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California Real Estate Markets In 1992

*In the last issue of the **Quarterly Report**, we examined the impacts of the national recession on the California economy. In this follow-up article, we take a brief look at how the recession is affecting California real estate markets.*

Led by a small surge in sales of single-family homes, the California economy shows signs of stirring from the depths of recession, although full recovery remains at least a year off. Full recovery, however, will not bring real estate activity back to the levels of the mid- to late-1980s.

The recession aggravated, but did not cause, the problems facing California real estate. Those problems — too much commercial, office and industrial supply, and a structurally weak apartment market — all date from the mid- to late-1980s. On the single-family home side, the recession has provided a "breather" in the upward march of California home prices, thereby restoring some measure of homeownership affordability. In the sections that follow, we take a closer look at the impacts of the recession and other economic factors on California real estate, and assess the prospects and timing for recovery.

CALIFORNIA HOUSING MARKETS

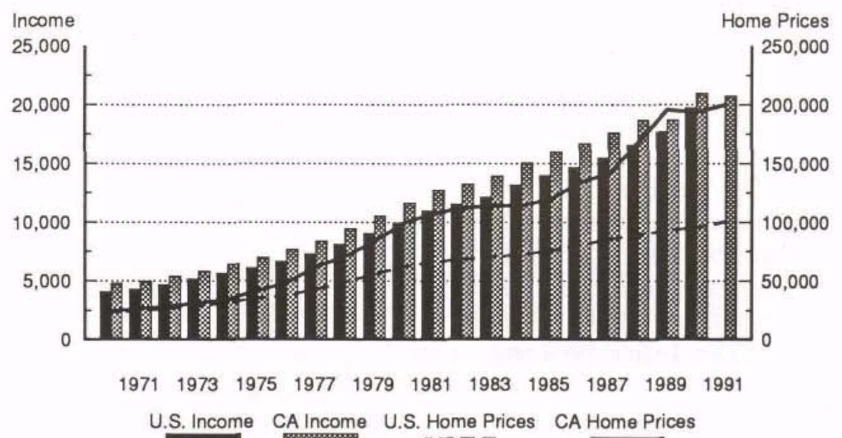
The Housing Price Bubble Bursts—Again

For those who make their living building or selling houses, the recession of 1990-92 has been quite difficult. For homeowners trying to leave the housing market, the recession has brought a disappointing halt to the yearly increases in value. For many other Californians — including renters and new homebuyers — the recession (despite income effects) has provided a respite from the phenomenal, unsustainable, and ultimately harmful price increases of 1987-89.

Since the early 1970s, California home prices have had a history of extremely rapid growth, followed by modest decline (Figure 1). Between 1974 and 1980, for example, the median price of an existing home in California rose by 188%. Were it not for

(Continued on page 2)

FIGURE 1
Housing Prices and Per Capita Income Trends U.S. vs. California



Note: All in current dollars
Source: CAR, NAR, BEA and CA Dept. of Finance

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record-high interest rates (over 18% in fall 1981) and a national recession, home prices could have increased even more. Instead, housing prices flattened during the first few years of the 1980s. Prices resumed their upward climb by the mid 1980s. Statewide, the largest price increases occurred at the end of the decade; between 1987 and 1989, median existing home prices rose from $142,370 to $196,521 — a 38% increase.

California home prices increased at a far faster rate during the 1980s than did incomes, leading to sharp declines in homeownership affordability — especially in the state's coastal markets. As homeownership affordability eroded, the market began to soften. With the number of first-time homebuyers declining, potential move-up buyers found it more and more difficult to sell their homes. By August 1989, fully a year before the onset of recession, California's coastal housing markets had "topped-out." That the decline in housing prices was triggered by affordability concerns, not recession, is evident from the pattern of price declines: the lower the level of homeownership affordability, the earlier and deeper the decline in median home prices. For example, while median home prices were falling throughout coastal California in 1990, they were still rising in less-expensive inland-markets (see Table 1).

Note that the "median" price reflects the mid-level price range of whatever homes are sold during the period. Changes in the median price do not reflect changes in the price of individual homes. In late 1989 and early 1990, median prices fell more sharply statewide than in any of the state's component regions, because lower priced homes in inland regions were selling more rapidly than more costly homes in coastal areas.

TABLE 1
Home Sales Volume and Median Price Trends by Metropolitan Area: 1989–91

	Percent Sales Change from Previous Month			
Metro Area	Aug '89	Aug '90	Aug '91	Dec '91
Los Angeles	-1.3	-0.9	-17.5	1.0
San Francisco	9.7	9.4	-10.1	2.4
Santa Clara	NA	5.2	-7.5	-9.9
San Diego	40.4	9.0	-18.0	-11.6
Orange County	14.6	7.8	-10.3	1.5
Central Valley	35.5	0.5	3.2	5.5
Sacramento	43.7	-14.3	-1.5	-3.0
Riverside-San Bernardino	11.9	11.8	9.5	-0.7
Ventura	7.9	8.8	-2.3	21.3

	Median Home Sales Price in Current Dollars (000)			
Metro Area	Aug '89	Aug '90	Aug '91	Dec '91
Los Angeles	229.6	212.2	219.1	209.2
San Francisco	272.0	265.1	261.3	257.6
Santa Clara	9.0	273.3	273.1	261.1
San Diego	182.5	186.7	198.9	190.3
Orange County	247.6	239.6	241.3	239.3
Central Valley	98.7	118.1	119.8	118.6
Sacramento	117.0	144.7	140.0	138.0
Riverside-San Bernardino	129.1	133.5	135.5	134.4
Ventura	269.7	234.0	237.3	233.3

	Percent Change in Sales Price over Previous Period			
	Aug '88	Aug '89	Aug '90	Dec '90
Metro Area	Aug '89	Aug '90	Aug '91	Dec '91
Los Angeles	20.8	-5.0	3.2	1.0
San Francisco	23.0	-3.0	-1.4	4.8
Santa Clara	NA	-5.2	-0.1	2.5
San Diego	19.9	-1.2	6.5	4.7
Orange County	17.7	-2.2	0.7	4.4
Central Valley	9.7	19.7	-1.7	9.9
Sacramento	15.1	23.7	-1.4	6.3
Riverside-San Bernardino	21.2	3.6	1.5	1.5
Ventura	25.9	-13.2	1.4	-0.4

Source: California Association of Realtors

Weakened by a worsening affordability problem, equity-conscious homebuyers were dealt a second blow by the recession when the values of individual homes began to drop in some areas. The Real Estate Research Councils of Northern California and Southern California publish a price index based on an appraisal survey of representative

homes. Their indices show that since 1990, home prices have fallen the most in those areas most adversely affected by the recession (Table 2). In the ten-county Northern California region, for example, housing price levels fell by 0.4% between October 1990 and October 1991. For individual counties, however, rates of price change ranged from a price drop of 7.5% in recession-plagued Santa Clara County, to a gain of 12.5% in (until-then) recession-resilient Sacramento County. In Southern California, home prices fell by an average of 3.1% between October 1990 and October 1991, with the largest decreases being recorded in Los Angeles County (4.6%), Riverside County (4.4%), and Orange County (3.4%).

These price declines need to be seen in perspective. Except for a few over-leveraged speculators, they have not materially affected the economic well-being of most California homeowners. While many homeowners may feel less wealthy because their homes are not appreciating at the same rate as during the 1980s, the reality is that the price declines of 1990 and 1991 are exceedingly modest for most homes and in most locations. The experiences of Texas homeowners during the first part of the 1980s, and Massachusetts homeowners during the late 1980s (when prices declined 25% or more), have not been repeated anywhere in California.

Where the recession has most affected California homeowners (and renters also) has been on the income and job security side. With real incomes down and unemployment up, a larger number of Californians have had trouble meeting their house-payments and rents. This is reflected, as Figure 2 shows, in a modest increase in foreclosure. To date, however, foreclosure rates in California have been much lower than for other areas that have suffered home price declines. Foreclosures in California are still far below those experienced in Massachusetts over the past two years, or in Texas over a far longer period.

A Slow-down in Housing Construction

As the housing market softened, the demand for new homes declined correspondingly, creating a downturn in construction. From a peak of almost 163,000 single-family home permits in 1989, production declined to just under 105,000 permits in 1990, and to under 74,000 permits in 1991. As bad as the current recession has been for homebuilders, it is less severe than the last one; in 1982, single-family building permits were just above 50,000.

The downturn in housing construction has not affected all builders equally. Large builders, who have been able to reduce prices by cutting home sizes and amenities, have continued building. Less fortunate build-

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TABLE 2
Percent Change in Home Prices, October 1991

	Percent Change in Sample Home Prices	
	From Previous 6 Months	From Previous Year
Southern California (7 Counties)	-0.4	-3.1
Los Angeles	-0.8	-4.6
Orange	1.4	-3.4
Riverside	-1.7	-4.4
San Bernardino	-0.2	-0.7
San Diego	-0.4	-0.8
Santa Barbara	-1.2	-0.6
Ventura	-0.1	-3.1
Northern California (10 Counties)*	-0.1	-0.4
Alameda	-0.6	-0.6
Contra Costa	0.2	0.8
Marin	-0.2	-0.7
Monterey	0.9	1.3
Sacramento	4.9	12.5
San Francisco	0.0	-3.0
San Mateo	-2.2	-5.4
Santa Clara	-3.9	-7.5
Santa Cruz	1.3	-3.0
Solano/Napa	-0.1	2.3

Source: Real Estate Research Council of Northern California and Real Estate Research Council of Southern California Real Estate and Construction Reports for 3rd Quarter, 1991.

Note: RERC indices measure a different type of price change from California Association of Realtors (CAR) figures. CAR tracks the median price of whichever group of homes is sold in a particular month or year. RERC tracks the sales value of a consistent set of homes, as determined by appraisers in a survey done every 6 months.

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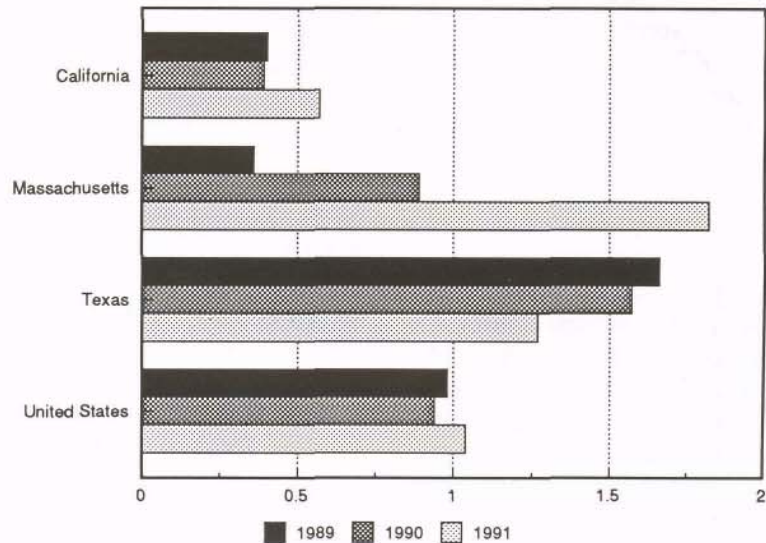
ers have been forced to reduce prices below pre-recession levels without correspondingly reducing unit size or quality levels. Such actions undermine the market in two ways: they alienate existing homeowners who bought at a higher price, and they indicate to prospective buyers that home values do go down. Homebuilders who have been able to reduce their inventories find that recovery has been further stifled by the credit crunch and by the reluctance of most lenders to make long-term land loans.

California's multi-family builders have also been battered by the recession. Even before the onset of recession, many were still suffering the after-effects of the Tax Reform Act of 1986. The high cost of land and entitlements in California has further exacerbated the difficulties of building profitable multi-family housing. Adding to these problems, the Financial Institutions Reform and Re-regulation Enforcement Act (FIRREA) of 1989 has made it difficult for multi-family developers to obtain needed construction and permanent financing. Multi-family permits, which reached a peak in 1986, at 168,000, dropped to 60,494 by 1990 and 32,214 in 1991.

The Outlook for a Housing Recovery

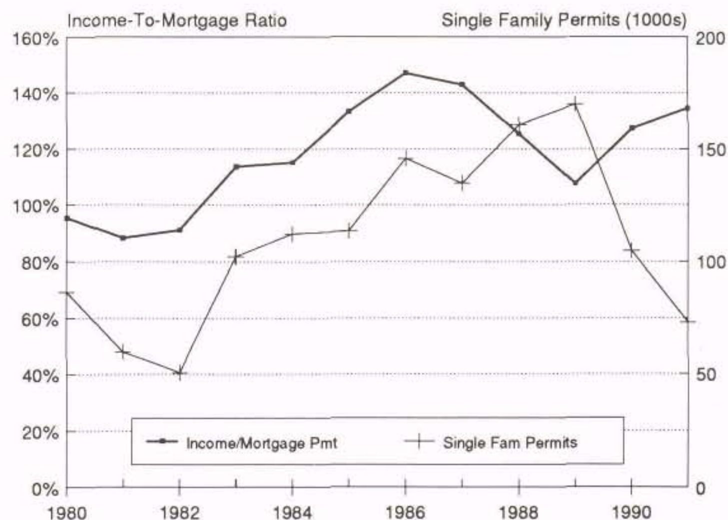
As hoped, the downward swing in mortgage interest rates is gradually helping to revitalize U.S. housing markets. In California, the primary benefit of declining interest rates has been to restore some measure of the affordability eroded from the market between 1987 and 1989. Although the early beneficiaries of lower interest rates were existing homeowners who rushed to refinance , in recent months, an increasing number of homebuyers have rejoined the market. As the number of households that can afford to purchase a home increases, housing starts should pick up. For California, this relationship is shown historically in Figure 3, which compares a ratio of personal income to annual mortgage payments (assuming an 80% mortgage, at historical interest rates, on the median priced home) with single-family home starts. During the early and mid-1980s, incomes rose faster than mortgage payments, making housing

FIGURE 2
Home Loan Foreclosure Trends
1989-1991



Source: Mortgage Bankers Association, National Delinquency Survey

FIGURE 3
Income-to-Mortgage-Payment Ratio vs.
Single-Family Permits
1980-1991



Source: CREUE

more affordable and leading to an increase in new construction plans one year later, in response to rising demand. Beginning in 1986, however, the ratio of income-to-mortgage payment began declining, indicating falling affordability, which led to a drop in new construction (again, one year later). More recently, the ratio of income-to- mortgage payment has begun rising, signaling the opportunity for a pick-up in new home construction during 1992 and 1993.

As in earlier recessions, home prices may remain at or slightly below peak (1989) price levels for several years. With slower employment growth and fewer young adults in their entry level home-buying years, pressure for new home construction may be eased compared to the fastest growth periods of the 1970s and 1980s. Nevertheless, even if at a somewhat slower pace of growth and appreciation, the housing market is likely to strengthen again in the mid-1990s.

At a national level, some analysts argue that a decline in the number of young homebuyers (due to the aging of the Baby Boom) could lead to significant housing price declines during the 1990s. In California, such a dynamic will be offset by continued population growth. Moreover, Baby Boomers who were excluded from the market during the late 1980s (for affordability reasons) and the early 1990s (because of the recession) will likely reenter the ownership market in force. To the extent that tight credit and local growth controls continue to slow new home construction, housing prices will again begin rising.

OFFICE, INDUSTRIAL AND RETAIL MARKETS

California Office Markets—Still Heavily Overbuilt

The recession has added to the glut of excess office space in the state, particularly in Southern California (Figure 4, Table 3). In the Los Angeles area, the level of excess inventory (estimated as the amount of vacant space above a 10% vacancy rate) increased from 5% of total inventory in 1990, to 9.2% in 1991. In San Diego County, excess office space accounted for 13.6% of total inventory as of the fourth quarter of 1991 (up from 11% in 1990), while in Riverside County, excess office space accounted for 16.6% of total inventory (up from 14% in 1990).

The office market picture appears less overbuilt in Northern California. As of the fourth quarter of 1991, excess office space accounts for less than 4% of inventory in the Santa Clara/Fremont, Contra Costa, and Sacramento markets. In San Francisco, where Proposition M has limited new office construction to 475,000 square feet per year since 1986, excess office space accounts for less than 2% of total inventory. The excess inventory estimates shown in Figure 4 and Table 3 suggest that lease rates and effective office rents are likely to remain fairly firm in Northern California, and fairly soft in Southern California. Downward pressure on rents is especially likely to continue in San Diego County and in the Riverside area.

Three sets of factors have contributed to the current oversupply of office space. The first has been a gradual reversal in the relative healths of the Northern and Southern California office markets. In the north, the mid-1980s saw intense office construction but relatively slow office employment growth. The result was a rapid rise in vacancy rates, which restrained additional construction. In Southern California, by contrast, high levels of office construction during the mid-1980s were accompanied by high rates of office employment growth. While vacancy rates remained high, absorption was strong, encouraging the construction of even more new space. Even as office employment growth began to slow in Southern California, new office space continued to come on-line.

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TABLE 3
1991 Office Inventories & Vacancies in Selected Markets

Market	Inventory in SQFT (Millions)	Percent Vacant	Excess Inventory in SQFT (Millions)	Excess Inventory Percent of Inventory
Los Angeles	149.8	19.2	13.8	9.2
Orange County	61.8	18.4	5.2	8.4
San Francisco	57.6	11.6	0.9	1.6
San Diego	41.1	23.6	5.6	13.6
Santa Clara & Fremont	34.7	13.0	1.0	3.0
Contra Costa	32.2	13.4	1.1	3.4
Sacramento	31.5	13.6	1.1	3.6
Alameda County (1)	22.3	17.0	1.6	7.0
San Mateo	18.0	16.7	1.2	6.7
Riverside/San Bernadino (2)	12.7	26.6	2.1	16.6

Source: Compiled by CREUE, using data from CB Commercial, Cushman and Wakefield, Grubb and Ellis, the Newport Economics Group, and the San Mateo Economic Development Corporation.

Notes: (1) excludes Fremont; (2) 3rd quarter only

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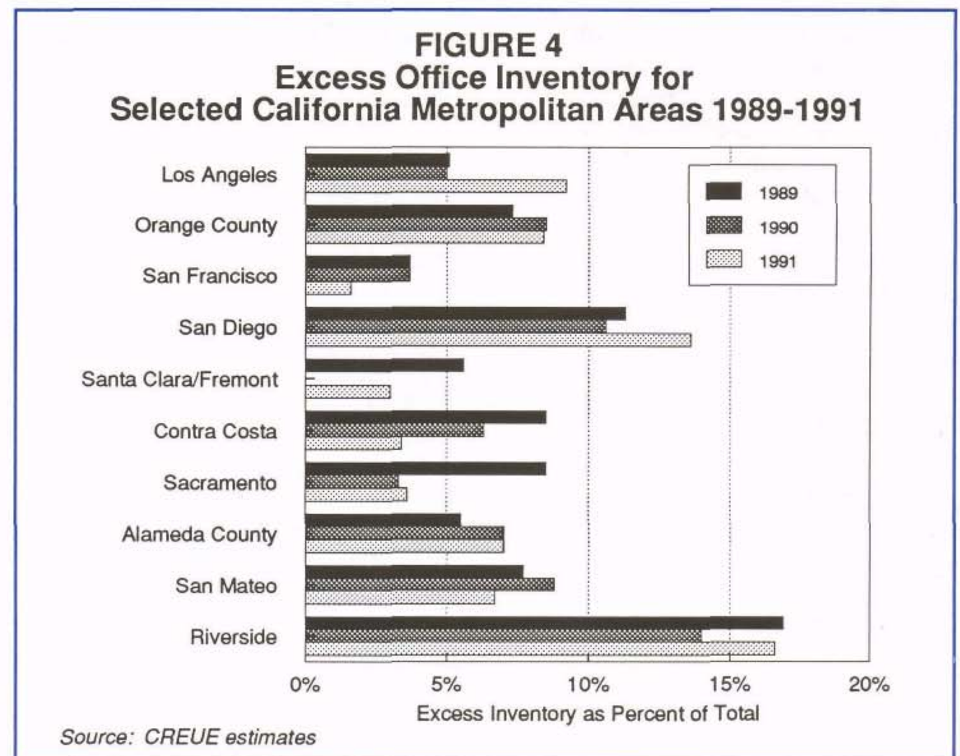
Second, the recession of 1990-91 (as compared with the earlier recessions of 1974-75 and 1981-82) has brought job losses in the service sector as well as in manufacturing. This has led to an unanticipated decline in the demand for office space.

Third, apart from the present recession, many of California's major office users are in industries that are consolidating and restructuring. In some industries — banking, for example — restructuring is the result of prior excesses and the pressures of competition. In other industries, restructuring is the result of changing technology. Regardless of the specific cause, industries are downsizing to permanently reduce workers and costs, leading to cut-backs on office space occupancy.



Industrial Markets—Reduced Construction and Negative Absorption

Industrial building activity has been affected significantly by the recession: after falling only 6.6% between 1989 and 1990, the value of industrial building permits in California fell 44.1% in 1991. Initially limited to Southern California, the decline in industrial space construction has spread statewide. Permits were down by one-half in Los Angeles County, by one-third in Orange County, by three-fourths in Alameda and Contra Costa counties, and by almost two-thirds in Santa Clara County. Permits were up in San Francisco and San Mateo Counties, after a very large drop in activity in 1990, and also were up modestly in Sacramento County.

Historic data on industrial stock, vacancies and absorption is much less available than office data. Moreover, even where data has been collected on a regular basis, comparability between places is limited. In some locations, only speculative (for lease) space is reported, while for other areas reports are based on all industrial stock, including owner-occupied and build-to-suit space (constructed for a specific tenant). Vacancies tend to be much higher in speculative space, making comparisons misleading with areas where all types of stock are reported.

Recent data on the performance of California's industrial markets can be obtained from Grubb and Ellis through their quarterly publication, *Market Trends*, or from the Society of Industrial and Office Realtors (SIOR). Unfortunately, the two data sources are not directly comparable.

The Grubb and Ellis data series (Table 4) indicate that industrial vacancy rates rose in many California markets during 1990 and 1991. Increases have been particularly sharp in the Los Angeles-South Bay and Los Angeles-North markets, where vacancies for all industrial space are now above 13%. As of 1991, speculative vacancy rates in Orange County were approaching 19.5%, up from 13.5% in 1989. Industrial space vacancy rates have also increased in Oakland, San Francisco, and San Jose. In the Central Valley, vacancies increased in Sacramento, but declined in Fresno.

According to SIOR figures, net absorption was strongest in Central Valley markets in 1991 (Table 5). Over four million square feet of space was absorbed in both the Sacramento and Stockton markets. Marin and Sonoma counties, two small markets in the northern San Francisco Bay Area, also showed strong industrial space absorption in 1991. Weakest industrial absorption figures are for the Silicon Valley (Santa Clara and San Mateo counties) where a large proportion of stock is in speculative space and the restructuring of high-tech industry has reduced the amount of leasing activity.

Los Angeles area industrial markets appear to be in better shape than Silicon Valley, according to SIOR figures. However, the comparison is misleading because so much of the industrial stock in the Los Angeles

area is owner-occupied and/or build-to-suit. Such properties tend to become under-utilized, rather than vacant during recessions. Very low net absorption in the East Los Angeles market, and rising vacancy rates throughout the region, indicate that Southern California industrial markets are also being affected by recessionary conditions in manufacturing and distribution activities.

The Depression in Retail Spending

The recession has had perhaps its greatest impact on California's retail sector. According to the California Board of Equalization, real per capita retail sales (in 1991 dollars) declined from $2,564 (in 1991 dollars) during the second quarter of 1989, to $2,464 during the second quarter of 1990, to $2,206 during the second quarter of 1991.

For store-owners, a better indicator of sales activity (than per capita sales) is average retail sales per establishment (Table 5). Statewide, average quarterly retail sales per establishment declined from $83,100 in the second quarter of 1989, to $72,900 in 1991 (in 1991 dollars) — an 11% drop. Hardest hit by the decline in retail sales activity per establishment have been Los Angeles, Orange, and San Diego Counties. Although still suffering, retailers in Alameda, Sacramento, and Santa Clara County have fared somewhat better. Stores of all types lost sales between 1989 and 1991, but automotive and building materials stores suffered by far the greatest decline in sales.

Even before the onset of recession, many parts of California were significantly over-stored. Except for a few high-growth areas such as the Antelope Valley, the regional shopping center market had shifted from constructing new malls to upgrading existing malls and to the development of "infill" power centers. With less need for regional-type facilities, attention shifted to neighborhood strip centers, which were fast, cheap and easy to build, and, unlike regional malls, could accommodate a wide variety of tenant types.

The worst effects of the recession seem to be concentrated at the upper and lower ends of the shopping center market. Regional mall owners have been hard hit by the fiscal problems and declining competitiveness of major anchors such as Macy's, Sears, the Broadway, and Emporium. At the other end of the market, owners of neighborhood centers are suffering because their tenants typically lack the types of deep pockets necessary to weather a recession. Nationwide, the retailers that seem to be coping with the recession best are those with the smallest operating margins (such as discount warehouses), and those able to continuously compete on price (such as Home Depot and Circuit City).

The Uncertain Recovery

The short-term (6-12 months) outlook for an office market recovery must be considered poor. California entered the recession later than the rest of the country, and by all accounts it will emerge from the recession later than the rest of the country. Moreover, many of California's banking institutions remain in uncertain health, and will continue to reduce their office space consumption.

The medium-term office outlook varies by market. Some office markets, such as Contra Costa and Sacramento, have relatively little excess supply, and may begin recovering in 1993. In Southern California, by contrast, excessive vacancies will postpone recovery until 1994 or 1995. In the longer-term, most economists expect the California economy to continue expanding, albeit at a slower

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TABLE 4
Fourth Quarter Industrial Vacancy Rates for Selected Markets: 1989, 1990, 1991

	Percent Vacant		
Market Area	1989	1990	1991
Owner Occupied, Build-to-Suit, and Speculative Space			
Fresno	7.7	8.7	5.6
Oakland	5.8	7.9	8.4
Los Angeles	6.7	8.9	9.3
Sacramento	9.6	11.1	11.2
LA-South Bay	8.5	9.7	13.2
LA-North	9.8	11.4	13.8
San Francisco	8.2	11.8	NA
So. Alameda Co.	11.4	12.5	11.2
Speculative Space Only			
Marin	NA	3.1	6.4
San Diego	14.7	15.0	17.3
Orange	13.5	15.2	19.5
Ventura	15.7	17.6	17.4
San Jose	18.7	18.5	19.9
Inland Empire	NA	15.8	20.7
San Diego-North Co.	19.1	24.0	23.1

Source: Grubb & Ellis, Market Trends, 4th Quarter Reports for 1989, 1990 and 1991

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rate than during the 1980s. With tighter credit, over-building is likely to be avoided, improving the longer-term prospects (3 years or more) for California office markets and office developers.

The short-term outlook for owners and developers of industrial space also is mixed. On the positive side, California's industrial markets are not nearly as over-built as its office markets. This means that industrial development activity should begin to pick up as the state's economy emerges from recession. Growth is likely to be especially strong in the Sacramento market and in the Central Valley. On the negative side, because of continuing defense cut-backs, some of the high growth, high-tech based markets of the 1980s (such as the Los Angeles-South Bay area) will continue to be soft. Furthermore, companies throughout California increasingly are voicing discontent over the state's business climate, infrastructure investment policies, and high costs of living. A few companies have left the state and many more are talking about leaving. Should the recovery of the California economy be accompanied by even a moderate exodus of businesses from the state, the market for all types of space, but particularly speculative industrial space, will be further affected.

Recovery for retail builders will also be slow, and the new levels reached are likely to be below the peaks of the 1980s. Restructuring of anchor tenants will limit construction of new regional shopping malls for the next several years, while credit is likely to be very tight for new neighborhood centers. Opportunities for new retail development will be strongest in accompaniment to new housing development, suggesting that the Central Valley will continue to offer opportunities for retail growth in California. In addition, competition among existing retail centers in built-up areas will continue to put a focus on rehabilitation opportunities and on the importance of managing existing tenants and space.

TABLE 5
Industrial Vacancies and Net Absorption Estimates: 1991

			Net Absorbed		Composition of Absorption		
Market Area	Total Stock (SQFT in M)	Pct. Vacant	SQFT (in M)	as Pct. of Vacant	Pct. W'house	Pct. Manuf'g	Pct. R&D
Southern California							
Los Angeles-Central	645.0	8.5	NA	NA	60	30	10
Los Angeles--East	74.0	6.6	0.1	2.0	70	25	5
Los Angeles-San Fernando Valley	176.0	8.4	4.0	26.9	45	45	10
Los Angeles-South Bay	175.0	17.7	7.8	25.1	85	10	5
Orange County	108.7	17.0	5.3	28.7	60	12	28
San Diego	67.9	19.3	2.4	17.9	50	23	27
San Francisco Bay Area							
Contra Costa: I-680	37.3	9.9	1.3	35.1	60	35	5
Marin and Sonoma	24.4	5.6	1.1	82.2	50	30	20
San Francisco	28.0	8.5	0.0+	0.6	60	30	10
Santa Clara County	163.0	13.8	-1.0	-4.4	26	23	50
San Mateo County	65.0	8.0	-0.1	-1.3	60	20	20
Central Valley							
Fresno	32.5	6.9	0.4	17.9	60	30	10
Sacramento	88.0	9.5	4.3	51.9	75	15	10
Stockton	30.0	9.3	4.1	146.7	89	11	0

Source: Society of Industrial and Office Realtors, Comparative Statistics of Industrial and Office Real Estate Markets, 1992 Guide.

BUILDING A FOUNDATION FOR SOLID GROWTH

The current recession notwithstanding, the long-term future of California real estate looks bright. Continuing job growth — though at levels lower than during the 1980s — will generate demand for additional office, industrial, and retail space. Most of this space will be needed after 1995. Because of its strong economy, California will also continue to be an attractive destination for foreign and domestic migrants. New residents mean a strong housing market and additional retail demand.

The near-term future looks considerably more uneven. Lower interest rates will stimulate California's single-family housing sector, and there is plenty of pent-up housing demand across the state. As the recession ends (if it has not already) consumer confidence will pick-up, leading to a quick expansion of housing sales activity and a firming-up of home prices. Low interest rates will do nothing for the state's commercial real estate markets, however, which in the near-term will continue to be plagued by too much supply and too little credit.

The real test for California real estate will come in the mid-1990s, as excess commercial real estate and developable land inventories are finally worked off, and as credit (hopefully) becomes more available. At that point, will California have the necessary physical, social, and governmental infrastructure in place to be able to continue growing? On the physical infrastructure side, California will need modern transportation and communications facilities, not just in fast growing regions such as the Central Valley, but also in already built-out urban areas such as Los Angeles, San Diego, and Oakland. On the social side, California needs to sufficiently improve its secondary and post-secondary education system to keep its economy competitive. On the governmental side, California faces the challenge of reforming local land use planning and development regulatory practices to accommodate expected population and economic growth while preserving the natural environment.

Failing to make needed middle-term investments in California's physical and social infrastructure

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TABLE 6
Retail Sales Transactions per Establishment in California for Selected Counties & Trade Sectors: 1989–1991

	Quarterly Retail Sales per Establishment (in 000s of Constant Dollars)			Percent Change	
BY COUNTY	1989.2	1990.2	1991.2	1989-90	1990-91
San Francisco Bay Area	85.4	85.9	79.9	0.6	-7.0
Alameda	88.7	87.5	81.2	-1.3	-7.3
Contra Costa	78.5	83.4	79.0	6.4	-5.4
Marin	55.5	56.6	51.7	1.8	-8.6
San Francisco	70.6	73.8	69.0	4.6	-6.6
San Mateo	93.6	90.2	85.1	-3.6	-5.7
Santa Clara	98.4	98.4	90.3	-0.1	-8.2
Greater Los Angeles Area	82.5	79.5	71.1	-3.7	-10.6
Los Angeles	80.2	77.8	69.6	-3.0	-10.6
Orange	88.2	83.5	76.0	-5.4	-9.0
Riverside	89.6	85.0	71.3	-5.1	-16.1
San Bernardino	83.5	80.9	73.7	-3.2	-8.9
Ventura	76.6	74.0	65.0	-3.3	-12.1
San Diego	81.5	75.9	70.7	-6.8	-6.9
Central Valley	88.4	90.6	85.9	2.4	-5.2
Fresno	84.1	86.4	81.8	2.8	-5.4
Kern	89.5	91.6	91.5	2.4	-0.1
Sacramento	90.4	93.4	87.1	3.4	-6.7
San Joaquin	88.7	88.2	82.0	-0.6	-7.0
BY TRADE SECTOR					
Apparel	96.3	94.1	90.4	-2.3	-3.9
General merchandise	666.6	681.8	658.9	2.3	-3.4
Specialty	65.0	63.6	57.7	-2.1	-9.2
Eating and drinking	96.1	94.6	91.2	-1.6	-3.7
Building materials	402.1	376.3	330.2	-6.4	-12.3
Automotive	440.7	412.7	372.4	-6.4	-9.7
CALIFORNIA TOTAL					
Retail stores total	163.7	155.7	143.1	-4.9	-8.1
Total all outlets	83.1	79.6	72.9	-4.2	-8.4

Source: California Department of Equalization

(Trade sector and California data from Table 1; County data from Table 2)

Corrections and Revisions

A misplaced decimal place in a column of numbers led to the bizarre reporting, in Table 1 of our last *Quarterly Report* (Feb. 1992), of a total of only 128,321 jobs in California! In fact, the number is 12.8 million (or, in "table talk," 12,832, in units of one thousand — see Table R-1). Other numbers in the column should also be adjusted by a factor of one hundred. For example, we estimated 623 thousand construction jobs, as shown in Table R-1, rather than 6,234 construction jobs, as shown in Table 1 of the last *Quarterly*. A second adjustment to this column is the tourism number (and business services except tourism). Because of missing data, this cell reported only hotel employment, as a proxy for tourism, in Table 1. Table R-1 shows our full estimate for tourism (before EDD revisions were available), which includes eating and drinking places and amusement and recreation, in addition to hotels.

As mentioned in our February article, such estimates can, and do, change, especially when there is controversy about the basic numbers. Our estimates reported in the last *Quarterly* (and in columns one and two of Table R-1) are based on the California Employment Development Department (EDD) monthly numbers for 1990 and 1991, as reported by the U.S. Bureau of Labor Statistics, through February of 1992. In April, EDD released revised benchmark estimates for 1990 and 1991, showing a job loss in 1991 much greater than previously reported, especially in the construction sector. EDD revisions are shown in the last three columns of Table R-1.

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will mean that the total cost of living and doing business in the state will continue to rise — leading slowly, but inevitably, to a long-term loss of economic competitiveness. The negative impacts of such a policy of neglect would be felt first, and disproportionately, in the state's high-cost coastal markets, but would gradually work their way inland. Similarly, failing to reform the land use planning and development approval process will exacerbate conflicts of business and real estate interests with environmentalists and existing residents.

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TABLE R–1
Annual Average Wage and Salary Employment in California, 1990–91
Corrected Estimates and Revised Reported (March 1991 Benchmark) Figures

SECTOR	Corrected CREUE 1991 Estimate (thousands)	CREUE Estimate % Change 1990-91(B)	Annual Average 1990 New Benchmark (thousands)	Annual Average 1991 New Benchmark (thousands)	Revised % Change 1990-91
Total Nonagricultural	12,832	-0.3	12,830.1	12,497.1	-2.6
Construction	623	-6.6	650.4	550.7	-15.3
Manufacturing	2,042	-3.8	2,126.8	2,025.8	-4.7
High-Technology Manufacturing	1,013	-5.4	1,075.3	1,024.8	-4.7
Other Manufacturing	1,028	-2.2	1,051.5	1,001.0	-4.8
Tourism	492	2.0	479.3	479.3	0.0
Wholesale Trade and TPU	1,404	-0.2	1,408.7	1,366.8	-3.0
Retail Trade	2,225	-1.0	2,241.4	2,171.8	-3.1
FIRE	843	-0.3	839.2	819.4	-2.4
Business Services	762	2.1	733.3	717.4	-2.2
Services Ex. Tourism and Bus Svc	2,308	2.8	2,236.3	2,248.2	0.5
Government	(A)	(A)	2,074.8	2,078.9	0.2

Notes: (A) No estimate made for this sector; (B) Same as previously reported

Source: California Employment Development Deaprtment and U.S. Bureau of Labor Statistics