

*Economic Update*

# THE PENINSULA ECONOMY

July 2018



Prepared by Stephen Levy

*This publication is one in a series of periodic updates on the local economy published by the Silicon Valley Institute for Regional Studies. The updates present data of timely significance for decision-makers in Silicon Valley and the broader Bay Area.*

[www.jointventure.org/institute](http://www.jointventure.org/institute)

## UPDATE

# THE PENINSULA ECONOMY

*This brief provides an update on the economy in Silicon Valley and San Francisco, here referred to as “the Peninsula economy.” The Peninsula sub-region includes Santa Clara, San Mateo, and San Francisco counties.*

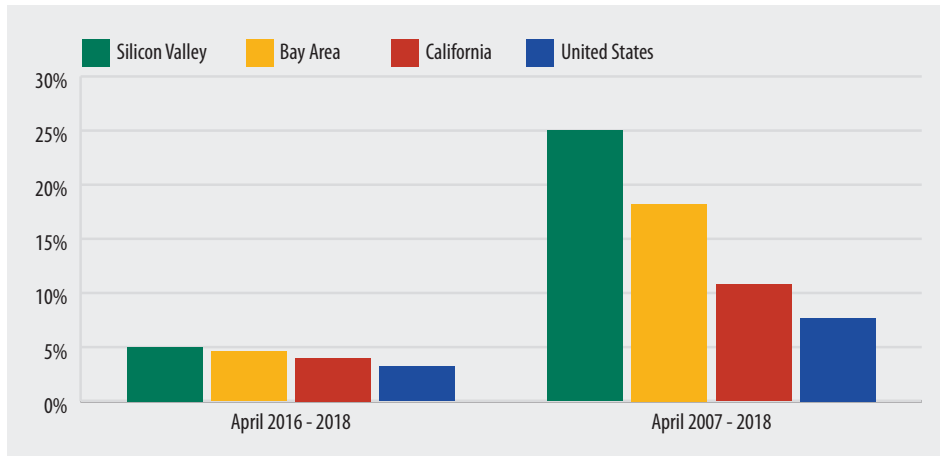
## Highlights

- Silicon Valley is a leader in job growth, income and average wages.
- The unemployment rate is well below the state and national average.
- Housing prices and rents have surged even faster than wages and housing construction has lagged behind population growth.
- While Caltrain ridership has increased (with improvements on the way), congestion on the roadways continues to increase.
- Nevertheless, Silicon Valley is seeing a wave of companies announcing expansions, led by Facebook, Google, Apple and Nvidia.

## Strong Economy

Silicon Valley and San Francisco have outpaced the state and nation in non-farm wage and salary job growth in the past two years, a trend that has been in place even since the course of the recession and recovery. The rate of growth has slowed recently (see Figure 1) but the Peninsula economy remains a growth leader.

**Figure 1: Job Growth Rates**



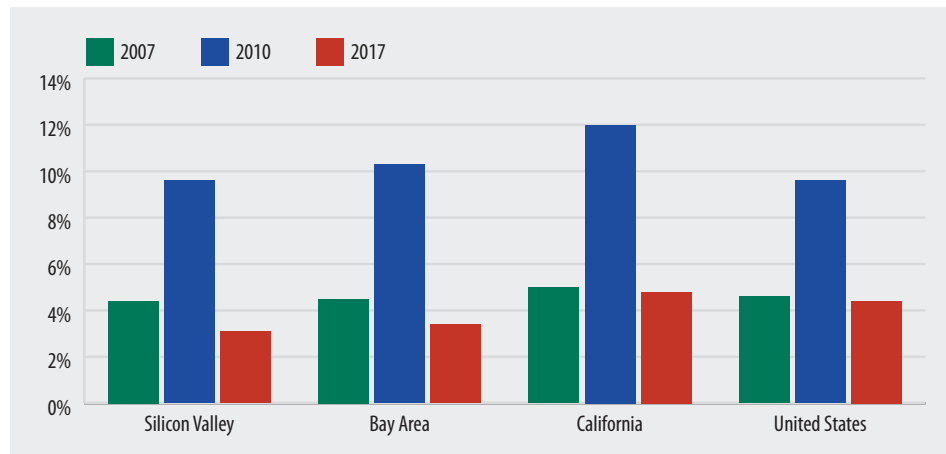
The sustained growth in jobs has brought a decline in unemployment rates and the number of unemployed residents, at the same time that more workers have returned to and joined the Silicon Valley workforce. During the past ten years, the region has added nearly 600,000 residents to the workforce, with most added in Silicon Valley.

Trends in Labor Force and Unemployment (Thousands)			
	2007	2017	Change
<b>Labor Force</b>			
Silicon Valley	1,669.5	2,092.7	423.2
Bay Area	3,599.6	4,192.5	592.9
<b>Unemployed Residents</b>			
Silicon Valley	73.8	64.2	-9.6
Bay Area	162.9	142.6	-20.3

Source: EDD

The result was a decline in unemployment rates with those in the region and Silicon Valley well below the state and national average. By 2017 unemployment rates were below the pre-recession level in all areas shown in Figure 3. Unemployment rates continued to decline in the early part of 2018 with rates in April 2018 of 2.2 percent in Silicon Valley, 2.5 percent in the Bay Area, 4.2 percent in California and 3.9 percent in the nation.

**Figure 2: Unemployment Rates**



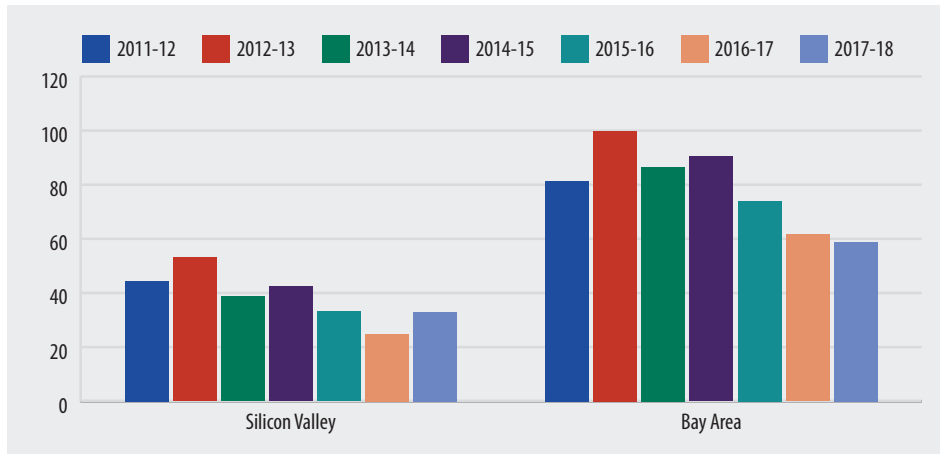
Low unemployment rates, slowing population growth and retirements have slowed job growth in Silicon Valley. In recent months year over year job growth has been in the 40,000 to 60,000 range, down from the 80,000 to 100,000 per month range in 2016.

**Figure 3: Silicon Valley Year Over Year Job Growth (Thousands)**



Population growth on the Peninsula has been gradually slowing. One factor is the decline in the number of births and the increase in the number of deaths, so natural increase (births minus deaths) is contributing less to population growth. Foreign immigration has increased in recent years. Another major factor in the growth slowdown is the movement of some residents to adjacent counties like San Joaquin and Stanislaus. We can infer this is the result of the high cost of housing in Silicon Valley and the region.

**Figure 4: Population Growth January 1 - January 1 (Thousands)**



Silicon Valley and the Peninsula sub-region have high median incomes, high average wages and high home prices.

Median HH Income, Average Wages and Median Home Prices			
	Median HH Income 2016	Average Wage Q3 2017	Median Resale Home Price Mar-Apr 2018
<b>San Francisco</b>	\$103,801	\$1,954	\$1,650,000
<b>San Mateo</b>	\$108,627	\$2,123	\$1,770,000
<b>Santa Clara</b>	\$111,069	\$2,320	\$1,425,000
<b>California</b>	\$67,739	\$1,215	\$584,460
<b>United States</b>	\$57,617	\$1,021	\$257,900

Source: HH Income, American Community Survey; Average Wages, Bureau of Labor Statistics  
Median Resale Home Prices, California Association of Realtors, National Association of Realtors

## Employment Growth Brings Challenges

The housing and transportation challenges in Silicon Valley and the region are well documented (see, for example, the 2018 *Silicon Valley Index*).

Many who work in Silicon Valley commute from the East Bay and beyond. But the housing shortage and affordability challenges in Silicon Valley have also given rise to “mega-commuters” traveling from San Joaquin and Stanislaus counties. These long commutes have significant quality of life implications for the travelers, increase congestion on the roadways and do real harm to the environment.

The Peninsula is failing to meet the housing allocations handed down by the State through the Association of Bay Area Governments (the Regional Housing Needs Assessment, or RHNA). While building permit levels rose in 2017 and are up again in 2018, they are barely matching current population growth and have not addressed the large

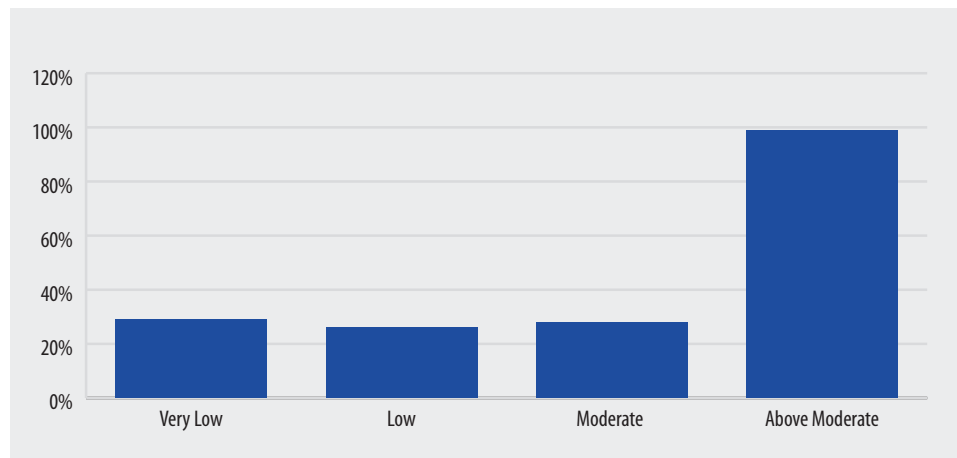
accumulated shortage. As a result, residents are doubling up in the face of rents and home prices that are rising much faster than incomes for most residents.

Residential Building Permits						
	2014	2015	2016	2017	Jan-Mar 2017	Jan-Mar 2018
<b>San Francisco</b>	3,070	3,670	4,207	4,736	547	424
<b>San Mateo</b>	1,617	1,907	1,777	1,574	157	446
<b>Santa Clara</b>	9,912	5,616	4,905	10,629	1,901	1,986
<b>Silicon Valley</b>	14,599	11,193	10,889	16,939	2,605	2,856

Source: California Homebuilding Foundation

The overall housing shortage is not evenly distributed among price and rent categories. Very low-income households are those making between 0% and 50% of area median income (AMI). Low income ranges from 50% to 80% of AMI and moderate (middle-income) ranges from 80% to 120% of AMI. With funding challenges and slow approvals facing developers, it is not surprising that the low- and very low-income targets are not being met. It is also striking that the shortage for middle-income households is virtually the same as that for low- and very low-income households.

**Figure 5: Bay Area Progress in Meeting RHNA Goals 2007-2014**



Perhaps the hardest challenge for the Peninsula to overcome is the lack of affordable housing for middle-income residents who are not eligible for subsidized housing, even if it were available in sufficient quantity.

The Committee to House the Bay Area (CASA, a joint committee convened by the Metropolitan Transportation Commission and the Association of Bay Area Governments)

is taking a close look at the “missing middle,” including ideas like adding a new RHNA category for 120-150 percent or 180 percent of area median income. They are also exploring a variety of ways to reduce the cost of housing including modular construction, reduced parking requirements, reduced fees, and ways to make it easier to build auxiliary dwelling units (ADUs).

It continues to be difficult, if not impossible under current rules, to build housing that is affordable to the Peninsula’s middle income residents yet pencils out for developers.

## **Companies Plan for More Expansions**

Nearly every week a Silicon Valley company announces expansion plans, and buildings are bought, leased and planned to accommodate these expansions. Facebook, after announcing a major expansion in Menlo Park in May, announced a million square foot lease in Sunnyvale. In the same month Nvidia and Fortinet announced expansions on their existing sites.

With plans for expansion by Google, Apple and others in downtown San Jose, there has been a surge in demand for offices, hotels, housing and retail.

With the rate of population and job growth slowing, with unemployment at record lows, and with such high housing prices and rents, it isn’t clear how these companies will meet their workforce needs.

This update was prepared by Stephen Levy, Senior Economist for the Silicon Valley Institute for Regional Studies and Director, Center for Continuing Study of the California Economy.

## **Silicon Valley Institute for Regional Studies**

The Silicon Valley Institute for Regional Studies provides research and analysis on a host of issues facing Silicon Valley's economy and society. The Institute is housed within Joint Venture Silicon Valley.

## **Joint Venture Silicon Valley**

Established in 1993, Joint Venture Silicon Valley brings together established and emerging leaders—from business, government, academia, labor and the broader community—to spotlight issues, launch projects, and work toward innovative solutions. For more information, visit [www.jointventure.org](http://www.jointventure.org).



100 West San Fernando Street  
Suite 310  
San Jose, California 95113

P: (408) 298-9330  
F: (408) 404-0865

[institute@jointventure.org](mailto:institute@jointventure.org)  
[www.jointventure.org](http://www.jointventure.org)