

MARIN ECONOMIC BULLETIN

Fall 2013



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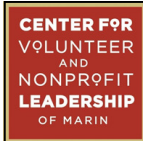
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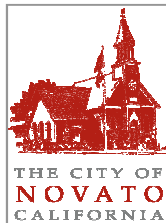


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Fall 2013

The **Marin Economic Bulletin** is published annually by the Marin Economic Forum (MEF), a San Rafael-based nonprofit working to build a strong local community that supports start-up, expanding, and entrepreneurial businesses within Marin County's economic sustainability strategy.

This year's Bulletin was presented by Dr. Robert C. Eyler, MEF's Chief Executive Officer, at the *10th Annual Forecasting the Future Economic Conference: Trends & Issues* held on October 31, 2013 in San Rafael, California. The Conference is co-sponsored by Marin Economic Forum and the San Rafael Chamber of Commerce, in association with the Marin County Chambers of Commerce.

The information and data contained in this report were compiled by Marin Economic Forum staff. MEF also sponsored reports on the California and US economies performed by Jon Haveman of Marin Economic Consulting and MEF.

Marin Economic Forum is a collaboration of local elected officials, business owners and executives, bankers, health care providers, food producers, chamber of commerce leaders, educators, hoteliers, and others, committed to meeting local challenges through education and cross-disciplinary exchange.

It is the only Marin-based nonprofit analyzing complex local questions and answering them in way that educates and informs tough public policy questions. By collecting and analyzing local and regional data impartially, MEF assists local governments, business leaders, and service providers in making balanced strategic decisions needed to move the County forward sustainably.

MEF also opens doors to new strategic partners and aligned stakeholders. We consult with clients on a fee basis to define research, analysis, and reporting projects to answer specific questions about Marin County, California. We also conduct research on behalf of the organizations that support us.

October 31, 2013

Executive Summary

Overview

Marin County continues to recover from the Great Recession of 2007 to 2010; Marin County is poised to continue growth in 2014.

Notably, personal income should grow over 4 percent next year, which will stimulate increased retail sales activity and add a slight boost to municipal coffers across the county. Marin County continues to experience retail sales growth; Marin was recently named by the California Retail Survey as California's second highest county in terms of taxable sales per person at \$12,386. This ranking reflects growing sales tax allocations for our local cities, towns, and the county overall.

With over 2,000 new jobs projected to be added to payrolls in Marin over the next year, the bulk of that growth will be seen in service industries and new construction projects; such labor growth means that Marin produce more goods and services and income in 2014 than this year.

Economic recoveries typically come with local inflation pressure and this can be seen in the housing market. The cost of home ownership has risen significantly over the past 12 months, with the median sales price of a single family home in Marin County homes increased by \$187,000. Even though 2014 will likely to be a year of slower housing market growth in terms of median home price, Marin will experience growth nonetheless.

In the commercial real estate sector, the demand for Class B office space will continue to outpace Class A space. The market for Class A office space will be sluggish due to larger, indivisible properties remaining vacant at a time when few larger firms are looking to move or expand in Marin. The inventory for Class B office space has the potential to shrink due to the stronger demand from smaller, start-up businesses. Marin's commercial market stands in stark contrast to high demand for office space in San Francisco and San Mateo counties during 2013.

The national economy continues to move slowly, albeit steadily, in recovery, though the beginning of 2013's final quarter illustrated how national politics can get in the way of 2014 being a year of continued growth.

Regionally and nationally, forecasts suggest that the American and California economies will grow at approximately 3 percent in real terms. The challenge in Marin County is to fight forces that seem to be leading Marin County towards a peak in its business cycle.

Marin Economic Forum is watching to see how the data and local politics to shape how the private and public sectors steward our economy, society, and environment. MEF shares its analysis on its website and by distributing through educational documents, such as this report, to the public and decision-makers.

Key Findings: Marin County

- Marin County's real personal income is rising faster than originally projected, and is now forecasted to grow at an average rate of 2.8 percent between 2012 and 2015;
- Inflation is likely to rise in Marin County at 1.5 percent per year from 2013 to 2015;
- Marin County's taxable sales per capita are the second-highest in California;
- MEF estimates Marin County's payroll employment across industries monthly, and shows that services and construction continue to grow in 2013;
- Marin County added 2,700 payroll jobs in 2013, but lost about 150 payroll businesses;
- Targeted industries in Marin County have seen slower growth in 2013;
- Marin County's median home price rose by over \$187,000 in 2013, landing at an approximate value of \$990,000 for single-family homes by August 2013; and
- Marin County commercial-property vacancy rates remain higher than Bay Area averages.

An overview of the state and national economies is available through Marin Economic Forum in partnership with Jon Haveman of Marin Economic Consulting. Please see those reports and copies of this report at www.marineconomicforum.org.

Key Findings: U.S. Economy

- Economic recovery continues. Although overall GDP is now higher than in the years before the Great Recession, the GDP per person has only just recovered.
- While the unemployment rate is declining, this paints a poor picture of the labor markets.
- The unemployment rate for those who are under-employed and those who are only marginally attached to the labor force, exceeds the unemployment rate is in excess of 13%.
- Job creation has been relatively steady, but most new jobs are being created in low wage sectors.
- The overall recovery has been extremely inequitable, with the vast majority of the wage gains going to the richest among us.
- Corporate profits also are growing very rapidly.
- The influence of foreign economies on the US recovery remains significant; however, the tide is turning with gradual improvement in Europe and a "soft landing" in China.
- The future of the recovery is squarely in the hands of policymakers in Washington, DC.
- The recent Federal government shutdown was inconvenient from the perspective of the economy, but a default would have likely renewed the recession. Watch January and February 2014 closely for renewed theater on this in our nation's capital.

Key Findings: California

- In 2012, California's GDP and overall employment growth exceeded that of the rest of the country. In 2013, things are looking more average.
- California's unemployment rate has fallen rapidly in 2013, but remains high relative to the nation at 8.9 percent. Unemployment rates remain in the double digits throughout much of the Central Valley and are just below 10 percent in the Inland Empire; both are geographies that experienced particularly significant housing market bubbles.
- Through the recovery, employment growth in California has included a larger percentage of high wage jobs than was seen nationally; however, declines in Federal and local government employment levels have significantly hindered California's recovery.
- By August, 2013, median home prices were up nearly 30 percent from the previous year. Residential construction has started to return. Improvements in the housing markets are an important part of strengthening recovery statewide.
- Long associated with international trade, California's trade flows lag behind the rest of the nation, and, alarmingly, those reductions are affecting computer and electronic products, a mainstay of California's exports.
- The state government budget is returning to more traditional levels. However, it is doing so at a significantly reduced level of revenues and with expenditures significantly lower on key economic drivers — including education.
- Going into 2014, prospects for economic growth in the state are good. Those prospects, however, are critically dependent upon the handling of affairs in Washington, DC, as it does for most other states.

Marin County Economic DASHBOARD

| | | | | | | FORECAST | | |
|---|-----------|-----------|-----------|-----------|-----------|-------------|-------------|-------------|
| | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 |
| Population (Beginning of Year) | 252,331 | 252,449 | 252,409 | 253,040 | 254,790 | 255,026 | 255,807 | 256,679 |
| Total Payroll Employment | 126,300 | 121,800 | 122,600 | 126,300 | 131,400 | 135,700 | 137,736 | 139,802 |
| Unemployment Rate, Payroll Jobs | 7.80% | 8.00% | 7.40% | 6.30% | 5.00% | 4.40% | 4.10% | 4.30% |
| Personal Income (millions 2005\$) | \$21,326 | \$18,377 | \$18,616 | \$19,124 | \$20,554 | \$21,289 | \$21,838 | \$22,461 |
| Per Capita Personal Income (2005\$) | \$84,516 | \$72,795 | \$73,753 | \$75,577 | \$80,670 | \$83,478 | \$85,369 | \$87,506 |
| Gross County Product (millions 2005\$) | \$23,807 | \$24,281 | \$24,671 | \$25,485 | \$26,479 | \$26,956 | \$27,198 | \$27,035 |
| Median Prices, SFD Detached | \$961,129 | \$772,914 | \$822,674 | \$761,030 | \$845,980 | \$1,000,000 | \$1,060,000 | \$1,102,400 |
| Taxable Sales (Millions 2005\$) | \$3,680 | \$3,211 | \$5,701 | \$3,775 | \$4,002 | \$4,214 | \$4,361 | \$4,514 |
| Number of Payroll Businesses | 11,585 | 11,336 | 11,320 | 11,428 | 11,100 | 11,400 | 11,500 | 11,200 |
| Number of Home-Based /Self Employed Businesses | 34,771 | 35,231 | 35,840 | 36,340 | 36,100 | 36,800 | 37,100 | 37,300 |
| Marin CPI (Index, 2005 = 100) | 110 | 111 | 113 | 115 | 117 | 118 | 121 | 123 |

DATA SOURCES:

Population: CA Department of Finance

Total Employment: [Employment Development Department of California, Payroll Employment](#)

Unemployment Rate: [Employment Development Department of California, Payroll Unemployment](#)

Personal Income (millions 2005\$): [Bureau of Economic Analysis](#)

Per Capita Personal Income (2005\$): [Bureau of Economic Analysis](#)

Gross County Product (millions 2005\$): [Bureau of Economic Analysis](#) and [Marin Economic Forum](#)

Median Prices, Detached Single Family Homes (SFH): [California Association of REALTORS®](#)

Taxable Sales (Millions 2005\$): [CA Board of Equalization](#)

Number of Businesses: [US Census Bureau](#) and [Employment Development Department of California](#)

Marin CPI: [Bureau of Labor Statistics](#) and [Marin Economic Forum](#)

Marin Economic Bulletin

This Economic Bulletin continues Marin Economic Forum's commitment to educating Marin County's residents, businesses and elected officials about local economic issues and trends. Again this year, the Bulletin features MEF's ongoing monitoring and assessment of the Marin County's economic vitality, while keeping an eye on how the economy affects adopted social and environmental goals and objectives.

Marin Economic Forum (MEF) also has produced national and state economic overviews in order to provide context for the Marin County forecast contained in this Bulletin. This year, we have asked Jon Haveman of Marin Economic Consulting to perform those updates. Regional economies are generally measured in terms of their financial markets (e.g., access to financing and housing), labor markets (e.g., job and business growth) and goods markets (e.g., income generation and retail sales).

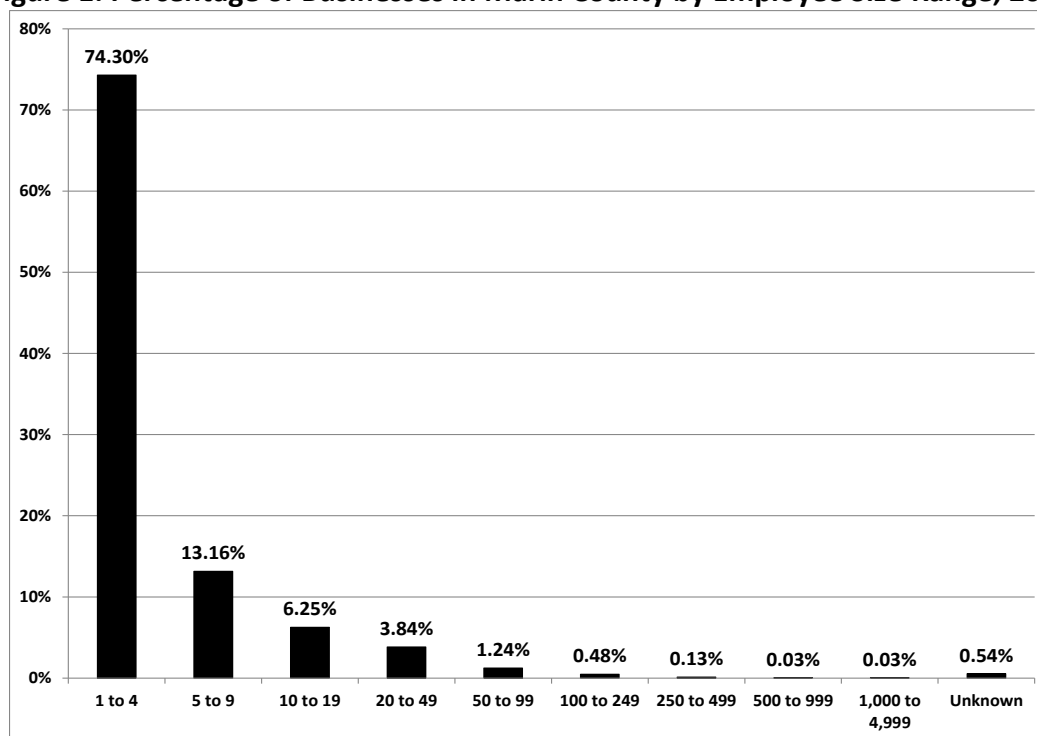
Employment growth remains robust in Marin County. In August 2013, the Employment Development Department of California (EDD) calculated that Marin County had added more than 2,740 jobs during the preceding 12 months (i.e., year on year growth or "Y on Y"). Unemployment has fallen from 6.2 percent to 4.8 percent Y on Y. These figures imply that Marin County is experiencing real gross county product (real GCP) growth of approximately 2.8 percent since August 2012. MEF predicts that unemployment will be approximately 4.4 percent by 2013 year end.

Marin County housing prices also increased in the face of rising, pent up demand and a low inventory. According to the California Association of REALTORS®, Marin County's median home price for a single-family home was approximately \$806,450 in August 2012, and reached \$987,740 a year later, representing an increase in value of \$187,290 Y on Y.

Marin's employment and housing indicators demonstrate that 2013 has been a strong year for Marin County's economy. With continued strong demand in the housing market, fewer commercial vacancies, and stable office leasing rates going into 2014, the prospects for continued positive momentum are good.

Even though Marin County lost 156 payroll businesses during 2012, the number of employed workers actually increased. While there are over 21,000 businesses located in Marin County according to EDD, the typical size of a new business in Marin is small. An additional 15,000 or more businesses may actually operate in Marin County, and either their payroll and tax data originates in another county, state or country, or they do not generate payrolls because there are no traditionally-defined employees (i.e., they are "non-employers"). Figure 1 shows the proportions of businesses throughout Marin County and how heavily weighted the business size is toward businesses under 20 employees; in Marin, 93.7 percent of businesses have 20 or fewer employees. This is up slightly from just over 92 percent in 2012.

Figure 1: Percentage of Businesses in Marin County by Employee Size Range, 2013



Source: [CA Employment Development Department](#)

Marin County employment is growing across most sectors of the economy, following regional and state trends. Like many of the Bay Area's economies, Marin's current growth is seen more in services than in other sectors, such as manufacturing. Construction employment has picked up a little bit with more new jobs created by an increase in remodeling and renovation activities and not in new construction. Across California, however, construction employment has bounced back to a much more significant degree in 2013; in California overall, there were 25,600 more workers in the trades as of August 2013 from just one year before, over 12.6 percent of the 203,000 jobs created in California from Aug 2012 to Aug 2013.

Marin Economic Forum forecasts suggest 2014 will be a year of slightly better economic growth (income and employment growth) for California and the United States than 2013. As always, uncertainty exists due to global and domestic upheaval. The impacts related to October's political drama concerning the Federal debt ceiling and government shutdown, along with continued questions surrounding the European economies' recovery, linger. As Marin shifts to more service-oriented industries, employment growth in its targeted industries will slow somewhat. Please see MEF's reports on the California and US economies performed by Jon Haveman of MEF and Marin Economic Consulting. We begin with incomes and spending in Marin County.

Incomes and Spending

National and state data suggest that real gross domestic product (real GDP) continues to rise.¹ Data available since Fall 2012 show that economic growth during 2013 has continued. These forecasts suggest that the national economy will continue to grow at a 2.5 to 3.0 percent real growth pace in 2014, even though forecasts cannot completely take into account the ongoing debate and uncertainty about the Federal debt ceiling, the Affordable Care Act, and other legislative issues in Washington, D.C. Much of that prediction depends upon whether or not the European economies' recover and emerge from a small, second recession in four years and the extent that China's economy continues to expand.

For California and Marin County, incomes continue to grow as well; California is moving slightly faster than the national economy (3.4 percent real growth), and Marin is moving at about the same pace as the US economy (2.8 percent). For California, construction's re-emergence is creating jobs parallel to a continued growth in technology and services sectors; in Marin County, the services sector has seen the major growth of employment and income since 2012. Since 2012, EDD reports that Marin County has added over 2,700 jobs in services (e.g., professional, retail, food service, health care, and other personal services) but fewer than 100 jobs in construction and manufacturing.

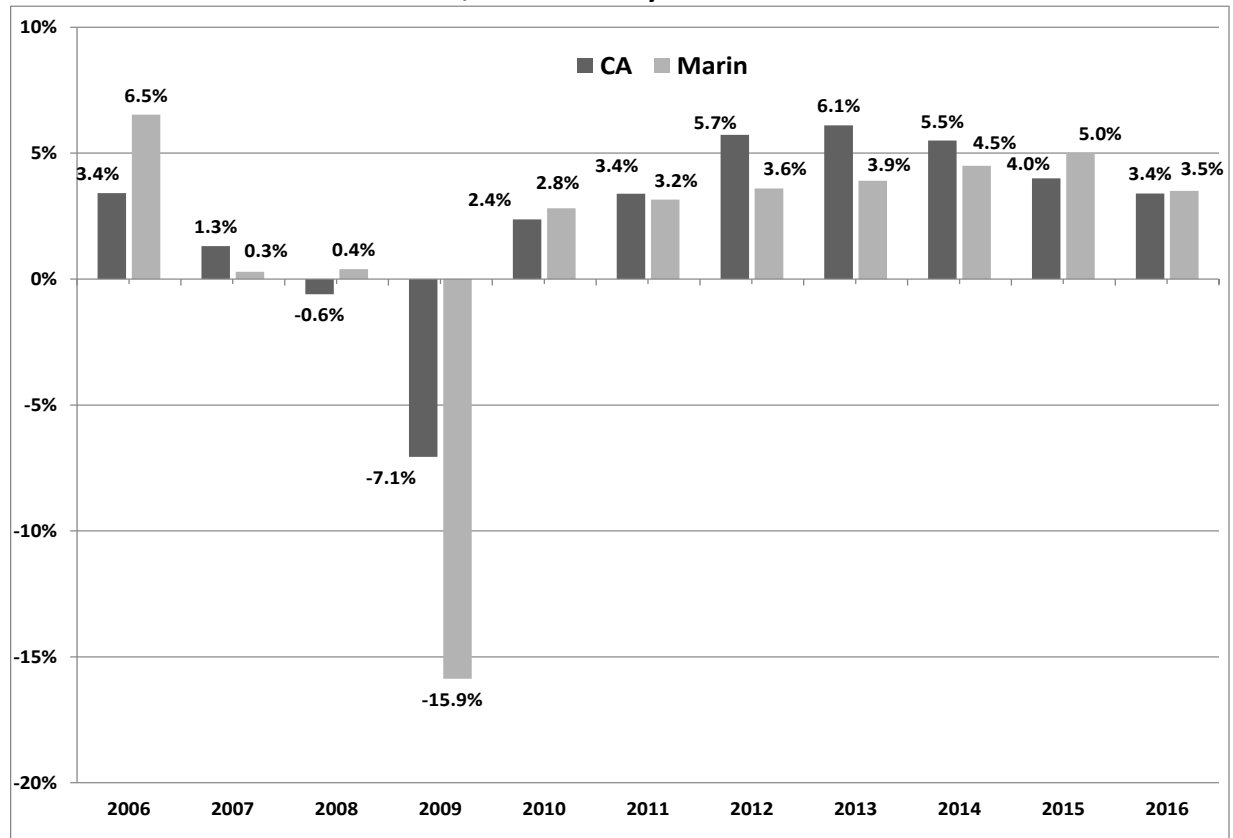
Marin's taxable sales resulting from household spending exceed regional and state spending levels. According to the 2013 edition of the California Retail Survey, household spending in Marin County reached the second highest level of taxable sales per capita of all California counties, following only Placer County).²

It is important to keep in mind that there are several factors that influence taxable sales as a measure of Marin County's economy. For example, as a local economy's residents grow older, the older residents tend to spend less on taxable sales and more on food and health care. Recent data from California Department of Finance suggests that Marin County residents over the age of 60 years old will comprise 30.1 percent of the population by 2020 and be 33.3 percent of the population by 2030. Another caveat is that taxable sales per capita represents a ratio of taxable sales and population growth; if Marin County's population slows down while taxable sales rise, the growth of per capita sales may be more a function of fewer people living in Marin County than household spending. Marin County will continue to see growth in personal income in 2014, as shown in Figure 2.

¹ Please see www.marineconomicforum.org for the US and CA economic overviews.

² Please see <http://californiaretailsurvey.netfirms.com/> for more.

Figure 2: Growth Rates of Personal Income Less Transfer Payments
2005\$, Marin County and California³



Sources: Bureau of Economic Analysis and Marin Economic Forum.

Personal income is the genesis of retail sales and the ability to pay for housing. Marin County incomes are forecasted to grow faster next year than during 2013 due to continued job growth momentum in Marin County and in the Bay Area in general, as well as other income derived from financial and housing markets. Personal income is dominated by the sum of incomes made from working and passive incomes made from financial asset and housing ownership. This report excludes payments from governments to households, called “transfer payments”, from this measure.

Figure 2, above, shows the progression of Marin County personal income levels and retail sales compared to regional and state levels. Personal income growth and retail sales change in unison for Marin County and are forecasted to experience continued growth in 2014.

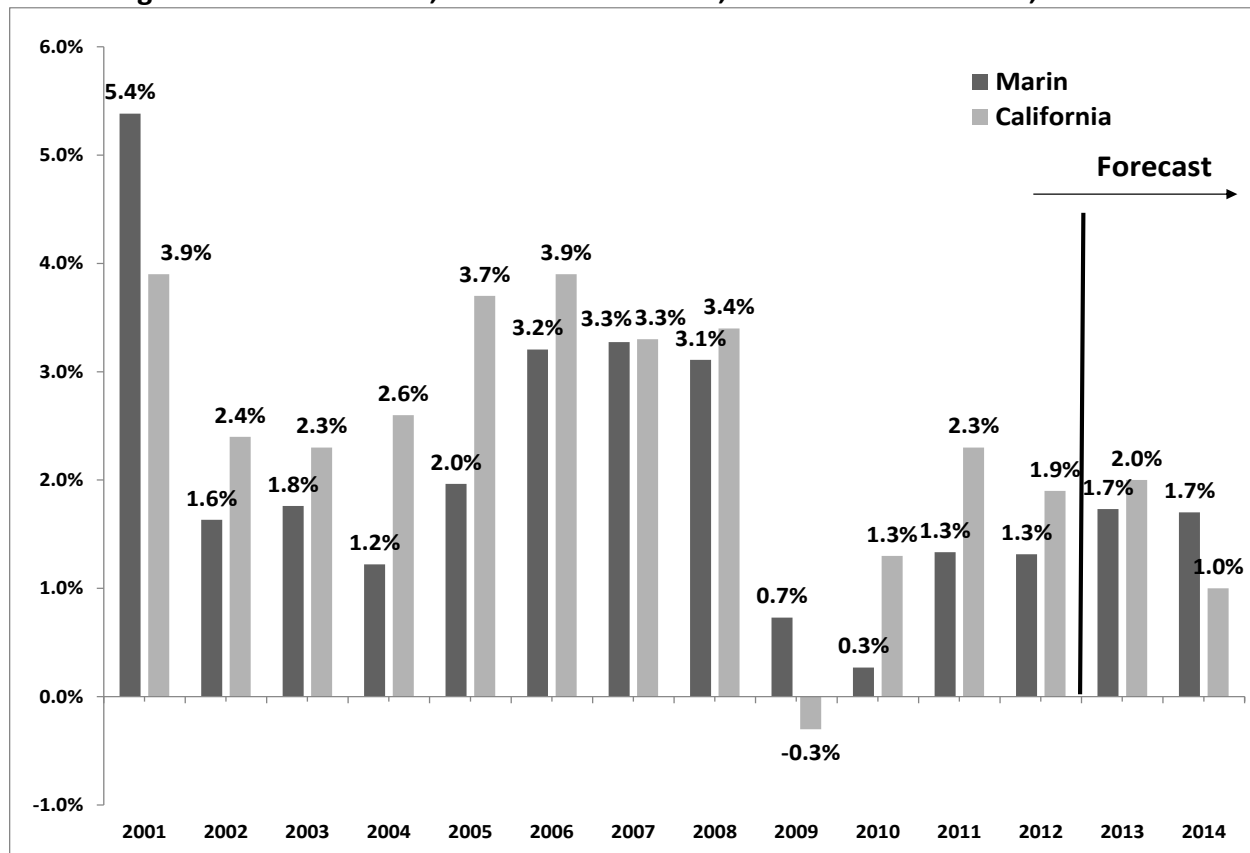
³ Personal income data for Marin County is available through 2009, estimated for 2010 and beyond by MEF. The Bureau of Economic Analysis (BEA) recently revised and updated its data for counties across the United States.

Labor Markets and Prices

Inflation remains a slow-moving variable nationally and regionally. It is important to note that national inflation measures typically include housing but exclude food and energy prices. Wage inflation (i.e., the need for employers to pay higher wages due to a scarcity of skilled workers for open positions, and/or to meet the rising price of consumer goods), provides a metric for rising general prices of goods and services.

In Marin County, wages have increased 4 percent overall since 2010, but only 4.5 percent from 2006 to 2013 overall. The annual, average rate of growth in wages is 1.3 percent, slower than inflation growth. Figure 3 shows the inflation rates for California and the Bay Area since 2001.

Figure 3: Inflation Rates, Marin and California, Actual and Forecasted, 2001-14

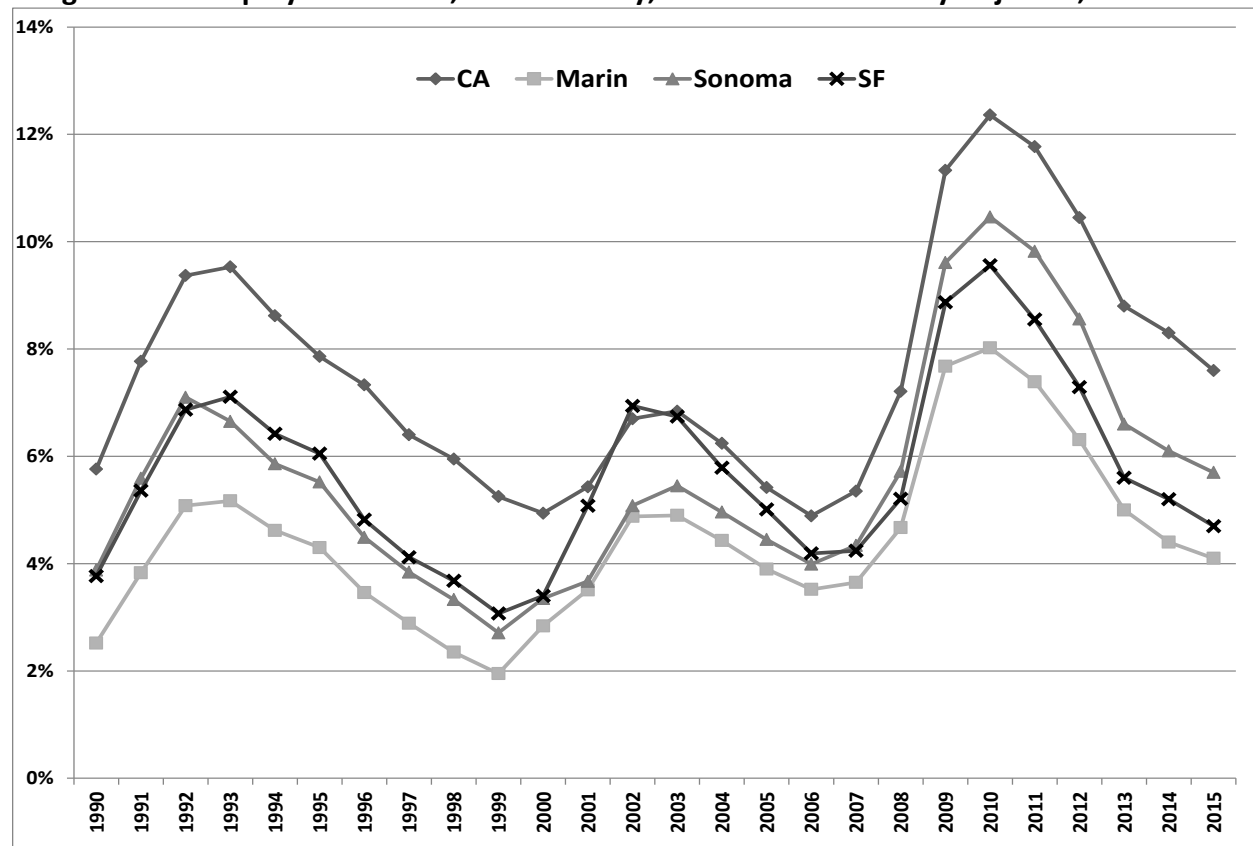


Source: CA Department of Finance and Marin Economic Forum.

The Federal Reserve's declarations of not changing policy rates until at least mid-2015 may be waning a bit due to economic growth. However, a lack of increasing policy rate signals low and stable inflation forecasts for the US economy overall. However, because of rising housing prices, the cost of living in Marin County is likely to rise in 2014 at the same pace as 2013.

Figures 4 and 5 show the movements of unemployment rates and employment in payroll jobs for Marin County, San Francisco County and California overall. Ultimately, growth in retail sales and labor demand will drive cost of living dynamics. The cost of living, if the gas price increases are structural and not cyclical, can create rising prices due to logistics costs rising for everything from food to hotel stays. Both California and the Bay Area have inflation figures estimated by the [Bureau of Labor Statistics](#).

Figure 4: Unemployment Rates, Marin County, SF and CA: Seasonally Adjusted, 1990-2012

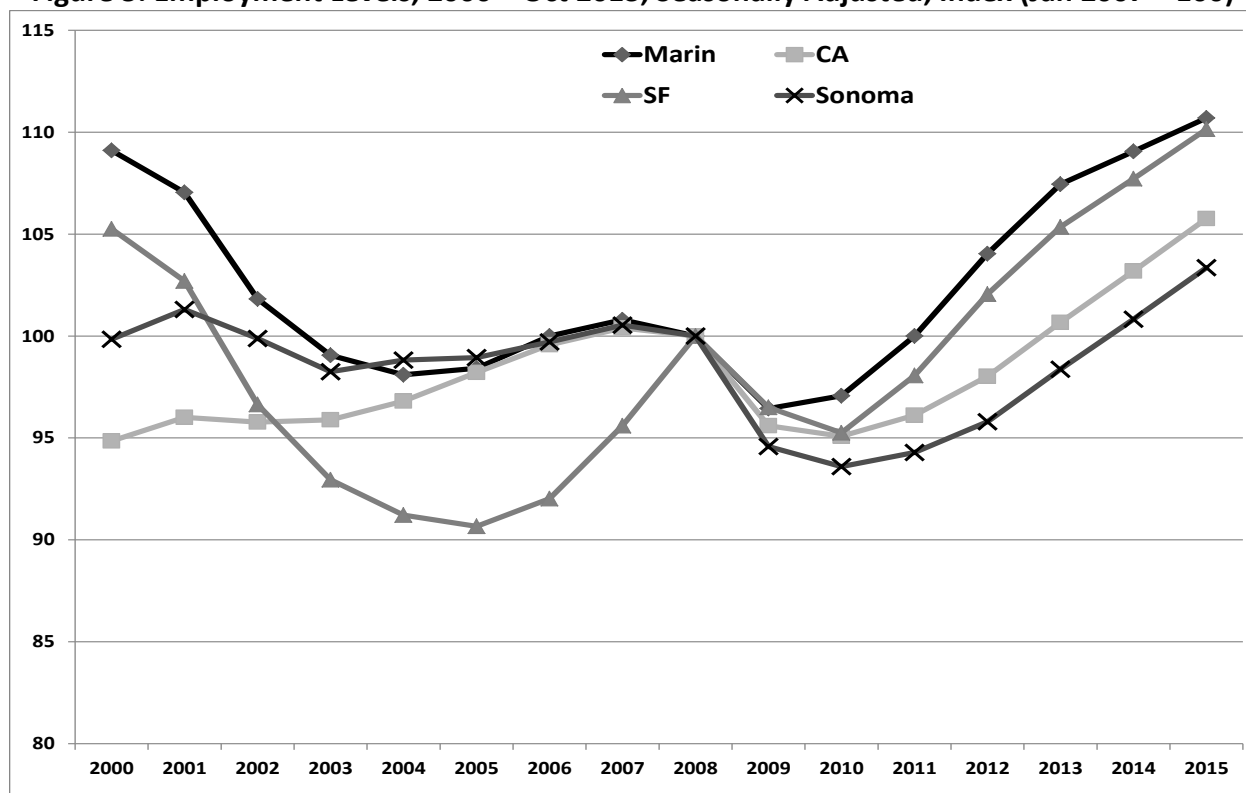


Sources: CA Employment Development Department and Marin Economic Forum.

Notice that both Figures 4 and 5 suggest labor market growth local and regionally. Marin County is seeing the ranks of unemployed shrink more quickly than California and San Francisco County in Figure 4; employment is rising in stride with San Francisco County and faster than California overall in Figure 5. This is good news. Public-sector budgets shrinking and reduced hiring remain labor market issues for 2014 through our governmental levels. The number of federal government workers is somewhat limited in Marin County. Pressure downward in employment is coming from the public sector in 2013 and that is likely to remain. Otherwise, Marin County is growing across all sectors otherwise.⁴

⁴ See the "Marin County Economic Dashboard" on page 6 of this report.

Figure 5: Employment Levels, 2000 – Oct 2013, Seasonally Adjusted, Index (Jan 2007 = 100)



Sources: CA Employment Development Department and Marin Economic Forum.

Targeted Industries and Job Growth in Marin County

From its inception, Marin Economic Forum’s work has been based upon the philosophy that local economic vitality, both in terms of the beneficial growth of business opportunities and new business revenues, generates labor demand and job creation across all sectors. Marin Economic Forum has sought to identify and support the “targeted industries” best suited for Marin County as a way to generalize economic opportunities.

For example, MEF is currently working with the City of Novato’s economic development leadership to attract more life sciences businesses to the northern part of the county. It is important to recognize that in targeting any of these life science industries, there are other regional forces at work in a very wide and geographically-broad manner. California happens to be a place where the life sciences industries have global leadership.⁵ Life sciences industries are in the “core technology” group of targeted industries, as shown in Figure 6.

Marin County is home to other industries to be viewed as drivers, not followers, of economic vitality and expansion. Figure 6 shows targeted industries and example firms; the next section looks at employment in these sectors versus the remainder of Marin County. It

⁵ For more on the role of California and the greater Bay Area in this industry, see BayBio, the industry’s trade association here in Northern California: www.baybio.org.

has been 10 years since these targeted industries were officially declared by Marin County as a focus of policy. MEF will be working in 2014 on an examination of the current state of Marin County's industry clusters, and which are now the most economically, socially and environmentally sustainable versus those declared in the mid 2000s.

Figure 6: Marin Economic Forum's Targeted Industries

| Tourism & Agriculture | Core Technology | Building and Construction | Alternative & Residential Health | Financial Services |
|----------------------------------|-----------------------------|----------------------------------|---|---------------------------|
| Food Manufacturing | Multimedia & Digital Arts | Green Building | Residential Care | Wealth Management |
| Tourism & Hospitality | Software Engineering | Commercial Real Estate | Alternative Medicine | Boutique Consulting |
| Boutique Accommodations | Environmental Technology | Energy Efficiency | Niche Medical Procedures | Insurance |
| Recreation/Natural Tourism | Biotechnology/Life Sciences | Water Efficiency | Biomedical Research | Banking and Credit Unions |

Marin County's economic growth and rising number of employed workers in this recovery are due to larger businesses rehiring, but also primarily to the growth of small businesses. Because economic development leaders want to target industries that provide both export opportunities and growth for Marin County, this report shows employment in these targeted industries.

Marin's targeted industries offer large "bang for buck" benefits in fostering general growth throughout the county through multiplier effects (i.e., job growth creates more job growth). These businesses should also support social equity and environmental balance through more efficiency in the use of all resources and the provision of wages and jobs across many skills and levels and the generation of public resources through tax revenue for Marin County. Figure 7 shows the recent job growth in the targeted industries identified by Marin Economic Forum.

Figure 7: Targeted Industry Employment, Marin County, 2005, 2010, 2013

| Targeted Industries | 2005 Q4 | 2010 Q4 | 2013 Q1 | Since 2005 | Since 2010 |
|----------------------------------|----------------|----------------|----------------|-------------------|-------------------|
| Tourism & Agriculture | 12,842 | 12,068 | 13,646 | 804 | 1,578 |
| Building and Construction | 11,466 | 8,016 | 7,077 | -4,389 | -939 |
| Core Technology | 14,875 | 14,516 | 12,471 | -2,404 | -2,045 |
| Alternative & Residential Health | 6,758 | 7,819 | 8,446 | 1,688 | 627 |
| Financial Services | 6,476 | 4,732 | 5,113 | -1,363 | 381 |
| Targeted Totals | 52,417 | 47,151 | 46,753 | -5,664 | -398 |
| All Other Industries | 71,875 | 75,349 | 87,547 | 15,672 | 12,198 |
| Marin Totals | 124,292 | 122,500 | 134,300 | 10,008 | 11,800 |

Sources: CA Employment Development Department and Marin Economic Forum

Figure 7 shows that gains in targeted industry employment continue in Marin County, in terms of payroll employment, since the second quarter of 2010. The recent slowdown in hiring

by targeted industries may mean that the Marin County economy, like that of California overall, will reach a tipping point in 2014.

The slowdown in new business formation corroborates with the slowdown in hiring. Construction, commercial real estate, and building trades have seen recent growth both on and off payroll. Non-employer growth has likely seen more growth as the ranks of the self-employed contractors and specialists meet rising demand.

Figure 8: Marin County Labor Market Dashboard, 12-month Changes

| Year on Year Changes | 6 mo avg | Jan-13 | Feb-13 | Mar-13 | Apr-13 | May-13 | Jun-13 |
|-------------------------------------|----------|---------|---------|---------|---------|---------|---------|
| Civilian Employment | + | 4,700 | 4,800 | 4,200 | 4,700 | 5,300 | 4,500 |
| Civilian Unemployment | + | (1,000) | (1,700) | (2,100) | (2,300) | (2,400) | (2,000) |
| Civilian Unemployment Rate | + | -0.9% | -1.3% | -1.6% | -1.7% | -1.8% | -1.5% |
| Total, All Industries | + | 5,100 | 5,200 | 5,300 | 5,400 | 4,600 | 3,900 |
| Total Farm | 0 | - | - | - | - | - | - |
| Total Nonfarm | + | 5,100 | 5,200 | 5,300 | 5,400 | 4,600 | 3,900 |
| Goods Producing | + | 1,000 | 1,300 | 1,500 | 1,600 | 1,500 | 1,500 |
| Construction | + | 420 | 720 | 820 | 780 | 580 | 590 |
| Manufacturing | + | 600 | 600 | 700 | 800 | 900 | 900 |
| Service Providing | + | 4,100 | 4,000 | 3,900 | 3,800 | 3,100 | 2,300 |
| Wholesale Trade | + | 230 | 260 | 160 | 300 | 220 | 250 |
| Retail Trade | - | (530) | (490) | (520) | (450) | (730) | (930) |
| Transportation, Storage & Utilities | + | 270 | 340 | 390 | 300 | 340 | 380 |
| Information | + | 350 | 410 | 450 | 520 | 580 | 590 |
| Finance & Insurance | + | 180 | 100 | (20) | 190 | 210 | 80 |
| Real Estate | + | 60 | 60 | 50 | 50 | 70 | 60 |
| Professional Services | + | 2,670 | 2,560 | 2,850 | 2,660 | 2,800 | 2,790 |
| Educational Services | + | 340 | 380 | 240 | 180 | (30) | 100 |
| Health Care & Social Assistance | - | (90) | (280) | (460) | (550) | (540) | (600) |
| Leisure & Hospitality | + | 1,030 | 1,360 | 1,620 | 1,470 | 1,170 | 970 |
| Other Services | - | (310) | (260) | (410) | (320) | (500) | (590) |
| Government | - | 40 | (230) | (360) | (310) | (450) | (810) |

The labor data shown in Figure 8 was compiled by a partnership consisting of the Marin County Workforce Investment Board (WIB), and Marin Economic Forum in order to more accurately portray labor levels in Marin. Labor data released by the California Economic Development Department does not separate Marin data from that of other counties, making it difficult to certain accurate up-to-date information.

That said, data contained in the Quarterly Census of Employment and Wages (QCEW), published by the [Bureau of Labor Statistics](#), is being made available on a more consistent basis. As of the date of publication of this Bulletin, however, quarterly census data for Marin had not

been updated. Figure 8 attempts to fill gaps in monthly data left by EDD related to Marin County's major industry employment. This table can also be used as a planning tool for WIB and others in Marin County as to the current state of affairs. These estimates are driven by recent history in Marin County and the evolution of both California's employment cycle overall and the monthly data for San Francisco's metropolitan statistical area (MSA), which includes Marin County.

In summary, job growth continues in Marin County, and should continue to do so through 2014 and 2015. The assumptions made here include the likelihood of continued economic growth in the Bay Area and California economy overall. For Marin County, the relatively high costs of living, workers who commute long distances to work and how to provide opportunities for business growth will likely dominate the list of local challenges for the foreseeable future.

Real Estate and Financial Markets

In-fill land development will remain Marin County's best economic option for business expansion because it will convert under-used parcels in existing residential and commercial neighborhoods to a higher and better use. Provided future land development addresses growing social and environmental needs, as well as confront the impacts of climate change, successfully expanding the employment and residential base is possible.

Residential real estate markets have shown strong growth since summer 2011 and continue to growth through Q3 2013. As another sign of an approaching local cyclic peak, median home prices in Marin County may have started to peak already, though recent predictions by the California Association of Realtors suggest California will continue to see median home prices grow by 6 percent in 2014.

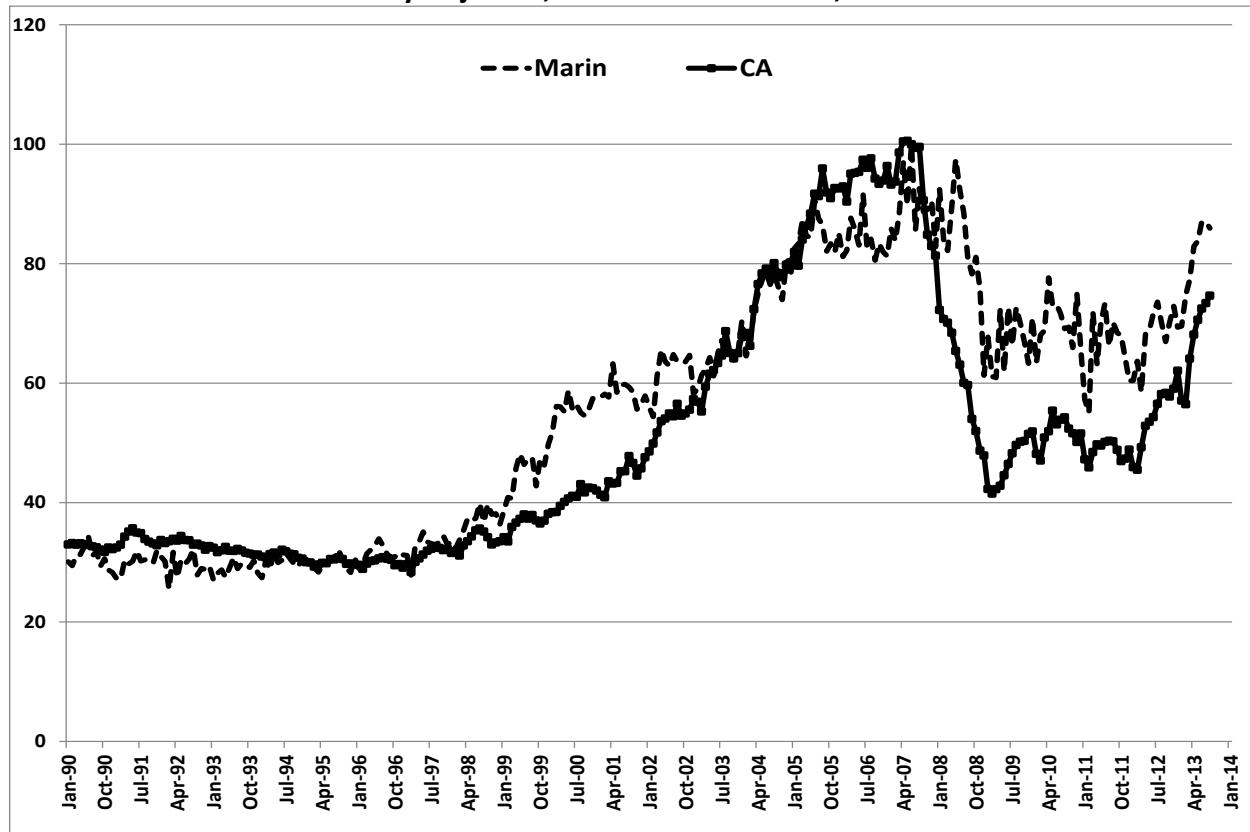
Predictions coming from residential real estate experts, and particularly the California Association of REALTORS® (CAR), suggest that the current environment of low interest rates, low inventory, and a rising economy should lead to strong growth as 2013 comes to a close.⁶ CAR is predicting a 20 percent increase in the median home prices across California for 2013.

For Marin County, 2013 has seen outstanding growth in median home price due to continued reduction in available inventory and continued low mortgage interest rates. Through August 2013, the year-on-year growth of median home prices was 22.5 percent for Marin County. For California overall, it has been over 28 percent. Figure 9 shows median price data for single-family homes in Marin, the Bay Area and California. Marin County home values remain relatively strong compared with the other markets shown, and will continue to follow Bay Area growth patterns.

⁶ See <http://www.car.org/marketdata/data/> for more.

On a month-to-month basis, Marin County remains the highest or second-highest median home price area in California with only Orange County in Southern California competing for the top position. While general inflation remains somewhat in check, regional housing markets and increasing wages will help local inflation outpace state and national forecasts. These data suggest that Marin County's businesses will experience costs increases through rising wages in 2014, which may force some slowdown in other parts of the local economy.

Figure 9: Median Home Price Growth, Single-Family Residential Real Estate
Seasonally Adjusted, Index Jan 2002 = 100, 2002-2013



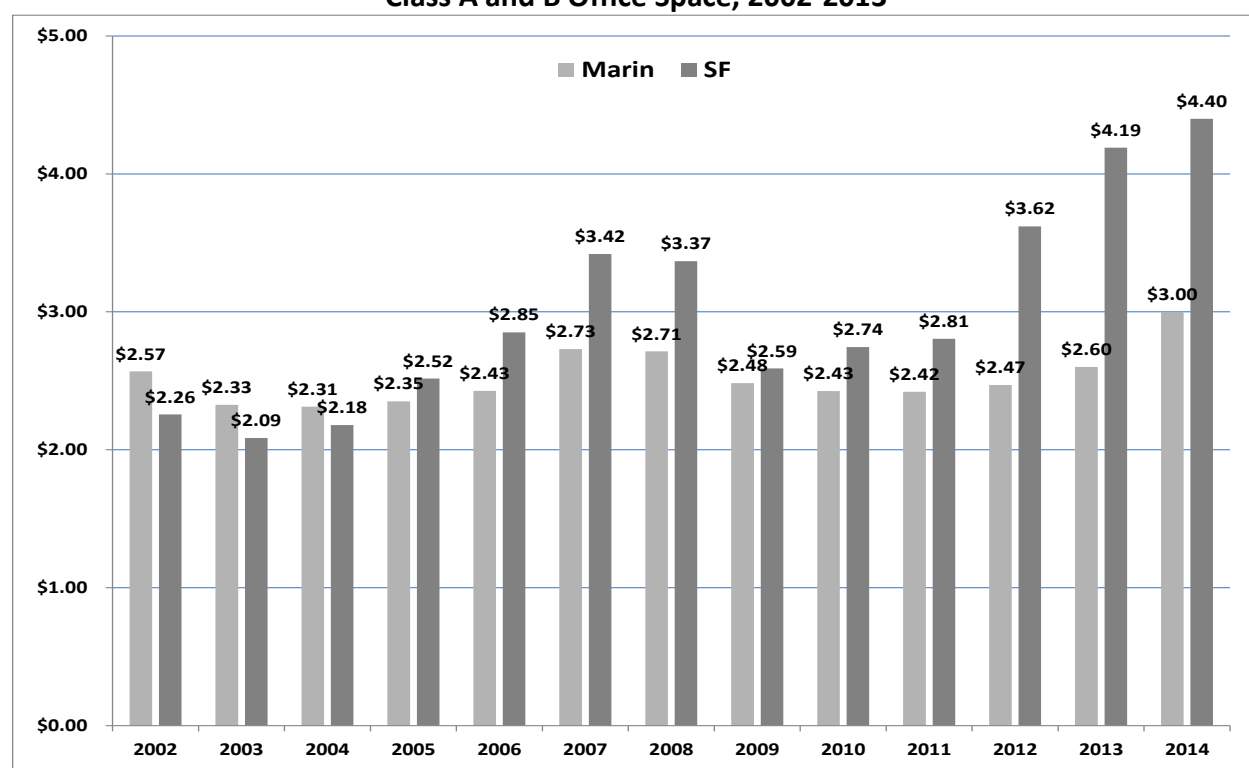
Source: [California Association of Realtors](http://www.californiaassociationofrealtors.com)

Commercial real estate continues its recovery also, albeit at a slower pace in Marin County. Office rents are holding steady throughout the region despite the fact that vacancy rates continue to fall. Cassidy-Turley BT Commercial (CTBT) estimates there is approximately 1.318 million square feet of Class A and B office space available in Marin County as of the third quarter of 2013⁷. However, lease rates average approximately \$2.60 per square foot for Class A space, and \$2.55 for Class A and B combined. Figures 10 and 11 provide a comparison of Marin County and San Francisco County in terms of commercial lease rates and vacancy rates respectively.

⁷ See <http://www.ctbt.com/research-interactive-map.html> for more.

San Francisco and San Mateo counties have experienced surging growth in lease rates and in absorption since 2012. In the short term, this trend provides some opportunities for Marin County. As areas close to Marin become more expensive and a shortage of space begins to dominate those markets, will Marin County be viewed as an attractive alternative by the regional market and encourage some larger businesses to move north? With its lifestyle and environmental benefits, Marin's desirability as a more cost-effective place to do business becomes a key economic development question to answer for both local officials and commercial real estate professionals working in Marin.

**Figure 10: Commercial Real Estate Pricing Comparison, Price per Square Foot
Class A and B Office Space, 2002-2013**



Sources: [Cassidy/Turley BT Commercial](#)) and Marin Economic Forum

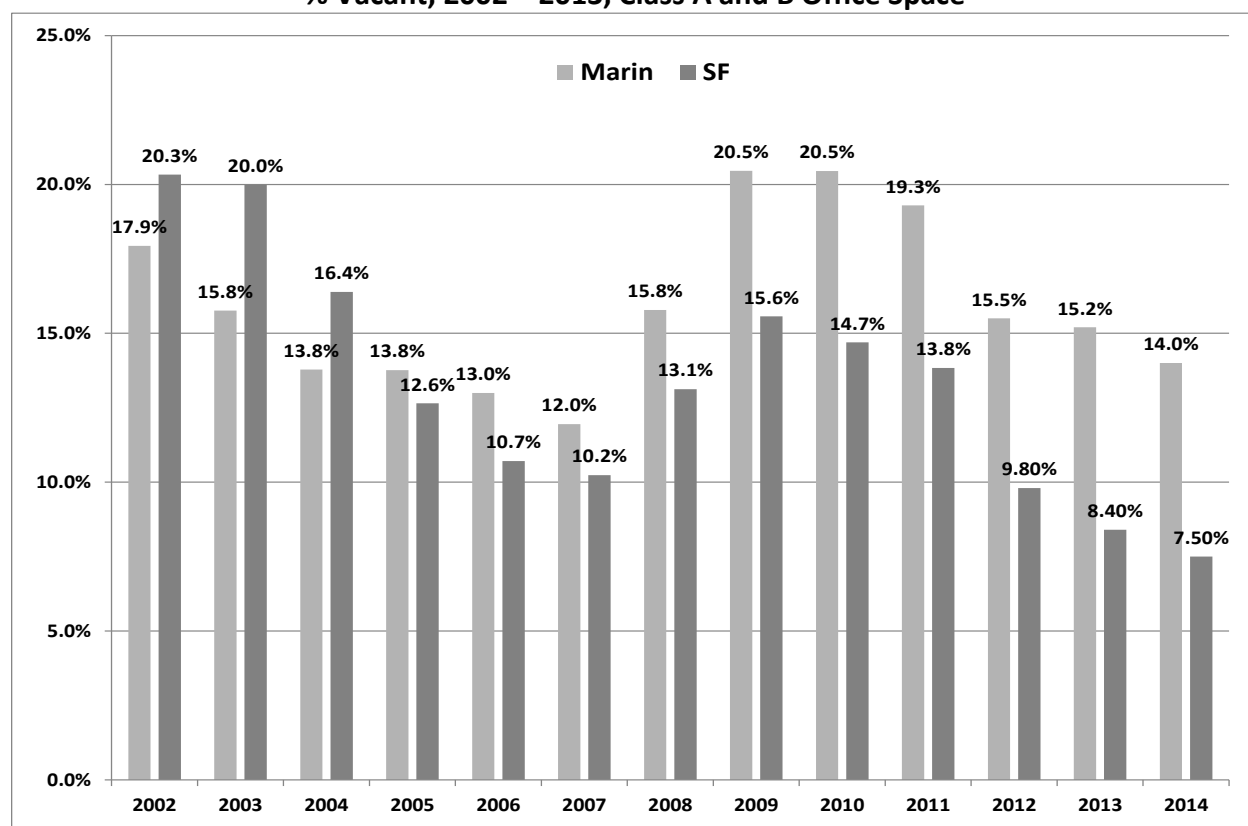
Marin's commercial space pricing may still need to fall to stimulate more demand for vacant space. Also, a slow movement in lowering vacancy rates and rising lease prices may mean that firms are not demanding Marin County's commercial space due to technology, the types of spaces available, a lack of local labor in Marin County for industries growing into more office space, or a lack of complementary space for such businesses (life sciences may be such an industry).

The City of Novato, for example, has two foci for 2014 in terms of utilizing currently vacant commercial space. One is to look at an expansion of life sciences businesses using the current set of firms and the Buck Institute for Aging Research as reasons to locate or grow in Marin County. The second objective is to fill retail leakage that may be as large as \$169 million

per year for Novato. Both of these initiatives look to increase the use of office, industrial, and retail space per what is available.

One should consider vacant commercial space as potential economic vitality waiting to happen. If local decision-makers and policy planners strive to provide a quicker and more transparent path to receiving land development and tenant improvement approvals, the stock of fully-utilized, tax-generating buildings will increase over time in Marin County.

Figure 11: Commercial Real Estate Vacancy Comparison, Marin and Bay Area Counties, % Vacant, 2002 – 2013, Class A and B Office Space



Sources: [Cassidy/Turley BT Commercial](#) and Marin Economic Forum.

Social Issues and Environmental Balance

Identifying the proper uses and designing socially- and environmentally- respectful projects on in-fill properties remains the primary way in which Marin County can attract new and expanding businesses to locate, and stay, in Marin rather than moving to other nearby counties.

In 2013, the final draft of the Association of Bay Area Governments (ABAG) Plan Bay Area report was issued and approved. This report produced a significant level of controversy about its forecast of jobs and housing needs for Marin County and others around the Bay Area. Marin County continues to wrestle with housing issues, from how to responsibly employ in-fill

development to plan for demographic and other changes in housing demand (e.g., aging residents desiring smaller but upscale living spaces) and the need to provide more workforce housing.

Between 2011 and 2013, the “affordable housing” question became more contentious than during any other time in the last two decades. The proposed concept of transit-oriented development located along major transportation routes was seen, by some, as unacceptably disrupting existing neighborhoods and introducing a “bad element” into communities. Few took time to consider the many advantages of providing housing to meet the needs of locally-employed teachers, emergency service personnel, and others working in Marin. In the heat of many seemingly “not-in-my-back-yard” debates, air quality, traffic congestion, other factors were left unaddressed.

The time to prepare for demographic change has arrived. Reframing the issue of affordable housing to include and address the critical importance, and indeed fairness, of housing as many levels of works as possible near places of employment is one of Marin’s greatest challenges in the coming years.

In 2013, MEF continued its work with the County of Marin on making the permitting and planning processes more transparent, more objective, and more straight-forward for all. MEF has also been working with local non-profits on housing options, commute options, and other issues of social equity.

Our work with Venture Greenhouse continues. As a business incubator focused on social and environmentally-intentioned start-ups in Marin County, there are many partnership opportunities for our organizations. Venture Greenhouse is located at 30 Castro Avenue in San Rafael.

In 2014, MEF is planning to produce and facilitate an educational series on how the economy and the environment are connected to one another; in reframing how Marin County’s environmental stewards and Marin County’s businesses are likely more aligned than they realize in terms of the county’s evolution as a living space.

Further , some of the economic challenges in continuing to fund open space, commute options, electric vehicle adoption, and other connections between commercialization and environmental solutions will be tackled in that series.

MEF wants to bring a fourth “E” into the community development equation more completely: education. This series is one of those ways to integrate community development with economic, social and environmental needs for Marin’s businesses, which are also residents of Marin County. Marin County’s ability to fund its public activities is through business vitality; if the public sector is going to provide both social equity and environmental balance, it must do so by providing conditions in which businesses can prosper.

Conclusions and Forecast for Marin County

The Marin County economy is recovering more quickly in 2013 and 2012 was a strong year for the local economy. Entering 2013, there are better signs of a strong recovery: Marin County is creating jobs, new businesses, incomes for residents and businesses, and real estate markets corroborate this growth. Meanwhile, the cost of living is rising due to economic growth and rising energy prices, trends that will continue in 2014. There are some global and domestic risks currently and expected to continue into 2014.

Marin Economic Forum's continuing efforts to expand targeted industries means Marin County is likely to experience continued economic growth in 2014. Along with that growth, it will be important for Marin County leaders and residents to understand the many stories rising out of our political, social, and environmental communities.

Acceptance of below-market rate housing in Marin may mean a change in how those developments are taxed if local schools are to be adequately funded. The business community's role in funding local government and social services through revenue generation is another valuable story that needs to be heard by all residents. Encouraging appropriate design and use of in-fill parcels will enhance neighborhoods if done well and with positive neighbor engagement, especially if Marin's successful existing in-fill developments can be used to build accurate perceptions of affordable housing and the important community solutions they offer.

Attracting innovators, entrepreneurs, and start-up companies that may begin, or want to locate, in Marin County will require a commitment from both the public and private sectors. Without broad, committed consensus about how to make choices that balance social equity, environmental, educational, and economic interests, Marin cannot live up to its fullest potential, economically or otherwise. There is important work to be done across all sectors and constituencies in 2014.

As the economy grows in 2014 examples of why business is so important to Marin County's ability to fund public works, fire and police, and education, continue to be important stories to tell. Taxable sales are up, as well as property tax rolls. There is more economic activity across the private sector, which has multiplier effects that generate more business activity in a self-fulfilling way. It is important that local governments partner with the private sector to ignite more growth, through the use of commercial space and in-fill development, rather than stand in the way.

MEF provides overviews of the state and national economies that suggest 2014 will remain a year of growth, with some threats but nothing that will likely derail recovery. However, with federal and state budgets tightening, global economic and political issues not receding, it is important that Marin County capture innovation and entrepreneurship that may begin or want to locate in Marin County through a commitment from both the public and private sectors. The duration of this recovery depends on how innovation and entrepreneurship continue locally and regionally into 2013 and beyond.