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Publication Date

1990-06-07

Quarterly Report

Center for Real Estate and Urban Economics • University of California, Berkeley • 1990:2

California Employment Growth and Office, Industrial, and Retail Markets, 1990

THE California economy has begun to slow in 1990, raising questions about the strength of the market for office, industrial, and retail space throughout the state. Heavy building activity in office and industrial markets in the first half of the 1980s and expanded retail building in the second half of the 1980s have left the state with ample supplies of nonresidential space in many markets. Strong employment growth bolstered absorption of space in the last half of the decade. The 1990s, however, may see slower employment growth, slower expansion of nonresidential space, and a shift in the location of new growth.

Employment Growth Slows in 1990

Employment growth in California remained strong throughout 1989, despite a slowdown in the rate of growth nationwide. Total nonagricultural employment increased by 3.5% in 1989, at a rate of growth similar to that experi-

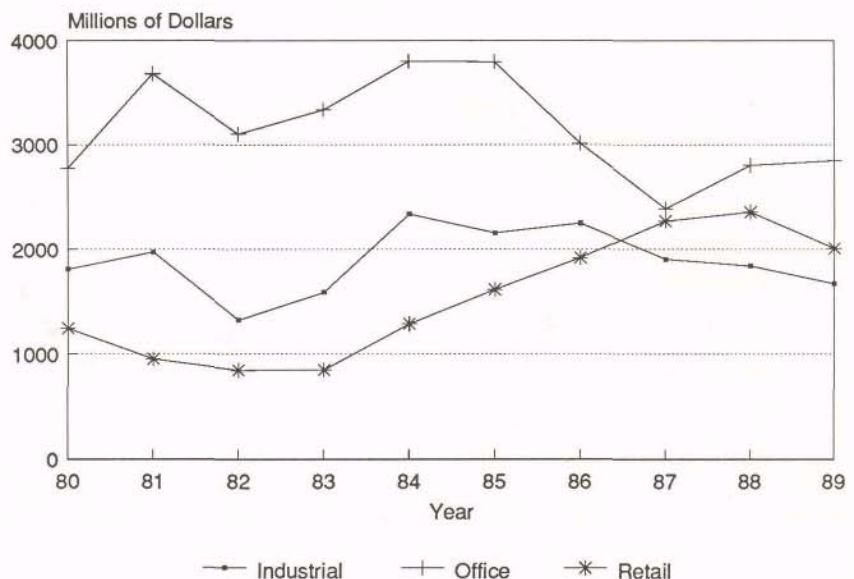
enced in 1988 and substantially higher than the average rate of employment growth for the decade (2.7%). The first quarter of 1990, however, shows statewide

employment growth slowing to a rate of 2.4%.

If employment continues to grow at this slower rate, all sec-

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FIGURE 1
Industrial, Office, and Retail Permits
California, 1980-1989



Note: Adjusted for inflation, 1989 base.
Source: CIRB.

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tors of the economy are likely to be affected, but some will have particularly strong impacts on the nonresidential market. Manufacturing employment did not expand rapidly in the 1980s al-

though it grew significantly faster in California than nationwide. Manufacturing employment in the first quarter of 1990 was 0.6% below the first quarter 1989 figures, an absolute drop in the number employed. Growth in employment in wholesale (another major user of industrial space) has also slowed, from an annual rate of 5.1% in 1989 to a rate of 3.1% in 1990, but remains at a rate equiva-

lent to that experienced for much of the 1980s (see Table 1).

Office-type employment sectors grew strongly in California in the last half of the 1980s (see Table 2). Employment in finance, insurance and real estate (FIRE) grew by 3.6% in 1989, compared to 3.3% yearly for the decade, while services employment jumped by 5.4% in 1989, compared to an annual growth rate of

TABLE 1
Nonagricultural and Manufacturing Employment Growth
1989 and 1990

COUNTY/MSA	Total Nonagricultural Employment			Manufacturing Employment			Wholesale Employment		
	1989 Emp	Annual Rate of Growth		1989 Emp	Annual Rate of Growth		1989 Emp	Annual Rate of Growth	
		88-89	1st Q 90		88-89	1st Q 90		88-89	1st Q 90
Southern California									
Los Angeles	4,222.9	3.1%	2.3%	891.7	-0.7%	-1.1%	312.3	4.6%	1.9%
Anaheim	1,196.0	4.1%	2.3%	259.1	0.1%	-0.3%	77.5	8.2%	5.3%
Riverside/San Bernadino	682.5	7.2%	6.4%	88.4	4.2%	3.0%	26.7	14.1%	10.5%
San Diego	962.8	5.0%	4.8%	135.0	3.8%	2.5%	43.8	6.8%	7.2%
Santa Barbara	149.5	2.0%	1.3%	22.6	1.3%	-0.4%	6.0	5.3%	4.0%
Ventura	225.7	4.1%	3.9%	31.1	-1.3%	-0.4%	10.7	3.9%	2.5%
SF Bay Area									
Fairfield/Vallejo/Napa MSA	133.4	3.5%	4.8%	12.7	4.1%	4.5%	3.4	0.0%	3.0%
Oakland MSA	885.7	4.3%	3.8%	114.8	3.5%	2.1%	52.4	7.8%	0.9%
San Francisco MSA	957.7	2.3%	2.0%	81.7	1.7%	0.5%	61.6	1.7%	0.9%
San Jose MSA	828.7	1.3%	0.7%	269.8	1.1%	-0.7%	53.8	4.9%	2.5%
Santa Rosa/Petaluma MSA	135.2	3.9%	7.2%	21.0	4.0%	4.3%	5.9	3.5%	11.9%
Central Valley									
Fresno	217.1	3.8%	6.1%	24.2	2.5%	7.7%	13.4	3.1%	4.7%
Bakersfield	167.1	1.8%	0.6%	10.6	-1.9%	-1.9%	7.5	5.6%	0.9%
Sacramento MSA	598.6	4.4%	4.3%	43.7	3.3%	4.5%	27.9	2.2%	2.2%
Stockton	151.6	2.5%	2.5%	24.3	-0.8%	1.0%	7.6	1.3%	7.7%
Modesto	114.2	5.3%	4.9%	24.3	3.4%	0.9%	5.8	5.5%	6.0%
California	12,521.5	3.5%	2.4%	2,158.6	-0.4%	-0.6%	767.3	5.1%	3.1%

Source: Employment Development Department, California.

4.7% for the decade. Growth has been slower in both major sectors in the first quarter of 1990. Nevertheless, employment in both FIRE and services remains at a 3% annual rate or greater.

Unlike FIRE and service sectors, retail employment grew relatively slowly in 1989 (at a rate of 2.6% compared to an annual rate of 3% for the decade) and has slowed further, to an annual rate

of growth of 1.8%, in the first quarter of 1990.

Regional Strengths and Weaknesses

The rate of employment growth varies sharply among and within regions of California. Total employment in large regions, such as the San Francisco Bay Area and Southern California, is growing at approximately the statewide and

nationwide rate. However, within these regions, metropolitan areas (MSAs) with expanding real estate markets and a sizable existing employment base are experiencing strong employment growth. Employment continues to expand by over 6% annually in the San Bernardino/Riverside area, by over 7% in the Santa Rosa (Sonoma County) area, and by

(Continued on page 4)

**TABLE 2
Office and Retail Related Employment Growth
1989 and 1990**

COUNTY/MSA	Finance, Insurance, and Real Estate Employment			Services Employment			Retail Employment		
	1989 Emp	Annual Rate of Growth		1989 Emp	Annual Rate of Growth		1989 Emp	Annual Rate of Growth	
		88-89	1st Q 90		88-89	1st Q 90		88-89	1st Q 90
Southern California									
Los Angeles	291.9	3.5%	3.3%	1,176.7	5.6%	4.1%	652.2	2.7%	2.5%
Anaheim	95.4	1.8%	1.8%	308.4	6.7%	3.5%	225.6	4.8%	2.0%
Riverside/San Bernadino	28.7	5.1%	4.7%	159.3	6.9%	6.4%	142.2	5.6%	4.3%
San Diego	66.7	2.6%	3.1%	257.5	6.2%	7.3%	191.5	5.3%	4.3%
Santa Barbara	8.6	0.0%	1.2%	41.7	4.3%	1.2%	28.5	-2.1%	0.4%
Ventura	11.4	3.6%	3.9%	53.9	5.7%	5.5%	45.7	3.9%	3.7%
SF Bay Area									
Fairfield/Vallejo/Napa MSA	4.9	2.1%	1.4%	29.7	2.8%	5.9%	29.2	5.0%	6.5%
Oakland MSA	57.3	2.3%	1.8%	216.9	7.2%	5.6%	164.5	2.9%	3.8%
San Francisco MSA	109.7	0.1%	0.5%	300.6	3.8%	3.0%	156.9	3.2%	1.0%
San Jose MSA	32.4	1.2%	2.0%	214.1	1.4%	2.3%	116.5	0.7%	-2.2%
Santa Rosa/Petaluma MSA	8.0	-3.6%	-0.4%	30.8	4.4%	10.1%	28.7	3.2%	7.3%
Central Valley									
Fresno	12.1	0.0%	1.7%	51.3	6.9%	7.5%	42.5	2.4%	5.8%
Bakersfield	6.5	1.6%	2.1%	35.4	3.8%	2.2%	32.3	0.3%	0.9%
Sacramento MSA	38.5	6.9%	3.8%	133.0	6.3%	5.2%	114.0	3.4%	3.7%
Stockton	9.5	4.4%	2.2%	32.3	4.5%	2.8%	28.0	3.3%	1.9%
Modesto	5.1	8.5%	2.6%	23.5	5.9%	6.3%	23.7	4.4%	4.4%
California	836.3	3.6%	3.0%	3,271.5	5.4%	3.3%	2,201.1	2.6%	1.8%

Source: Employment Development Department, California.

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(Continued from page 3)

close to 5% annually in the San Diego and the Oakland/East Bay areas. Several Central Valley areas continue to show strong growth as well. In the first quarter of 1990, employment grew at an annual rate of 4.9% in Modesto (Stanislaus County), 4.3% in the Sacramento area, and 6.1% in Fresno County.

Manufacturing employment, although decreasing slightly state-wide, was a driver of growth in

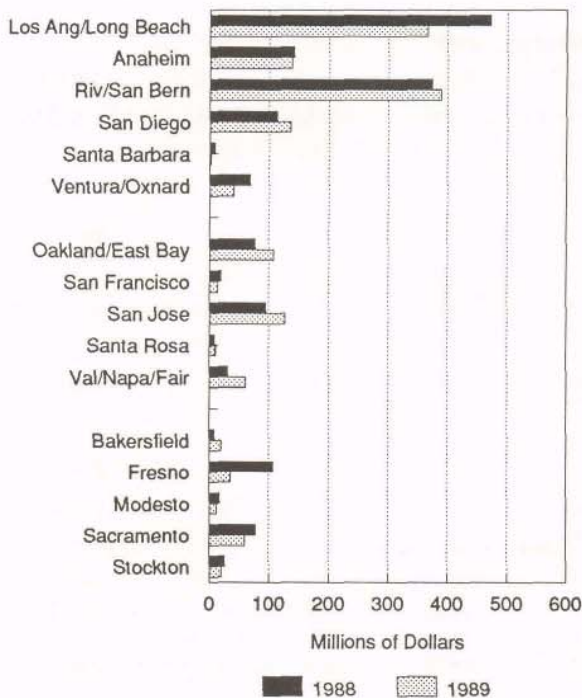
many of the stronger metropolitan economies. Manufacturing employment increased in the Riverside/San Bernardino and San Diego areas, while dropping in the rest of Southern California. In the San Francisco Bay Area, only Santa Clara County (the San Jose MSA) lost manufacturing employment in the first quarter of 1990, while the Oakland and Santa Rosa areas had very strong manufacturing employment growth. In the Sacramento area, manufacturing employment continues the strong growth trend experienced throughout the 1980s, while the Fresno area has shown an upturn in 1989 and 1990.

FIRE employment growth has remained fairly strong in many Southern California markets (see Table 2). Only Orange County

“Manufacturing employment was a driver of growth in many of the stronger metropolitan economies.”

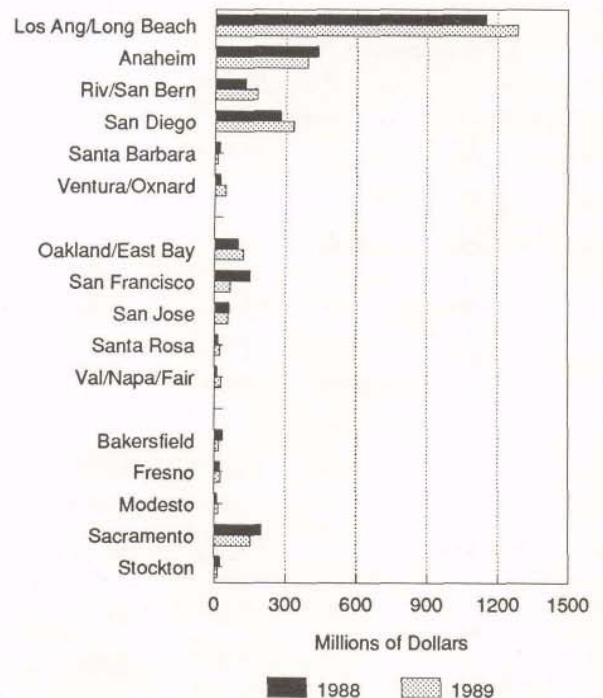
shows a significant slowdown in FIRE employment growth, from an average rate of 5.8% annually in the 1980s to less than 2% an-

FIGURE 2
California Metropolitan Area
Industrial Permit Value
1988 and 1989



Source: CREUE from CIRB data.

FIGURE 3
California Metropolitan Area
Office Permit Value
1988 and 1989



Source: CREUE from CIRB data.

nually in 1989 and the first quarter of 1990. Other major Southern California markets continue to show FIRE employment growing at between 3% and 5% annually. Northern California has experienced much slower growth in FIRE throughout the 1980s and into 1990. FIRE employment in the San Francisco Bay Area grew by less than 1% in 1989 and by 1% in the first quarter of 1990.

Services employment growth, although slowing statewide, remains strong in most of the state's major office and retail markets. Services employment growth averaged 4.5% annually in

Southern California and 3.9% annually in the San Francisco Bay Area in the first quarter of 1990.

“Services employment growth remains strong in most of the state’s major office and retail markets.”

Like manufacturing employment, retail employment growth is slow statewide and in the Los Angeles, Anaheim, San Jose, and San Francisco MSAs. However,

coastal and inland MSAs with growing manufacturing employment and expanding real estate markets continue to see strong retail growth.

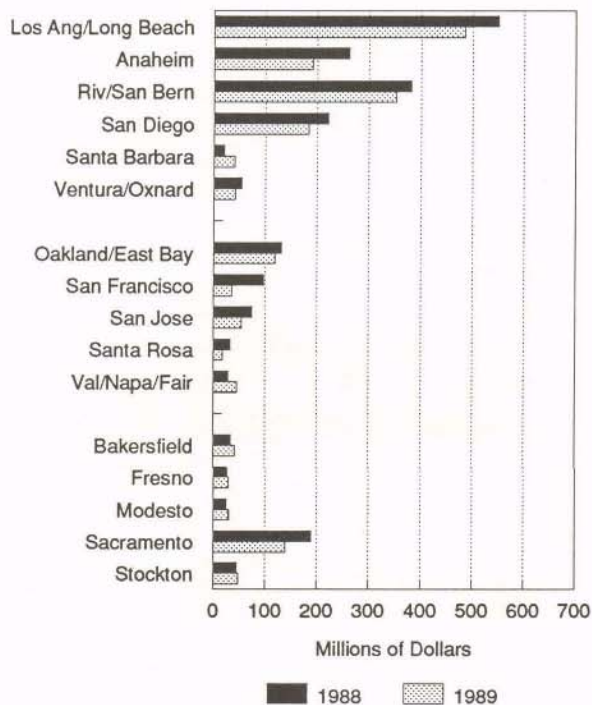
In the first quarter of 1990, retail employment grew by close to 4% annually in the Oakland, Riverside/San Bernardino, San Diego, Modesto, and Sacramento MSAs and by over 6% annually in the San Francisco Bay Area’s north bay counties.

Building Activity Adjusts to New Growth Patterns

Nonresidential building activity slowed slightly in 1989 and has dropped further in the first four months of 1990. Trends vary widely by type of building activity and by location. Industrial building permit value was down by 7.4% in 1989 compared to the previous year and retail permits were down by 13.1% (see Figure 1). In contrast, office permits were up slightly, by 3.5%, in 1989 compared to 1988. The first four months of 1990 show a reversal in these trends. As shown in Table 3, industrial building permits for the period of January through April 1990 were 19.5% greater in value than for the equivalent period a year earlier. Retail permits were up slightly for the first four months of 1990 (by 1.6%), while the value of office permits was 40% below the 1989 level for the same period.

Table 3 and Figures 2, 3, and 4 summarize building permit activity by subregion of the state. Southern California dominates California’s building activity, accounting for almost two-thirds of the state’s industrial and retail permits and for almost 80% of the state’s office permits. Industrial permits were down in Southern California in 1989, largely due to slower activity in the Los Angeles area. Values remain down slightly in 1990, although permit levels are steady in the Los Angeles and Riverside/San Bernardino areas and are up by over 30% in Orange

**FIGURE 4
California Metropolitan Area
Industrial Permit Value
1988 and 1989**



Source: CREUE from CIRB data.

(Continued on page 6)

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(Continued from page 5)

County (the Anaheim/Santa Ana metropolitan area). Office permits, after rising through 1989 in Southern California, have taken a sharp dip in the region's four major markets in the first four months of 1990. The retail sector

has shown the strongest level of building activity in Southern California in 1990, with permits up 7.8% in the first four months of the year.

Consistent with its relatively strong manufacturing sector, the San Francisco Bay Area showed an increase in industrial building permits in 1989 even in the San Jose metropolitan area. Bay Area industrial permits are up again in 1990. This is due largely to a

surge in permits in the East Bay, while industrial permit activity has been slow in other parts of the region. Retail and office permit activity were down in many parts of the San Francisco Bay Area in 1989 and continue to be down in the first four months of 1990.

The Sacramento metropolitan area also shows signs of a building slowdown. While still the largest market in the Central Valley, the metropolitan area had

TABLE 3
Nonresidential Building Permit Activity
First 4 Months of 1989 and 1990
(Thousands of Dollars)

	Industrial			Retail			Office		
	1989	1990	% Change	1989	1990	% Change	1989	1990	% Change
Southern California	324,886	319,454	-1.7	425,687	459,016	7.8	734,055	410,188	-44.1
Los Angeles/Long Beach	106,580	107,755	1.1	172,974	203,919	17.9	384,892	204,733	-46.8
Anaheim/Santa Ana	22,452	29,546	31.6	52,943	65,164	23.1	145,074	56,910	-60.8
Riverside/San Bernardino	126,947	128,844	1.5	114,193	118,256	3.6	55,220	59,211	7.2
San Diego	47,031	37,156	-21.0	69,862	53,504	-23.4	140,764	78,297	-44.4
Santa Barb/Sta Maria/Lompoc	1,441	462	-67.9	4,445	5,374	20.9	1,441	2,264	57.1
Oxnard/Ventura	20,435	15,691	-23.2	11,270	12,799	13.6	6,664	8,773	31.6
SF Bay Area	67,619	128,243	89.7	101,452	72,635	-28.4	119,556	58,935	-50.7
Vallejo/Fairfield/Napa	7,948	8,984	13.0	14,901	3,415	-77.1	7,112	8,032	12.9
Oakland	27,905	93,923	236.6	35,727	30,200	-15.5	42,977	26,305	-38.8
San Francisco	2,733	48	-98.2	19,757	6,497	-67.1	36,956	4,427	-88.0
San Jose	25,569	24,201	-5.4	26,071	27,515	5.5	28,228	14,043	-50.3
Santa Rosa/Petaluma	3,464	1,087	-68.6	4,996	5,008	0.2	4,283	6,128	43.1
Central Valley	38,070	65,490	72.0	105,762	106,681	0.9	87,623	86,246	-1.6
Fresno	3,405	17,211	405.5	8,680	10,750	23.8	11,311	6,336	-44.0
Bakersfield	6,404	9,480	48.0	12,539	8,700	-30.6	1,989	12,217	514.2
Sacramento	19,949	25,679	28.7	59,538	50,153	-15.8	62,941	61,758	-1.9
Stockton	5,225	4,126	-21.0	9,248	13,188	42.6	1,128	3,107	175.4
Modesto	3,087	8,994	191.4	15,757	23,890	51.6	10,254	2,828	-72.4
California	455,323	543,937	19.5	687,240	698,038	1.6	970,236	575,257	-40.7

Source: CREUE from Construction Industry Research Board data.

drops in office, industrial, and retail permits in 1989. Only industrial permits have increased again in 1990.

Vacancy Levels Drop, Excess Supply Remains

Both office and industrial vacancy levels have dropped in the first quarter of 1990 in many of the state's major markets. Coldwell Banker reports lower office vacancies in all but a few markets (see Figure 5) while Grubb and Ellis figures on industrial vacancies indicate vacancy drops in some large markets (most notably the San Jose/

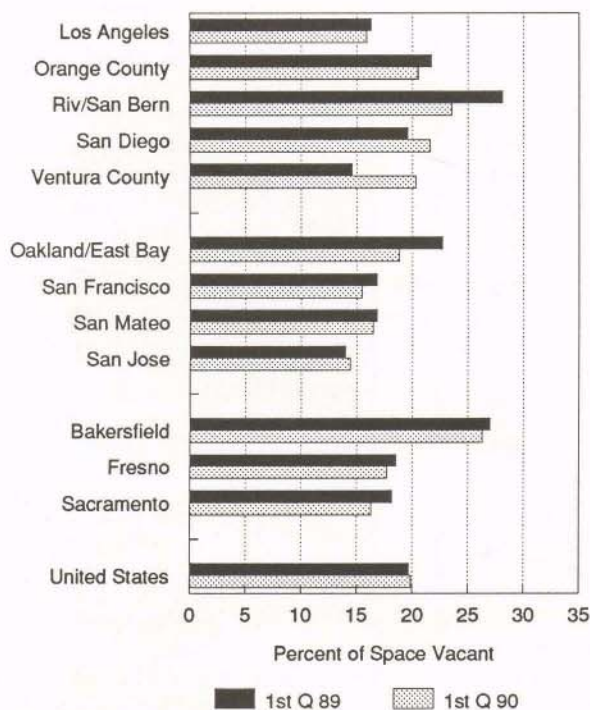
Silicon Valley area), but increases in other major markets, such as Orange County and parts of Los Angeles (see Figure 6). Despite

“A significant portion of the Oakland/East Bay drop in vacancy is the result of the October 17th earthquake.”

these drops however, office vacancies are still well above 10% in all of California's major markets and remain above 20% in many South-

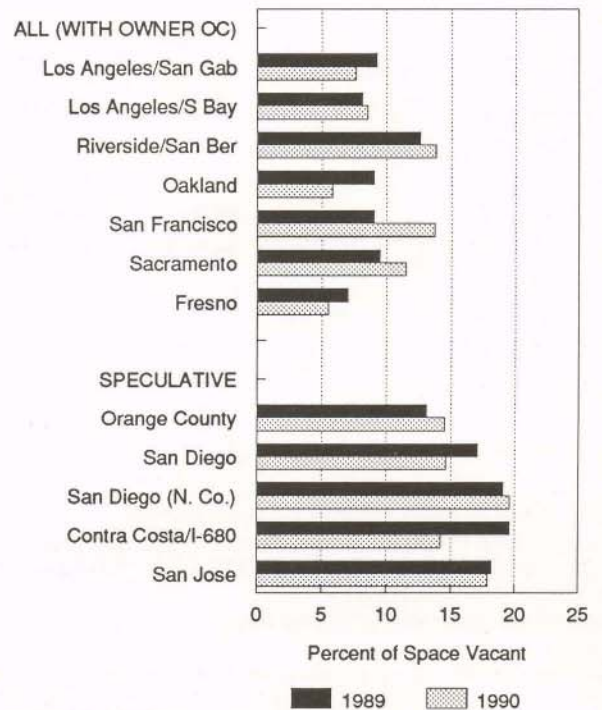
ern California markets and in the Bakersfield area. The greatest drops in vacancy have been in the Riverside/San Bernardino and Oakland/East Bay area. A significant portion of the Oakland/East Bay decline is the result of a one-time event—the October 17th earthquake, which removed both public and private square footage from the stock and increased leasing of private square footage by public agencies. Industrial vacancies range from 8 to 14% when owner-occupied space is included in the totals, and are substantially higher (up to 20%) for speculative space.

**FIGURE 5
Metropolitan Area
Office Vacancy Rates,
1989 and 1990 (First Quarter)**



Source: Coldwell Banker, Grubb & Ellis, Charles Tingey, SMCEDA.

**FIGURE 6
California Metropolitan Area
Industrial Vacancy Rates,
1988 and 1989**



Source: Grubb & Ellis.

Table 4 shows the very high levels of building that occurred in the 1980s and absorption estimates versus current vacancy levels. In all but a few markets, office stock more than doubled over the past decade. While vacancy levels are high, these markets did, in fact, absorb a great deal of space during this period. Nevertheless, all markets had at least a

two to three year supply of space available at the end of 1989.

Changing Areas of Opportunity

Current trends suggest that 1990 will be quite different from the past decade. With slower employment growth and ample existing space in many markets, building activity is likely to slow.

Absorption levels are also likely to be lower in the next few years, both because of slower employment growth and because some firms may already be leasing space in anticipation of their growth needs.

At the same time, there is evidence that new markets are emerging, especially on the periphery of existing urban centers. These markets are likely to see increases in building activity in coming years. Growth in these markets, however, may differ from the major expansions seen in the 1980s. In smaller markets, the growth in demand is likely to vary sharply from year to year, and they can be easily overbuilt.

Cynthia A. Kroll
Dina Tamura

TABLE 4
California Office Space,
Major Metropolitan Markets

Market Area	Stock Dec. 1989	Percent Built Since 1980	Average Net	Vacant
			Absorbed 1980-89	Square Feet Dec. 1989
Southern California				
Los Angeles	137.5	64%	7.5	20.8
Orange County	57.1	70%	3.5	9.9
Riverside/San Bernardino	8.4	80%	NA	2.3
San Diego	35.6	68%	1.9	7.6
Ventura	5.4	NA	NA	1.1
San Francisco Bay Area				
Alameda (East Bay Shore)	19.3	60%	1.1	3.0
Contra Costa (680 Corridor)	31.1	88%	2.4	5.8
Marin	4.1	70%	NA	0.4
San Francisco	56.8	32%	1.4	7.7
San Mateo	16.3	57%	0.7	3.0
Santa Clara	28.7	70%	1.7	4.5
Central Valley				
Fresno	8.0	NA	NA	1.4
Kern	5.3	NA	NA	1.3
Sacramento	28.8	85%	2.1	5.3

Note: Totals for some counties are lower for 1990 than those published in previous editions of the CREUE *Quarterly Report*. These discrepancies result from changes in the base of stock tracked. Changes affect Riverside/San Bernardino, Alameda, San Francisco, and Santa Clara.

NA: Historic data not available for 1980.

Source: CREUE estimates using data from Coldwell Banker, Grubb and Ellis, Cushman and Wakefield, San Mateo County Economic Development Association, Greater San Diego Chamber of Commerce, Charles Tingey & Associates, and the Newport Economics Group.

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The *Quarterly Report* is prepared as part of support from the Department of Real Estate, State of California, under contract C8900048 entered into with the Regents of the University of California. There were no other contractors or sub-contractors used in the preparation of this publication.

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