March 2021

How has income inequality changed in the Bay Area over the last decade?

The San Francisco Bay Area is widely known for its burgeoning economy and highly skilled workforce, a result of the region's prosperous tech sector and entrepreneurial environment. These factors contribute to the region's $113,200 median household income – which is $33,000 higher than the median in California and $47,000 above the median in the U.S. as of 2019.

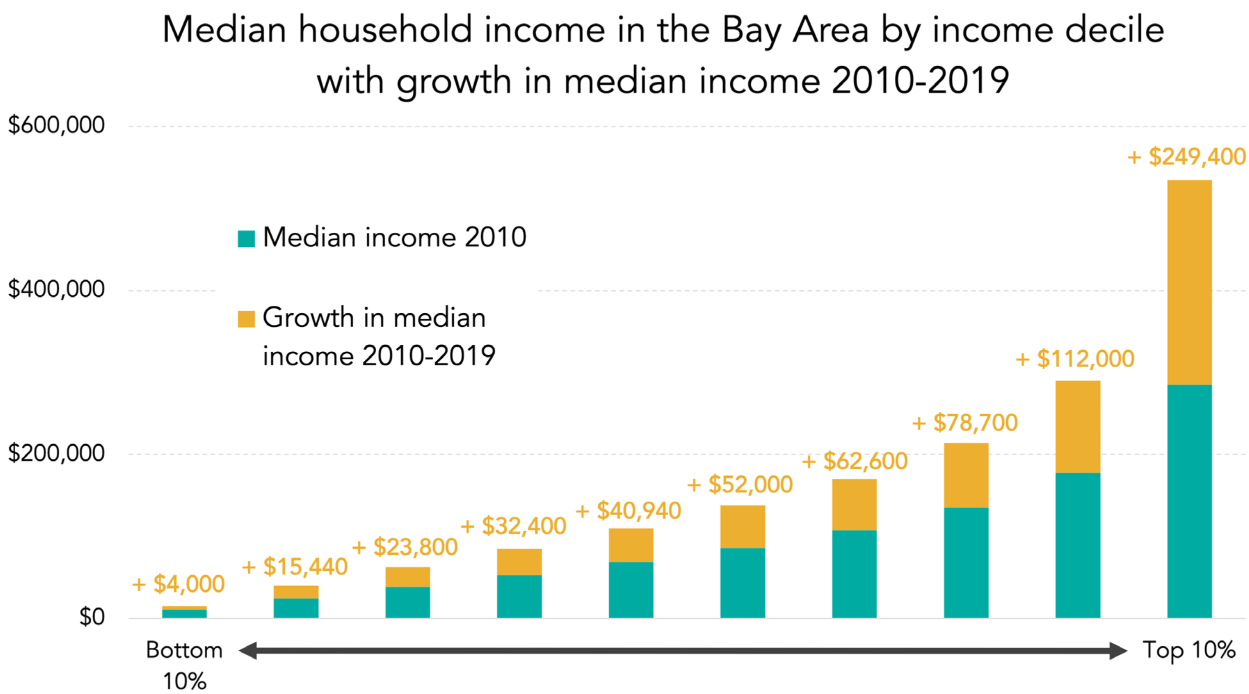
But the Bay Area's competitive wages are met by some of the highest housing costs in the nation. The region's three largest cities rank first (San Francisco), fourth (San Jose), and fifth (Oakland) in the country in terms of rental costs. The median home value as of January 2021 is $1.18 million in the San Francisco metro area and $1.31 million in the San Jose metro area, vastly higher than the national median home value of $269,000. This high cost of housing makes the Bay Area unaffordable despite higher wages, especially for the region's lowest income households.

This analysis explores the dichotomous relationship between the highest and lowest income households in the nine-county Bay Area over the last decade, examines how income inequality in the region may be impacted by the COVID-19 economic crisis, and considers how equity focused economic recovery strategies could safeguard against income inequities in the Bay Area deepening as a result of the pandemic.

Key Findings:

- **Over the last decade, among Bay Area households income grew much more significantly for the top decile than it did for the bottom decile.** Median household income increased by nearly $250,000 (or 87%) among households in the top decile in the region and by only $4,000 (or 36%) among households in the bottom decile between 2010 and 2019.
- **Median household income for both bottom and top earning households grew faster in the Bay Area than it did for top and bottom earning households in California and the U.S.** For households in the Bay Area in the bottom decile, median household income increased by 36%, compared to 19% in California and 23% in the U.S. For households in the top decile in the Bay Area, median household income increased by 87%, compared to 52% in California and 40% in the U.S.
- **The difference between income growth for the top decile and the bottom decile was more pronounced in the Bay Area than in California and the U.S.** In the Bay Area, median household income among the top 10% of households increased 51 percentage points more than it did for the bottom 10% of households. While in California, the discrepancy in income growth between the bottom and top income groups is 33 percentage point and in the U.S., the difference is 17 percentage points.
- **The average rent burden – defined as the percentage of household income spent on rent – has declined for all income groups in the Bay Area, but not drastically.** For households in the bottom 10%, the average rent burden decreased from 96% in 2010 to 92% in 2019. As of 2019, among the bottom 30% of households in the Bay Area, the median household falls into the national categorization of "rent burdened".
- **Rent costs in the region have grown slower than median household income for all income groups over the past decade, but still remain highly unaffordable for low-income households.** Among the bottom 10% of earners, median household income grew by 36% between 2010 and 2019, while average rent among the same group increased 31%.

Income inequality in the Bay Area over the last decade

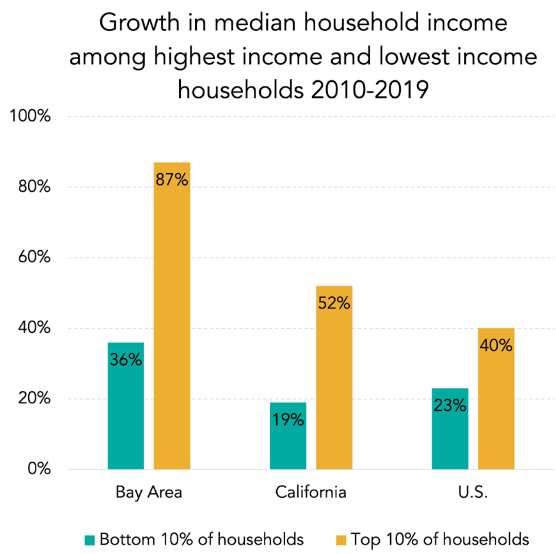


Data: American Community Survey 1-year estimates
Analysis: Bay Area Council Economic Institute

Annual income among the highest earning households in Bay Area nearly doubled over the past nine years, while median household income among the lowest earning households has grown by only 36%. Households that fall into the bottom 10% of earners in the Bay Area only saw an increase of $4,000 in median household income between 2010 and 2019, while the top 10% of households saw an increase of nearly $250,000 in median household income over the same time period.

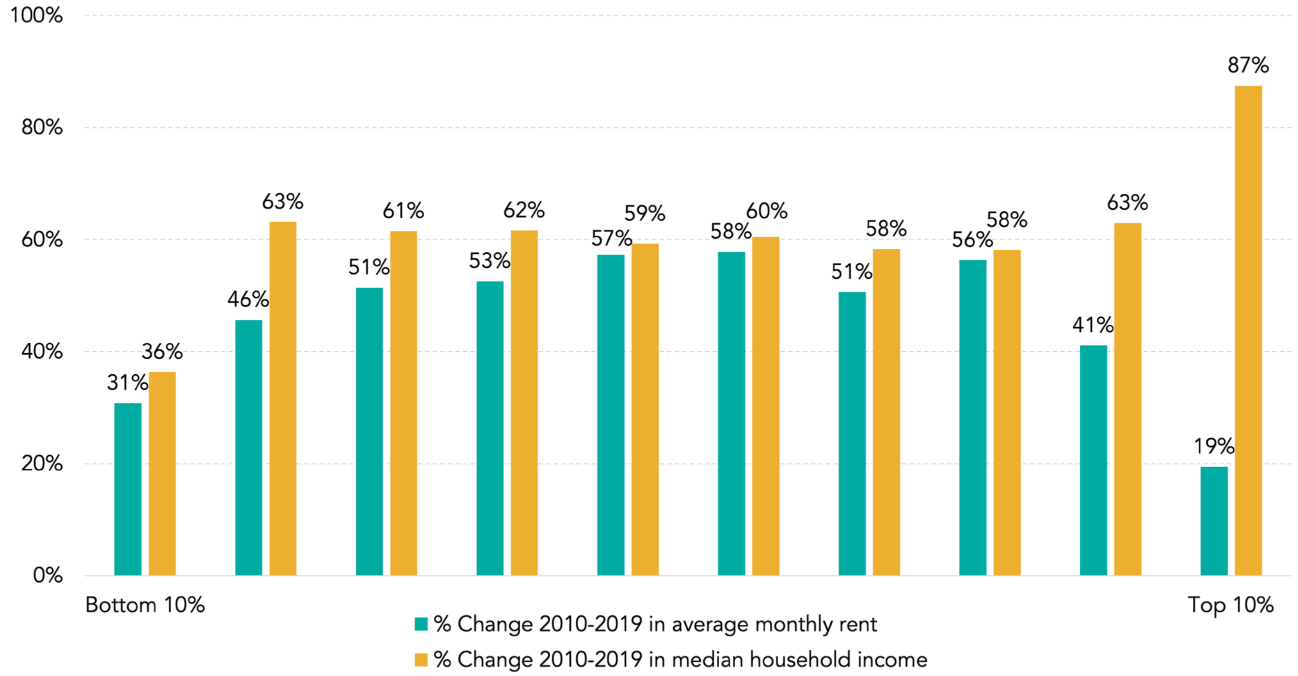
On a percentage basis, income among the lowest 10% of households grew by 36%, while the top 10% saw an 87% increase in median household income. The gulf between the level of wage growth for the lowest earners and top earners points to growing income inequality in the Bay Area. As of 2019, the chasm between median household income for the top 10% and bottom 10% is over half a million dollars. Median household income among the bottom 10% of earners is $15,000 per year, while the median household income among the top 10% has reached $534,600 per year.

Compared against California and the U.S., the Bay Area saw higher wage growth for both bottom and top earners. However, the difference between the income growth for top earners versus the income growth for bottom earners was most pronounced in the Bay Area. This geographic comparison underscores the growing income inequality in the region, but also shows that across the income spectrum wages are increasing faster in the Bay Area than in the state and the nation.



Data: American Community Survey 1-year estimates
Analysis: Bay Area Council Economic Institute

Percent change in average monthly rent vs percent change in median household income in the Bay Area by income decile



Note: Higher income brackets are less likely to be renters.
Data: American Community Survey 1-year estimates
Analysis: Bay Area Council Economic Institute

The high-cost housing in the Bay Area has historically eaten away at the above average wages in the region. However, rent costs in the region have grown slower than median household income for all income groups over the past decade. Middle income groups saw the closest matched rent and income growth rates, while bottom and top earning households saw bigger differences between the growth in median household income and the growth in average rent.

Despite this trend, housing for the average household in the Bay Area's bottom 10% is still highly unaffordable. In 2019, the bottom 10% had an average rent burden of 92%, which has fallen from 96% in 2010 – a result of average rent among the bottom 10% of households increasing from $10,600 per year in 2010 to $13,900 per year in 2019 while household income among the same group grew from $11,000 per year to $15,000 per year in 2019. Households in the second lowest earning decile saw average rent burden fall from 52% in 2010 to 47% in 2019, and households in the third lowest earning decile saw average rent burden fall from 37% to 35%.

This means that among the bottom 30% of households in the Bay Area the average household still falls into the national categorization of "rent burdened"– defined by the U.S. Department of Housing and Urban Development (HUD) as any household spending more than 30% of their income on housing.

Impact of the COVID-19 economic crisis on income inequality

While the long-term impact of the COVID-19 economic crisis on income inequality in the region remains unknown, data points on job loss by industry and changing housing costs over the past year provide insight into how the pandemic may impact top and bottom earning households in the region.

Industry job loss – Many households that fall into the bottom 10% rely on employment in industries that have experienced sizable job losses over the past year in the Bay Area. For example, Accommodation and Food Services saw the biggest loss of employment out of any industry in the Bay Area, with net loss of 125,000 jobs between December 2019 and December 2020. Among the bottom 10% of households, 10% had a head of household employed in Accommodation and Food Services in 2019. In contrast, 32% of the top 10% of households had the head of household employed in the professional Scientific and Technical Services industry, which was one of the few industries to see job growth in 2020, gaining 8,800 jobs between December 2019 and December 2020.

While the industry make-up among bottom and top earning households coming out of the pandemic is still unknown, pre-pandemic industry employment among top and bottom earning households indicates that job losses stemming from the COVID-19 recessions were likely felt by the bottom 10% more than the top 10%. This in turn suggests that the current economic crisis could put at risk the income of the region's most vulnerable households.

Cost of housing – In the past year, rents have fallen significantly as a result of the pandemic in the regions urban areas but rent in the regions three largest cities are still among the most expensive in the nation. San Francisco remains the most expensive rental market in the U.S. – with average one-bedroom rent costing $2,700 per month as of December 2020 (a 23% decrease year-over-year). San Jose remains the fourth most expensive in the country in terms of one-bedroom rental costs ($2,090/month; -14% year-over-year) and Oakland the fifth ($2,000/month; -19% year-over-year). Rents in the region were so high prior to the pandemic, that despite the drastic percentage drops in rent in Bay Area cities over the last year, housing costs are still unaffordable for many households. While the decline in rent has the potential to decrease the rent burden felt by low-income households, overall affordability of the region for low-income households is a factor of both rental costs and income, making wage growth for low-income households an important factor to prioritize in the wake of the pandemic.

Recovery tactics that focus on workforce development can protect low-income households in the region post-pandemic

While COVID-19 has accelerated many of the workforce challenges that were expected to play out over the next several decades, changing technology was disrupting labor force needs even prior to the pandemic. Investing in apprenticeships and earn-and-learn models that reskill and upskill lower income earners with resilient and in-demand skills is a strategy that could help the regional economy recover from the current economic crisis. This strategy could also protect low-income earners against future economic and technological disruptions to labor force needs. Upskilling low-wage workers who may have experienced job loss as a result of the pandemic is an opportunity for both business and public leaders to invest in the future workforce. This approach will also help ensure the bottom earners in the region continue to experience wage growth coming out of the pandemic, as they have over the past decade.

Advocating for additional public investment in apprenticeships and earn-and-learn models to upskill and retrain the regional workforce, while incentivizing business to play a central role in adopting workforce strategies focused in the Bay Area is a key step to ensuring the region remains competitive against peer metros post-COVID. The Bay Area has delivered faster wage growth for both bottom earners and top earners over the last decade, and ensuring the region continues to see growing wages for residents across the income spectrum is tied to the presence of the region's prosperous businesses. Therefore, ensuring that businesses continue to locate in the Bay Area and continue to have a vested interest in the development of the regional workforce directly impacts the economic health of households across the income spectrum.