,900	137,700	145,200	154,100	162,300	170,000	174,500	184,400	184,500	171,400	165,317
Constr., Res., & Mining	41,000	40,300	40,100	42,500	45,900	48,900	53,200	60,000	65,500	69,700	66,600	68,300
Manufacturing	98,100	94,500	94,900	100,200	105,900	111,000	114,600	112,100	116,500	113,200	103,600	96,200
Durable Goods	53,500	52,600	54,500	58,700	65,300	69,900	72,900	72,100	76,200	73,100	64,900	59,233
Nondurable Goods	44,600	42,000	40,400	41,600	40,600	41,100	41,700	40,000	40,300	40,100	38,700	34,100
Service-Producing	727,800	735,600	739,700	752,300	762,300	785,400	806,200	833,500	860,200	870,300	868,500	855,125
Trans. & Utilities	177,300	178,300	179,700	183,800	187,000	192,900	195,600	202,700	207,600	210,000	204,600	196,108
Wholesale & Retail Trade	143,600	144,400	143,600	145,900	148,200	152,800	155,500	161,000	166,000	168,700	165,100	159,325
Wholesale	41,400	41,100	41,200	42,300	43,900	46,500	49,800	51,500	53,700	55,400	53,100	50,392
Retail	102,200	103,300	102,400	103,600	104,300	106,300	105,700	109,500	112,300	113,300	112,000	108,933
Prof. & Bus. Svcs.	112,400	116,400	119,100	123,700	128,900	142,300	151,600	160,200	170,200	159,000	149,600	143,167
Government	169,800	169,600	169,900	169,800	168,200	167,900	168,900	173,000	176,600	178,800	184,200	179,675
Federal	30,200	29,000	28,100	26,800	24,700	22,100	20,900	20,400	21,000	19,200	18,600	17,592
State	41,400	42,800	43,400	43,800	43,200	43,000	43,900	45,600	45,900	47,300	49,100	48,275
Local	98,200	97,700	98,400	99,200	100,300	102,800	104,100	107,100	109,700	112,300	116,500	113,825
Other Services	83,800	82,700	81,400	79,700	79,600	81,800	83,100	85,000	89,600	96,300	97,700	99,017
Information	29,500	28,900	29,100	29,100	29,700	32,600	34,300	35,000	39,000	37,700	35,200	30,975
Financial Activities	54,300	53,800	52,300	50,600	49,900	49,200	48,800	50,000	50,600	58,600	62,500	68,042

Notes: Numbers may not add to totals due to rounding.

1992 and 1993 data are by Standard Industrial Classification; 1994 and later are by North American Industry Classification System.

Source: California State Employment Department

Table 3
Population and Household Trends
Oakland HMA
1990 to July 1, 2007

	April 1, 1990	April 1, 2000	Current Date	Forecast Date	Average Annual Change					
					1990 to 2000		2000 to Current		Current to Forecast	
					Number	Rate (%)	Number	Rate (%)	Number	Rate (%)
Population										
Oakland HMA	2,082,914	2,392,557	2,522,800	2,600,000	30,950	1.4	30,650	1.3	25,750	1.0
Alameda County Submarket	1,279,182	1,443,741	1,509,000	1,551,100	16,450	1.2	15,350	1.1	14,050	1.0
Contra Costa County Submarket	803,732	948,816	1,013,800	1,049,000	14,500	1.7	15,300	1.6	11,700	1.1
Households										
Oakland HMA	779,806	867,495	901,100	927,300	8,775	1.1	7,900	1.0	9,200	1.0
Alameda County Submarket	479,518	523,366	538,800	553,700	4,400	1.0	3,650	1.0	4,300	1.0
Contra Costa County Submarket	300,288	344,129	363,800	375,100	4,400	1.4	4,600	1.0	4,900	1.3

Sources: 1990 and 2000—U.S. Census Bureau
 Current and Forecast— Estimates by analyst

Table 4
Housing Inventory, Tenure, and Vacancy
Oakland HMA
1990 to July 1, 2004

	Oakland HMA			Alameda County Submarket			Contra Costa County Submarket		
	1990	2000	Current	1990	2000	Current	1990	2000	Current
Total Housing Inventory	820,279	894,760	930,600	504,100	540,183	559,400	316,170	354,577	374,600
Occupied Units	779,806	867,495	901,100	479,518	523,366	538,800	300,288	344,129	363,800
Owners	458,280	524,726	558,600	255,386	286,277	300,600	202,894	235,449	258,100
%	59.0	61.3	62.0	53.3	54.7	56.0	67.6	69.3	71.0
Renters	321,526	342,769	342,400	244,132	237,089	238,200	97,394	105,680	105,700
%	41.0	38.7	38.07	46.7	45.3	44.0	32.4	30.7	29.0
Vacant Units	40,473	27,265	29,500	24,591	16,817	20,650	15,882	10,448	10,800
Available Units	26,979	12,800	17,640	16,715	8,005	13,050	10,264	4,796	6,550
For Sale	7,320	3,765	3,400	3,742	1,919	1,825	3,578	1,846	1,550
Rate (%)	1.6	0.7	0.6	1.4	0.7	0.6	1.7	0.8	0.6
For Rent	19,659	9,036	14,200	12,973	6,086	11,250	6,686	2,950	4,975
Rate (%)	5.8	2.6	4.5	5.5	2.5	4.5	6.4	2.7	4.5
Other Vacant	13,494	14,464	11,900	7,876	8,812	7,600	5,618	5,652	4,250

Sources: 1990 and 2000—U.S. Census Bureau
 Current—Estimates by analyst

Table 5
Residential Building Permit Activity
Oakland HMA
1992 to 2003

	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Oakland HMA												
Total	6,965	5,661	6,955	6,167	7,033	9,723	9,973	10,840	10,004	8,169	9,319	11,342
Single-family	5,636	4,650	5,891	5,331	5,831	7,190	6,939	8,852	7,256	5,908	7,572	7,171
Multifamily	1,329	1,011	1,064	836	1,202	2,533	3,034	1,988	2,748	2,261	1,747	4,181
Alameda County Submarket												
Total	3,072	2,206	3,044	2,801	3,509	6,277	5,831	6,427	4,525	3,249	3,555	4,459
Single-family	2,357	1,636	2,208	2,277	2,753	4,112	3,795	4,943	3,071	1,764	2,501	2,138
Multifamily	715	570	836	524	756	2,165	2,036	1,484	1,454	1,485	1,054	2,331
Contra Costa County Submarket												
Total	3,893	3,455	3,911	3,366	3,524	3,446	4,142	4,413	5,479	4,920	5,764	6,883
Single-family	3,279	3,014	3,683	3,054	3,078	3,078	3,144	3,909	4,185	4,144	5,071	5,033
Multifamily	614	441	228	312	446	368	998	504	1,294	776	693	1,850

Sources: U.S. Census Bureau, C40 Series Construction Reports
U.S. Census Bureau, Building Permits Survey

Table 6
Estimated Qualitative Annual Demand for New Market-Rate Rental Housing
Oakland HMA
July 1, 2004 to July 1, 2006

Zero Bedrooms		One Bedroom		Two Bedrooms		Three Bedrooms	
Monthly Gross Rent (\$)	Units of Demand	Monthly Gross Rent (\$)	Units of Demand	Monthly Gross Rent (\$)	Units of Demand	Monthly Gross Rent (\$)	Units of Demand
1,100	20	1,200	400	1,375	1,180	1,575	400
1,150	20	1,250	350	1,425	990	1,625	330
1,200	15	1,300	325	1,475	880	1,675	300
1,250	10	1,350	280	1,525	750	1,725	270
1,300	10	1,400	235	1,575	620	1,775	240
1,350	0	1,450	190	1,625	500	1,825	210
1,400	0	1,500	150	1,675	390	1,875	180
1,500	0	1,600	115	1,775	310	1,975	160
1,600	0	1,700	90	1,875	240	2,075	140
1,700	0	1,800	70	1,975	190	2,175	80
1,800	0	1,900	50	2,075	140	2,275	40
1,900	0	2,000	35	2,175	35	2,375	35
2,000	0	2,100	25	2,275	0	2,475	30
2,100 or higher	0	2,200 or higher	0	2,375 or higher	0	2,575 or higher	30

Notes: Distribution above is noncumulative.
Demand of fewer than 10 units is shown as 0.

Source: Estimates by analyst