

Report calls S.F. state's strongest economy

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(10-20) 17:39 PDT SAN FRANCISCO -- Home prices and taxable sales will fall in the San Francisco metropolitan area while rents rise and unemployment climbs.

But the 1.8 million residents of Marin, San Mateo and San Francisco counties still live in California's strongest economic region and should suffer less from the housing bust than the rest of California, says a forecast being issued Tuesday.

"Things will be rough here, but not nearly as rough as the Inland Empire (in Southern California) or in Contra Costa County," said Chris Thornberg with Beacon Economics. The firm, which has offices in San Rafael and Los Angeles, is scheduled to present its forecast this morning at San Francisco's Hyatt Regency Hotel.

The 113-page report calls the three-county metropolitan area "the strongest economy in the state of California at the moment," but warns that it still will be hurt by the housing collapse that has crippled the global financial system and undermined the world economy.

The forecast tries to predict economic conditions in the three-county zone through the first quarter of 2010 and suggests that:

- Home prices will fall roughly 25 percent from their peak.
- Taxable sales will drop by 10 percent across the region.
- Payrolls will shrink by 2.5 percent over the next two years.
- Rental rates are likely to continue to rise, particularly in San Francisco, where 60 percent of households are renters.

Thornberg said the worst part of the downturn will be an increase in unemployment, which has already begun.

"When you get down to it, unemployment is the recession and the pain tends to be focused on those who lose their jobs," he said.

The three-county region now has about 1 million nonfarm payroll jobs, but that number is expected to shrink by 22,000 over the next two years to stand at 978,000 in the first three months of 2010, according to the forecast.

The report highlights the importance of the region's small-business sector as a variable that could either cushion or accelerate job losses. It says that nationwide, about 19 percent of all employees work for firms with fewer than 50 employees. But in the three-county region that figure is 40 percent.

"Small-business activity is a more significant contributor to the economy in the San Francisco metro area than in the United States overall," the report states, adding: "Small businesses create jobs and not just a few jobs but many."

Tourism has so far helped buoy the region, but a strengthening dollar coupled with economic weakness in Europe could undermine one of the props that has so far sustained the region's retail economy, Thornberg said.

"A recession, whether experienced in California, nationwide or globally, threatens convention business in the San Francisco metropolitan area," the report says. "It will be a challenge for the region to keep its hotels filled."

Economic softness is expected to hit commercial real estate, which had begun to recover from the dot-com bust. But the forecast assumes that the region's prestige and proximity to Silicon Valley will merely slow the growth of rental rates in the metropolitan area - put at 11 percent last year - rather than lead to a collapse.

"Rent growth is expected to fall to just 1 percent over the next year, although over a five-year horizon it should average a more



moderate 3.5 percent in the region," according to the forecast.

But individual renters will get no such relief as the region's relative economic strength and desirable lifestyle draws job seekers and shrinks the vacancy rate which, at about 4.3 percent, is among the lowest in the state. "Over the last two years, average asking rents have continued to rise," noted the report, which expects the landlords' market to continue for now.

Economic forecast

An economic forecast being issued today suggests that the area made up of San Francisco, San Mateo and Marin counties will escape the worst of the downturn but will still suffer:

-- 25 percent drop in home prices from their peak.

-- 10 percent decline in taxable sales.

-- 2.5 percent decline in payroll employment.

Beacon Economics

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