MARIN

ECONOMIC FORUM

2016 Economic Bulletin for Marin County

www.marineconomicforum.org

Fall 2016 Economic Bulletin

The **Marin Economic Bulletin** is published annually by the Marin Economic Forum (**MEF**), a nonprofit organization working to build a strong local economy that supports start-up, expanding, and entrepreneurial businesses within Marin County, while supporting social equity and environmental balance.

This year's Bulletin is presented by Dr. Robert Eyler, MEF's Chief Economist, at the *Annual Forecasting the Future Economic Conference* held on October 27, 2016 in San Rafael, California. The information and data contained in this report were compiled by Marin Economic Forum staff. MEF also generated reports on the California and US economies.

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 solving local challenges through education and cross-disciplinary exchange. MEF is the only Marin-based nonprofit analyzing complex local questions about Marin County's communities and answering them in ways that educate and inform 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.

Please contact MEF if you are seeking answers to public policy questions in Marin County or the North Bay overall, or looking for data or information that may help your business. www.marineconomicforum.org.

October 27, 2016

Key Findings

Marin County

- Marin County added 3,100 jobs since August 2015, and has added 15,200 jobs since 2010.
- Marin County inflation is likely to rise close to 3 percent per year from 2016-2019;
- Marin County has median housing prices over $1.08 million, among the highest in California, a reflection of both a low housing inventory and low interest rates;
- Marin County's employment growth is toward services, with overall growth waning a bit as 2016 comes to a close;
- Marin County added approximately 370 payroll businesses since 2015;
- Commercial properties have reduced vacancies and prices have increased over 10 percent since 2015, with commercial rents near $2.95 per square foot;
- Rental home prices in San Rafael have recently been estimated at an average of over $3,300 per month for a two-bedroom apartment; and
- Wages in Marin County are relatively high versus state and suburban county averages, but are outpaced by urban areas in the Bay Area, helping to explain regional commute patterns.

US Economy

- Gross Domestic Product is forecasted to grow 2 to 2.5 percent annually to 2020.
- Disparities exist among professional forecasters as to the rate of US economic growth;
- No recession is coming for at least two more years.
- Jobs growth for the US economy is likely to slow down in 2017, as the economy continues to be close to full employment.
- Personal Income growth is forecasted to outpace GDP growth due to continued financial market gains and wage growth through 2019.
- Rising wages, relatively low interest rates and higher rents are a foundation for continued housing demand and construction employment growth.
- Fixed Investment sagged in 2016, continuing trends from 2015 in part because of commodities prices falling and reduced oil and gas extraction investment.
- Recent losses in currency markets for the pound sterling test both global interest rates and trade, specifically the US economy's ability to remain globally competitive on export pricing.
- Price levels are creeping up in the United States, where core inflation rates (all items less food and energy) are likely to grow between 2.5 and 3 percent per year to 2020.
- The Federal Reserve is likely to remain somewhat steady in terms of interest rates through 2017, with perhaps one or two interest rate hikes before Dec 2017;
- That forecast depends on continued economic growth in the United States and inflation following suit per the forecast of above-average inflation.
- The presidential election is unlikely to have long-term effects on the economy.
- Long-term issues in the American economy remain, including rising wealth inequality and federal debt levels.

California

- California is forecasted to grow faster than the US economy through 2019.
- California's economic growth continue to drive the national economy and to be one of the fastest growing among the 50 states.
- The unemployment rate in California continues to fall, though the unemployed have slowed a bit in finding jobs.
- The drop in initial claims for unemployment insurance has slowed and stopped in some counties.
- Regionally, Marin, San Francisco and San Mateo counties remain the lowest unemployment rate counties in California.
- Median household income and personal income levels in California continue to climb in real terms from the Great Recession's bottom.
- Housing markets continue to see price growth, as inventories remain low versus demand, and building remains focused on multi-family versus single-family.
- Construction employment growth remains strong, while manufacturing employment has weakened a bit in 2016.
- Taxable Sales to grow 2.1 percent annually from 2016-2018 and hit a record $625 billion in fourth-quarter 2014 after seeing a low of $450 billion in first-quarter 2009.
- Poverty rates remain a concern, as does income and wealth inequality
- Minimum wage legislation attempts to help income inequality, but may exacerbate both wealth and income inequality.
- Drought conditions, a lack of robust recovery in the interior valleys, summer fires, and commodities prices are acting as a drag on many parts of California.

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

Marin County Economic DASHBOARD

	2011	2012	2013	2014	2015	Forecast 2016	Forecast 2017	Forecast 2018	Forecast 2019
Population (Beginning of Year)	253,964	255,812	257,228	260,294	261,798	262,274	263,585	264,903	266,228
Total Employment (Payroll + Self Empl)	138,566	141,400	146,086	148,762	150,000	153,350	156,500	159,680	162,410
Unemployment Rate, Payroll Jobs (%)	7.3%	6.3%	5.2%	4.3%	3.5%	3.3%	3.4%	3.5%	3.8%
Non-Farm Employment, Payroll Jobs	102,600	105,800	109,600	110,900	113,000	116,100	119,000	121,680	124,110
Personal Income (millions 2009$)	$21,133	$22,151	$22,143	$22,747	$22,825	$22,800	$22,771	$22,764	$22,758
Per Capita Personal Income (2009$)	$83,212	$86,590	$86,083	$87,388	$87,184	$86,932	$86,390	$85,933	$85,481
Median Prices, SFD Detached (2009$)	$719,888	$722,699	$842,129	$896,226	$946,796	$976,029	$988,898	$985,741	$978,174
Taxable Sales (Millions 2009$)	$3,862	$4,015	$4,232	$4,300	$4,247	$4,292	$4,390	$4,461	$4,470
Number of Payroll Businesses	11,630	11,783	11,640	11,912	12,031	12,349	12,649	12,899	13,154
Marin CPI (Index, 2009 = 100)	104.9	107.9	110.2	113.1	115.6	118.9	123.3	127.4	131.6

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: Bureau of Economic Analysis
Per Capita Personal Income: Bureau of Economic Analysis
Gross County Product: Bureau of Economic Analysis and Marin Economic Forum
Median Prices, Detached Single Family Homes (SFH): California Association of REALTORS®
Taxable Sales: 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

Foreword

Jim Cordeiro, Chief Executive Officer, Marin Economic Forum

Through the collaborative effort with the County of Marin, the Marin Economic Forum (MEF) presents the 2016 Economic Bulletin. A special thanks to Dr. Robert Eyler, MEF Chief Economist, for his efforts in producing this report.

My family's journey to the North Bay began in June of 2015. The home we leased was listed for sale and the company my wife worked for was acquired, which left a looming possibility of lay-offs. After considering our options and receiving the good fortune of my wife finding employment at a Life Science company located in Novato, we jumped at the chance to return to the North Bay, where I was born and raised.

Once my family landed in Novato in August, I immediately began seeking opportunities. From the Buck Institute for Research on Aging to the Life Science focus in rare disease therapeutic development through the efforts of BioMarin, Ultragenyx and Raptor, I saw a piece of Marin's innovation hub in play. I could see there was a lot more to Marin County. I discovered the North Bay Life Science Alliance (NBLSA) and was introduced to Chris Stewart, CEO and Chairman. We immediately connected on why we love Marin and the North Bay….. the Lifestyle.

Chris Stewart serves on the executive board of MEF and naturally, Chris introduced MEF. I practice to keep an open mind and serendipity has been a powerful force in my life. After Chris presented MEF to me, I began to see the tremendous opportunity. I am happy to say that my tenure as Chief Executive Officer of the MEF began on May 2, 2016.

We are one case study demonstrating the benefits of the economic efforts of MEF strategic partnerships. Thanks to these efforts, we were able to buy a home enabling us for the first time in 15 years to live and work in the same city.

The Marin Economic Forum is a public-private partnership of business, labor, government and higher education that works to support the economic vitality and competitiveness of Marin County.

Economic Bulletin 2016

The year 2016 is ending with some uncertainties, specifically the outcome of a national, presidential election. While the election for a new president seems to be clarifying, it brings with it a new regime and cloudy expectations. The United Kingdom's exit from the European Union, the Chinese economy, and episodic tensions in the Middle East, has the global economy less certain about itself also. California, once again the American economy's engine, has a good outlook and remains a global center of venture finance, new technologies and ideas, an attractant for amazing talent worldwide, and a place willing to engage in socioeconomic experimentation. 2016, if Prop 64 passes, may be remembered as one of California's most politically-impactful years in recent memory, with new minimum wage legislation (Senate Bill 3) and legalizing cannabis use for recreational purposes.

Given these backdrops, Marin County had yet another strong economic year and is forecasted to continue to grow. As of August 2016, Marin County has a residential unemployment rate of 3.1 percent seasonally adjusted, among the lowest county rates in California. Marin County's personal income level per capita remains the highest in California by almost $20,000 per person at approximately $96,000 per person. Marin County's median household income level is topped only by San Francisco and San Mateo counties; Marin's households generate approximately $86,000 at the median as of 2015.

Employment growth continues in Marin County. As of August 2016, Marin County employers added more than 3,300 jobs since August of 2015. Marin County is estimated to have inflation-adjusted (real) gross county product (GCP) growth of approximately 0.8 percent since 2015, a sign that businesses are generating income but the cost of living is also increasing. Figure 1 shows major industry sectors and the number of employees by sector.

Figure 1: Marin County Payroll Employment, 2010-16, Industry Sectors, # of Jobs

Category	**2010**	**2014**	**2015**	**As of Aug 2016**
Agriculture	450	380	330	310
Construction	4,700	6,080	6,470	6,730
Manufacturing	2,120	3,480	3,980	4,480
Wholesale Trade	2,380	2,800	2,950	3,000
Logistics	1,110	1,260	1,180	1,200
Retail Trade	13,420	14,270	14,290	14,800
Information	2,130	2,580	2,620	2,560
Financial Activities	6,940	6,840	6,380	6,350
Professional & Business Services	18,360	18,160	18,650	19,680
Educational & Health Services	17,280	19,670	20,180	20,730
Leisure & Hospitality	12,190	15,120	15,400	15,660
Other Services	4,970	4,840	4,950	5,080
Government	15,130	15,420	15,620	15,520
Total	101,180	110,900	113,000	116,100

Source: CA Employment Development Department

Figure 1 shows that jobs growth took place in leisure and hospitality, businesses that include hotels, restaurants, bars, and other tourism and lifestyle businesses. Retail employment increased as did professional services (legal, accounting) jobs. Financial services businesses, including businesses from banking to insurance, fell slightly. Health care, professional services, and construction and manufacturing all continue to grow in Marin County since 2015. Approximately 12,360 businesses with payroll employment are located in Marin County, according to EDD; in general, the typical business size in Marin County is small; about 92 percent of employers have fewer than 25 employees. Marin County gained 320 payroll businesses from 2015 Q1 to 2016 Q1 (2.6 percent growth). The Census Bureau states that an additional 37,250 businesses operate in Marin County in 2014, but do not generate payrolls because these businesses are not traditionally-defined employees (i.e., they are “non-employers” or sole proprietorships).[1]

Marin Economic Forum (MEF) has produced summary national and state economic overviews in order to provide context for these county-level forecasts. Marin Economic Forum forecasts suggest that both California and the United States are to experience continued economic growth in 2017 through at least 2019. As always, uncertainty exists due to global and domestic uncertainties. Marin Economic Forum monitors Marin County’s economy in its regional context. Regional economies are generally measured in terms of housing 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). Let’s start with incomes and spending.

Incomes and Spending

Marin County generates over $25 billion in county personal income annually. Marin County incomes are forecast to grow faster during 2017 than 2016, due to continued job growth and financial and housing markets continuing their climb.

Personal income consists primarily of incomes made from working (salaries and wages) plus passive incomes made from financial asset and housing ownership. Figure 2 looks at how Marin County’s personal income growth has compared to California overall, and how Marin County’s personal income may evolve given recent California Department of Finance (DOF) forecasts for personal income for the state overall. California is predicted to continue its economic expansion, with no recession in sight, through 2019 and perhaps 2020 (see MEF’s California Outlook 2016 for more).

Inflation and Labor Markets Overview

Inflation remains a slow-moving variable nationally and regionally. It is important to note that economists watch inflation both overall (including housing) but also measures that exclude food and energy prices (so-called “core” inflation). Wage inflation provides a way to monitor rising, general prices of goods and services in advance of headline inflation changing. Figure 3 suggests that inflation rates may moderate a bit toward 2019, but each year of growth compounds inflation’s problematic effects on worker incomes; inflation is a by-product of income growth and subsequent spending and stronger economies.

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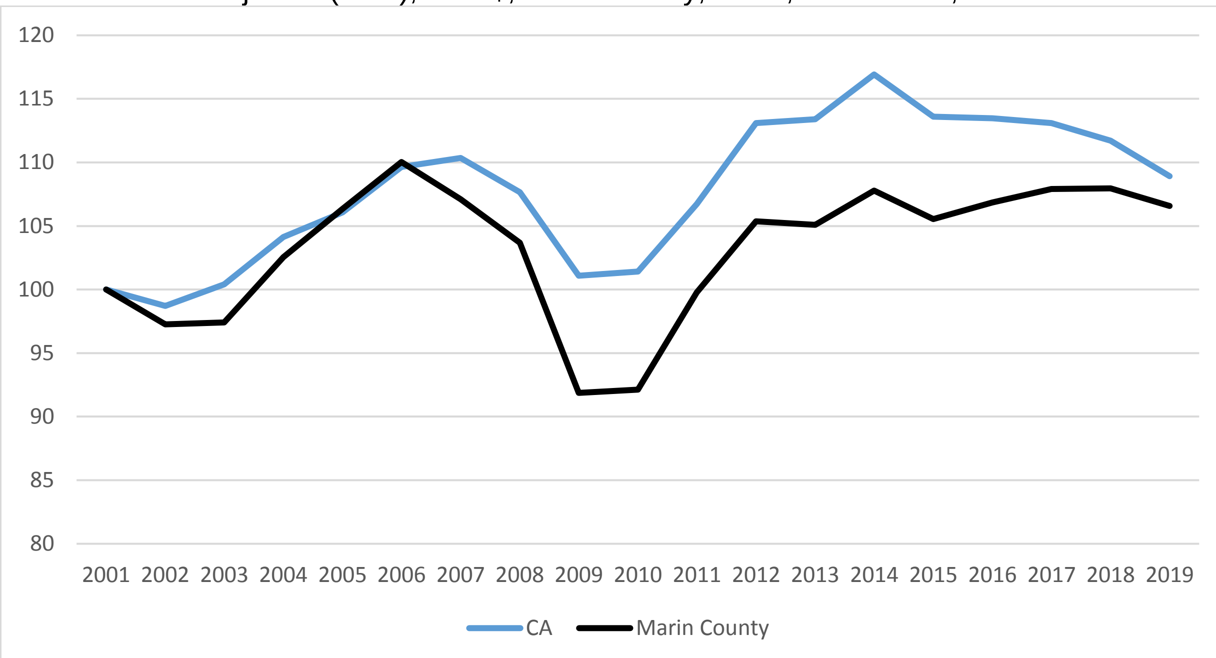
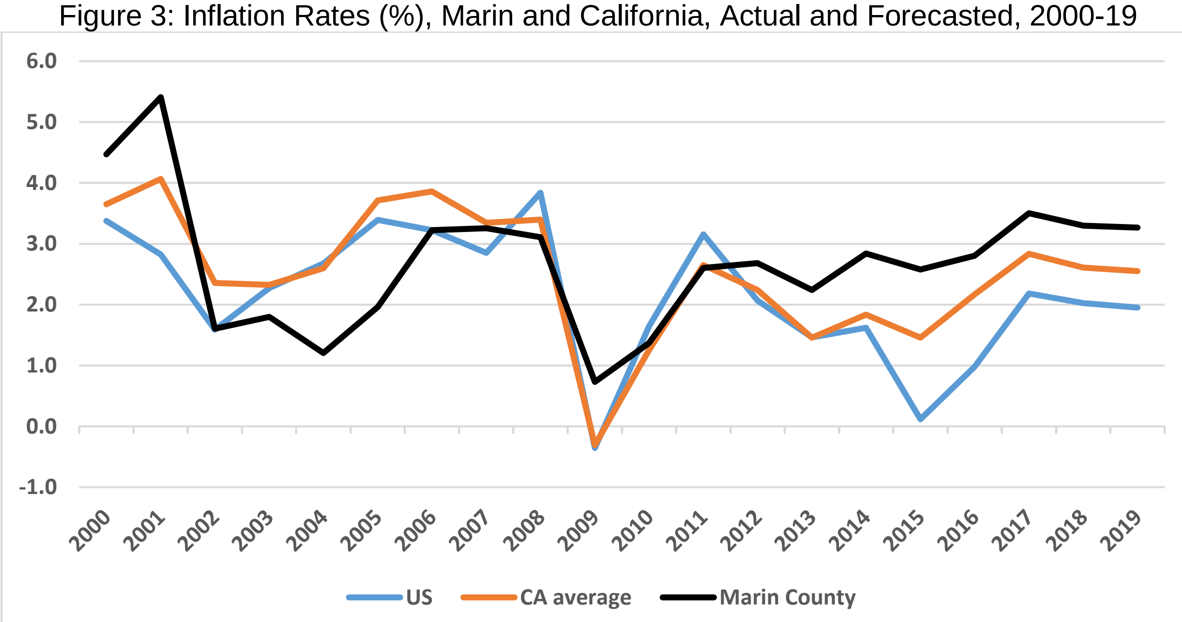
[1] See the Census website on non-payroll businesses, the latest data is for 2014 as of October 2016: http://censtats.census.gov/cgi-bin/nonemployer/nonsect.pl.

Figure 2: Personal Income less Government Transfers, Actual and Forecasted Inflation-Adjusted (Real), 2009$, Marin County, Index, 2001 = 100, 2001-2019



Sources: Bureau of Economic Analysis and Marin Economic Forum

Figure 3: Inflation Rates (%), Marin and California, Actual and Forecasted, 2000-19



Source: CA Department of Finance and Marin Economic Forum

Despite the Federal Reserve's declarations of an improving economy, interest rates set by monetary policy actions remain unchanged since December 2015. Slower than expected growth rates in the national economy have led to forecasts for more stable inflation rates (see Figure 3). However, because of rising housing prices, the cost of living in both the Bay Area (including Marin County) is likely to rise in 2017 faster than California and national-level prices, then moderate slightly toward 2020. Inflation figures for both California and the Bay Area are estimated by the Bureau of Labor Statistics and then forecasted by the California Department of Finance.

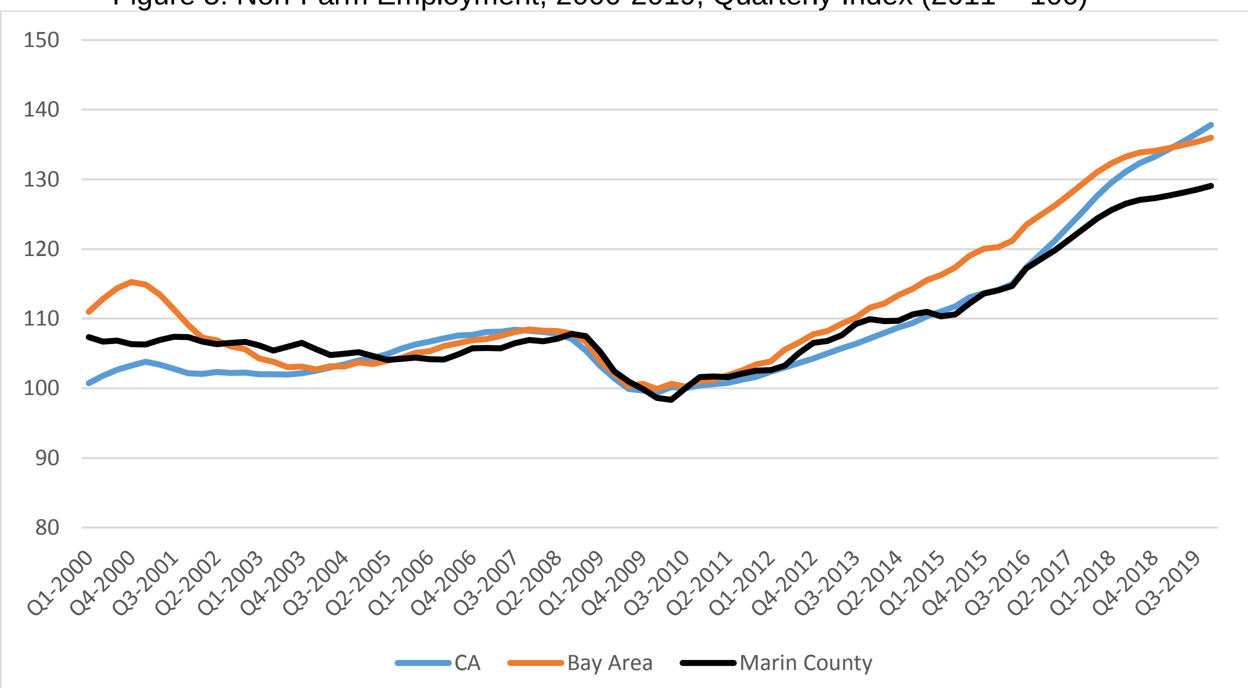
Figures 4 and 5 show unemployment rates and employment in payroll jobs for Marin County, San Francisco County and California overall. Ultimately, growth in retail sales and labor demand drives cost of living dynamics.

Figure 4: Unemployment Rates (%), Marin and Selected Counties: Aug 2010–2019

County	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**
San Mateo	8.4	8.4	6.5	5.3	4.4	3.4	**3.2**	3.3	3.4	3.6
Marin	**7.9**	**7.9**	**6.4**	**5.2**	**4.4**	**3.6**	**3.3**	**3.4**	**3.5**	**3.8**
San Francisco	9.0	9.0	6.9	5.5	4.5	3.6	**3.5**	3.3	3.5	3.7
Santa Clara	10.4	10.4	8.0	6.5	5.3	4.1	**4.0**	3.8	3.6	3.5
Napa	9.8	9.8	8.0	6.5	5.4	4.2	**4.1**	3.9	3.8	3.9
Sonoma	10.9	10.9	8.8	6.9	5.6	4.4	**4.1**	3.9	4.0	4.1
Orange	9.9	9.9	8.1	6.7	5.8	4.6	**4.4**	4.2	4.0	3.9
Alameda	11.2	11.2	8.9	7.3	6.1	4.8	**4.6**	4.4	4.2	4.1
San Luis Obispo	10.2	10.2	8.3	7.0	5.9	4.7	**4.6**	4.4	4.2	4.1
Contra Costa	11.2	11.2	9.1	7.5	6.4	5.0	**4.7**	4.5	4.3	4.2
California	**12.1**	**11.6**	**10.3**	**8.8**	**7.5**	**6.3**	**5.3**	**5.2**	**5.1**	**5.0**

Sources: CA Employment Development Department and Marin Economic Forum

Figure 5: Non-Farm Employment, 2000-2019, Quarterly Index (2011 = 100)



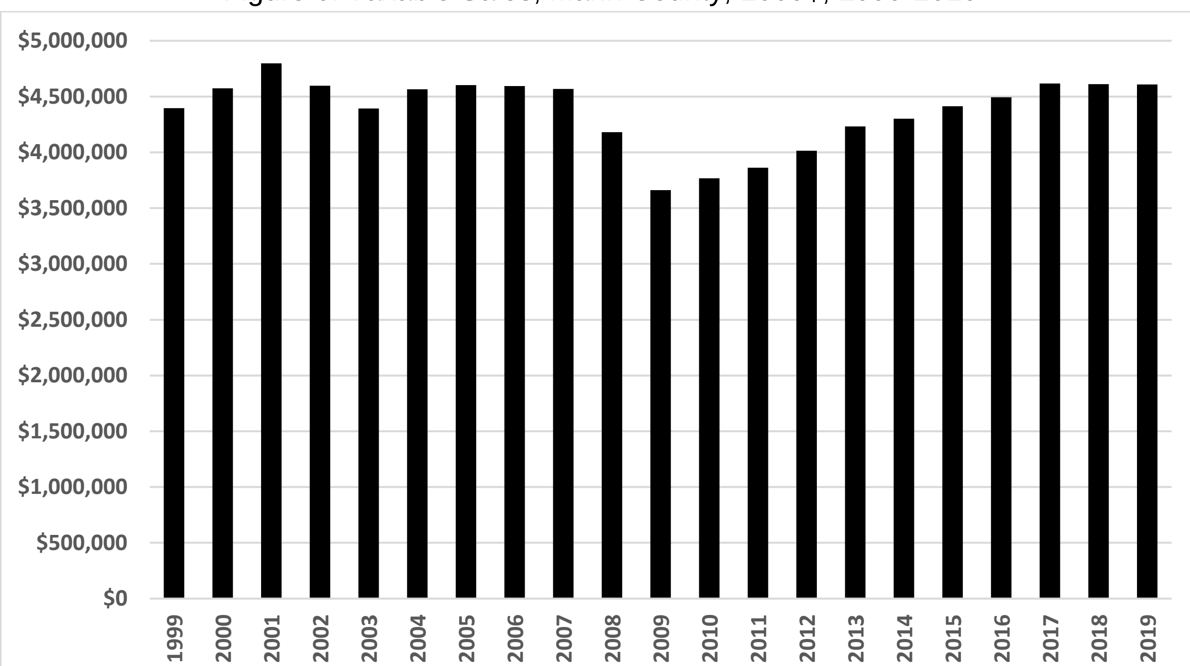
Sources: CA Employment Development Department, California Department of Finance and Marin Economic Forum

Notice that both Figures 4 and 5 suggest continued labor market growth local and regionally. Marin County employment is rising in stride with the Bay Area and California, shown in Figure 5. It is likely to taper off a bit as Marin County shows more signs of full employment. Because Marin County is part of a regional economy that moves based on national and state economy changes, the outlook through 2019 is positive for Marin County.[2] San Mateo, San Francisco and Marin counties have all recovered and emerged more quickly than California on average. Solano County moves much like California overall.

The assumptions made here include the likelihood of continued economic growth in the Bay Area and California economies overall. For Marin County, the issues of relatively high costs of living, workers who commute long distances to work and how to provide opportunities for business growth likely dominate the list of future challenges. Concerns over wages and how businesses may react to the beginning of our minimum wage experiment in California are also topics for 2017 and beyond.

There is unlikely any effects directly on Marin County's wage distribution in 2017, but wage compression may come and affect the median wage levels in ways that are not representing a change in productivity versus what the market is now paying. Of course, the argument for minimum wages rising is to relieve real wage suppression due to high cost of living locally and also to reward productivity that employers have suppressed for some time. The price of these new wages may be lost jobs. Figure 6 compares median wage levels as of 2016 quarter 1 across major occupational categories and selected areas.

Figure 6: Taxable Sales, Marin County, 2009$, 1999-2019



Sources: California Board of Equalization https://www.boe.ca.gov/news/tsalescont.htm) and Marin Economic Forum

[2] See the "Marin County Economic Dashboard" on page 5 of this report.

Taxable sales are a simple way to follow local consumption patterns with one caveat. That caveat is tourism. Generally, taxable sales data follow local personal income data; residents are the dominant local customer for retailers. However, in some communities (Napa County may be considered one of them as an example), the flow of tourism generates taxable sales beyond the local populace. Marin County has seen a steady progression upward since 2010, an average of 5.8 percent growth per year before an inflation adjustment.

Wage Comparisons

Looking at recent wage data provides some perspective on how Marin County competes in regional labor markets and also what specific types of occupations pay at the median level. Figure 7 provides data as of 2016, quarter 1.

Figure 7: Wage Comparisons 2016Q1,
Marin County, Selected Counties and California, Median Wage Levels ($)

Category	Marin County	CA	Alameda/ Contra Costa	Solano	Napa	San Francisco	Santa Clara	Sonoma
All Occupations	**$22.94**	$19.49	$23.15	$19.24	$18.35	$26.81	$28.83	$18.93
Management	**$59.03**	$54.33	$59.20	$47.20	$49.02	$69.46	$76.63	$47.04
Business/Financial Operations	**$42.38**	$35.92	$38.71	$34.31	$34.79	$43.13	$45.10	$32.50
Computer and Mathematical	**$52.64**	$48.21	$50.28	$41.01	$37.42	$53.56	$61.28	$42.09
Architecture and Engineering	**$36.28**	$45.20	$46.32	$41.79	$39.29	$48.41	$54.96	$42.41
Life, Physical, and Social Science	**$36.40**	$36.26	$40.45	$40.09	$39.24	$45.95	$38.74	$35.09
Community and Social Services	**$21.60**	$23.13	$24.51	$24.53	$25.13	$23.54	$24.12	$23.09
Legal	**$90.00**	$49.58	$49.09	$44.85	$37.31	$62.73	$66.64	$33.75
Education, Training, and Library	**$28.72**	$25.83	$26.33	$25.32	$25.16	$27.50	$28.41	$22.04
Arts, Entertainment, Sports, and Media	**$28.68**	$27.30	$23.11	$19.33	$23.15	$32.34	$30.59	$24.89
Healthcare Practitioners and Technical	**$45.45**	$41.12	$50.72	$50.82	$43.40	$53.98	$51.57	$35.69
Healthcare Support	**$18.81**	$15.87	$18.36	$16.88	$16.93	$18.71	$18.37	$17.65
Protective Service	**$37.17**	$20.62	$19.29	$37.20	$19.70	$21.13	$19.20	$18.59
Food Prep and Serving-Related	**$12.16**	$10.70	$10.90	$10.34	$12.06	$12.68	$11.46	$11.41
Building/Grounds Maintenance	**$15.46**	$12.95	$15.13	$13.90	$13.33	$15.00	$13.08	$14.03
Personal Care and Service	**$14.74**	$11.42	$12.03	$10.46	$11.81	$14.13	$12.34	$12.71
Sales and Related	**$17.91**	$13.81	$15.07	$11.96	$16.26	$18.32	$17.19	$14.31
Office/Administrative Support	**$21.56**	$18.17	$20.49	$18.57	$18.50	$22.48	$21.89	$18.77
Farming, Fishing, and Forestry	**$16.63**	$9.67	$12.67	$9.79	$12.40	$14.84	$10.58	$12.07
Construction and Extraction	**$29.74**	$25.00	$29.17	$26.67	$27.03	$31.14	$28.44	$27.67
Installation, Maintenance, Repair	**$27.00**	$22.84	$26.18	$23.81	$23.74	$28.77	$26.19	$23.90
Production	**$17.75**	$14.70	$17.25	$16.81	$18.32	$18.12	$17.65	$16.36
Transportation and Moving	**$18.64**	$14.47	$17.98	$14.47	$14.54	$17.17	$15.49	$15.10

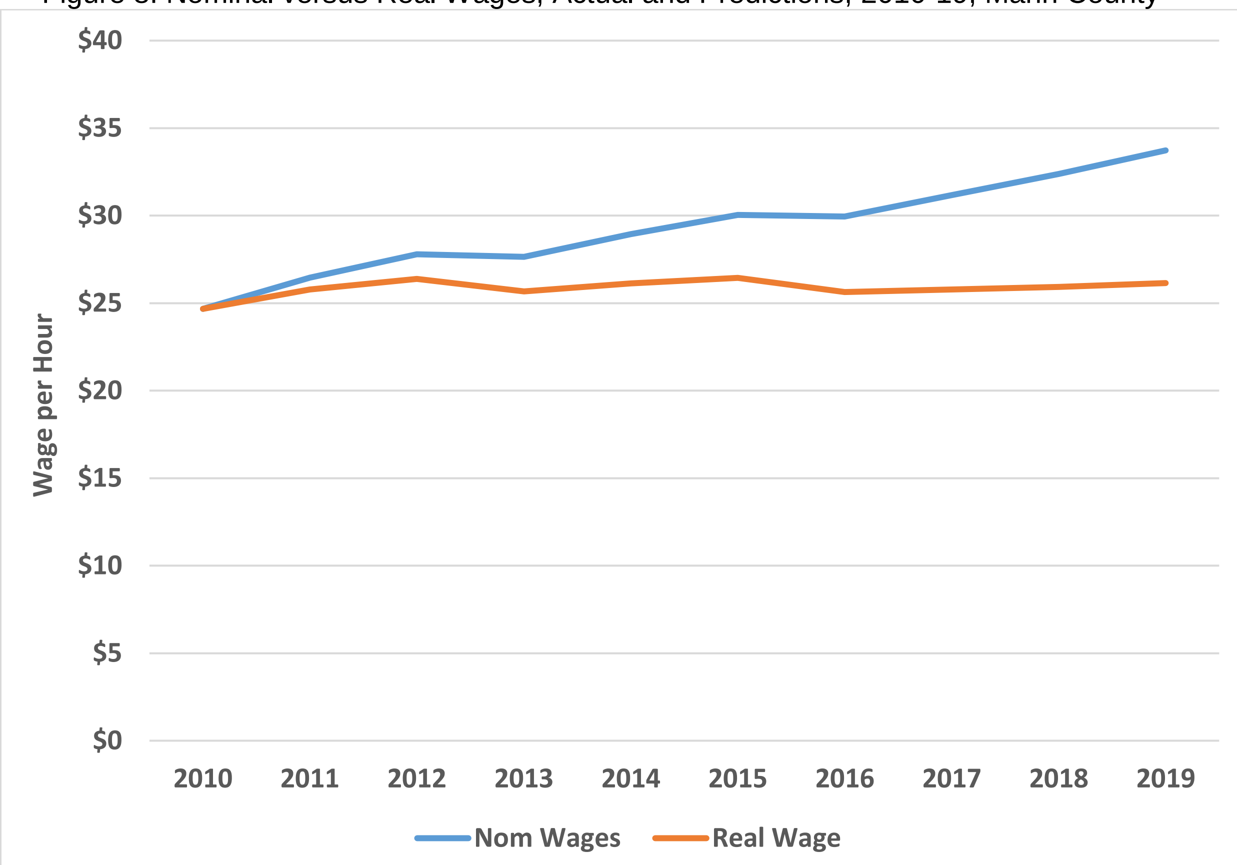
Source: California EDD (http://www.labormarketinfo.edd.ca.gov/data/oes-employment-and-wages.html#OES)

Some quick observations come from Figure 7. For Marin County, notice that almost all occupations pay more than the state at the median wage level. Not all are larger; community and social services pay less than the state, as does architecture and engineering. We expect with the cost of housing difference between Marin County and the state on average, wages would mirror such a difference in the least.

Regionally, Marin County is not a wage leader; this implies the commute patterns we experience. Notice that in many occupations, San Francisco exceeds Marin County on median wage. Occupations like police and fire are an exception, which is likely due to lower-wage security jobs in San Francisco versus Marin County.

Real wages are the metric upon which labor market decisions are made. If we look at the progression of wages over time in Marin County in Figure 8, we see that since 2010, the gap between nominal wages (what workers are paid on their paycheck) and real wages (the inflation-adjusted, purchasing power retained from that nominal payment) has grown. This is using the California Department of Finance reporting on prices for the San Francisco metropolitan statistical area (MSA), of which Marin County remains, to adjust nominal wages to real.

Figure 8: Nominal versus Real Wages, Actual and Predictions, 2010-19, Marin County



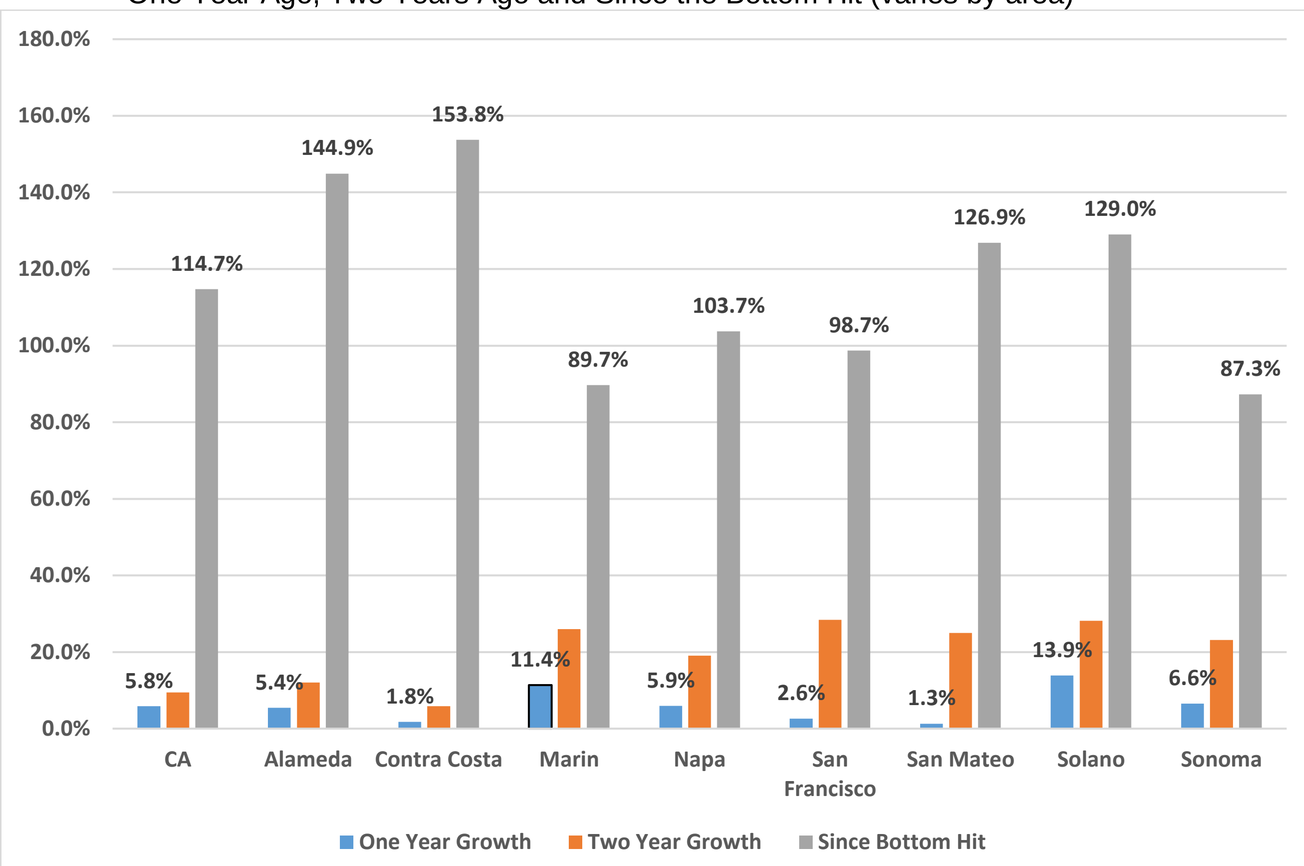
Sources: California EDD (http://www.labormarketinfo.edd.ca.gov/data/oes-employment-and-wages.html#OES) and California Department of Finance and MEF

The forecast is for faster inflation toward 2019, thus a flattening of real wages. With minimum wage hikes coming, there may be some relief for lower-wage workers; however, the minimum wage hike likely has the effect of increasing prices further in California, especially in more affluent areas where the ability to pay for slightly higher-priced goods and services exists (a lower elasticity of demand). We are entering a great wage experiment California due to Senate Bill 3 passed in April 2016. The cost of housing and quick, parallel rise of rental prices were initial arguments for the minimum wage to rise faster.

Real Estate and Financial Markets

Marin County housing prices continue to increase in the face of regional demand and low inventories. According to the California Association of REALTORS®, Marin County's median home price for a single-family home was approximately $1.087 million in August 2016, up over 11 percent from 2015. With continued low interest rates, the threat of interest rates rising soon, and a continued lack of inventory across the Bay Area, Marin County is a microcosm of what remains a tight housing market with excess demand.

Figure 9: Median Home Price Growth (%), Single-Family Residential Real Estate One Year Ago, Two Years Ago and Since the Bottom Hit (varies by area)



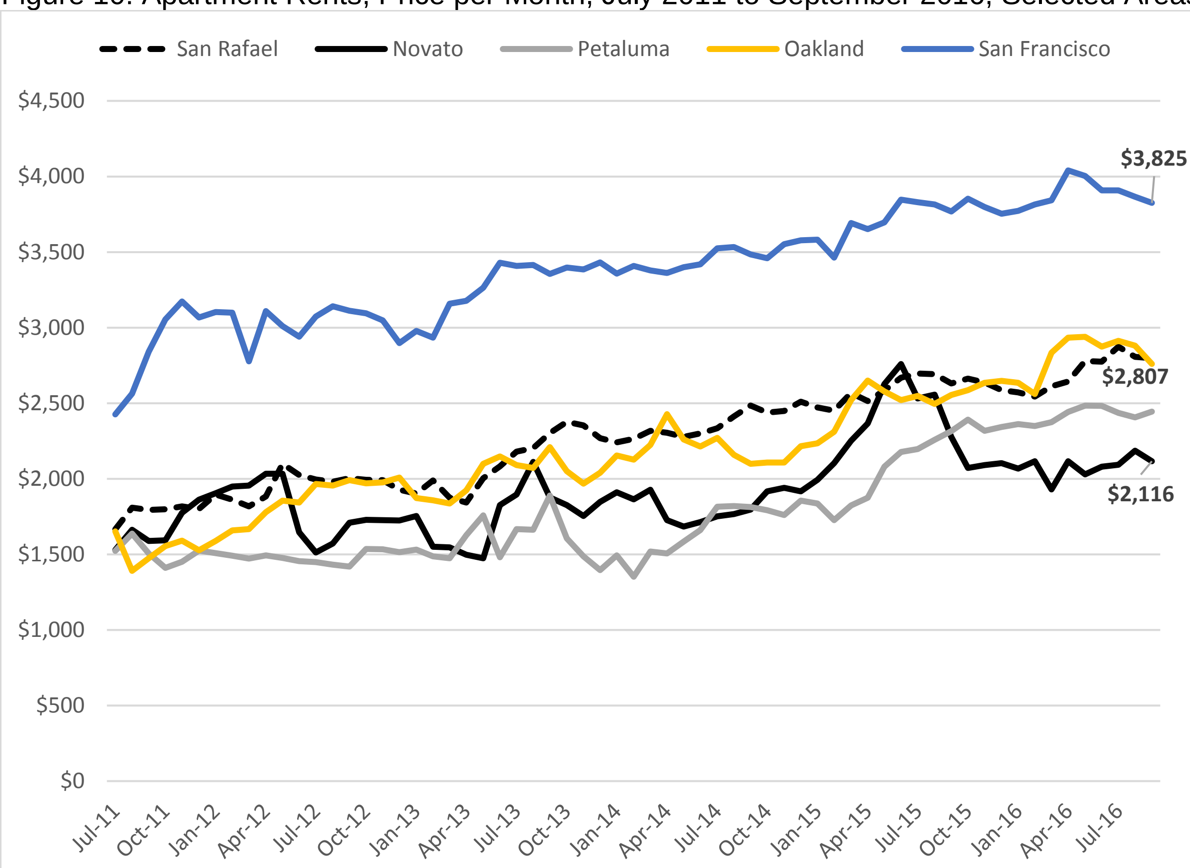
Source: California Association of REALTORS®

The residential market in 2013 saw prices rise quickly back toward 2007 levels; housing prices during 2016 continued to grow have now closed in on a "full" housing recovery: the inflation-adjusted price of housing is now close to the pre-recession level (100 percent or more "since the bottom hit"). Continued job growth throughout the Bay Area is driving housing demand in Marin County; as housing prices rise, wealth more than income begins to the major reason for continued growth of housing prices.

The short-term future of residential real estate prices depends on how interest rates adjust to any central banking decisions and global growth, but also to local supply conditions. Rental markets are in similar conditions to homes for purchase. A lack of inventory in rental housing also continues to support relatively high prices regionally. The longer-term depends on jobs and population growth and demographic shifts in demand for the housing stock available.

Apartment rents have slowly climbed due to a lack of new housing built and rising demand. San Francisco has separated itself greatly in these data. San Rafael and Oakland, places that provide housing for the Bay Area's workforce, have similar rents, and Petaluma is rising also. Novato has seen a bit of a decrease in rents since late 2015. Figure 10 provides comparison shows the separation in San Francisco from other parts of the Bay Area. Rents in San Francisco for one and two bedroom apartments are $3,825 on average; San Rafael and Novato are $2,800 and $2,110 on average respectively.

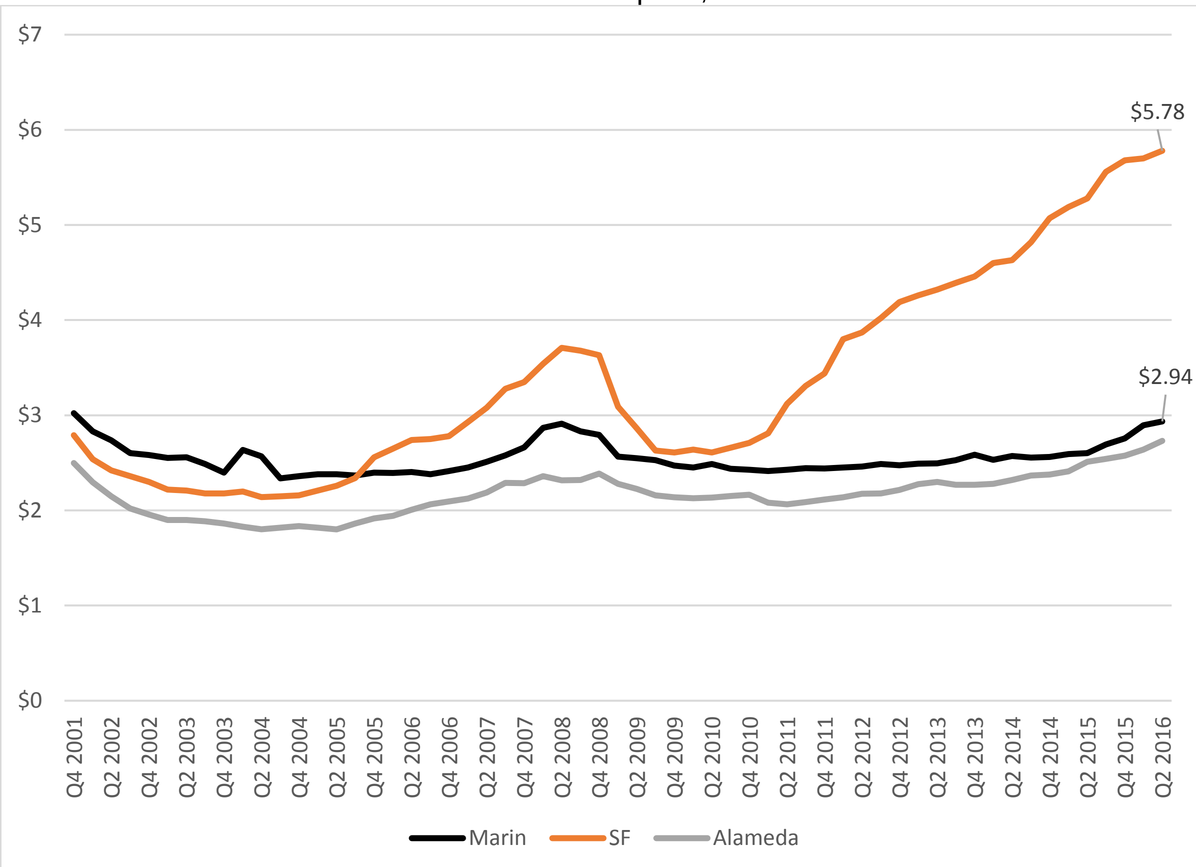
Figure 10: Apartment Rents, Price per Month, July 2011 to September 2016, Selected Areas



Sources: RentJungle.com and Marin Economic Forum

Commercial real estate continues its recovery throughout the Bay Area, specifically in San Francisco (see Figure 11). Available office space in San Francisco has now become smaller in volume and choice. Office rents are rising throughout the region, with a slower pace of growth in northern versus southern Marin County. Office space remains plentiful in the region overall; rents are not moving with vacancy rates as in the past.

Figure 11: Commercial Real Estate Pricing Comparison, Price per Square Foot ($)
Class A and B Office Space, 2002–2016



Sources: Cushman/Wakefield Commercial and Marin Economic Forum

Lease rates average approximately $**2.95** per square foot for Class A space, and $**2.94** for Class A and B combined. They are close due to the lack of Class A space available and the demand for Class B has gone up. Figure 11 provides a comparison of Marin County and San Francisco County in terms of commercial lease rates.

The placement of both new commercial and residential units in Marin County has continued to be a controversial subject for elected officials and local residents and employers. Issues of drought, traffic and other socioeconomic and environmental issues are part of all these local decisions.

The housing issues in Marin County are not unique. Many of the Bay Area's communities are struggling with housing their workforce, commuting, and the availability of labor. The future growth of the regional population likely exacerbates these issues. The combination of these three issues is where regional economics meets social and environmental concerns within community development.

Social Issues and Environmental Balance

Figure 12: Social Indicators Comparison Table, 2005, 2010 and 2015, Marin County

Metric	2005	2010	2015
Median Household Income ($)	$78,919	$83,867	$100,662
Median Age (years)	43.6	44.3	46.1
% of Population under 18 years old	20.4	20.7	20.5
% of Population between 18 and 64	64,2	62.3	59.3
% of Population 65 and above	15.4	17.0	20.2
% of Household with more than $200,000 annual income	15.4	17.2	22.2

Source: Census Bureau, American Community Survey (2009, 2010, 2015), factfinder.census.gov

Marin Economic Forum is watching two major issues for Marin County as 2016 closes and we start to look at 2017. The first is the coming of new minimum wage legislation that is statewide. Because Marin County does not measure its cost of living directly, MEF watches local rental prices, housing prices, and the Bay Area reports on goods prices (the consumer price index) for changes. Second is the legalization of cannabis for recreational use and how that may affect commercial space and land use. The effects may initially be large and quick, with some market settling after supply and demand conditions are revealed. Both of these issues present no easy answers, some tough questions, and considerations about the way in which residents, governments and businesses all interact in the face of economic incentives to generate profit opposed to social incentives to preserve resources.

The minimum wage legislation was something Marin County considers previous to Senate Bill 3 passing in April 2016. This was due to local costs of living rising faster than wages. Commute patterns suggest that Marin County provides low-wage jobs for the entire region, as there is a large amount of inbound commuting to Marin County; many Marin County residents leave each day to jobs in the Bay Area and the numbers are close (67,500 inbound to about 63,000 outbound as of 2014). Observing US 101 daily tells the story; many people come from Sonoma, Napa, and Solano counties to work in Marin, San Francisco and San Mateo counties. Wages and commute patterns are linked and should slowly balance out over time **if** housing is available where wages are rising.

The potential legalization of cannabis for recreational use (Prop 64) is on the November ballot and is polling to pass as of October 2016. The effects of that proposition passing are likely transformative in the short-term. Current discussions about water, land use, commercial space, retail space, public safety costs versus tax revenues, and other socioeconomic and environmental issues lead to a fascinating set of possibilities.

It is important that public policy makers shape these outcomes as the progression is likely to be entrepreneurial at first, a glut of production next, and then a sifting of the more serious businesses toward long-term stability. This will be true along the cannabis supply chain; cannabis should be treated is an agriculturally-based business that has some non-durable manufacturing components, including wholesale, logistics and retail. Marin County needs to watch and shape the outcomes closely.

Conclusions and Forecast for Marin County

The Marin County economy is expanding and at full employment, washing most of the Great Recession's effects away. Local costs of living are outpacing the state and national inflation rates, housing and rental prices have increased due to both rising incomes and home prices, employment growth and new businesses are positive outcomes of this growing economy. Traffic, housing density and resource constraints are now more challenging.

Employment growth continues, mainly in service-oriented industries. More than 300 new payroll businesses started in Marin County in net. Personal income growth in Marin County is likely to be slower in real terms (inflation- adjusted) than in California overall, because growth is slowly moving toward lower-income areas of the state and inflation is rising more quickly in Marin County and the Bay Area. Marin County continues to have the highest, personal income per capita in the state of California.

Real estate markets saw higher-than-forecasted growth in 2016. Residential real estate for sale is low in inventory and has increased demand for rentals, which have followed Bay Area markets (rumors run around that rentals in San Francisco are over $4,500 per month for a two-bedroom apartment), where the county average for a 2-bedroom apartment is closing in on $3,000/month for rent.

In Marin County, commercial real estate vacancies continue to be filled, but not at the pace of San Francisco. San Francisco County is currently in a commercial real estate boom. In Marin County, office vacancies remain slightly above 9 percent, but demand is rising for larger spaces and tenants. Rents in Marin County have been slow to react; 2016 is a year when commercial rents began to rise more quickly since 2010.

MEF provides overviews of the state and national economies which suggest that 2017 will be yet another year of slow economic growth. Like the California economy, Marin County's income and employment and housing markets are all forecasted to grow, with the costs of rising goods and housing prices, higher traffic levels (hopefully alleviated by the SMART rail system starting in 2017), and continued concerns over social and environmental issues.

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