



Office of the City Manager

INFORMATION CALENDAR

March 5, 2013

To: Honorable Mayor and Members of the City Council

From:  Christine Daniel, City Manager

Submitted by: Michael J. Caplan, Economic Development Manager

Subject: Quarterly Economic Development Report

INTRODUCTION

On December 18, 2012, the City Council asked for quarterly reports on economic development in 2013, with two to be Council workshops and two information reports. This information report initiates the series with an overview of labor force, employment and retail sales trends. It will be followed up in May with a Council work session focusing on Citywide economic development issues.

CURRENT SITUATION AND ITS EFFECTS

*Labor Force Statistics*

In December 2012 the unemployment rate in Berkeley was 7.8% compared with the county's 8.2% and California's 9.7%. This means that approximately 4,700 Berkeley residents were unemployed in a labor force estimated to be 60,000. Since peaking in March 2010 at 11.3%, the unemployment rate here has declined slowly but steadily in line with the national and state economic recovery. Please see Attachment 1 for the historical pattern.

Current labor force statistics do not tell us anything about who in Berkeley suffers from unemployment. For that we must rely on somewhat less up-to-date data from the American Community Survey (ACS) conducted by the Census Bureau. The latest 5-year estimates (2007-2011) show that while the average unemployment rate for the Berkeley resident population 16 years and over was 7.1% for that period, it was 17.9% for African Americans and 8.6% for Hispanics of any race. It also varied by age: 21.8% for persons 16 to 19 and 9.2% for those 20-24, but below the average of 7.1% for older age ranges. However, unemployment varied most dramatically by educational attainment. While for the population 25 to 64 as a whole, it was only 6.2%, it was 19.5% for those who had not graduated from high school, 14.6% for those with a high school education, 11.1% for those with some college and only 3.9% for those with a B.A. degree or higher.<sup>1</sup>

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<sup>1</sup> Table S2301, Employment Status, 2007-2011 American Community Survey 5-Year Estimates. Available on the U.S. Census Bureau website [www.census.gov](http://www.census.gov).

Clearly, it is the fact that 69% of the population in Berkeley over 25 years of age has a bachelor's degree or higher that explains why our city always has an unemployment rate below the State and County average.<sup>2</sup>

### *Jobs in Berkeley*

Resident labor force statistics refer to people who live in Berkeley but may work anywhere within commuting distance. On the other hand, the jobs located in Berkeley's shops, offices, and factories are held by people who live all over the same region: only about 17.1% of the jobs in Berkeley are actually held by Berkeley residents<sup>3</sup>, a proportion that has declined over time as the somewhat higher than average rents and home prices in Berkeley has caused more people employed here to look elsewhere in the region for housing.

The Quarterly Census of Employment and Wages (QCEW) for March 2012 shows that 3,604 "establishments" (i.e., physically separate workplaces)<sup>4</sup> in Berkeley employed 60,165 workers.<sup>5</sup> This represents an increase of 173 employing establishments but a decrease of 550 employees from March 2011—the latter a reversal of job growth that had occurred since the depression bottomed out in 2010. Continuing a trend identified in the Office of Economic Development's June 12, 2012 Council workshop report, the job losses March 2011-March 2012 occurred almost entirely in government employment and health care. NAICS Sector 62, Health Care and Social Assistance, lost 439 employees, probably because the sector is undergoing consolidation in the expectation of cost controls from the Affordable Care Act. If this sector is excluded, private employment showed modest growth in that year (260 employees.) According to the QCEW, all three levels of government together shed 371 employees in Berkeley from March 2011-March 2012. (In this source the University is counted as a state agency.) The trend in Berkeley, modest gains in private employment except for health care combined with continuing cutbacks in government employment, corresponds to national trends in the post 2010 recovery. The difference here is that the public sector plus health care comprise such a large proportion of the economy that it is much harder for overall job growth to be positive when these sectors are contracting.

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<sup>2</sup> Table S1501, Educational Attainment, 2007-2011 American Community Survey 5-Year Estimates. Available on the U.S. Census Bureau website [www.census.gov](http://www.census.gov).

<sup>3</sup> Calculated from the Longitudinal Employer-Household Dynamics (LEHD) data set of the U.S. Census Bureau by UC Berkeley Department of City and Regional Planning students Sean Camion, Kerry Fleischer, Brad Johnson, Anna McCorvey, Salma Mousallem, and Allison Nemirow for a study undertaken for the City of Berkeley Commission on Labor, *Bayer and the City of Berkeley*, May 2, 2011.

<sup>4</sup> In most cases establishments represent separate businesses or institutional employers, but some businesses in Berkeley (e.g., the two Berkeley Bowls or Alta Bates-Summit's separate Alta Bates and Herrick campuses) have multiple establishments and workplaces. In Berkeley, the category of "Local Government" (i.e., the City itself and BUSD) is counted as 44 "establishments".

<sup>5</sup> Unpublished table purchased from the Labor Market Information Division of the State of California Employment Development Department. The U.S. Census Bureau estimates that the QCEW covers 98% of workers and employers. It does not, however, cover business proprietors themselves, the self-employed, domestic workers or unpaid family employees.

The longer term trend in employment in Berkeley is shown in Attachment 2. If the “economic recovery” can really be called that in Berkeley, levels of employment are still well below what was reached at the peak of the “dot com” boom of the late 1990s or even the middle of the last decade.

The favorable trend shown in Attachment 2 is the rebound in business formation from a low of 3,465 in 2010 to 3,604 in spring 2012.

Not included in this discussion of employment are the self-employed (see footnote 5) who are increasingly important in Berkeley: 6,611 (11.8% of the labor force) in 2000 and 6,948 (13.2% of the labor force) in 2006-2010. According to the ACS, 21% of Berkeley households (9,599 out of 44,904) had some income from self-employment, nearly double the national average of 11%.<sup>6</sup> The households with self-employment income derived an average of \$43,828 in 2011 dollars from this source.<sup>7</sup> A lot of the energy and creativity in Berkeley comes from its many artists, craftspeople, writers, consultants, and other self-employed and the success at least some of them are enjoying helps to mitigate the discouraging employment trends discussed above.

### *Citywide Retail Business Trends*

The Bradley-Burns Uniform Sales and Use Tax Law approved in 1955 mandated that the State collect a 1 percent local sales tax as part of the larger sales and use tax. The City portion of the sales tax is an important revenue source and since it is one-hundredth of taxable retail sales, the remittances coded by address allow staff to track business conditions in our various shopping districts.

Berkeley’s long-term trend in retail sales tax revenue is shown in Attachment 3 in both inflation-adjusted 2012 dollars and current dollars. In dollars of a constant value, Berkeley has lost sales tax revenue since at least 1990 when our data source from the City’s sales tax auditing firm, MuniServices, begins. With older shopping districts and a constrained amount of land for new development, Berkeley found that its own residents were spending their disposable income in new “big box” shopping centers in Emeryville as well as on the Internet. In addition, more affluent households spend a greater proportion of their disposable income on “intangible” items such as entertainment, personal services, fitness, health care, and travel rather than on the “tangible” retail products that are subject to the sales tax. Many of Berkeley’s economic strengths are in services like entertainment that do not generate sales tax (except indirectly, by attracting customers to our restaurants.) Given these limitation, it is very difficult for Berkeley to increase its revenue from the sales tax.

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<sup>6</sup> Table B19053, Self-Employment Income in the Past 12 Months for Households, 2007-2011 American Community Survey 5-year Estimates, available on the Census Bureau website [www.census.gov](http://www.census.gov).

<sup>7</sup> Table B19063, Aggregate Self-Employment Income in the Past 12 Months (in 2011 Inflation-Adjusted Dollars) for Households, 2001-2011 American Community Survey 5-Year Estimates, available on the Census Bureau website [www.census.gov](http://www.census.gov).

Attachment 4 shows that while Berkeley has lost out in sales of most retail goods (“Miscellaneous Retail”), we have more than kept pace in “Food Products”, which primarily means food and drink consumed in restaurants. Restaurants do charge sales tax when the meal is to be consumed on premises and not at home. Culinary innovation and investment in new restaurants, along with the regional attraction of Berkeley’s entertainment institutions, have allowed Berkeley’s restaurant sector to succeed. Attachment 5 shows that restaurants now generate 20% of our retail sales tax revenue, an unusually high proportion (in California as a whole it is 14%).

The sales tax revenue trend in current dollars (i.e., not adjusted for inflation) over the past five years is shown in Attachment 6. It indicates that while the local retail economy has been recovering since 2010, it has not yet come close to attaining the sales levels attained before the recession began (and of course, the picture would be somewhat worse if we did adjust these figures for inflation.) The weakness of the retail economy and the revenue derived from it may be due in large part to the continuing job losses and high unemployment discussed in the first sections of this report. When residents feel insecure about their jobs even if they are employed, and when at least four thousand fewer people are employed here than before the recession, we would expect weak retail expenditures which is exactly what we have. True, the population in Berkeley has increased from 102,743 in 2000 to 112,580 in 2010 and an estimated 114,821 on January 1, 2012, mostly due to construction of UC student housing and private apartments. The new student residents of Berkeley have a limited amount of disposable income and the new employed residents are apparently not enough yet to boost retail sales significantly.<sup>8</sup>

### *District Retail Snapshots*

The remaining attachments 7-26 show retail trends in our individual shopping districts 1<sup>st</sup> quarter 2010-1<sup>st</sup> quarter 2012. We have had to suppress some charts when one firm dominated a “sector” and the economic information in the chart could be identifiable with that firm.

### *Downtown*

Attachments 7-8 show that the growth sector in the Downtown is restaurants, almost certainly due in large part to the success of the Arts District in attracting a new affluent evening clientele, plus the fact that the construction of new housing has brought many new residents to the area. By the 1<sup>st</sup> quarter of 2012 restaurants comprised 42% of total sales in the Downtown. The Downtown Berkeley Association is planning to hire a consultant to assist it in targeting and attracting new retailers to complement the success in restaurants.

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<sup>8</sup> The State Department of Finance Demographic Research Unit estimates that the “group quarters” population (i.e., dormitory or the equivalent) population in Berkeley increased from 5,822 in 2000 to 13,644 on January 1, 2012. We can assume that nearly all of them are students. The household population also increased from 96,921 to 101,485 in the same period.

## Telegraph

OED has reported several times on economic problems in the Telegraph district and we will not repeat that discussion here. In real terms, sales are forty percent below the level attained in 1990. Because the trends in Attachment 10 are calculated on an “moving average” for the entire year, they smooth out sharp losses in suffered in the 4<sup>th</sup> quarter 2011 from the fire that destroyed the Sequoia Apartments plus two successful ground floor restaurants, Raleigh’s and Intermezzo.

It should be noted that, even with all of its problems, Telegraph has a relatively diverse retail base that includes apparel, CD/music, bookstores and other retail in addition to restaurants. It is located in the area of Berkeley, the Southside, where the population has increased the most over the past 20 years due to construction of UC student housing. If the vacant lots at Telegraph and Haste can be filled-in with new mixed-use buildings and the former “anchor” bookstores and CD/music stores can be complemented with new types of anchor businesses, this district can once again prosper.

## Elmwood

The Elmwood is currently one of Berkeley’s most successful shopping areas as is shown in Attachments 11-12. On the scale of two blocks along College, its restaurants and diverse retail stores (bookstores, apparel, jewelry, optical, etc.) attract customers both from the surrounding neighborhoods and the wider region. Hopefully, the Berkeley Transportation Action Plan (B-TAP) will recommend parking and access changes that will allow even more customers to reach this district.

## North Shattuck

The economic importance of this district is not fully reflected in the sales tax statistics because the grocery sales of its two supermarkets, including a recently-expanded Safeway, are tax exempt. Attachment 13 shows that 31 restaurants, including the famous Chez Panisse, generate more than half of taxable sales in the district. Thanks in part to promotional events managed by the North Shattuck Business Improvement District and the high income demographics of the adjoining neighborhoods, this district has not suffered much from the recession.

## Solano

The Berkeley portion of the Solano shopping district is similar to the Elmwood and North Shattuck in that it is patronized by residents of the prosperous residential neighborhoods that surround it at the same time as it serves regional customers. It is a diverse district with restaurants but also apparel, home furnishings, handicrafts, hair salons and a bookstore. Unlike, the Elmwood and North Shattuck, however, Solano has had trouble with persistent vacancies and many of its retail businesses have struggled in the recession. Part of the problem may be that its night-time anchor, the

Oaks Theatre, has been closed for three years and was not successful in attracting audiences even before then. The Andronico's market is under new ownership that hopes to restore the grocery store's customer base, which if successful would allow it to be the daytime anchor for the district.

Merchants, through a revived Solano BID, have identified the need to improve the streetscape with trees, better lighting, and improved cross walks, as a key issue for revitalizing the district.

### South Berkeley

This area comprises commercial corridors south of Dwight Way to the Oakland border; west of but including Shattuck; and east of San Pablo: Shattuck, Adeline, Martin Luther King, and Sacramento as well as businesses on Ashby and Alcatraz. Rather than one district it is a quadrant of the city that includes several clusters of small businesses on Shattuck, Adeline and Sacramento, plus auto dealerships and the Berkeley Bowl on South Shattuck. Just in terms of sales tax trends, the area did well primarily because sales at the auto dealerships have been recovering from the low point of 2008-2009 and the increasing gas prices have brought more revenue from the area's service stations. The City's only appliance store on Shattuck is under a new ownership that has increased sales and several furniture stores, particularly European Sleepworks, have done well in difficult economic times.

With several large vacancies, the Adeline district south of the Ashby BART station needs the greatest amount of attention to support its nascent revitalization.

### University Avenue Association Area

The University Avenue Association includes businesses on University Avenue west of Martin Luther King Jr. Way. As the main gateway commercial corridor, it has an identity as such and is the home of many South Asian businesses, but it does not function as a single business district. With the increase in gas prices, gas stations generate 30% of sales tax receipts. Restaurants, mostly ethnic and destinations, rather than neighborhood serving, constitute the next largest sector. The corridor includes a very successful Trader Joe's at the intersection of Martin Luther King Jr. Way as well as a number of smaller ethnic markets below San Pablo.

Nearly twenty years ago, the University Avenue Strategic Plan identified the need to create more concentrated "nodes" of businesses to make this district more walkable. Very little progress has been made in this direction. Nearly all businesses are destinations accessed by automobile.

The corridor has very few real vacancies. The former Andronico's at 1414 University has been leased to a used clothing chain, Savers, and a hotel is now being built at the formerly vacant gas station site at the NW corner of University and Sacramento.

## North San Pablo

Near the intersection with University Avenue, San Pablo has a notable cluster of ethnic food stores and restaurants and near Gilman it has a strong cluster of outdoor wear businesses anchored by REI, by far the largest business in the corridor. The area near the intersection of Gilman and San Pablo is likely to become an important commercial node with Whole Foods locating at 1025 Gilman, the former site of Office Depot, which will move across the street to the Gilman Village shopping complex.

North San Pablo's major vacancy remains the former Cadillac-Volkswagen dealership at Cedar and San Pablo.

## South San Pablo

The San Pablo corridor south of University is transitioning from a predominately auto repair district into a more interesting mix of restaurants and home improvement businesses. Clusters of new restaurants near Dwight Way and Addison have proven to be very successful. The home improvement businesses (Metro Lighting, Eco Home Improvement, The Sink Factory, Baldwin Brass, Omega Too and others) are organizing to promote themselves as a district.

The area has some prominent vacancies including now the site at 2747 San Pablo that has been vacated by the Berkeley Patients Group and the lot at Addison formerly occupied by U-Haul. The store at the SE corner of University and San Pablo that had been vacant for many years has been leased by a furniture store.

## Fourth Street

Thanks to a very calculated and informed selection of tenants, primarily by property owner Denny Abrams, this retail district is the most successful in Berkeley and the one that draws the largest number of shoppers from other areas. After a sharp downturn during the recession it is now rebounding with the opening of an Apple Store. In Attachment 26, the Apple Store is included in a larger category, Furniture and Appliance. Other notable new tenants in the district include California Closets that occupied the vacant former Traditions space at 1714 4<sup>th</sup> Street and Rejuvenation Lighting at 1717 4<sup>th</sup> Street.

More than 800 UC Berkeley employees are being relocated to the Berkeley Crossings building at 1608 4<sup>th</sup> Street. This should benefit the many restaurants in the area and provide a boost to daytime shopping.

## BACKGROUND

The information we provide to Council is the latest available to us at the time the report is being drafted. State and federal agencies cannot provide completely current statistical information because it is often reported to them with some delay and then it takes some time to process into tables. Labor force information, including the

unemployment rate, is the most current because it is based on a household survey conducted every month. It is released only a month after the reference date of the survey. The number of jobs in Berkeley comes from unemployment insurance data reported by employers on a quarterly basis to the State of California and it is usually nine months to a year behind the current date. Sales tax data for the City's business districts, which comes from the City's sales tax auditor, MuniServices, based on data transmitted to it by the State Board of Equalization, also lags about nine months behind the current date.

Staff believes that the labor force and job trends data covered in this report are best reported on the basis of long -term trends rather than quarterly fluctuations. However, retail sales trends in our business districts are a topic of general interest and directly affect City revenue from the sales tax, so we will attempt to cover this topic in each report going forward.

#### CONTACT PERSON

Michael J. Caplan, Economic Development Manager

#### Attachments :

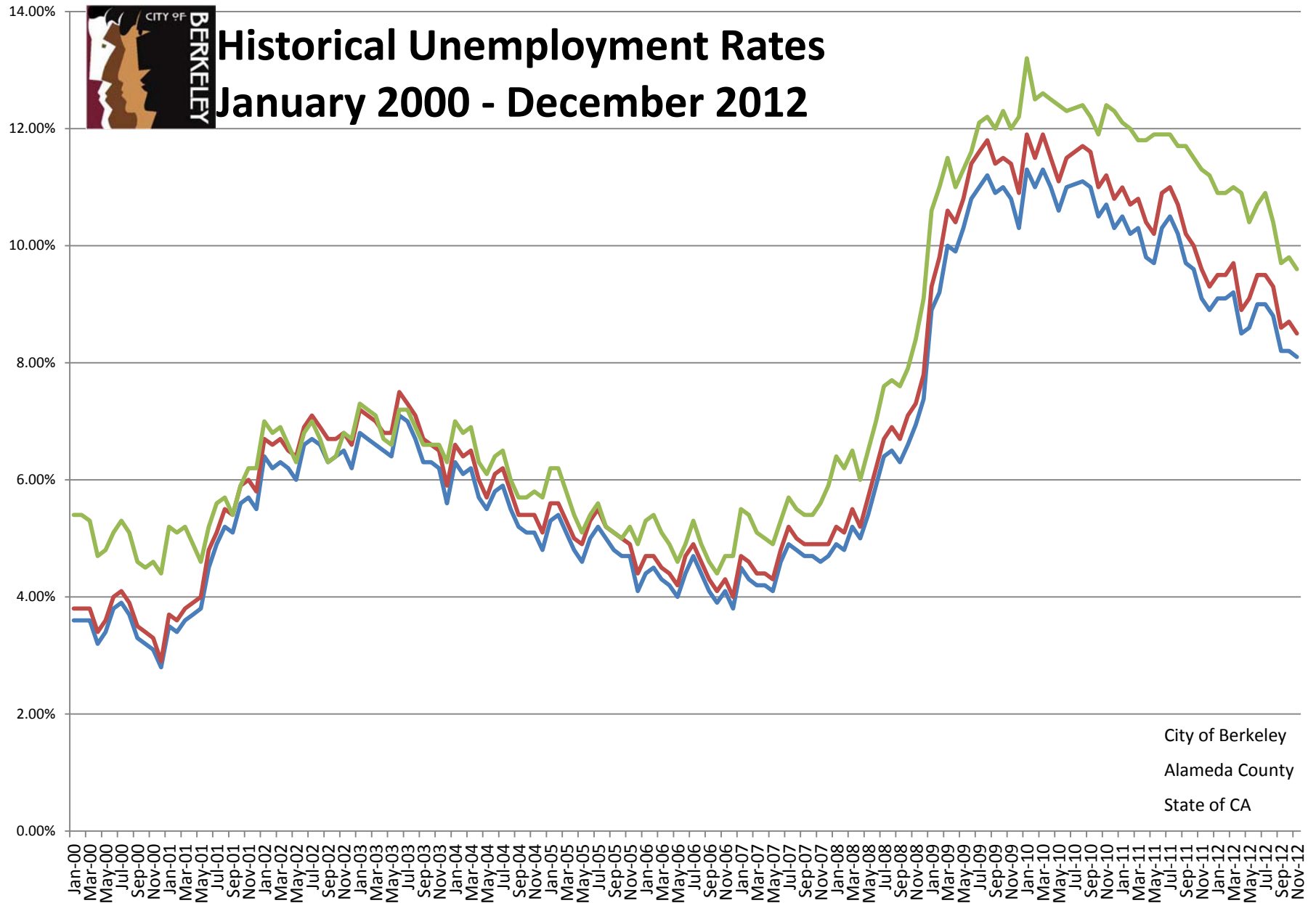
- 1: Historical Unemployment Rates
- 2: Establishments & Jobs in Berkeley
- 3: Berkeley Sales Tax Revenue 1990-2012/1
- 4: Sale Taxes Receipts by Sector, Berkeley 1990-2011, adjusted to 2012
- 5: City of Berkeley –Total City
- 6: City of Berkeley-Historical Sales Tax Revenue Performance
- 7: City of Berkeley-Downtown Berkeley Business Improvement District-Pie Chart
- 8: City of Berkeley-Downtown Berkeley Business Improvement District-Trend Graph
- 9: City of Berkeley-Telegraph - Pie Chart
- 10: City of Berkeley- Telegraph – Trend Graph
- 11: City of Berkeley-Elmwood – Pie Chart
- 12: City of Berkeley-Elmwood – Trend Graph
- 13: City of Berkeley – North Shattuck BID Study Area-Pie Chart
- 14: City of Berkeley – North Shattuck BID Study Area-Trend Graph
- 15: City of Berkeley – Solano Avenue-Pie Chart
- 16: City of Berkeley – Solano Avenue-Trend Graph
- 17: City of Berkeley- South Berkeley – Pie Chart
- 18: City of Berkeley- South Berkeley – Trend Graph
- 19: City of Berkeley- University Avenue Assn Area – Pie Chart
- 20: City of Berkeley- University Avenue Assn Area – Trend Graph
- 21: City of Berkeley- North San Pablo Avenue – Pie Chart
- 22: City of Berkeley- North San Pablo Avenue – Trend Graph
- 23: City of Berkeley- South San Pablo Avenue – Pie Chart
- 24: City of Berkeley- South San Pablo Avenue – Trend Graph
- 25: City of Berkeley- Fourth Street – Pie Chart
- 26: City of Berkeley- Fourth Street - Trend Graph





# Historical Unemployment Rates

## January 2000 - December 2012

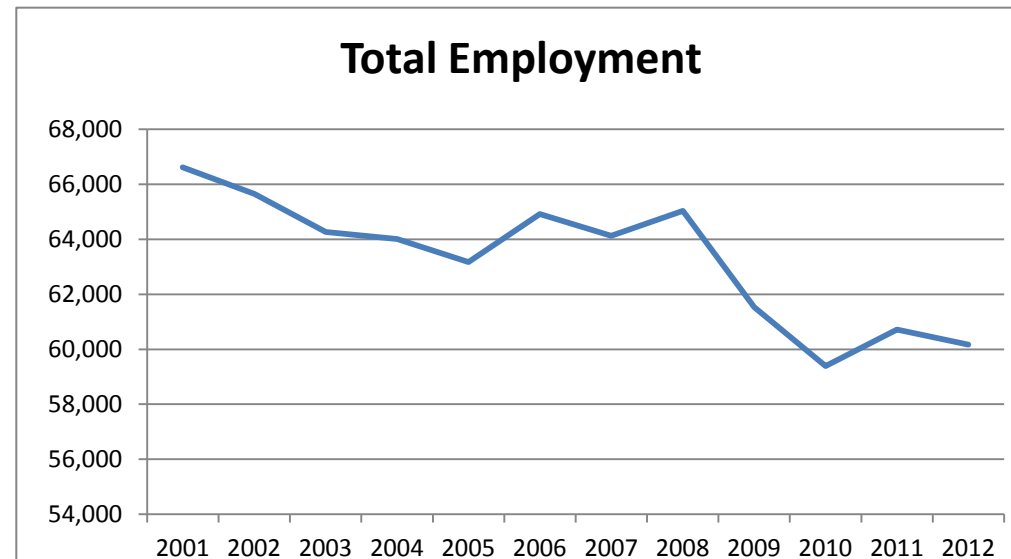
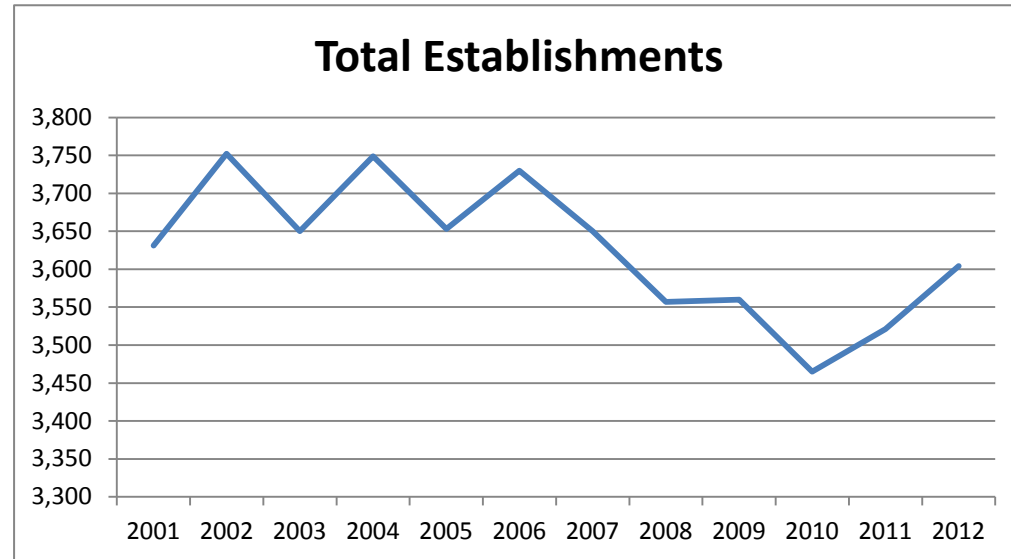


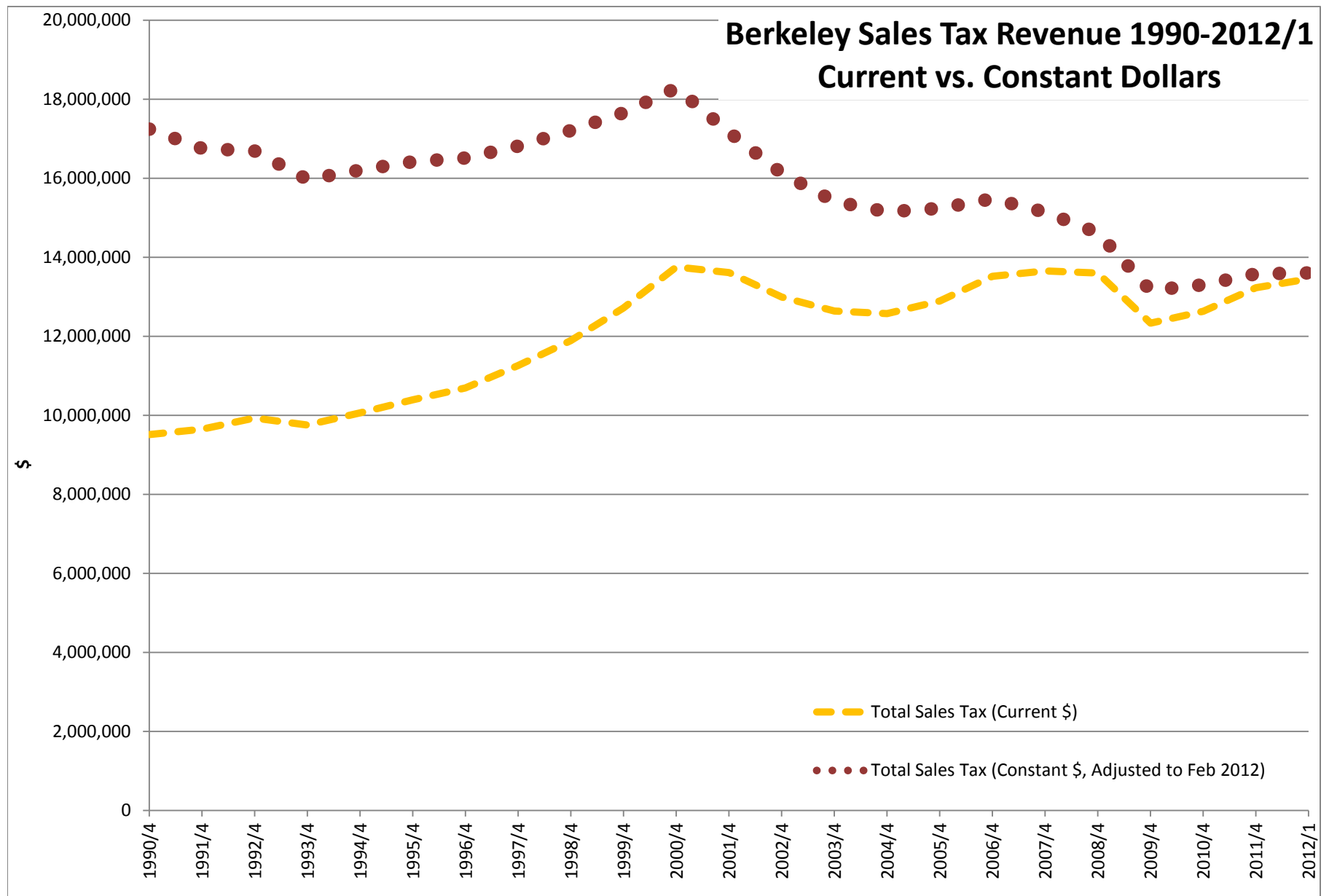
SOURCE: California Employment Development Department (EDD), Labor Market Information.

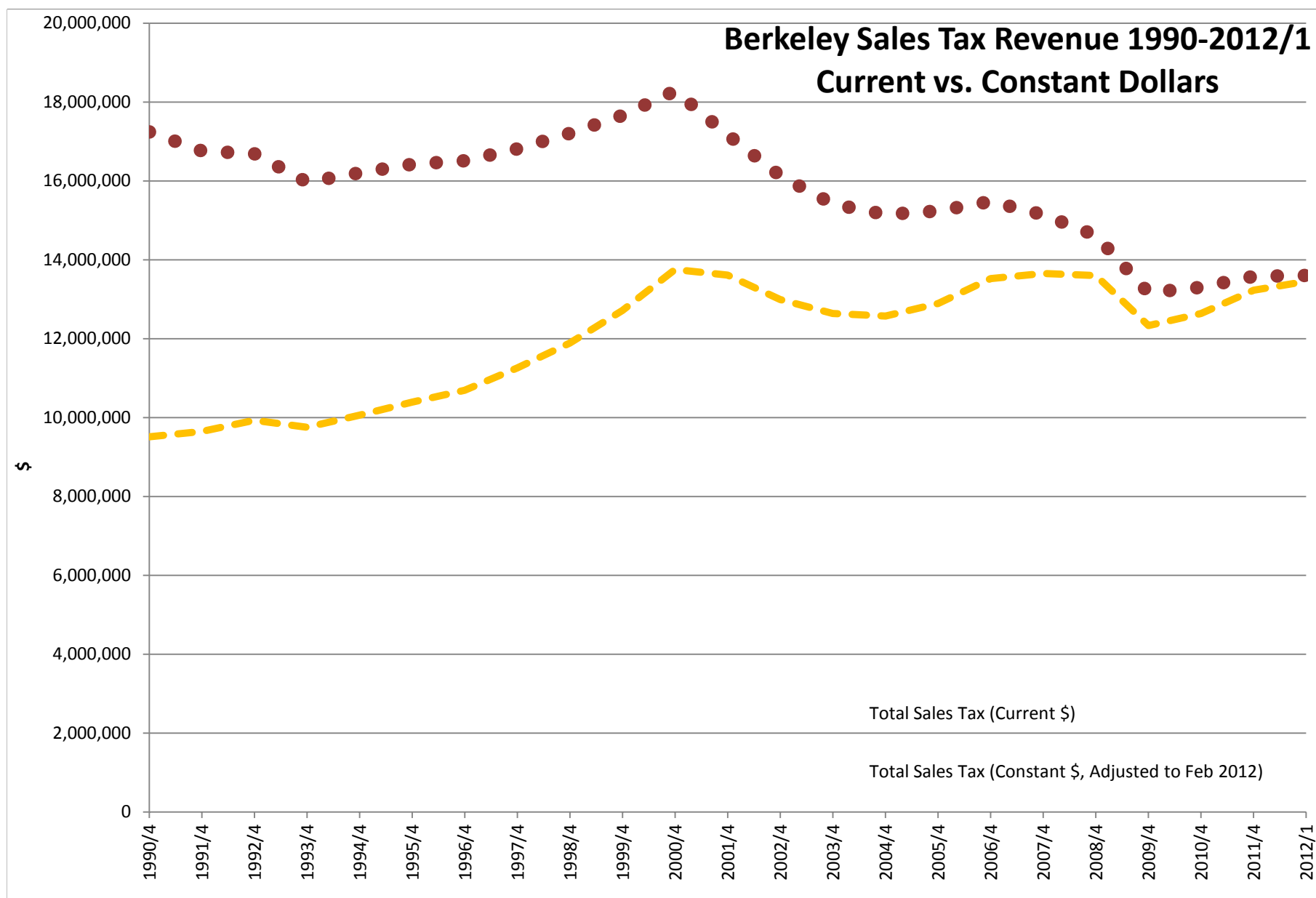
# Establishments Jobs in Berkeley 2001-2012

## Attachment 2

	total establishm	total employment
2001	3,631	66,616
2002	3,752	65,656
2003	3,650	64,268
2004	3,749	64,015
2005	3,653	63,178
2006	3,730	64,924
2007	3,650	64,125
2008	3,557	65,031
2009	3,560	61,527
2010	3,465	59,389
2011	3,521	60,715
2012	3,604	60,165

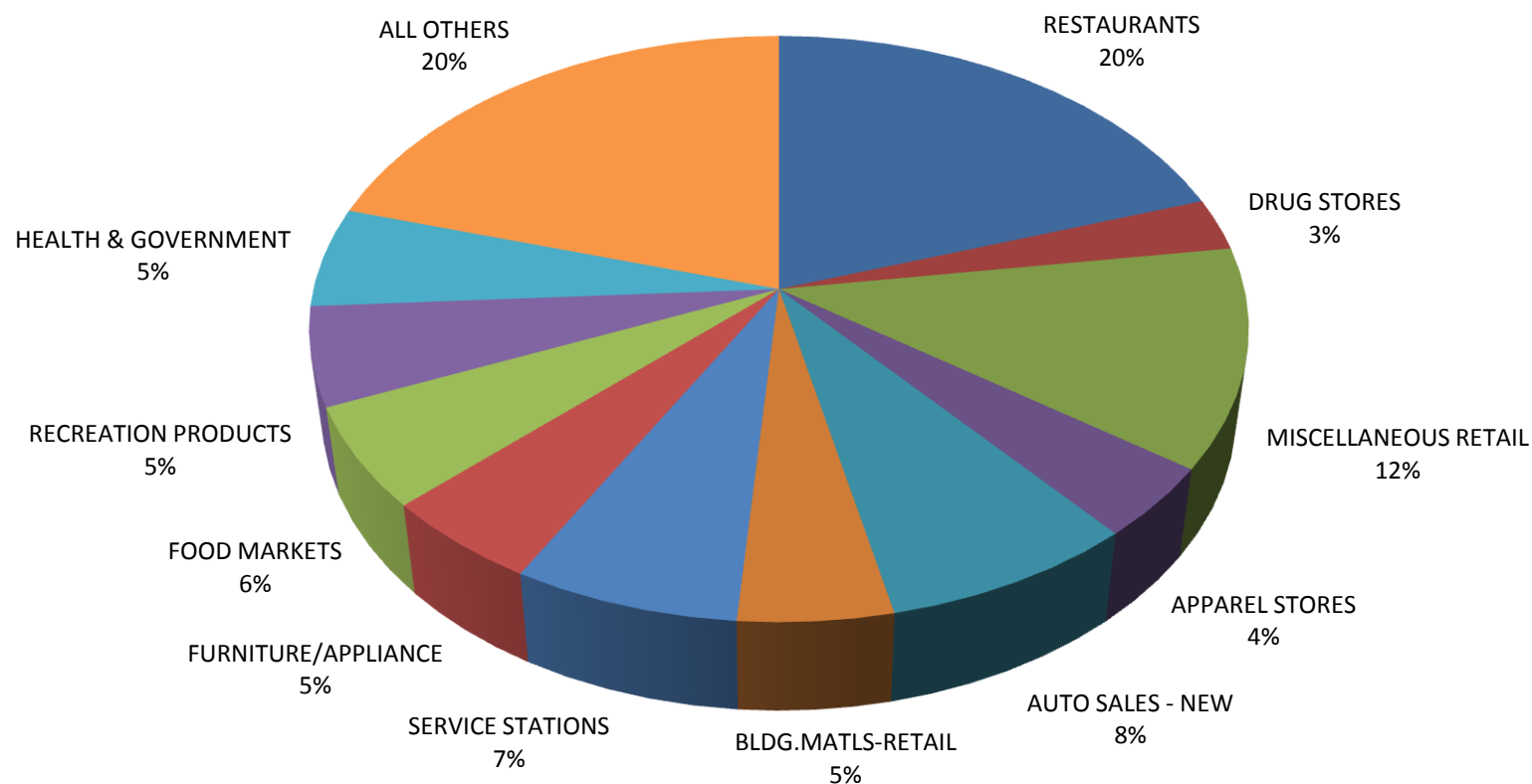






# CITY OF BERKELEY

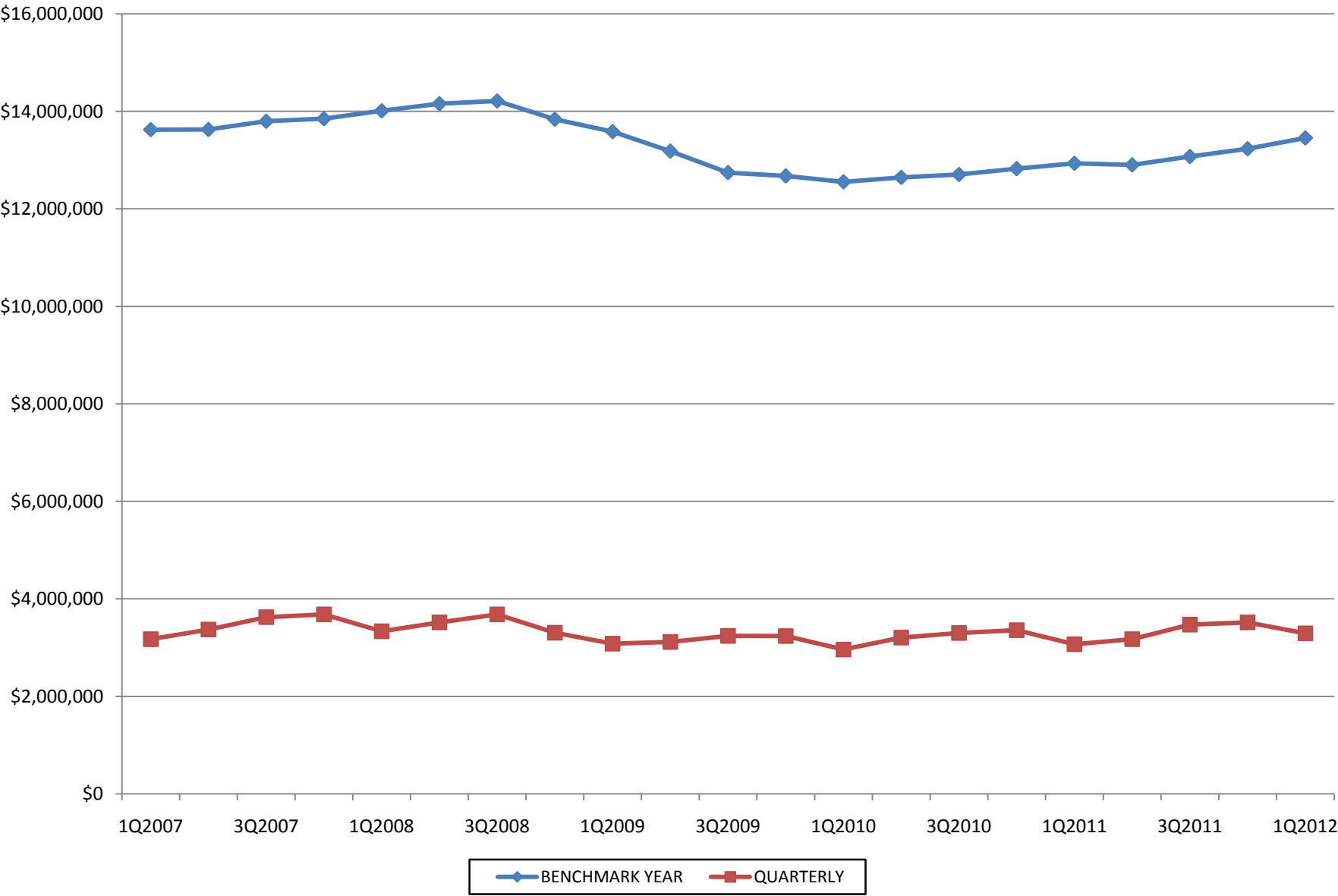
## TOTAL CITY \$13,454,777



BENCHMARK YEAR ENDING FIRST QUARTER 2012

# CITY OF BERKELEY

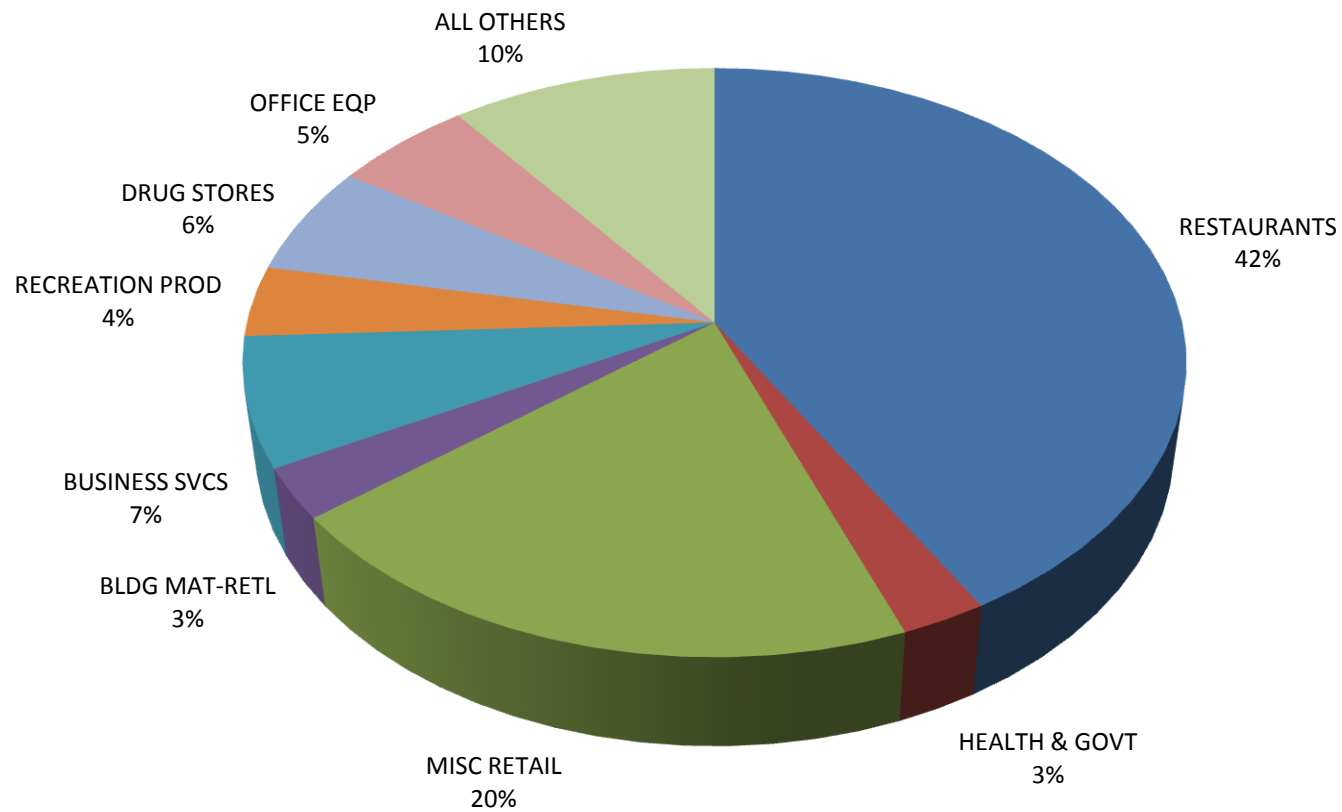
## HISTORICAL SALES TAX REVENUE PERFORMANCE



BENCHMARK YEAR ENDING FIRST QUARTER 2012

# CITY OF BERKELEY

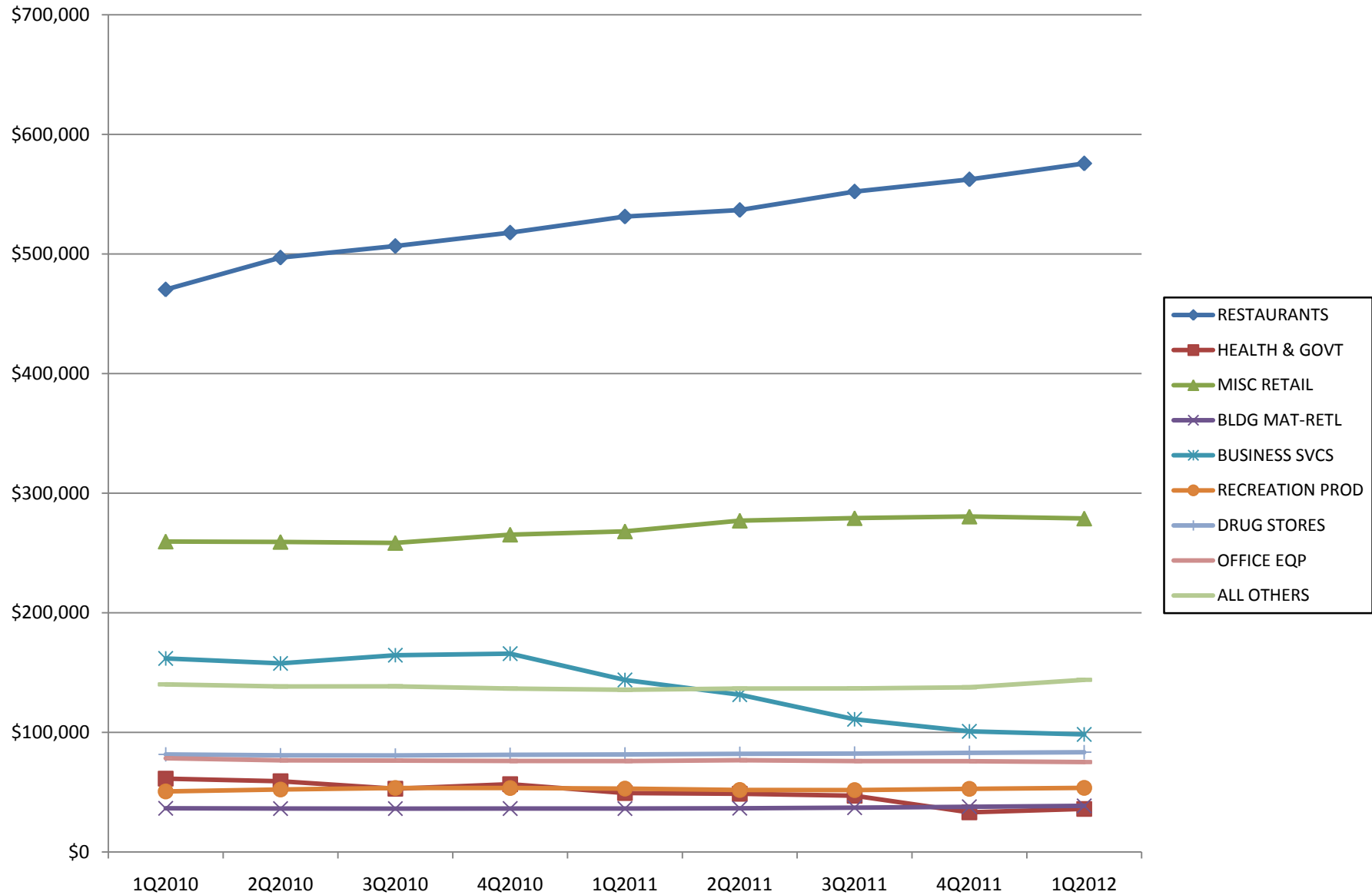
## DOWNTOWN BERKELEY BUSINESS IMPROVEMENT DISTRICT



BENCHMARK YEAR ENDING FIRST QUARTER 2012

# CITY OF BERKELEY

## DOWNTOWN BERKELEY BUSINESS IMPROVEMENT DISTRICT

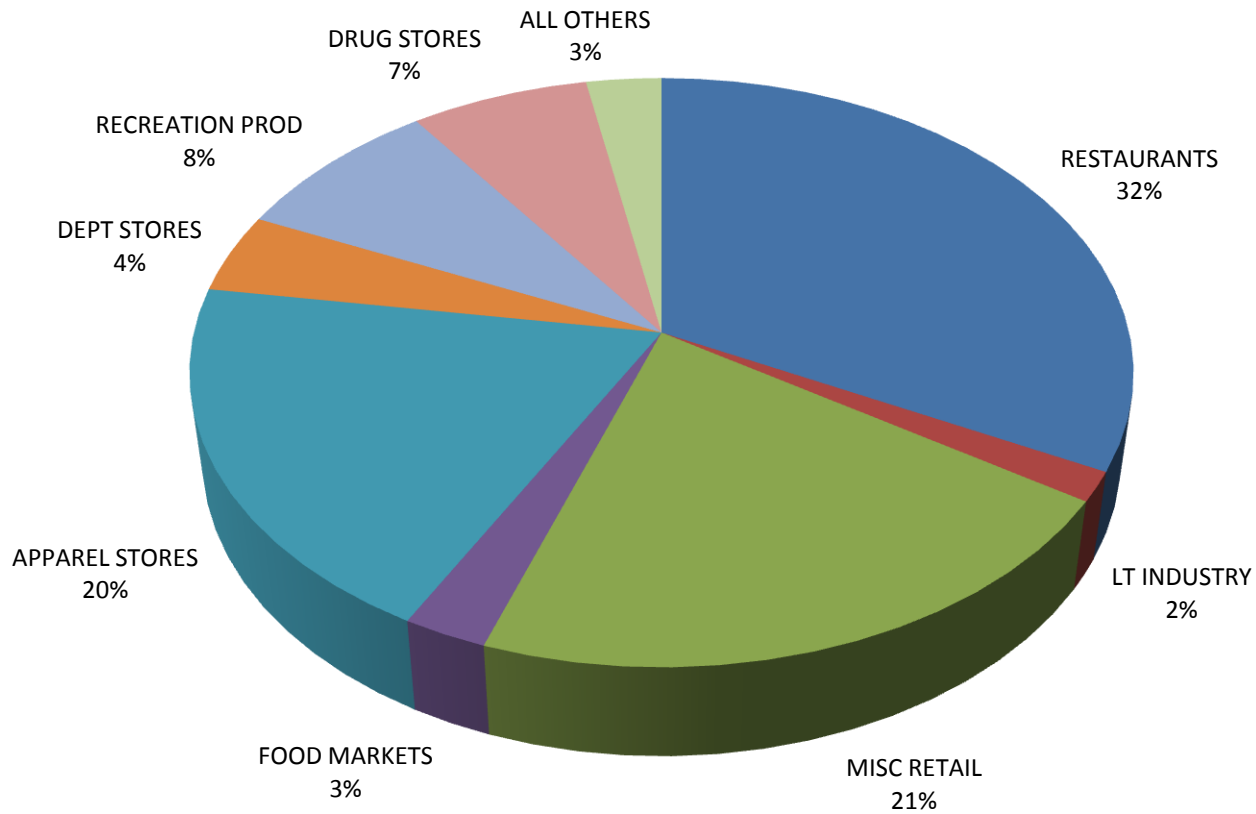


BENCHMARK YEAR ENDING FIRST QUARTER 2012



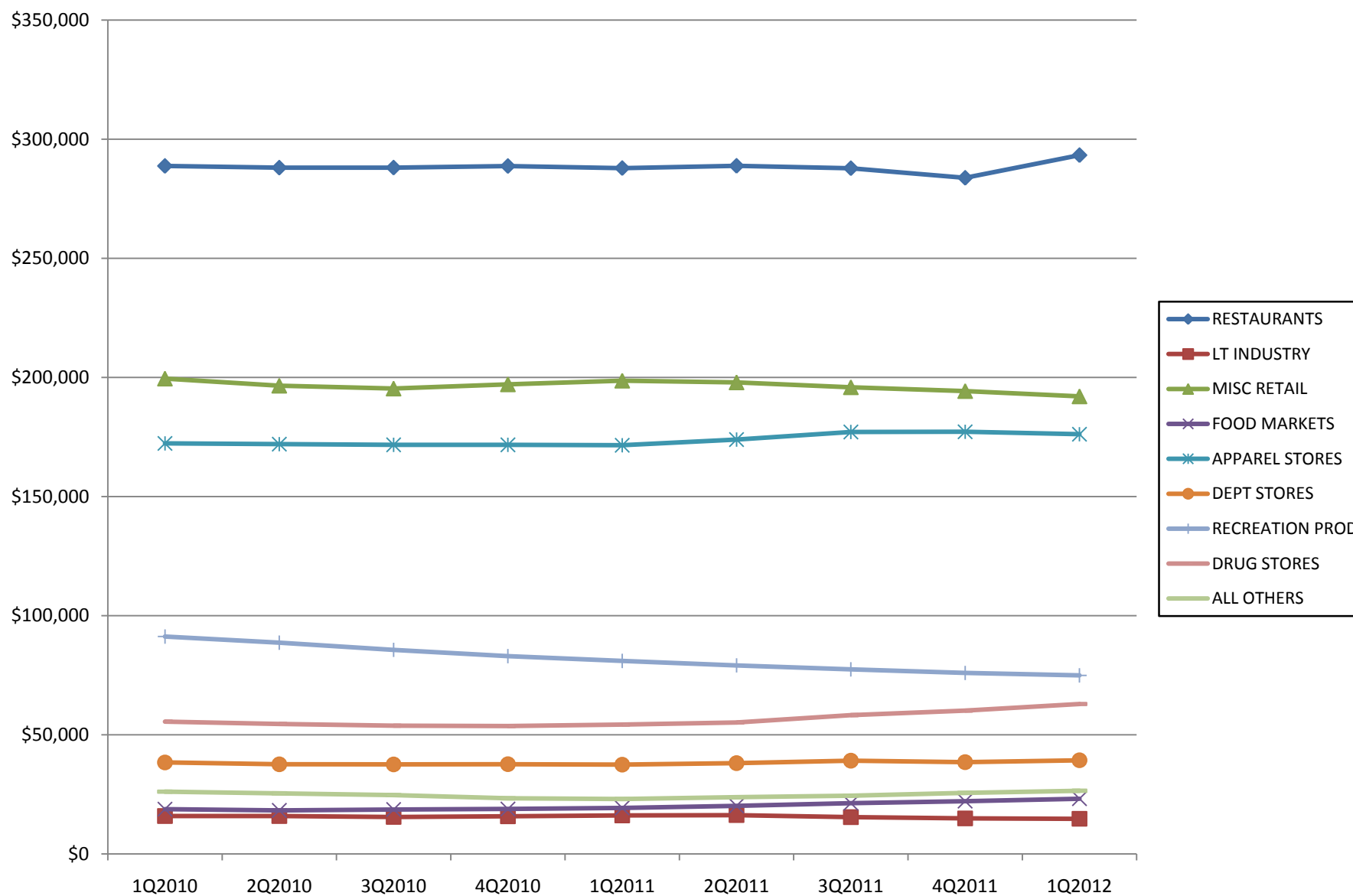
# CITY OF BERKELEY TELEGRAPH

Attachment 9



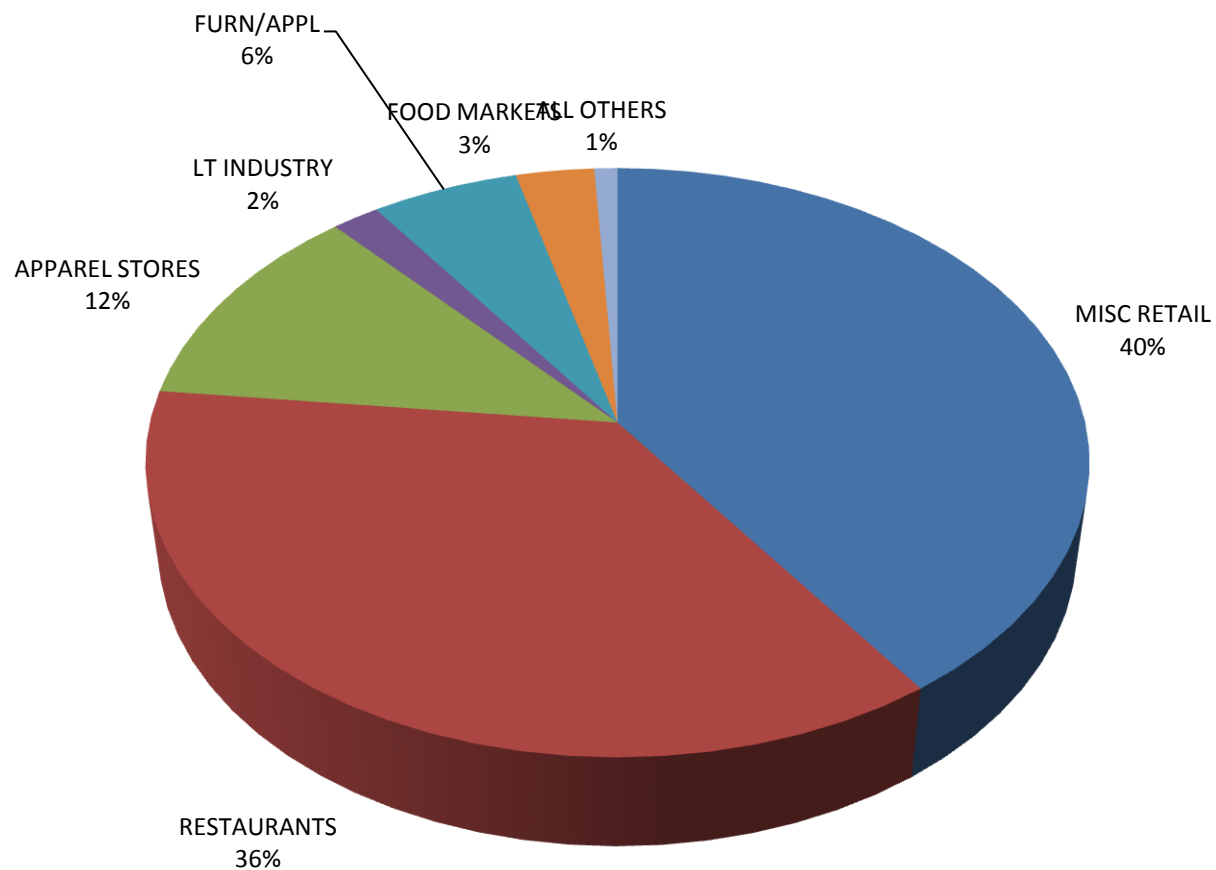
BENCHMARK YEAR ENDING FIRST QUARTER 2012

# CITY OF BERKELEY TELEGRAPH



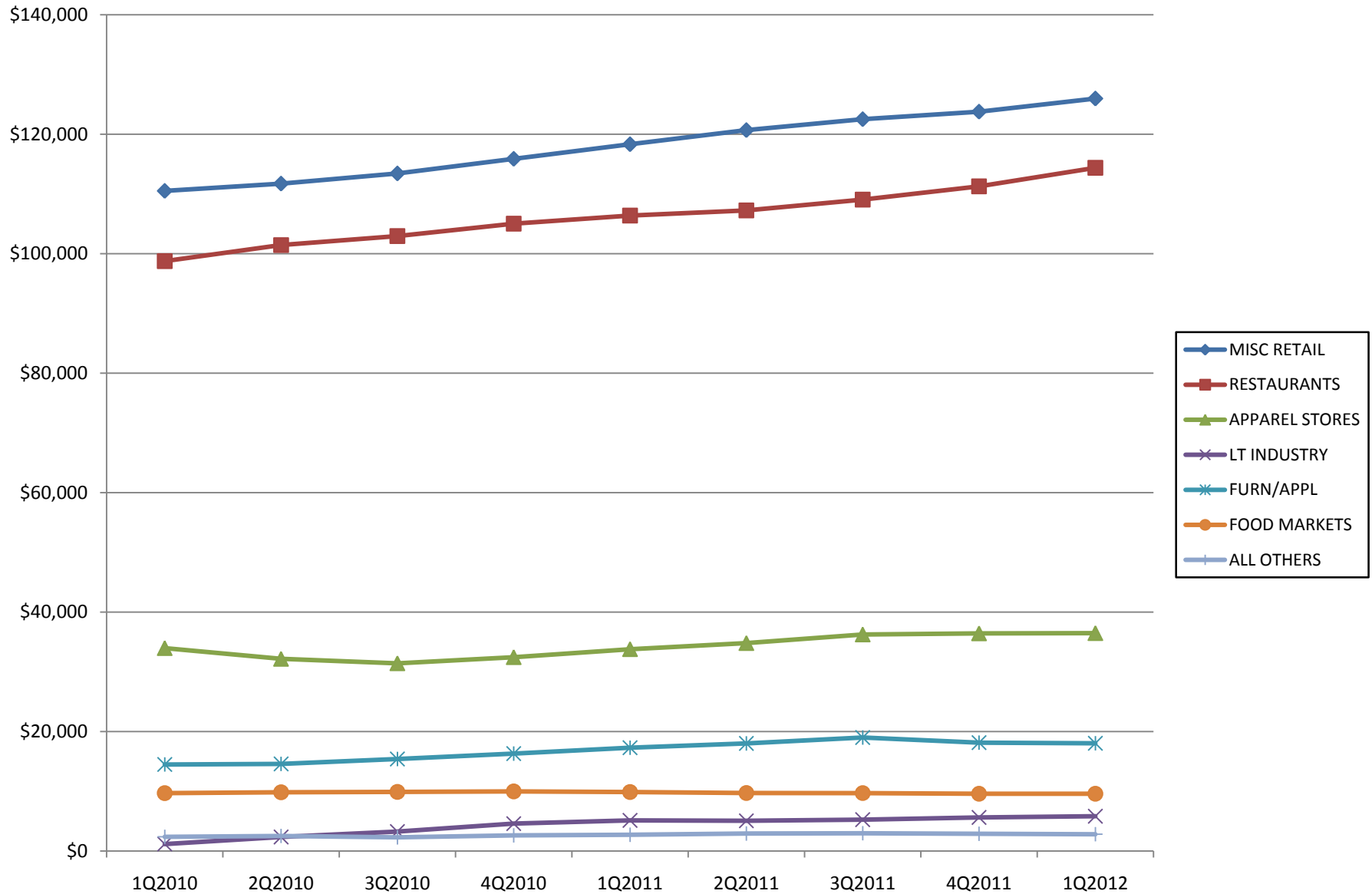
BENCHMARK YEAR ENDING FIRST QUARTER 2012

# CITY OF BERKELEY ELMWOOD



BENCHMARK YEAR ENDING FIRST QUARTER 2012

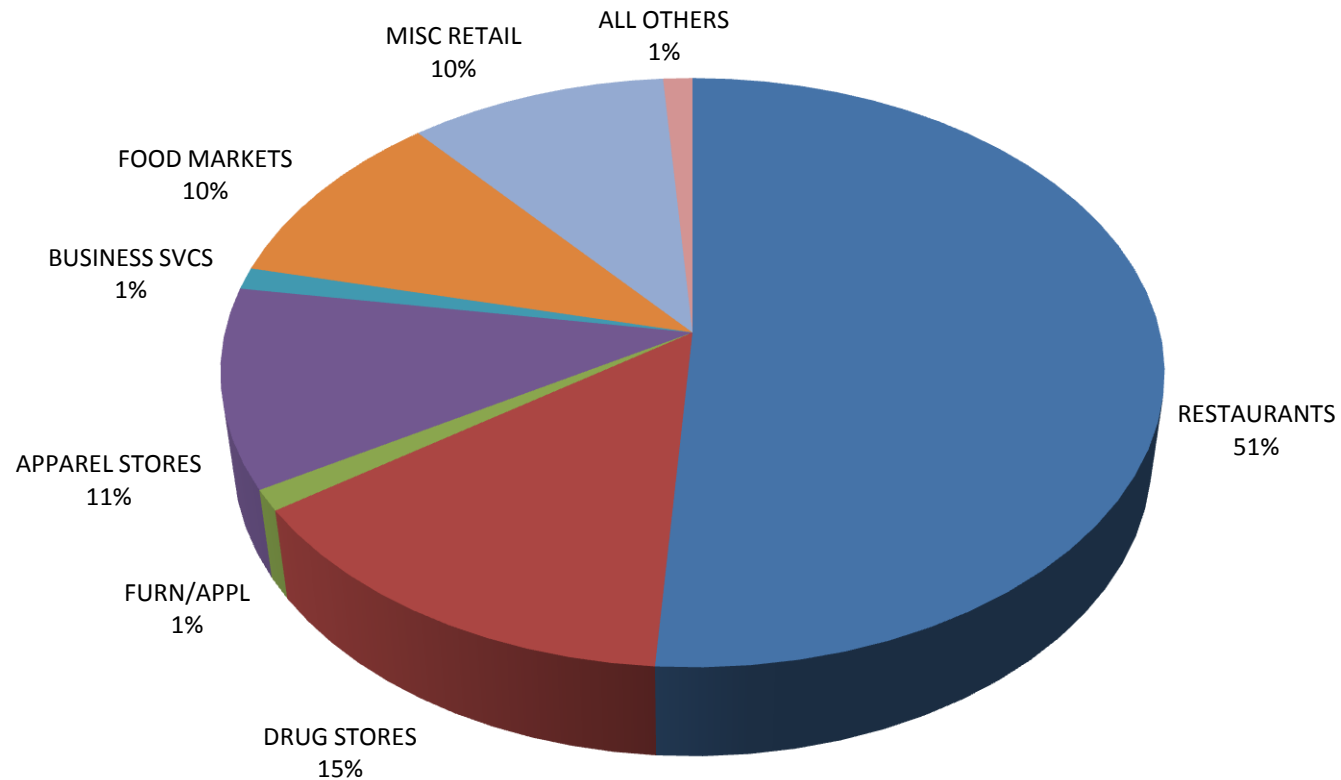
# CITY OF BERKELEY ELMWOOD



BENCHMARK YEAR ENDING FIRST QUARTER 2012

# CITY OF BERKELEY NORTH SHATTUCK BID STUDY AREA

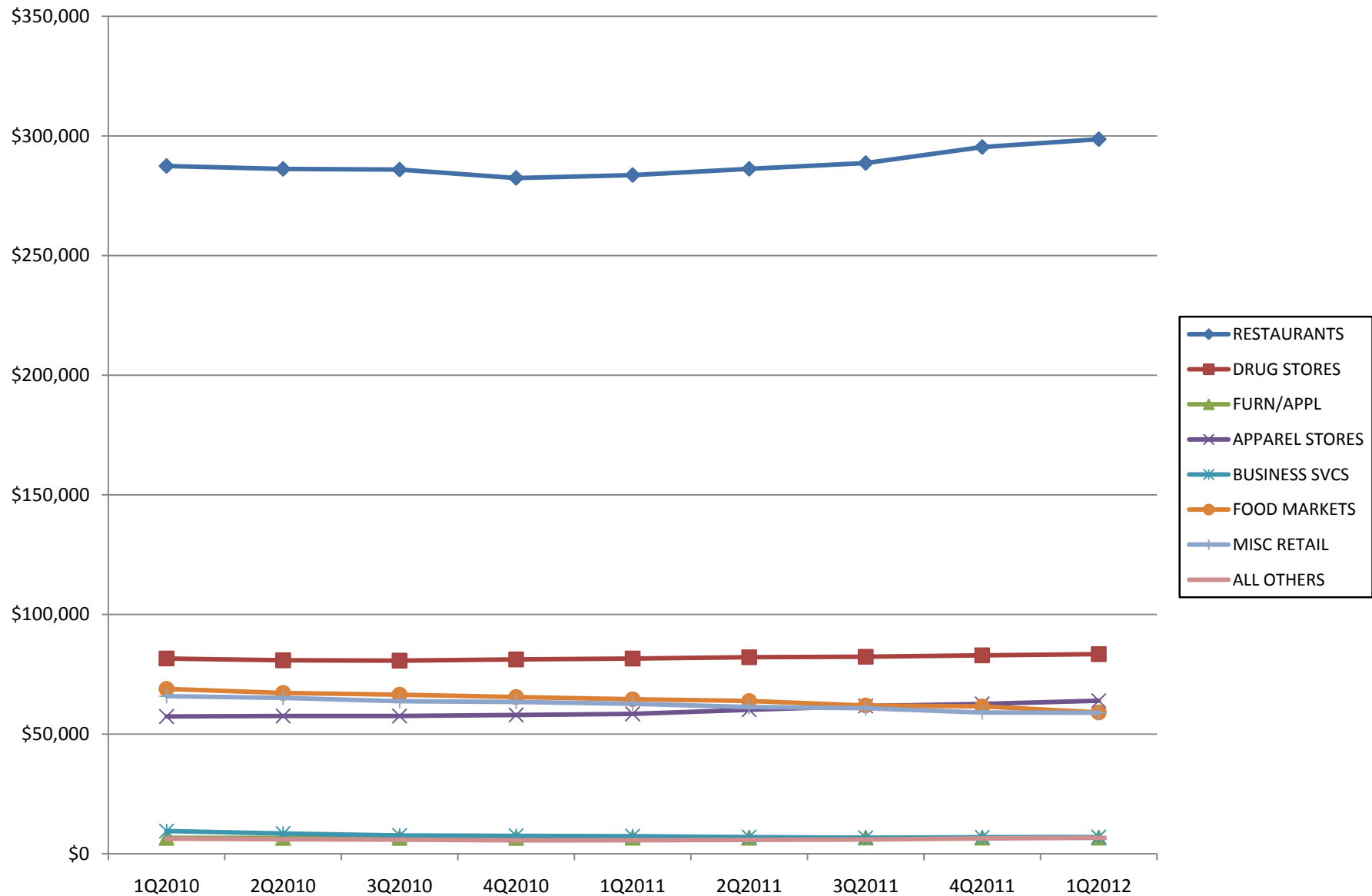
Attachment 13



BENCHMARK YEAR ENDING FIRST QUARTER 2012

# CITY OF BERKELEY NORTH SHATTUCK BID STUDY AREA

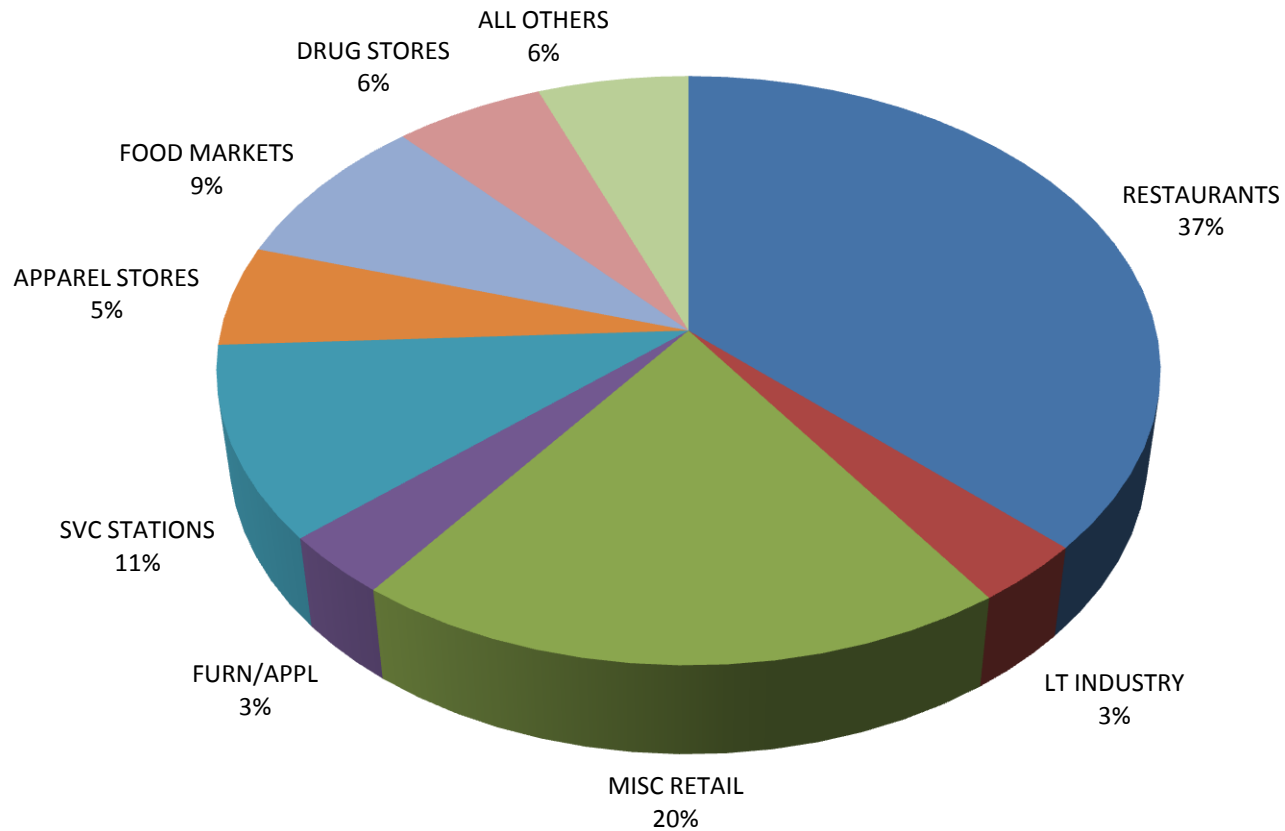
Attachment 14



BENCHMARK YEAR ENDING FIRST QUARTER 2012

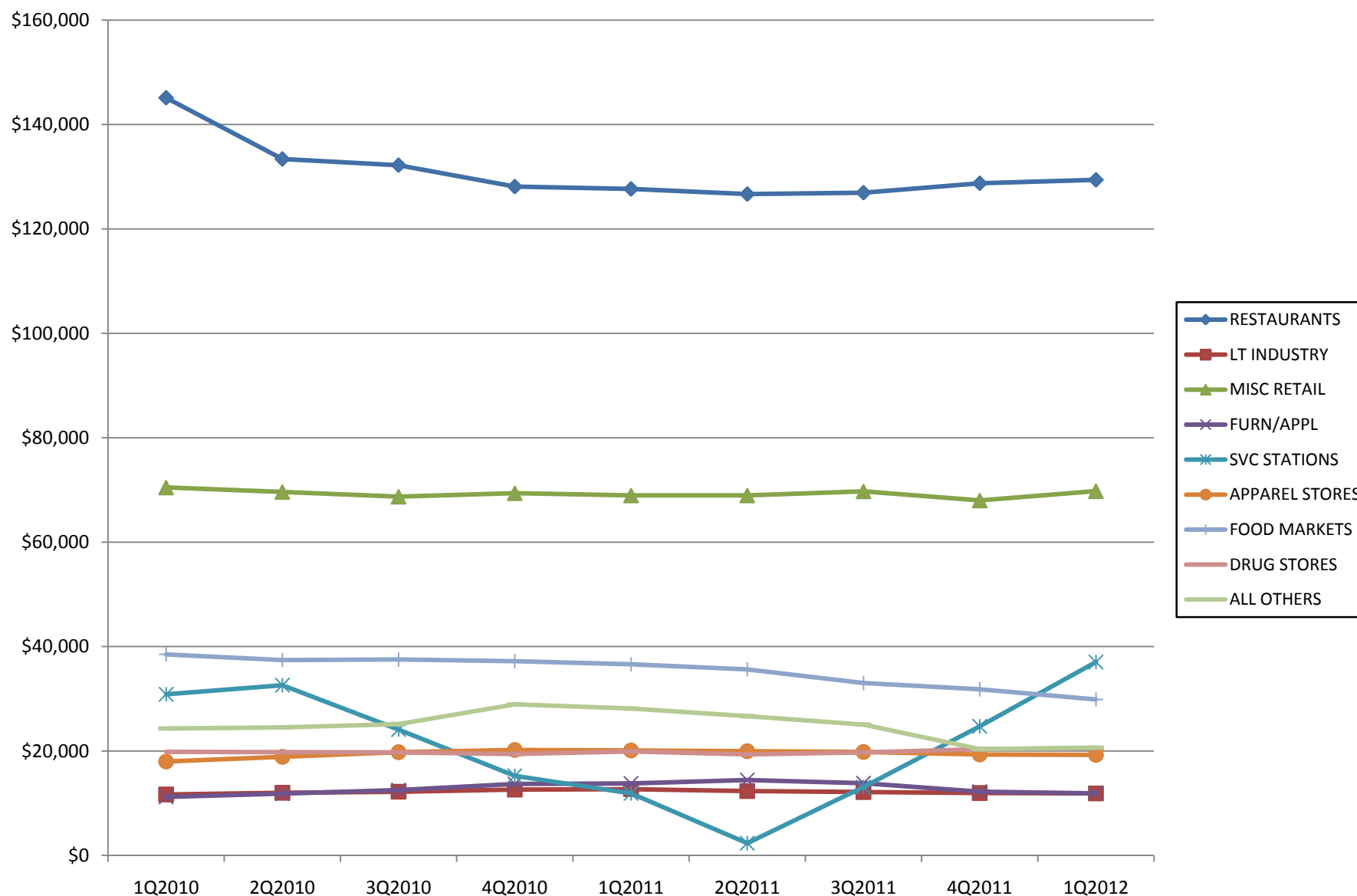
# CITY OF BERKELEY SOLANO AVENUE

Attachment 15



BENCHMARK YEAR ENDING FIRST QUARTER 2012

# CITY OF BERKELEY SOLANO AVENUE

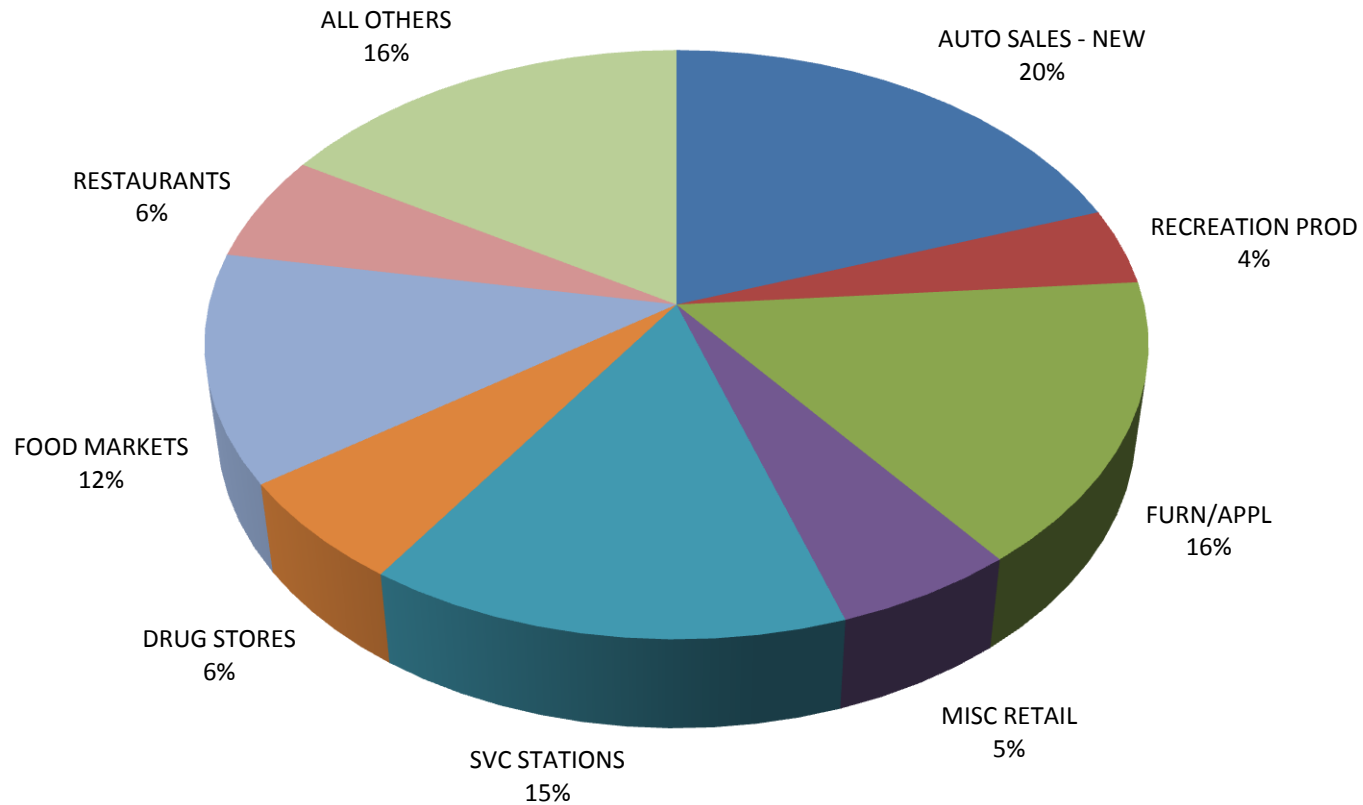


BENCHMARK YEAR ENDING FIRST QUARTER 2012



# CITY OF BERKELEY SOUTH BERKELEY

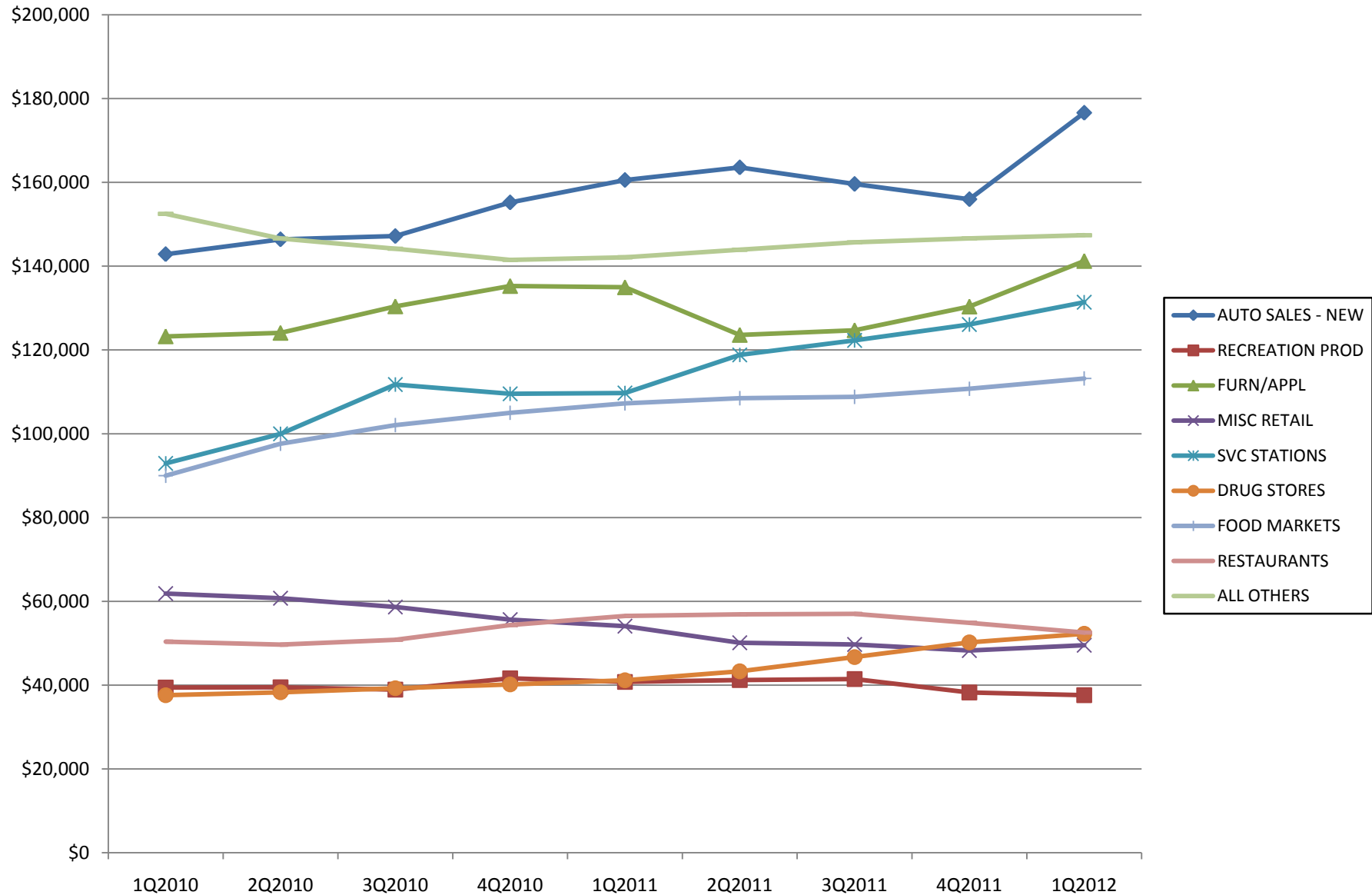
Attachment 17



BENCHMARK YEAR ENDING FIRST QUARTER 2012

# CITY OF BERKELEY SOUTH BERKELEY

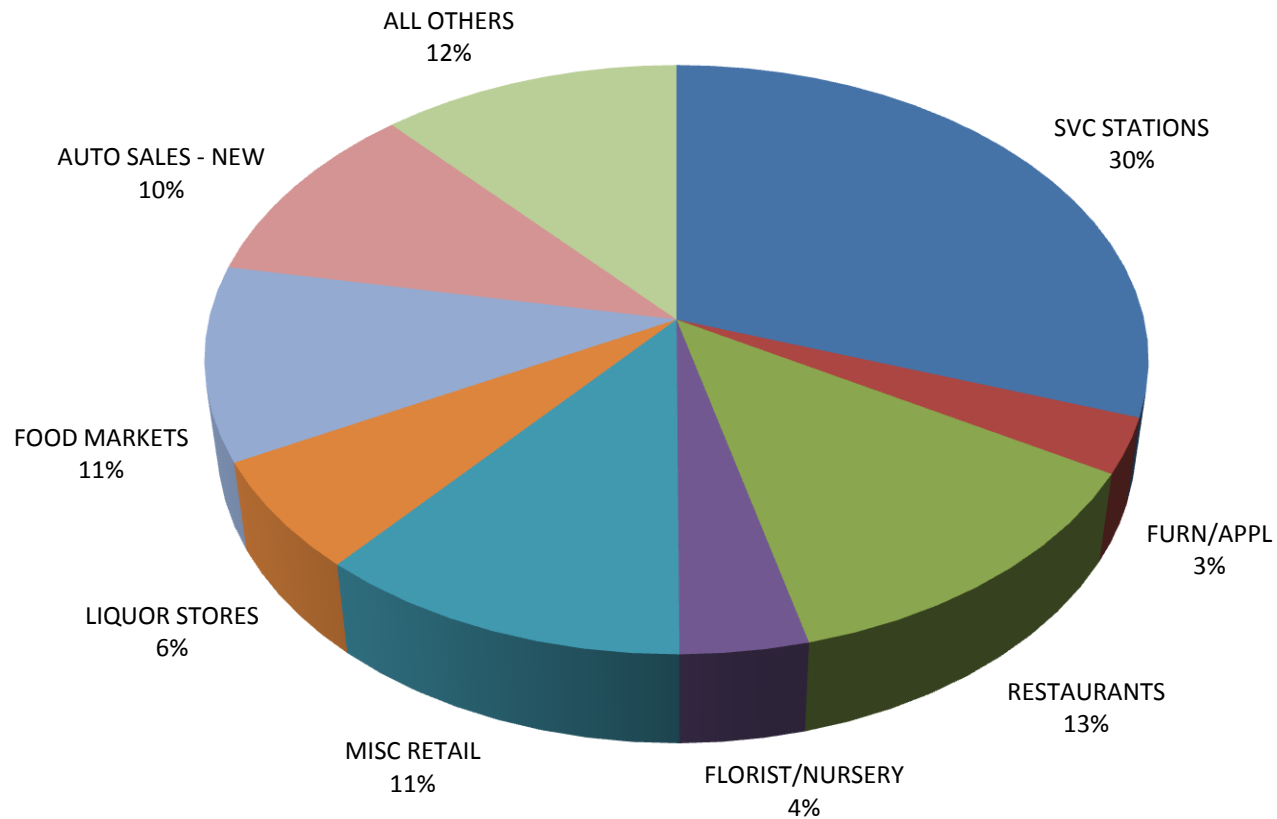
Attachment 18



BENCHMARK YEAR ENDING FIRST QUARTER 2012

# CITY OF BERKELEY UNIVERSITY AVENUE ASSOCIATION AREA

Attachment 19

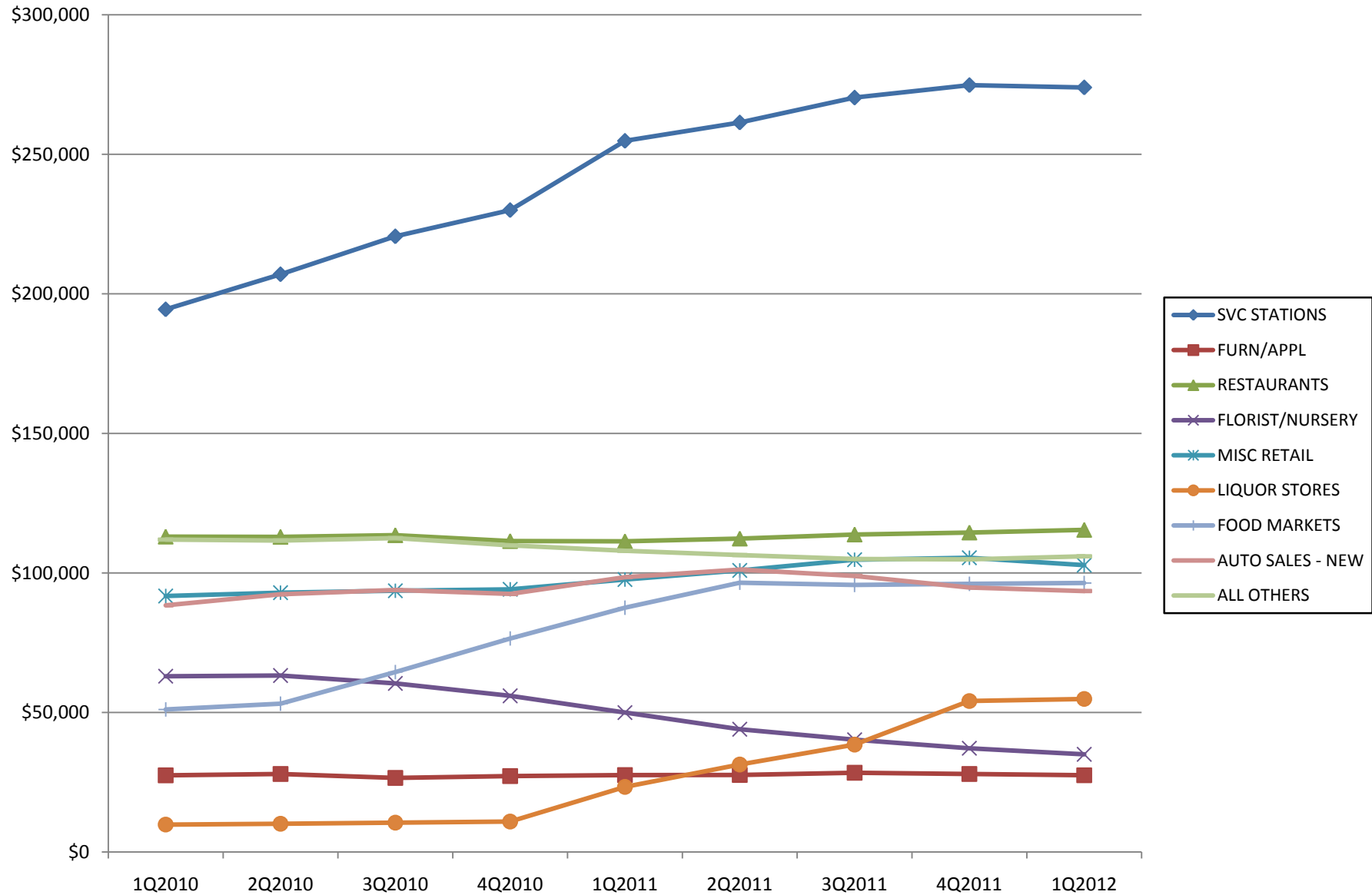


BENCHMARK YEAR ENDING FIRST QUARTER 2012

# CITY OF BERKELEY

## UNIVERSITY AVENUE ASSOCIATION AREA

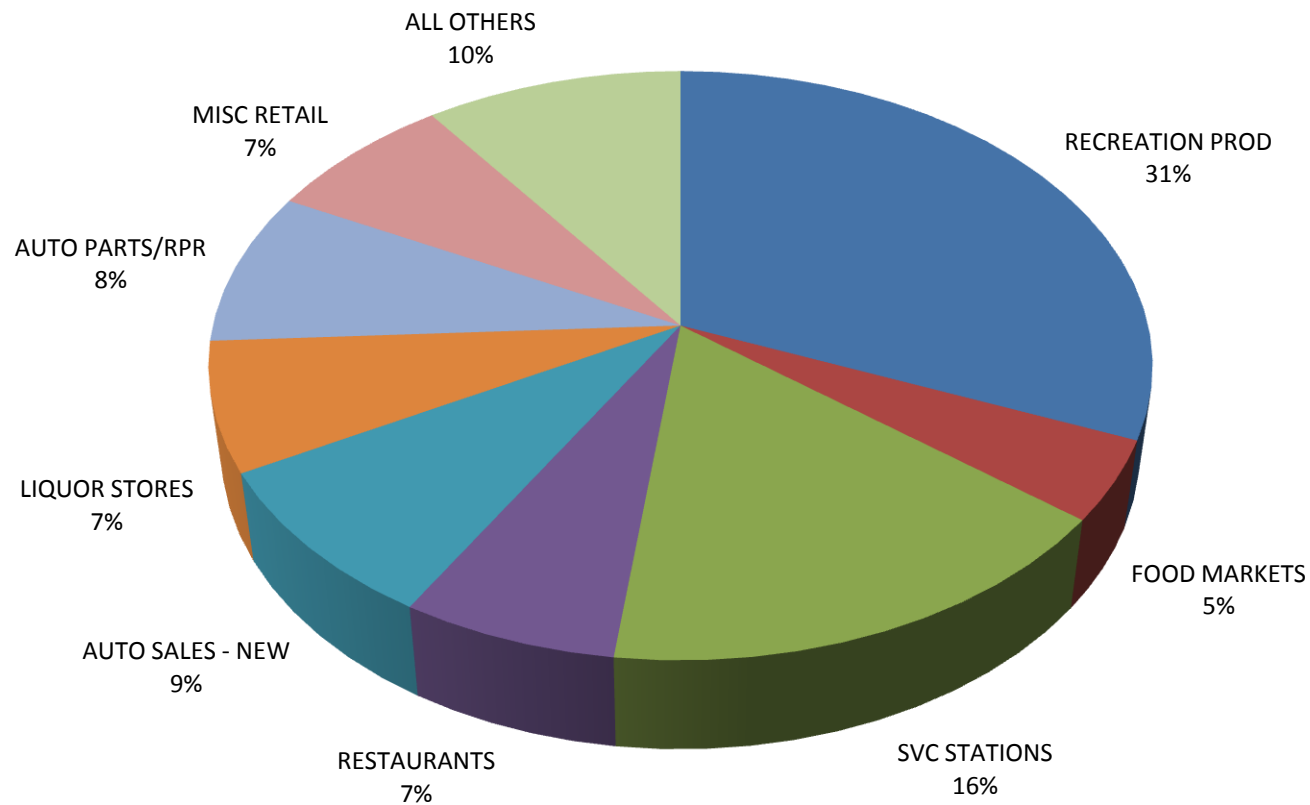
Attachment 20



BENCHMARK YEAR ENDING FIRST QUARTER 2012

# CITY OF BERKELEY NORTH SAN PABLO AVENUE

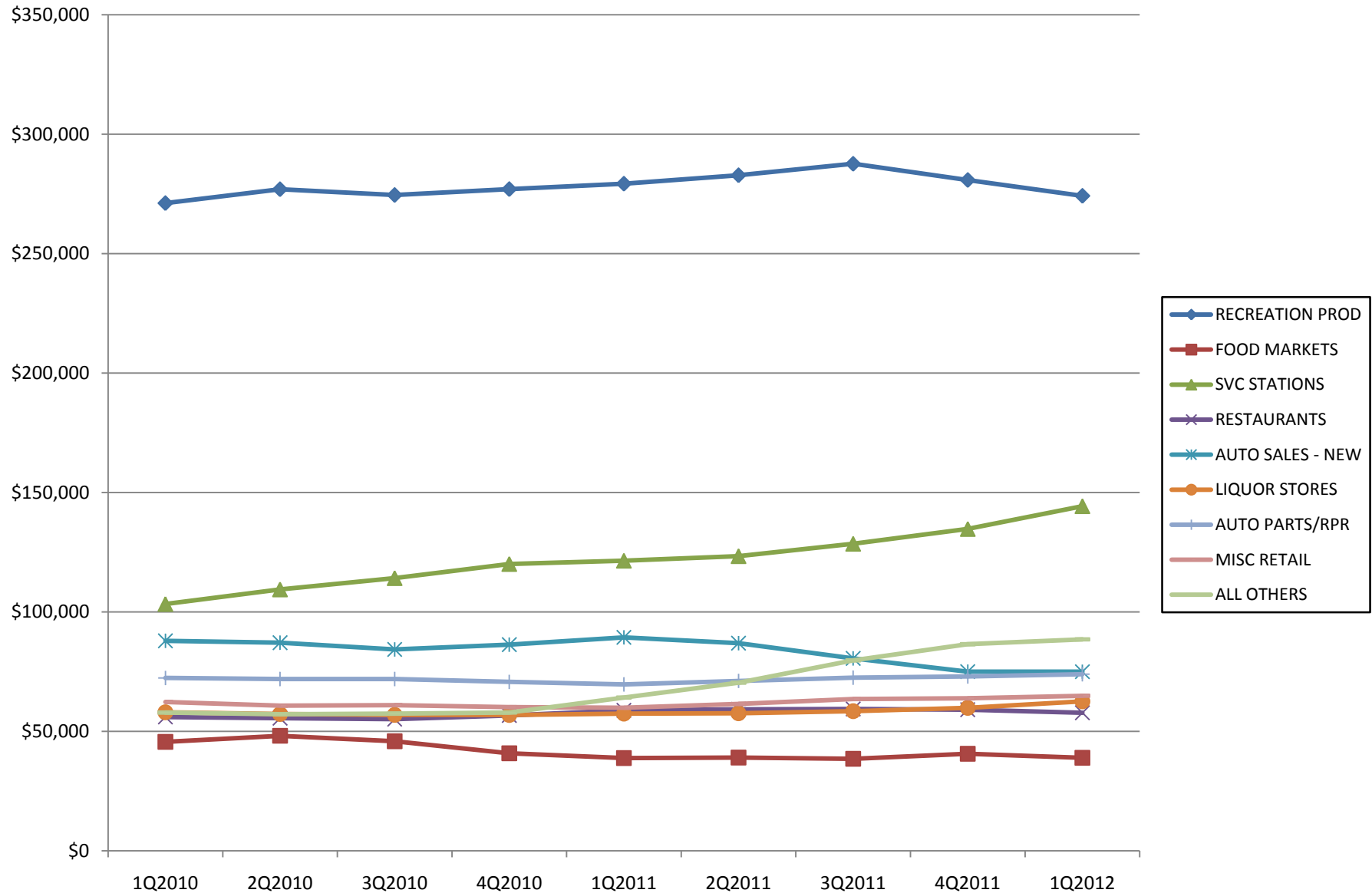
Attachment 21



BENCHMARK YEAR ENDING FIRST QUARTER 2012

# CITY OF BERKELEY NORTH SAN PABLO AVENUE

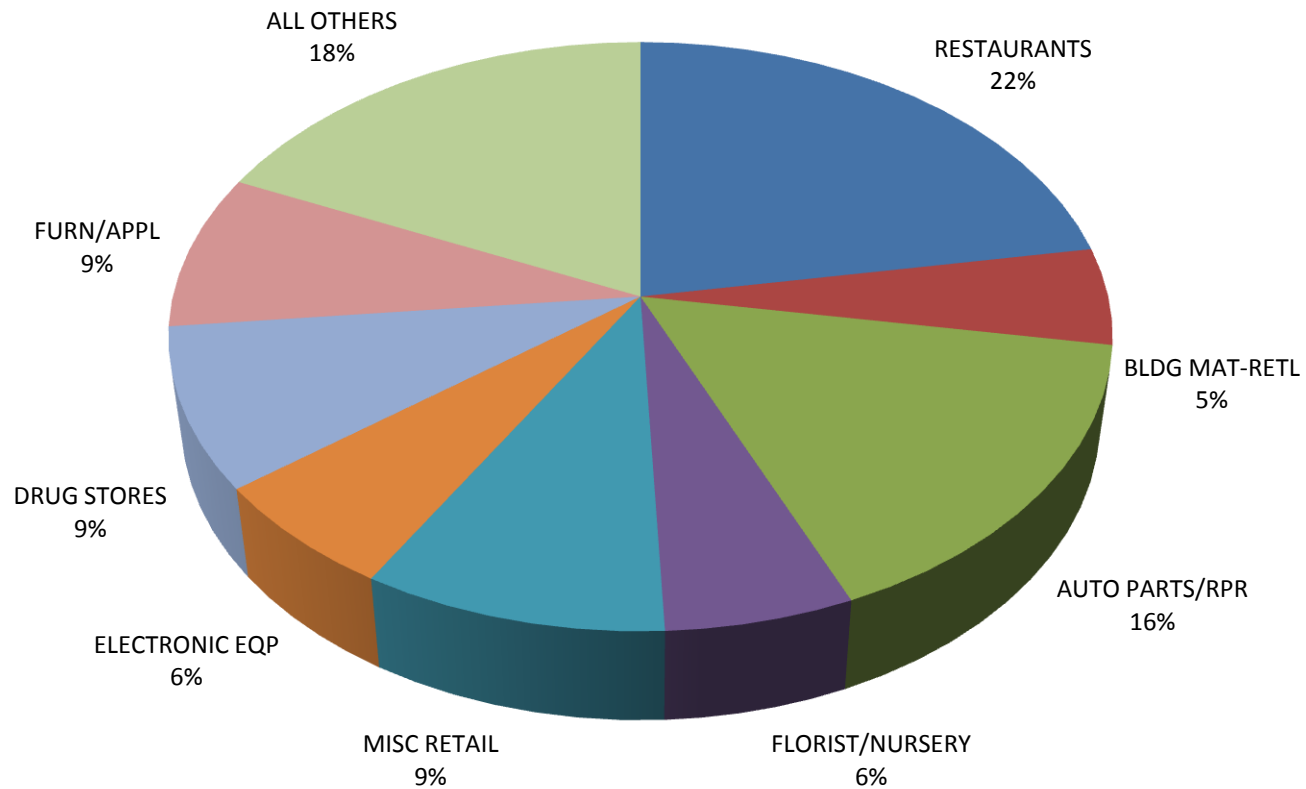
Attachment 22



BENCHMARK YEAR ENDING FIRST QUARTER 2012

# CITY OF BERKELEY SOUTH SAN PABLO AVENUE

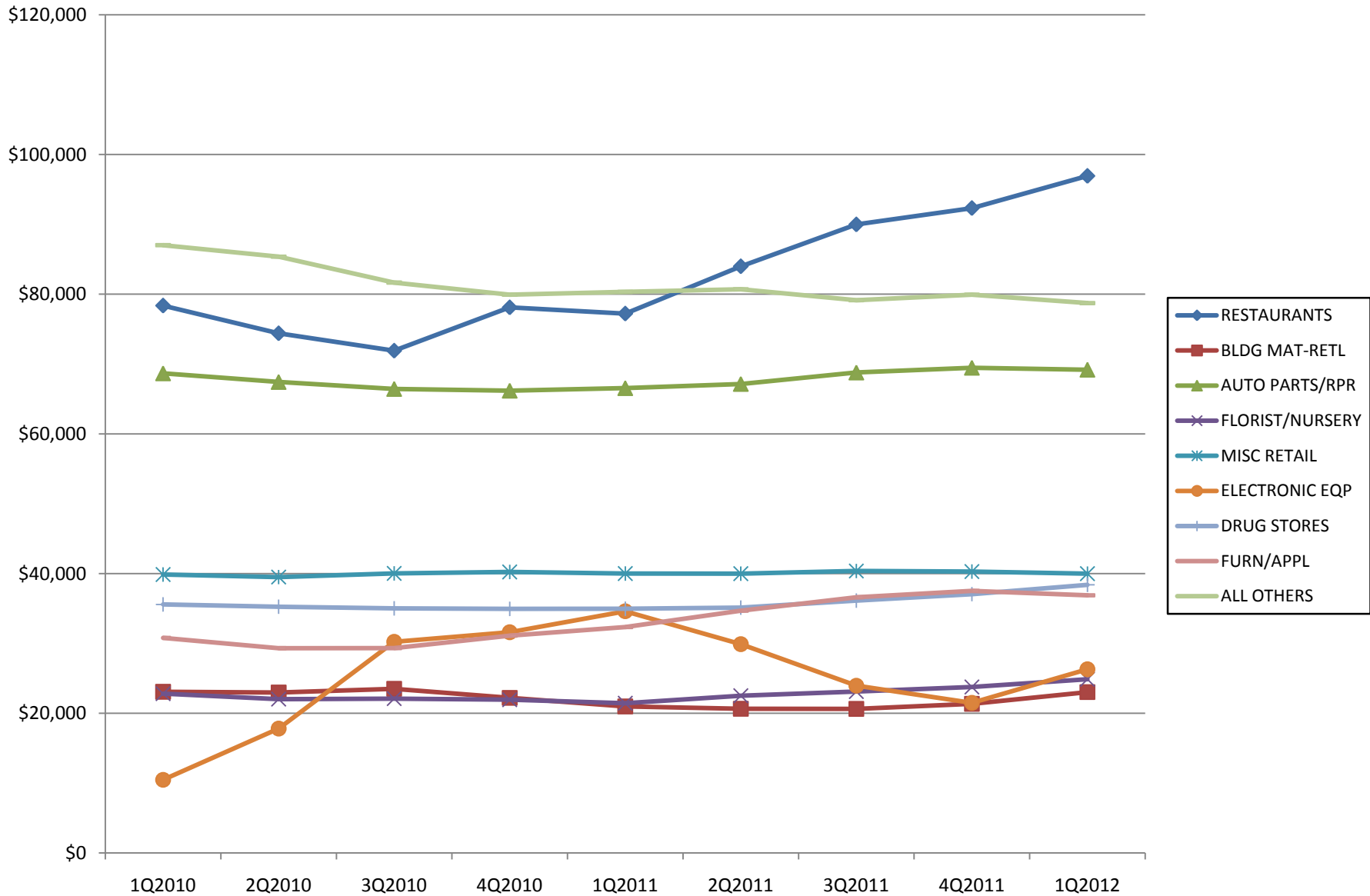
Attachment 23



BENCHMARK YEAR ENDING FIRST QUARTER 2012

# CITY OF BERKELEY SOUTH SAN PABLO AVENUE

Attachment 24

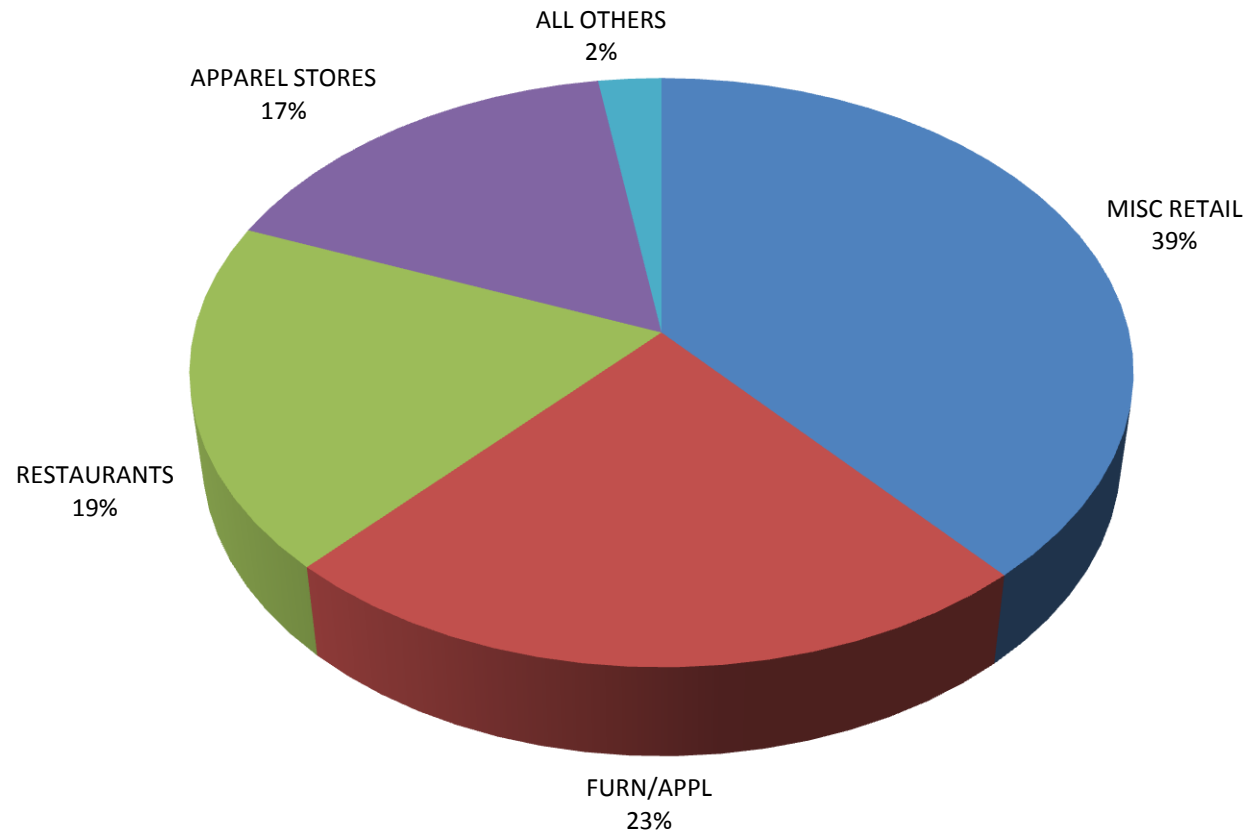


BENCHMARK YEAR ENDING FIRST QUARTER 2012



# CITY OF BERKELEY FOURTH STREET

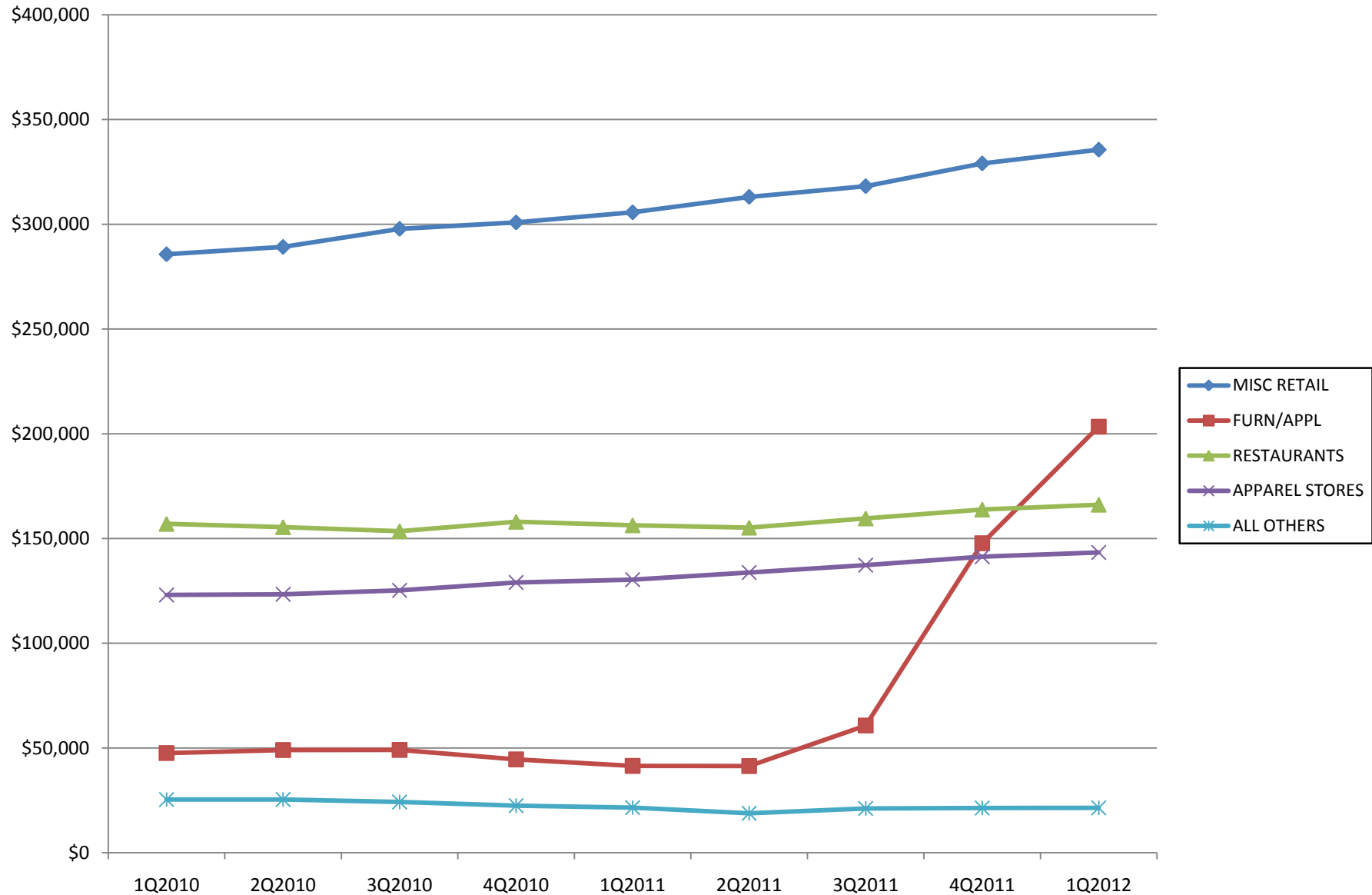
Attachment 25



BENCHMARK YEAR ENDING FIRST QUARTER 2012

# CITY OF BERKELEY FOURTH STREET

Attachment 26



BENCHMARK YEAR ENDING FIRST QUARTER 2012