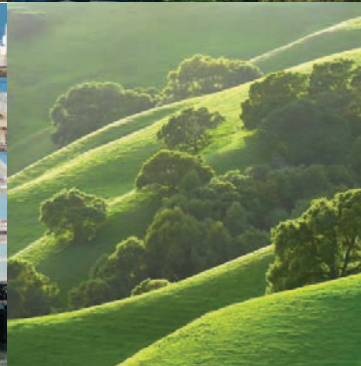
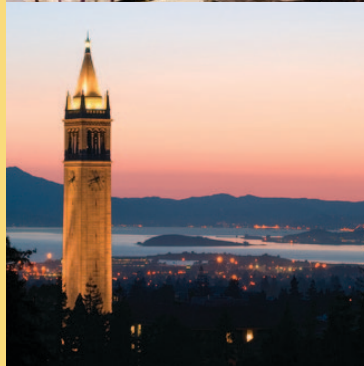


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East Bay ECONOMIC OUTLOOK



2013
MAY



ABOUT THIS REPORT

The **East Bay Economic Development Alliance** (East Bay EDA) is a public/private partnership serving the San Francisco East Bay (Alameda and Contra Costa Counties) whose mission is to establish the East Bay as a world-recognized location to grow businesses, attract capital and create quality jobs.

One of East Bay EDA's core strategies is to provide valuable information about the trends impacting the East Bay economy. Each year we produce an Annual Economic Outlook which is both a forecast and summary of key economic indicators for the East Bay as it compares to the region, the state of California, and the United States as a whole. This year, East Bay EDA and its partners commissioned a companion report entitled, *Special Report on the East Bay Workforce*. The reports utilize the same definitions of the key industry sectors that drive the regional economy.

To see all of East Bay EDA's reports and economic forecasts, please visit:
http://eastbayeda.org/research_facts_figures/reports_studies.htm.

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EAST BAY ECONOMIC OUTLOOK 2013

MAY

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EXECUTIVE SUMMARY



As the economic recovery continues in the East Bay, key indicators such as employment are showing steady growth. **We expect that employment will continue to grow steadily in the future**, as consumer spending and hiring have improved throughout the rest of country. The East Bay, whose economic recovery had lagged behind that of San Francisco and the South Bay in recent years, will continue catching up to those regions.

A much more **rapid recovery is underway in the housing market**. A rapid decrease in the number of lower-value distressed properties on the market has contributed to a substantial increase in home prices in the East Bay, and as home inventories remain very low by historical standards, we expect home prices to continue to rise quickly in the coming year. An increase in supply, caused by a substantial increase in residential construction, will mitigate growth in prices over time, but the impact of this new construction will not be significant in the short term.

The East Bay is one of the country's greenest regions, and despite a slowdown in venture capital funding for the region's cleantech industry, as shown below, **data suggest that the East Bay continues to serve as a hub for renewable energy investment**. The recognition East Bay firms receive each year for innovation, including over \$20 million in Small Business Innovation Research (SBIR) awards every year from 2005 to 2011, shows that the East Bay continues to serve as a national hub for entrepreneurship.

Biotechnology is expected to be one of the fastest-growing subsectors of the East Bay economy over the next several years. Biotechnology was already one of the East Bay's highest-funded subsectors in 2011, but the subsector's venture capital funding increased by over one-half in 2012, even as it decreased by double-digits in California and nationwide. The East Bay Biomedical Manufacturing industry cluster will benefit significantly from these high-and-growing levels of Biotechnology funding: the cluster is expected to grow by over 13% from 2012 to 2017.

The outlook for the East Bay economy remains very positive. Businesses in most sectors of the region's economy are continually creating new jobs, increasingly innovating, and employing more and more productive employees. At the same time, consumers are spending more in the East Bay than at any point since the onset of the recession. We expect this pattern of economic growth to continue in the coming years.

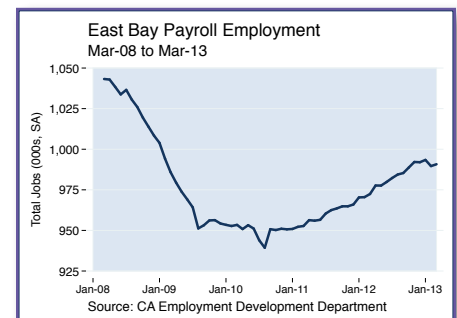
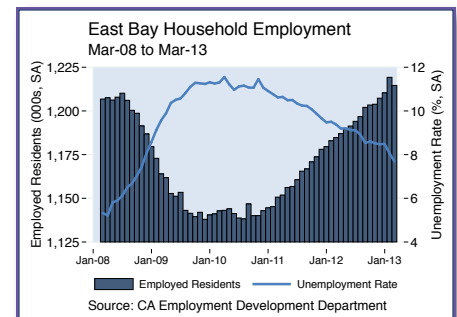
GROWTH AND PRODUCTIVITY IN EAST BAY ECONOMIC SECTORS

Employment has steadily grown in the East Bay since mid-2010, as East Bay businesses hire more employees almost every month, and as more and more East Bay residents find work in the East Bay and elsewhere. Indeed, the total number of employed residents in the East Bay on a seasonally adjusted basis (household employment) has increased in almost every month since December 2010. Total household employment in the East Bay increased 2.5% from March 2012 to March 2013, while the unemployment rate fell from 9.4% to 7.7%, which is slightly faster than the decline in the state unemployment rate in that time: from 10.7% to 9.4%. Note that the dropoff of 5,000 jobs from February to March follows a steep increase from January to February. The disparity more likely reflects a statistical anomaly in surveying by the Bureau of Labor Statistics, and it will likely be adjusted in the revision process.

East Bay residents are finding work at a faster pace than East Bay businesses are adding new workers. The total number of workers employed by East Bay businesses (payroll employment) has increased by 1.9% year over year on a seasonally adjusted basis, and it remains well below early-2008 levels, after which job growth plummeted due to the economic recession. In March 2008, East Bay businesses employed approximately 1,050,000 workers, compared to 989,000 jobs in March 2013. Nonetheless, the trend has been moving gradually upward.

Lower-skilled employment sectors have seen some of the biggest job growth in the East Bay in recent years. Some of these sectors, such as Administrative Support and Leisure & Hospitality, employ many part-time and temporary workers. Even as the economy of the East Bay has improved, many firms have been reluctant to add permanent, full-time employees to their payrolls, and thus job growth in sectors such as Financial Activities (-0.7% year over year) and Information (-3.1% year over year) have been slow or negative, while job growth in sectors such as Administrative Support, which includes temporary employees, has been very strong (4.4% year over year). Note, though, that employment in the Professional sector has been very strong since early 2011. This sector, which includes scientific and technical occupations such as research, is one of the East Bay's strengths relative to other regions, and its strong growth during the economic recovery is a reason to be optimistic about the health of the East Bay economy in years to come. Jobs in this sector will be key as the economy transitions toward more higher-skill, higher-tech business in the future.

As shown below, the housing market is rebounding quickly, with steep increases in home prices and new construction in 2012. Employment in the Construction sector is increasing quickly, in turn, up 9.9% from March 2012 to March 2013. As firms have begun to ramp up construction, labor demand is increasing rapidly as a result.



RECENT TRENDS



Beacon Economics forecasts that East Bay employment will grow at a slightly lower rate over the course of 2013 than in 2012. Employment growth has stayed consistent at approximately 2% per year over the past two years, yet lingering uncertainty regarding federal budget policy and its impact on business and consumers, as well as some minor effects of sequestration on incomes and spending, could impact employment growth slightly. Beacon Economics forecasts a 1.2% increase in employment among East Bay businesses by the fourth quarter of 2013 (1.7% by the first quarter of next year). Construction employment growth will help. With residential construction surging, as shown

below, and home prices continuing to rise, the Construction sector is expected to be one of the fastest growing sectors over time, including 2.0% growth by the end of 2013. Impacted significantly by this surge in Construction, as well as growth in wholesale and retail trade, **the Manufacturing sector is expected change its prior course and show positive growth of 1.9% in 2013.**

By the end of 2013, federal budget concerns are expected to have largely subsided, and with the recovery of the housing market continuing in full swing, employment growth over the course of 2014 and after should be roughly equivalent to levels of 2012. Employment is expected to grow 2.1% from the fourth quarter of 2013 to the fourth quarter of 2014, or 3.3% over current levels, to 1,022,000 jobs. The Management and Professional sectors, which have already shown solid growth throughout the economic recovery, will continue to lead the recovery among higher-skilled employment sectors. By the end of 2014, employment in these sectors is expected to rise by 3.5% over current levels. This should come as a benefit to advanced manufacturing in the East Bay, which, as the *Special Report on the East Bay Workforce* will show, is a crucial employment cluster in the region.

These short-run growth rates are forecast to continue in the long run. The rebound of the housing market will come as a boon to a Construction sector that lost 40% of its jobs during the recession. By the fourth quarter

East Bay Employment by Sector

Sector	Mar-13 Employment (000s)	Mar-12 Employment (000s)	(% Chg)	Mar-11 Employment (000s)	(% Chg)
Total Farm	1.4	1.4	-0.5	1.4	1.7
Total Nonfarm	989.3	971.0	1.9	951.3	4.0
Total Private	828.1	809.0	2.4	785.7	5.4
Construction	55.2	50.2	9.9	45.7	20.7
Professional	90.7	85.0	6.7	81.3	11.6
Educational Services	22.1	21.0	5.2	20.5	7.7
Admin Support	53.2	51.0	4.4	48.3	10.1
Leisure/Hospitality	94.6	90.6	4.4	87.8	7.7
Management	27.3	26.4	3.4	26.1	4.4
Wholesale Trade	43.9	42.8	2.7	41.8	5.2
Health Care and Social Assistance	119.6	118.5	0.9	116.0	3.2
Trans/Warehouse/Util	33.3	33.0	0.9	31.3	6.3
Retail Trade	103.0	102.3	0.6	100.2	2.8
Natural Resources/Mining	1.2	1.2	-0.4	1.2	-0.5
Financial Activities	48.2	48.6	-0.7	47.3	2.0
Other Services	35.7	36.3	-1.4	35.3	1.1
Manufacturing	78.8	80.3	-1.8	80.1	-1.6
Information	21.2	21.9	-3.1	22.8	-6.7
Government	161.2	162.0	-0.5	165.6	-2.6

Source: California Employment Development Department
Statistics have been rounded to the nearest hundred jobs.

of 2018, the Construction sector is forecast to grow 36.1% over current levels, to 75,000 jobs. As economic growth persists over time and firms become more confident about the long-run health of the economy, higher-skilled sectors will begin to take on more permanent employees at a faster rate. The result is that by the end of 2018, many higher-skilled sectors are expected to have matched, or surpassed, the overall rates of growth in lower-wage sectors.

The Education and Healthcare sectors have over the past several years, bolstered by a strong Health Care sector that continued to add new jobs even amid the Great Recession. Over the last five years, in both sectors employment has increased by 11.2%. As the Health Care and Social Assistance sector did not face the cutbacks other sectors faced during the recession, firms in this sector are not expected to rapidly increase their labor force, as compared to the Construction sector, for example. **Rather, the sector is expected to grow at a slightly lower, steadier pace, consistent with population growth in the East Bay and the strength of the sector not only in the East Bay but throughout California.** Together, the Education and Health Services sectors are forecast to grow by approximately 9.0% over current levels (1% to 1.5% growth per year) by the end of 2018, surpassing 150,000 jobs by the first quarter of 2018.

Firms continue to gain more output from each worker every year in the San Francisco MSA, which includes the East Bay. Worker productivity

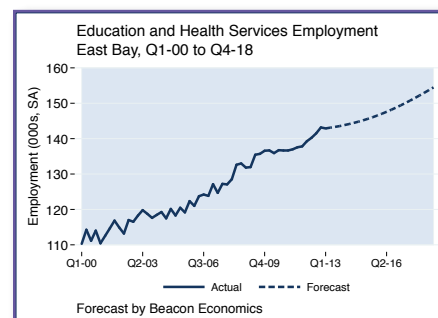
East Bay Employment Forecast by Sector

Sector	Current (000s)	Q4-2013 (000s)	Chg (%)	Q4-2014 (000s)	Chg (%)	Q4-2015 (000s)	Chg (%)	Q4-2018 (000s)	Chg (%)
Total Nonfarm	989.3	1,001.0	1.2	1,021.9	3.3	1,051.5	6.3	1,127.3	13.9
Total Private	828.1	837.3	1.1	856.5	3.4	883.9	6.7	953.4	15.1
Unemployment Rate (pp)	7.7	7.5	-0.2	7.3	-0.4	6.4	-1.3	5.5	-2.2
Government	161.2	163.7	1.6	165.4	2.6	167.6	4.0	173.9	7.9
Education/Health	141.7	143.5	1.3	144.8	2.2	146.5	3.4	154.5	9.0
Management/Professional	118.0	118.6	0.5	122.1	3.5	127.3	7.9	144.3	22.3
Retail Trade	103.0	105.2	2.1	107.6	4.5	110.7	7.5	117.3	13.9
Leisure/Hospitality	94.6	94.7	0.1	94.8	0.2	96.9	2.4	102.9	8.8
Manufacturing	78.8	80.3	1.9	81.0	2.8	82.5	4.7	85.7	8.8
Construction	55.2	56.3	2.0	60.2	9.1	65.3	18.3	75.1	36.1
Admin Support	53.2	54.1	1.7	56.4	6.0	59.6	12.0	65.7	23.5
Financial Activities	48.2	49.1	1.9	50.5	4.8	52.4	8.7	56.4	17.0
Wholesale Trade	43.9	44.4	1.1	45.5	3.6	46.7	6.4	49.2	12.1
Other Services	35.7	35.7	0.0	36.3	1.7	37.3	4.5	40.1	12.3
Trans/Warehouse/Util	33.3	33.6	0.9	33.8	1.5	34.3	3.0	35.7	7.2
Information	21.1	21.6	1.9	22.2	4.7	23.0	8.5	24.8	17.0
Natural Resources/Mining	1.2	1.2	0.0	1.3	8.3	1.4	16.7	1.5	25.0

Calculations by Beacon Economics

among all sectors increased by 10.4% from 2008 to 2011, from \$164,000 per worker to \$181,000 per worker.

By comparison, worker productivity in the state overall increased by 9.9% over the same time period, from \$127,000 per worker to \$139,000 per worker. One might suspect that as firms add new employees, productivity growth might slow down. Firms may have maximized employee efficiency amid the economic downturn, as substantial employment cutbacks forced these firms to become much leaner. The increase in productivity since 2008, and especially from 2010 to 2011, suggests otherwise. Indeed, even as total employment in the region increased over the course of 2011, productivity increased as well. Workers in the region were more efficient than at any point in the economic recovery.



Indeed, even as total employment in the region increased over the course of 2011, productivity increased as well. Workers in the region were more efficient than at any point in the economic recovery.

RECENT TRENDS



San Francisco MSA Worker Productivity by Sector
(Productivity = Output/Workers)

Sector	2011 (\$ 000s)	2010 (\$ 000s)	One-Year Change (%)	2008 (\$ 000s)	Three-Year Change (%)
Total All Industries	181.0	174.8	3.6	164.0	10.4
Private Industries	196.2	188.9	3.9	177.9	10.3
Natural Resources/Mining	2,484.9	1,508.7	64.7		
Financial Activities	660.5	656.1	0.7	572.2	15.4
Manufacturing	407.0	362.1	12.4	371.3	9.6
Information	318.1	297.5	6.9	263.6	20.7
Professional	215.2	206.4	4.3	200.4	7.3
Wholesale Trade	208.8	198.9	5.0		
Trans/Warehouse/Util	192.5	199.8	-3.6		
Management	190.7	174.3	9.4	170.4	11.9
Construction	122.0	119.7	1.9	111.3	9.6
Other Services	100.4	98.9	1.6	91.4	9.9
Educational Services	64.7	60.5	7.1	57.8	12.0
Health Care and Social Assistance	102.8	102.4	0.4	89.5	14.9
Retail Trade	92.7	89.8	3.2	80.1	15.7
Leisure/Hospitality	60.0	57.7	4.0	54.1	10.8
Admin Support		77.1		70.5	
Government	98.4	98.1	0.3	88.9	10.6

Sources: U.S. Bureau of Economic Analysis; CA Employment Development Department
Empty cells represent missing values in U.S. BEA statistics.

East Bay Cleantech Funding (\$ Millions)

Cleantech Segment	2011	2012
Advanced Materials	20.1	24.9
Agriculture & Forestry		4.0
Biofuels & Biochemicals	3.0	
Energy Efficiency	3.5	11.8
Energy Storage	11.0	
Recycling & Waste	189.7	
Smart Grid		3.0
Solar	304.0	136.8
Water & Wastewater		1.0
Total	531.3	181.5

Source: MoneyTree
Segments as defined by Cleantech Group.

In general, the region's labor-intensive sectors such as Leisure/Hospitality tend to generate lower work productivity than sectors with fewer workers, such as Natural Resources/Mining. **The Manufacturing sector is a notable exception, with very high productivity at \$407,000 per worker.** The integration of advanced technology into the manufacturing process has made the Manufacturing sector extremely efficient. Productivity will likely increase even faster in the coming years, as advanced manufacturing, which includes auto manufacturing and semiconductor manufacturing, among other highly technical manufacturing subsectors, continues to grow as a proportion of total manufacturing in the region.

Many of the region's most productive sectors offer the highest average wages. As sectors such as Manufacturing and the Professional

sector—which includes subsectors such as computer design and engineering services—become increasingly specialized over time, firms in those sectors require workers with more specialized skills, which command higher wages. Wage growth from 2006 to 2011 was above average in these sectors. Indeed, in general, higher-wage, higher-skilled sectors showed some of the fastest wage growth in the region in this period.

Venture capital funding decreased in 2012 in the Bay Area overall, but most of all in the East Bay, with a 37.1% dropoff in total funding year over year. By comparison, venture capital funding decreased by 4.3% in California and 10.0% in the United States overall. Industrial Energy suffered the most precipitous decrease in funding, from \$531.3 million in 2011 to \$181.5 million in 2012. This reflects a substantial pullback in

funding for cleantech, for which the East Bay serves as one of the nation's most important hubs. BrightSource Energy, a solar thermal power plant producer, received \$201.7 million in venture capital funding in 2011, but received \$83.6 million in 2012, while Fulcrum Bioenergy, a firm that recycles waste into low-carbon transportation fuel, received \$175.1 million in 2011, but no new venture capital funding in 2012.

Yet, funding decreased steeply in nearly every sector. Software, the second highest funded sector in 2011, reached only 51.1% of its 2011 venture capital funding levels in 2012, as firms such as Lithium Technologies and ArcSoft, which received tens of millions of dollars in venture capital funding in 2011 did not receive new funding in 2012. **Biotechnology was a bright spot in 2012**, led by Intarcia Therapeutics. The firm did not acquire venture capital funding in 2011, but acquired \$155.9 million in funding in 2012. Total Biotechnology venture capital funding in the East Bay increased from \$185.6 million in 2011 to \$283.6 million in 2012 (52.8% growth), even as Biotechnology venture capital funding decreased by 15.1% throughout the United States and decreased by 12.5% in California.

As shown in the Special Report on the East Bay Workforce, employment in the Biomedical Manufacturing industry cluster is expected to grow by over 13% from 2012 to 2017, and the influx of hundreds of millions of dollars in venture capital funding for Biotechnology firms over the past two years no doubt plays a substantial role. At the same time, despite the fact that venture capital funding decreased

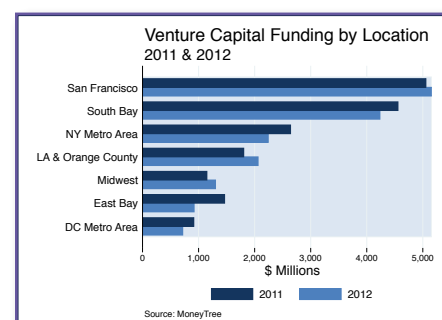
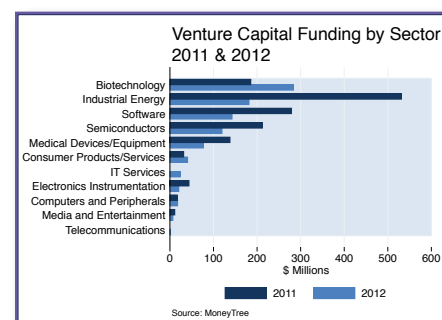
San Francisco MSA Wages per Worker

Sector	2011 (\$)	2010 (\$)	One-Year Change (%)	2008 (\$)	Three-Year Change (%)	2006 (\$)	Five-Year Change (%)
All Sectors	67,637	65,337	3.5	63,930	5.8	59,717	13.3
Professional	109,244	103,208	5.8	98,528	10.9	92,134	18.6
Financial Activities	119,233	114,150	4.5	119,658	-0.4	111,514	6.9
Educational Services	41,993	41,118	2.1	38,912	7.9	36,779	14.2
Health Care and Social Assistance	64,042	63,505	0.8	57,507	11.4	52,849	21.2
Manufacturing	81,523	81,004	0.6	72,534	12.4	69,757	16.9
Management	130,852	130,090	0.6	118,053	10.8	105,614	23.9
Retail Trade	35,663	35,153	1.5	35,332	0.9	33,497	6.5
Leisure/Hospitality	26,971	26,340	2.4	25,980	3.8	24,011	12.3
Information	105,095	96,994	8.4	92,594	13.5	87,683	19.9
Construction	68,096	66,056	3.1	65,663	3.7	58,958	15.5
Admin Support	48,407	45,537	6.3	46,036	5.2	41,719	16.0
Wholesale Trade	74,518	70,746	5.3	68,761	8.4	65,121	14.4
Other Services	29,973	30,003	-0.1	29,565	1.4	28,967	3.5
Natural Resources/Mining	95,086	43,580	118.2	45,758	107.8	73,082	30.1
Trans/Warehouse/Util	50,624	47,635	6.3	40,930	23.7	39,135	29.4
Government	69,635	67,836	2.7	66,090	5.4	61,980	12.4

Sources: U.S. Bureau of Labor Statistics; U.S. Bureau of Economic Analysis
Volatility in Natural Resources/Mining due to the small size of the sector.

substantially in the industrial energy sector from 2011 to 2012, the sector is expected to continue to grow in the East Bay in the coming years. Employment in the Energy and Environment industry cluster is expected to increase by roughly 3.5% from 2012 to 2017.

The Bay Area remains the epicenter for venture capital funding nationwide, but throughout the Bay Area, only San Francisco experienced an increase in venture capital funding from 2011 to 2012, by 1.9% to \$5.2 billion overall. Venture capital funding fell by 7.0% in the South Bay, but remains at \$4.2 billion for the year, compared to \$920 million in the East Bay. The Los Angeles metro area continues to challenge the Bay Area as a national tech hub, which may have an impact on venture capital funding levels in the East Bay in the future. Venture capital funding in Los Angeles increased by 14.2% from 2011 to 2012, for a total of \$2.1 billion.



RECENT TRENDS



The East Bay serves as a national hub for entrepreneurship, as well as community enriching and environmentally friendly business, as exhibited in the recognition East Bay firms receive each year in the Inc. 500 and B-Corporation lists. In 2012, the East Bay headquartered six of the Inc. 500 fastest-growing companies, according to Inc. Magazine. This is up from four in 2011. The 2012 list includes Plum Organics, whose revenue grew by over 4,000% from 2008 to 2011—from just \$0.9 million to \$38.4 million—and Spigit, whose revenue grew by over 3,700% from 2008 to 2011—from just \$0.3 million to \$9.7 million. More firms in San Francisco and the South Bay were added to the 2012 list, as well, but the statewide total fell in both 2011 and 2012.

Inc. 500 Fastest Growing Companies

Location	2008	2009	2010	2011	2012
East Bay	5	4	11	4	6
San Francisco	11	14	16	12	13
South Bay	11	7	13	5	7
California	77	82	91	88	78

Source: Inc. Magazine

B-Corporations in the East Bay

Corporation	Location	Corporation	Location	Corporation	Location
Bison Brewing Company	Berkeley	Heller Consulting	Oakland	Plum Organics	Emeryville
Back to the Roots	Emeryville	Katovich & Kassan Law Group	Oakland	Revolution Foods	Oakland
Cultivating Capital	Berkeley	Lotus Foods	El Cerrito	Rubicon Bakery	Richmond
Cutting Edge Capital	Oakland	Mal Warwick Associates	Berkeley	SCS Global Services	Emeryville
GreenHeart Global	Oakland	Mosaic	Berkeley	SolarNexus, Inc.	Berkeley
Ann Blake, Ph.D. Environmental & Public Health Consulting	Alameda	Moving Forward Education	Emeryville	Sun Light & Power	Berkeley
Further The Work	Richmond	New Avenue	Berkeley	Sungevity	Oakland
Galileo ED	Oakland	Numi Organic Tea	Oakland	Sweet Livity LLC	Richmond
Give Something Back, Inc.	Oakland	Oaklandish	Oakland	Viasyn, Inc.	San Ramon
Green Retirement Plans, Inc.	Oakland	One PacificCoast Bank	Oakland	Weinreb Group	Berkeley
GreenerPrinter	Berkeley	OneRoof, Inc.	Berkeley	Wendel Rosen Black & Dean	Oakland
Greenlight Apparel	Fremont	Opticos Design, Inc.	Berkeley		

Source: B Lab

located in the East Bay, compared to 60 in San Francisco and two in the South Bay. The preponderance of B-Corporations in areas like the East Bay encouraged the State of California to pass legislation that allows businesses to register as benefit corporations or “FlexCs” (“flexible purpose corporations”), which possess explicit environmental or social goals. Many East Bay B-Corporations are environmentally sustainable food producers, such as Plum Organics, Numi Organic Tea, or Revolution Foods. Katovich & Kassan Law Group provides legal support for social entrepreneurs, while Cultivating Capital provides business consulting for green firms.

From 2007 to 2011, between 2% and 2.5% of the patents approved in the United States and approximately 10% of patents approved in California each year came from the East Bay. Silicon Valley consistently generates more approved patents (roughly 8% of U.S. patents per year) than the East Bay or San Francisco (between 2.5% to 3% of U.S. patents per year), but each region generates a high proportion of U.S. patents relative to its population. The adult population of the East Bay, for instance, represented just 0.8% of the total U.S. adult population in 2011, but the region generated 2.5% of U.S. patents that year.

¹ Source: B-Lab

U.S. Patents Approved

Location	2011	2010	One-Year Change (%)	2008	Three-Year Change (%)	2006	Five-Year Change (%)
East Bay	2,988	2,850	4.8	2,023	47.7	2,360	26.6
San Francisco	3,480	3,440	1.2	2,275	53.0	2,450	42.0
Silicon Valley	10,221	10,047	1.7	7,172	42.5	8,108	26.1
California	30,750	30,080	2.2	22,203	38.5	25,044	22.8
United States	121,261	121,179	0.1	92,001	31.8	102,267	18.6

Source: U.S. Patent and Trademark Office

INTERNATIONAL TRADE

More valuable goods were exported through the Port of Oakland in 2012 than in 2011. For the year-end total, the value of goods exported through the Port of Oakland increased by 4.4% from \$18.2 billion in 2011 to \$19.0 billion in 2012. However, the volume of goods exported declined by 1.9% over the year to 10.1 billion kilograms in 2012. At the same time, export values and export volumes out of the Port of Oakland ended 2012 at near peak levels since the onset of the economic recession at the turn of 2008. Export values reached \$1.7 billion in December 2012, an increase of 13.6% from December 2011, while total export weight reached 956 million kilograms, an increase of 6.5% over December 2011.

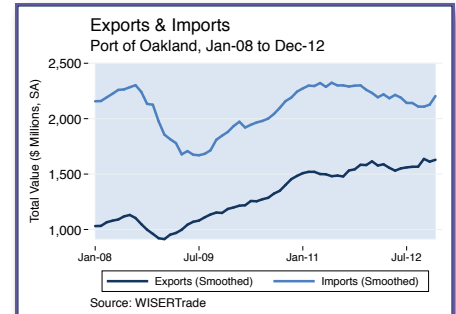
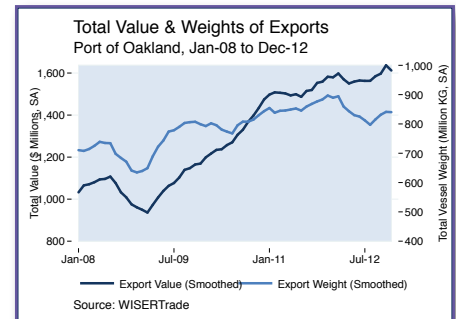
The local trade deficit has been shrinking as the Port of Oakland's export growth outpaces imports. In December 2012, imports entering through the Port of Oakland totaled \$2.2 billion, a decline of 0.5% from the same month the previous year. **The trade deficit (exports minus imports) shrank from \$654.7 million in December 2011 to \$434.2 million in December 2012, a 33.7% decline.** The monthly figures were hardly an anomaly from the year's trend. Imports totaled \$28.3 billion for the year 2012, a 5.2% decline from the year 2011. By comparison, imports throughout California ports increased by 4.9% from 2011 to 2012, while imports at the Port of Los Angeles increased by 5.2% over the same time period. Meanwhile, exports out of the Port of Oakland for the year 2012 grew by 4.4% over the year

2011, compared to a 1.2% increase in California exports overall and a 2.2% decrease in exports out of the Port of Los Angeles.

The East Bay remains a critical gateway for California's agricultural products to reach overseas markets.

The export value of Edible Fruit/Nuts, the highest exported commodity group leaving the Port of Oakland, increased by 15.6% over the course of 2012 to \$4.6 billion, while the value of Meat, the second-highest exported commodity group leaving the Port of Oakland, increased by 7.5% to \$2.4 billion. Of key importance to many East Bay businesses, exports of various manufactured durable goods, such as industrial machinery (-6.6%), electrical machinery (-16.5%), and vehicles and parts (-29.4%) declined over the course of 2012. However, medical and surgical machinery exports increased 20.7%. As shown above, the Biotechnology subsector in the East Bay continued to surge ahead in 2012, while it was a slower year for some high-tech subsectors, such as Industrial Energy.

Despite a pullback in exporting in 2012, advanced manufactured goods continue to serve as key exports out of the Port of Oakland. These goods represent four of the top 10 exported goods out of the Port, although their share of total exports out of the Port decreased somewhat from 2011. Industrial machinery represented 6.1% of total exports at the Port of Oakland in 2011, compared to 2.8% in 2012. Vehicles and parts represented 3.85% of total exports at the Port of Oakland in 2011, compared to 1.3% in 2012.



RECENT TRENDS



Yet, as statewide exports of advanced manufactured goods has increased, the Port of Oakland now represents a smaller proportion of the State of California's overall exports of these goods. For instance, in 2011, electrical machinery exports out of the Port of Oakland represented 2.3% of all California exports of electrical machinery. In 2012, that share had decreased to 1.9%. In 2011, vehicles and parts exports out of the Port of Oakland represented 8.2% of all vehicles and parts exports in the State of California. In 2012, that share had decreased to 6.8%.

BUSINESS TRENDS

While the total number of business establishments has increased in both Alameda and Contra Costa Counties over time, this growth is concentrated heavily among business establishments with few employees. As shown below, many of these new firms have no paid employees. From 2006 to 2011, the East Bay added a net total of 10,719 new firms with 0-4 employees, while the total number of firms in nearly every other size category (as defined by the California EDD) decreased—the East Bay lost a number of large employers during this time.

Port of Oakland Exports of Major Commodities (\$ 000s)

Commodity	2012	2011	Chg. (%)	% Oak.	% CA	% Diff.
Edible Fruit/Nuts/Citrus Fruit/Melon Peel	4,560,153	3,943,953	15.6	12.0	2.8	9.1
Meat/Edible Meat Offal	2,552,223	2,374,722	7.5	6.7	0.3	6.4
Industrial Machinery, Incl Computers	1,047,136	1,121,710	-6.6	2.7	8.1	-5.4
Beverages/Spirits/Vinegar	865,846	793,056	9.2	2.3	0.5	1.7
Iron/Steel	664,543	750,647	-11.5	1.7	0.9	0.8
Medic or Surgical Instruments/Parts	591,320	489,818	20.7	1.6	5.5	-3.9
Inorg Chem/Rare-Earth Metals/Radioact Compds	583,670	632,749	-7.8	1.5	0.3	1.2
Electrical Machinery/Sound Equip/TV Equip	536,438	642,278	-16.5	1.4	8.7	-7.2
Vehicles/Parts	496,054	702,482	-29.4	1.3	2.2	-0.9
Dairy, Eggs, Honey, Animal Products	467,455	443,872	5.3	1.2	0.5	0.8

Sources: WISERTrade

Port of Oakland Advanced Manufacturing Exports

Commodity	Export Value (\$ 000s)	Port of Oakland Rank	Pct of Port's Total Exports	Pct of CA's Export of Commodity, 2012	Pct of CA's Export of Commodity, 2011
Industrial Machinery, Incl Computers	1,047,136	3	2.8	4.0	4.1
Medic or Surgical Instruments/Parts	591,320	6	1.6	3.3	3.2
Electrical Machinery/Sound Equip/TV Equip	536,438	8	1.4	1.9	2.3
Vehicles/Parts	496,054	9	1.3	6.8	8.2

Source: WISERTrade

More recently, from 2010 to 2011, there was an increase in the number of business establishments in the East Bay across many size categories. As described in a 2009 report for the Small Business Administration,² even though there are on average three times as many new start-ups each year with no paid employees ("nonemployer firms") as there are start-ups with paid employees, this ratio tends to be smaller during periods of economic growth. In a growing economy, more entrepreneurs start a business to take advantage of existing market opportunities, rather than to try new occupations. Founders that utilize their existing experience and skills to pursue promising business opportunities are more likely to take on paid staff at the outset than founders starting businesses in a new field. This may help to explain why from 2010 to 2011, growth in the number of business establishments picked up among firms with five or more employees but slowed down among firms with four or fewer employees.

² Zoltan J. Acs, Brian Headd and Hezekiah Agwara. *Nonemployer Start-Up Puzzle*. Small Business Association Office of Advocacy. December 2009.

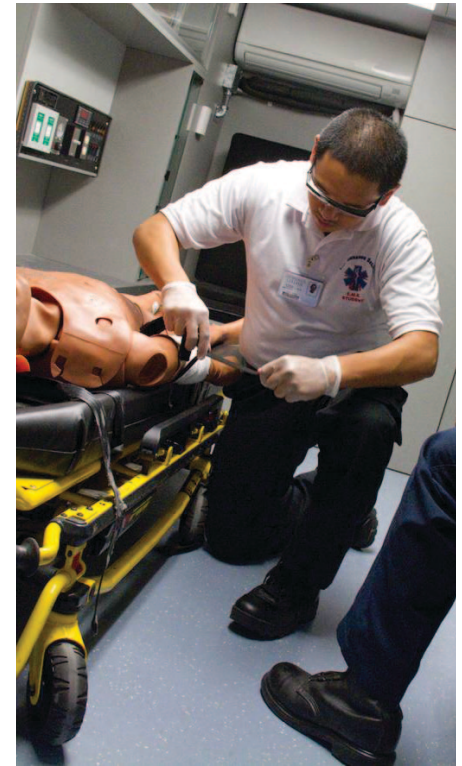
From 2007 to 2012, there was a precipitous decrease in business establishments in the Construction and Financial Activities (which includes real estate) sectors, caused by the steep dropoff in home sales and new construction as a result of the burst of the housing bubble. Indeed, even as the number of business establishments in each sector fell from 2011 to 2012, expect growth in these sectors to be positive from 2012 to 2013, as a solid increase in residential and non-residential construction in 2012, as described below, should draw many new entrepreneurs into the market.

Five-year growth in Other Services remains at 12.4%, despite a steep dropoff from 2011 to 2012. The Other Services sector includes business establishments in repair and maintenance and personal care, largely serving individual clients rather than firms and providing services for which demand remains relatively constant even during a weak economy. Workers may have opened businesses in this sector to provide a source of income during the recession, but as the economy improves, they have begun to return to more traditional occupations in other sectors—the number of East Bay firms in Other Services fell by 16.2% from 2011 to 2012 (5,736 business establishments overall).

Bureau of Labor Statistics data show that the overall number of establishments fell by 4.9% from 2011 to 2012. Because California EDD data is not yet unavailable, it remains to be seen whether this decrease was concentrated among small-sized firms.

As noted in the 2009 Small Business Administration report described above,

growth in nonemployer firms—firms with no paid employees—follows closely with growth in the unemployment rate. **Often in response to a job loss, job uncertainty, or a need for more flexible employment, individuals start up their own firms with no paid employees at the outset. Indeed, this appears to be what drove the 7.2% growth in nonemployer firms in the East Bay from just prior to the onset of the recession in 2007 to the early stages of economic recovery in 2010.** As the recession carried on, and many firms, including some firms with hundreds of employees or more, went out of business while many more laid off much of their staffs, more and more East Bay residents started their own businesses in response. Professional sector nonemployer firms increased by 8.9%



East Bay Establishments by County

Size	2011	2010	One-Year Chg. (%)	2008	Three-Year Chg. (%)	2006	Five-Year Chg. (%)
Alameda County							
0-4 Employees	39,984	38,353	4.3	36,775	8.7	31,963	25.1
5-9 Employees	6,260	6,211	0.8	6,510	-3.8	6,492	-3.6
10-19 Employees	4,541	4,451	2.0	4,566	-0.5	4,626	-1.8
20-49 Employees	3,428	3,330	2.9	3,637	-5.7	3,547	-3.4
50-99 Employees	1,342	1,310	2.4	1,445	-7.1	1,459	-8.0
100-249 Employees	706	717	-1.5	781	-9.6	813	-13.2
250-499 Employees	181	168	7.7	203	-10.8	201	-10.0
500-999 Employees	59	59	0.0	64	-7.8	71	-16.9
1000 or More Employees	41	42	-2.4	41	0.0	44	-6.8
Total	56,542	54,641	3.5	54,022	4.7	49,216	14.9
Contra Costa County							
0-4 Employees	20,788	20,116	3.3	20,191	3.0	18,040	15.2
5-9 Employees	3,756	3,732	0.6	3,990	-5.9	4,082	-8.0
10-19 Employees	2,602	2,513	3.5	2,607	-0.2	2,698	-3.6
20-49 Employees	1,775	1,768	0.4	1,890	-6.1	1,941	-8.6
50-99 Employees	684	668	2.4	772	-11.4	760	-10.0
100-249 Employees	350	359	-2.5	354	-1.1	366	-4.4
250-499 Employees	75	73	2.7	84	-10.7	97	-22.7
500-999 Employees	32	34	-5.9	33	-3.0	30	6.7
1000 or More Employees	16	15	6.7	20	-20.0	21	-23.8
Total	30,078	29,278	2.7	29,941	0.5	28,035	7.3
Source: California Employment Development Department Statistics not yet available for 2012.							

RECENT TRENDS

Small Business Technology Transfer (STTR) awards, which are granted to businesses as an incentive for developing new technologies, increased by 51.0% in the East Bay in 2011.

in this time, suggesting that a large number of East Bay residents likely transitioned from salaried positions to independent consulting. Administrative Support increased by 30.9%, as many East Bay workers likely pursued independent clerical work.

News analysts often claim even as the economy has grown and capital for lending has increased, small businesses still have too little access to

loans. In the East Bay, this appears to be a valid criticism. The total number of Small Business Administration Development Loans (504) in the East Bay increased by just two from 2010 to 2011, while the average value of these loans decreased by nearly \$37,000. Through the first half of the 2012 fiscal year, the number of (504) loans was on pace to fall short from 2011 totals. On the other hand, the average value of (504) loans were nearly \$100,000 higher in the 2012 fiscal year than in the 2011 fiscal year. Because of the special nature of (504) loans, which are provided to encourage community development, fewer approvals for (504) loans may not reflect a slower year for small business lending. Yet, the more commonly issued Small Business Administration Loan Guarantees 7(a) were on pace to decrease in both total number and in average value from the 2011 fiscal year to the 2012 fiscal year. The average value of the fiscal year 2011 7(a) loans may have been higher than in most years, but the number of 7(a) loans in 2012 is on pace to be lower than even 2009 levels, during the peak of the economic recession.

East Bay Establishments by Sector

Size	2011	2010	One-Year Chg. (%)	2008	Three-Year Chg. (%)	2006	Five-Year Chg. (%)
Total All Industries	82,392	86,626	-4.9	81,943	0.5	77,252	6.7
Private Industries	81,034	85,278	-5.0	80,604	0.5	75,916	6.7
Other Services	27,861	33,237	-16.2	30,014	-7.2	24,779	12.4
Professional	11,412	11,386	0.2	11,414	-0.0	11,617	-1.8
Health Care and Social Assistance	6,538	6,399	2.2	6,201	5.4	6,240	4.8
Retail Trade	6,036	6,066	-0.5	6,248	-3.4	6,509	-7.3
Leisure/Hospitality	5,611	5,540	1.3	5,367	4.5	5,318	5.5
Financial Activities	5,576	5,627	-0.9	6,003	-7.1	6,636	-16.0
Construction	4,408	4,509	-2.2	4,933	-10.6	5,308	-17.0
Wholesale Trade	3,227	3,192	1.1	3,354	-3.8	3,589	-10.1
Admin Support	2,824	2,774	1.8	2,850	-0.9	2,929	-3.6
Manufacturing	2,429	2,430	-0.0	2,533	-4.1	2,664	-8.8
Trans/Warehouse/Util	1,094	1,076	1.7	1,091	0.3	1,131	-3.3
Educational Services	1,029	967	6.4	949	8.4	905	13.7
Information	896	872	2.8	938	-4.5	1,010	-11.3
Management	401	378	6.1	362	10.8	363	10.5
Natural Resources/Mining	182	194	-6.2	189	-3.7	197	-7.6
Government	1,358	1,348	0.7	1,339	1.4	1,336	1.6

Sources: U.S. Bureau of Labor Statistics

East Bay Nonemployer Firms by Sector

Size	2010	2009	One-Year Total Chg.	One-Year Chg. (%)	2007	Three-Year Total Chg.	Three-Year Chg. (%)
All Industries	192,406	186,907	5,499	2.9	179,402	13,004	7.2
Professional	43,425	42,415	1,010	2.4	39,876	3,549	8.9
Other Services	23,319	21,908	1,411	6.4	20,391	2,928	14.4
Real Estate	20,714	20,857	-143	-0.7	24,786	-4,072	-16.4
Health Care and Social Assistance	18,395	17,555	840	4.8	16,596	1,799	10.8
Admin Support	15,353	14,119	1,234	8.7	11,727	3,626	30.9
Leisure/Hospitality	15,013	14,505	508	3.5	12,944	2,069	16.0
Construction	13,118	12,830	288	2.2	12,493	625	5.0
Retail Trade	12,462	12,519	-57	-0.5	13,058	-596	-4.6
Trans/Warehouse/Util	7,755	7,548	207	2.7	7,156	599	8.4
Educational Services	7,001	6,812	189	2.8	6,459	542	8.4
Financial Activities	5,535	5,679	-144	-2.5	6,024	-489	-8.1
Information	3,633	3,552	81	2.3	3,295	338	10.3
Wholesale Trade	3,320	3,308	12	0.4	3,328	-8	-0.2
Manufacturing	2,534	2,471	63	2.5	2,276	258	11.3
Natural Resources/Mining	829	829	0	0.0	804	25	3.1

Sources: U.S. Census

Small businesses in the East Bay continue to attract national recognition for their innovations. Small Business Technology Transfer (STTR) awards, which are granted to businesses as an incentive for developing new technologies, increased by 51.0% in the East Bay in 2011. In comparison, STTR awards granted in San Francisco increased by 38.0% and in the South Bay by 27.5%. STTR award values in East Bay have not yet reached San Francisco and South Bay levels, but growth in 2011 has closed the gap substantially.

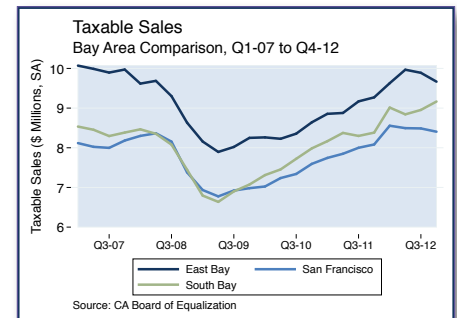
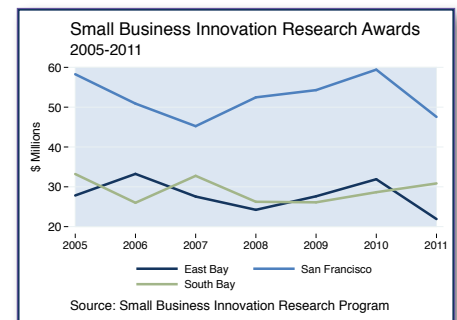
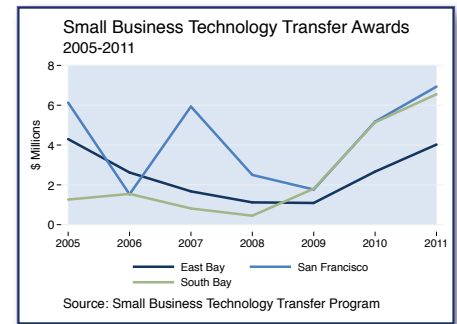
East Bay Small Business Administration Loans

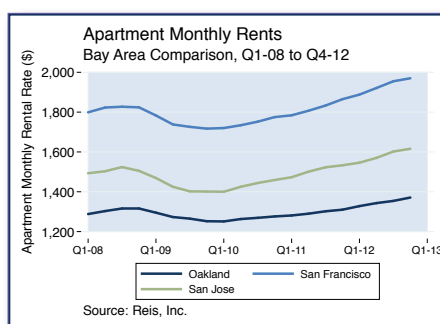
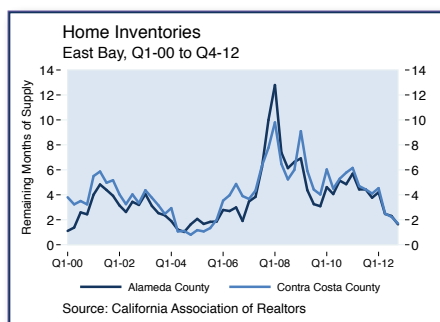
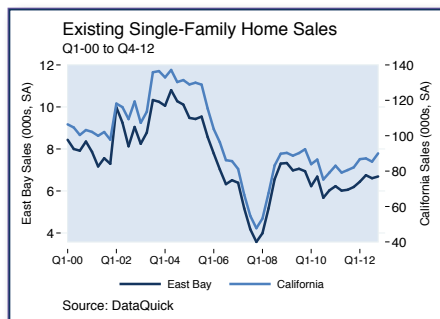
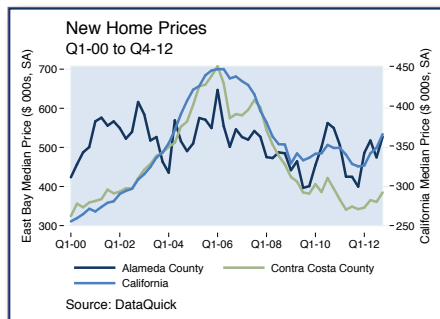
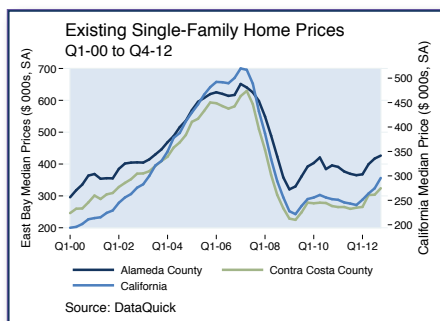
Fiscal Year (October-September)					
Type of Loan	2012*	2011	2010	2009	2008
Number of Loans					
504 Certified Development Loans	58	156	154	108	145
7(a) Loan Guarantees	114	386	319	250	438
Disaster Assistance Loans	4	2	4	5	6
Average Value of Loans (\$)					
504 Certified Development Loans	512,810	417,365	454,169	465,602	485,614
7(a) Loan Guarantees	255,049	283,327	252,884	132,909	259,128
Disaster Assistance Loans	0	247,400	90,550	-17,920	25,633
*From October 2011 to February 2012.					
Source: USA Spending					

Although 2011 proved a slower year in the East Bay for Small Business Innovation Research (SBIR) award funding, which is granted to businesses for research and development that leads to commercialization, the East Bay consistently kept pace with Silicon Valley from 2005 to 2010. The total value of SBIR funds awarded to East Bay firms declined by 31.3% in the East Bay in 2011, compared to a 19.4% decline among firms in San Francisco and a 7.7% increase among firms in the South Bay. Despite the overall decrease in SBIR funds awarded in the East Bay in 2011, the total value of these and STTR funds awarded to East Bay firms each year shows the high potential for advanced research and development that the East Bay affords its small businesses.

Consumer demand in the East Bay remains near its highest level since early 2007. In the fourth quarter of 2012, the East Bay's taxable sales were

just 4.0% lower than their total value for the fourth quarter of 2007. By comparison, San Francisco taxable sales stood at 0.5% above their total value for the fourth quarter of 2007, while South Bay taxable sales were 7.4% higher. Indeed, the decrease in East Bay taxable sales in late-2012 is likely a statistical anomaly. The California Board of Equalization has not yet audited its findings for late-2012, and the trend in taxable sales suggests an overpayment in sales taxes in early-2012, then a correction in late-2012. In fact, HdL Companies, which audits sales taxes from individual businesses, shows sales taxes increasing in late-2012.





RESIDENTIAL REAL ESTATE

After years of sluggish growth following the expiration of first-time homebuyer tax incentives in 2010, home prices began to turn the corner in 2012 in the East Bay and elsewhere in the state. Existing single-family home prices in the East Bay, as in the rest of California, have risen steeply in the past year. The median existing home price increased by 16.8% in Alameda County and by 23.2% in Contra Costa County from the fourth quarter of 2011 to the fourth quarter of 2012. This compares with 23.0% growth in the median existing home price in the state overall.

The increase in new home prices in the East Bay has been nearly as dramatic. This is driven by a substantial increase in new home prices in Alameda County. The median new home price in Alameda County increased by 31.9% from the fourth quarter of 2011 to the fourth quarter of 2012, relative to 12.4% in Contra Costa County. By comparison, the median new home price in California increased by 12.4% from the fourth quarter of 2011 to the fourth quarter of 2012.

Growth in the number of existing home sales has been slower in the East Bay than in other regions, at 8.1% year over year, compared to 9.5% in the state overall. The economic recovery has brought about little change in home sales since 2008. This is largely because there remains a very low supply of homes on the market. In both Alameda County and Contra Costa County, there is less than a two-month supply of available homes, the lowest supply since mid-2005. Such little inventory drives the prices of those available homes up, and it also makes homebuying much

more difficult for first-time homebuyers or homebuyers with less-than-perfect credit.

Don't expect home sales to slide as home prices increase rapidly. In fact, despite the increase in home prices in the past year, home affordability remains near an all-time high. Even as home prices appreciate faster than incomes in the Bay Area, interest rates on mortgages remain so low that homes are about as inexpensive as they were at the end of 2011, and as inexpensive in the East Bay as they were upon the onset of the recession, at 34.5% of income. Compare this to the peak of the housing bubble, when home costs in the East Bay were as high as 93% of income.

As employment and income growth and an increase in home prices have helped homeowners get out from underwater mortgages, and many homes with unaffordable mortgages have already gone through foreclosure, the quantity of distressed properties in the East Bay has decreased substantially since early-2009. Negative equity among homes in the East Bay remains high, at 26.6% in the fourth quarter of 2012,³ compared to 25.2% in the state overall. On the other hand, mortgage defaults decreased by 48.0% in the East Bay from the fourth quarter of 2011 to the fourth quarter of 2012, compared to 45.2% in the state overall. Foreclosures in the East Bay decreased by 45.5% year over year, compared to 32.9% in the state overall.

Apartment rents are continuing to rise quarter after quarter, but the East Bay offers the lowest average apartment rent in the Bay Area. The monthly cost of rent in Oakland increased by 4.7%

³ Source: CoreLogic.

from the fourth quarter of 2011 to the fourth quarter of 2012, to \$1,371. By comparison, in San Jose, the monthly cost of rent increased by 5.4% to \$1,616 over the same time period, and in San Francisco, the monthly cost of rent increased by 5.6% to \$1,970.

Last year proved a turning point for both the construction sector and the housing market, as residential construction truly took off. Single-family and multifamily residential building permitting increased precipitously from 2011 to 2012. East Bay single-family residential building permitting in the first 11 months of 2012, increased by 50.8% (471 permits) over the first 11 months of 2011, compared to 41.7% growth (358 permits) in the South Bay and 21.6% growth (50 permits) in San Francisco.

Dublin and Oakland played the biggest roles in this growth: the number of single-family residential building permits in Oakland grew by 382.5% from 2011 to 2012, while permits in Dublin grew by 72.8% in that same time period.

Although multifamily residential building permitting did not grow as quickly in 2012 in the East Bay as in San Francisco or the South Bay, 2012 was still an outstanding year for growth in multifamily construction. East Bay multifamily residential building permitting was up 29.3% from January-November 2011 to January-November 2012, compared to 46.7% in San Francisco and an impressive 134.2% in the South Bay over the same time period. In the East Bay, City of Emeryville permitting grew substantially, from just five permits in 2011 to 256 permits



Single-Family Residential Building Permits

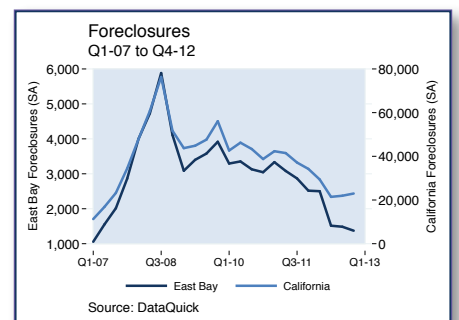
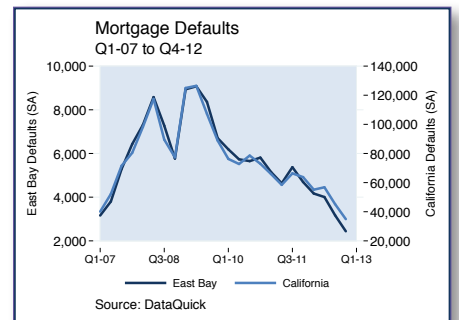
City	2010	2011	2011YTD	2012YTD
Alameda	16	24	24	4
Albany	1	3	3	1
Antioch	108	149	139	199
Berkeley	2	4	4	4
Brentwood	167	104	97	176
Clayton	2	6	1	7
Concord	0	2	2	5
Danville	19	13	13	28
Dublin	228	276	207	477
El Cerrito	2	0	0	1
Emeryville	0	1	1	0
Fremont	100	127	125	123
Hayward	276	223	214	127
Hercules	0	0	0	0
Lafayette	11	7	5	12
Livermore	78	60	57	75
Martinez	2	3	3	3
Newark	0	0	0	1
Oakland	140	40	35	193
Oakley	166	77	72	137
Orinda	12	5	5	4
Piedmont	2	0	0	0
Pinole	0	0	0	0
Pittsburg	67	130	116	120
Pleasant Hill	2	6	6	3
Pleasanton	46	43	43	54
Richmond	70	1	1	11
San Leandro	7	4	4	5
San Pablo	2	1	1	1
San Ramon	0	0	0	2
Walnut Creek	3	6	6	13

Source: CIRB

Multifamily Residential Building Permits

City	2010	2011	2011YTD	2012YTD
Alameda	0	0	0	0
Albany	4	3	3	0
Antioch	0	0	0	0
Berkeley	16	38	38	94
Brentwood	0	0	0	0
Clayton	0	0	0	0
Concord	0	0	0	0
Danville	4	4	4	0
Dublin	116	543	543	368
El Cerrito	0	0	0	0
Emeryville	0	5	5	256
Fremont	215	379	379	143
Hayward	0	0	0	42
Hercules	96	0	0	0
Lafayette	0	2	2	46
Livermore	17	38	38	134
Martinez	0	0	0	0
Newark	0	0	0	0
Oakland	468	249	186	247
Oakley	44	0	0	44
Orinda	0	0	0	0
Piedmont	0	0	0	0
Pinole	0	0	0	0
Pittsburg	111	0	0	0
Pleasant Hill	0	0	0	0
Pleasanton	0	0	0	200
Richmond	49	0	0	27
San Leandro	0	0	0	0
San Pablo	11	0	0	0
San Ramon	39	0	0	0
Walnut Creek	0	52	52	15

Source: CIRB



RECENT TRENDS



from January-November 2012, while the City of Pleasanton, which issued zero multifamily permits in 2011, issued 200 permits from January-November 2012.

COMMERCIAL REAL ESTATE

The office property vacancy rate in the East Bay, at 18.5%, has fallen to its lowest level since 2009 (18.2%), but it has yet to decrease to pre-recession levels. The office property vacancy rates in the South Bay and San Francisco are falling faster, by 2.9% and 0.9% year over year, respectively, but the rate in the South Bay (22.7%) peaked much higher than in the East Bay (20.3%).

Like office property, warehouse property in the South Bay has a consistently higher vacancy rate than in the East Bay. **Warehouse vacancy rates have fallen in the East Bay, San Francisco, and the South Bay year over year, while rents have climbed slightly in each area.** Warehouse occupancy continues to increase in the East Bay, with a large increase in net absorption in the fourth quarter of 2012 relative to the fourth quarter of 2011.

While office, warehouse, and industrial property in the East Bay show recent signs of turning around, retail property in the East Bay has had a slower process of recovery. Among both retail and industrial property in

Bay Area Commercial Real Estate Vacancies, Rental Rates and Net Absorption

Office Property									
East Bay				San Francisco			South Bay		
Quarter	Vacancy (%)	Rent/Sq. Ft. (\$)	Net Absorption (Sq. Ft.)	Vacancy (%)	Rent/Sq. Ft. (\$)	Net Absorption (Sq. Ft.)	Vacancy (%)	Rent/Sq. Ft. (\$)	Net Absorption (Sq. Ft.)
Q4-12	18.5	20.32	28,000	13.8	34.99	-300,000	19.0	24.38	565,000
Q4-11	18.6	20.20	128,000	14.7	32.54	-109,000	21.9	23.49	189,000
Q4-10	20.3	19.97	134,000	15.6	29.75	-364,000	22.7	22.47	14,000
Q4-09	18.2	20.62	206,000	15.0	29.82	-631,000	21.3	23.27	-482,000
Q4-08	16.6	22.16	-1,378,000	11.1	34.92	-205,000	16.4	27.02	-378,000
Retail Property									
East Bay				San Francisco			South Bay		
Quarter	Vacancy (%)	Rent/Sq. Ft. (\$)	Net Absorption (Sq. Ft.)	Vacancy (%)	Rent/Sq. Ft. (\$)	Net Absorption (Sq. Ft.)	Vacancy (%)	Rent/Sq. Ft. (\$)	Net Absorption (Sq. Ft.)
Q4-12	6.3	24.75	-14,000	3.7	29.63	38,000	6.0	26.86	-19,000
Q4-11	6.5	24.79	-30,000	3.7	29.72	-5,000	6.0	26.65	212,000
Q4-10	6.8	24.84	89,000	3.6	29.96	7,000	6.0	26.65	21,000
Q4-09	6.0	25.11	-3,000	3.4	30.53	51,000	5.1	27.02	-95,000
Q4-08	5.1	26.27	-80,000	4.1	31.63	6,000	3.4	28.50	114,000
Warehouse Property									
East Bay				San Francisco			South Bay		
Quarter	Vacancy (%)	Rent/Sq. Ft. (\$)	Net Absorption (Sq. Ft.)	Vacancy (%)	Rent/Sq. Ft. (\$)	Net Absorption (Sq. Ft.)	Vacancy (%)	Rent/Sq. Ft. (\$)	Net Absorption (Sq. Ft.)
Q4-12	11.4	4.50	551,000	9.8	7.82	80,000	13.1	6.28	40,000
Q4-11	12.5	4.43	69,000	10.9	7.74	46,000	13.7	6.17	138,000
Q4-10	12.3	4.56	80,000	11.3	7.78	-36,000	13.7	6.08	93,000
Industrial Property									
East Bay				San Francisco			South Bay		
Year	Vacancy (%)	Rent/Sq. Ft. (\$)	Net Absorption (Sq. Ft.)	Vacancy (%)	Rent/Sq. Ft. (\$)	Net Absorption (Sq. Ft.)	Vacancy (%)	Rent/Sq. Ft. (\$)	Net Absorption (Sq. Ft.)
2012	10.3	4.70	1,444,000	12.0	6.32	899,000	16.9	6.45	1,977,000
2011	11.1	4.61	168,000	13.1	6.24	847,000	17.9	6.34	-202,000
2010	11.2	4.68	-452,000	14.1	6.23	-342,000	17.8	6.26	0
2009	10.9	4.85	-893,000	13.6	6.31	-889,000	17.8	6.47	-4,886,000
2008	10.4	5.06	-990,000	12.5	6.58	-613,000	15.4	6.97	125,000

Source: Reis, Inc.

Warehouse data unavailable for 2008 and 2009.

Manufacturing Square Footage in the Bay Area

Manufacturing Square Footage in the Bay Area							
Quarter	East Bay		San Francisco		South Bay		Bay Area
	Inventory	(% of Bay)	Inventory	(% of Bay)	Inventory	(% of Bay)	
Q4-12	25,099,000	25.28	9,600,000	9.67	64,585,000	65.05	99,284,000
Q4-11	25,035,000	25.23	9,600,000	9.68	64,585,000	65.09	99,220,000
Q4-10	25,035,000	25.23	9,600,000	9.68	64,585,000	65.09	99,220,000

Sources: Reis, Inc.

the Bay Area, the East Bay continues to have the highest rate of vacancy, at 6.3% and 10.3%, respectively, but the steady declines in the vacancy rates in both retail and industrial property since 2010 is reason to be optimistic. Net absorption increased substantially (1.2 million square feet) among East Bay industrial property in the fourth quarter of 2012 relative to the fourth quarter of 2011, led primarily by a large uptick in leasing at manufacturing centers along the I-880 corridor.⁴

Office property remains in greater demand in most areas of Alameda County than in Contra Costa County. Unsurprisingly, the Oakland Central Business District holds the lowest vacancy rate, at 11.8%, and the highest rent, at \$28.67 per square foot, while the Fremont/Newark and Airport/San Leandro submarkets have more room for growth, with vacancy rates well above the East Bay average of 18.5%.

There is a comparatively high supply of retail property available in the East Bay, even as the commercial real estate market shows signs of turning the corner. Retail property vacancy rates remain very low in most submarkets in Contra Costa County, including just a 2.3% vacancy rate

among anchor stores in Central Contra Costa County. Yet, the vacancy rate is relatively high among anchor stores in West Contra Costa County (8.0%). Anchor stores in Alameda County maintain a relatively low vacancy rate, such as Central/North Alameda at 4.9%, with relatively affordable rents for the region.

Vacancies among warehouse properties are generally more evenly dispersed across the East Bay, as compared to retail and office properties. Vacancy rates range from 9.8% in Fremont/Newark to 14.4% in Hayward. Rents are tightly bound between \$4.43 per square foot in Oakland/San Leandro and \$5.39 per square foot in Hayward.

The East Bay has maintained a fairly consistent proportion of all manufacturing square footage in the Bay Area over the past two years, but it was the only community in the Bay Area to increase its inventory of manufacturing in that time, adding 64,000 square feet of space in 2012. The East Bay now holds 25.3% of all manufacturing square footage in the Bay Area, compared to just less than two-thirds held in the South Bay.

East Bay Office Property by Submarket, Q4-12

Submarket	Vacancy (%)	Rent/Sq. Ft (\$)
Airport/San Leandro	22.6	21.21
Cent. Bus. District	11.8	28.67
Fremont/Newark	25.2	20.40
North Alameda	12.8	27.73
North Contra Costa	16.8	27.72
North I-680	16.1	26.80
South I-680	30.6	23.89
West Contra Costa	15.9	23.16

Source: Reis, Inc.

East Bay Retail Property by Submarket, Q4-12

Submarket	Vacancy (%)	Rent/Sq. Ft (\$)
Central Contra Costa - Anchor	2.3	16.97
Central Contra Costa - Non-Anchor	8.0	30.63
Central/North Alameda - Anchor	4.9	20.08
Central/North Alameda - Non-Anchor	6.7	27.75
East Alameda - Anchor	5.5	19.41
East Alameda - Non-Anchor	10.0	26.24
East Contra Costa - Anchor	4.1	17.44
East Contra Costa - Non-Anchor	14.1	23.40
South Alameda - Anchor	6.1	15.28
South Alameda - Non-Anchor	5.4	25.38
West Contra Costa - Anchor	8.0	19.70
West Contra Costa - Non-Anchor	4.4	33.01

Source: Reis, Inc.

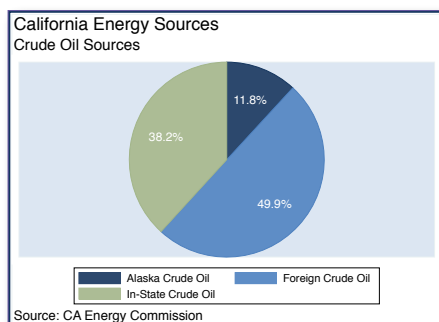
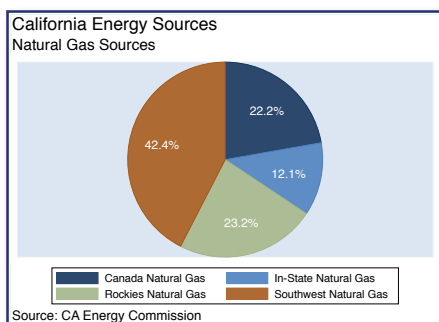
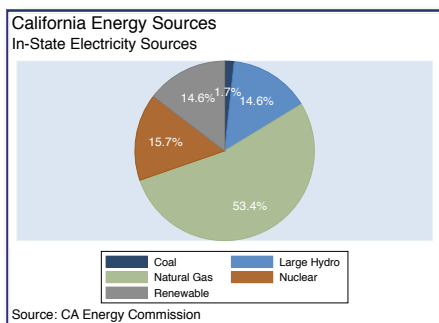
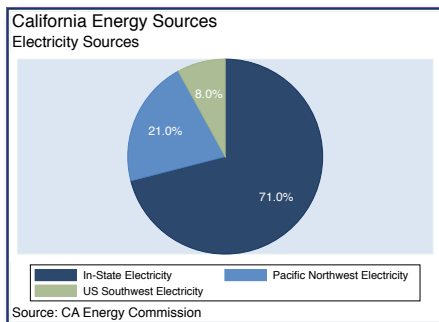
East Bay Warehouse Property by Submarket, Q4-12

Submarket	Vacancy (%)	Rent/Sq. Ft (\$)
Berkeley/Richmond	10.6	5.08
Concord/Pittsburg	10.8	4.86
Hayward	14.4	5.39
Newark/Fremont	9.8	5.22
Oakland/San Leandro	10.3	4.43
Pleasanton/Livermore	12.1	5.41
Union City	12.3	5.10

Source: Reis, Inc.

The East Bay now holds 25.3% of all manufacturing square footage in the Bay Area, compared to just less than two-thirds held in the South Bay.

⁴Source: "Market Report: East Bay Industrial, 4th Quarter 2012." NAI Northern California.



INFRASTRUCTURE

Energy in the California electrical grid comes primarily from within the state, far more than for California natural gas or crude oil. Even more, a solid proportion of this in-state energy comes from renewable sources—14.6%. **While fossil fuels still represent a majority of in-state electrical energy sources, cleaner sources now represent 44.9% of all of these in-state sources.** The preponderance of renewable energy sources—driven heavily by a state mandate that 33% of energy must come from renewable sources—will continue to be a significant benefit to the East Bay, as the region continues to serve as a hub for research and manufacturing of solar and other renewable technologies.

The East Bay reduced its total electricity consumption faster than any region in the Bay Area from 2007 to 2011. Total electricity consumption fell by 3.9% in the East Bay in that time, compared to 1.8% in San Francisco and 1.9% in the South Bay. In fact, this decline was exclusively the effect of a decrease in commercial electricity consumption, as residential consumption actually increased by 1.7% in the East Bay during this time. While this could be the effect of a slowdown in production during the economic recession, the 0.7% decrease in total consumption from 2010 to 2011, a period of economic growth, suggests otherwise. At the same time, the closure of New United Motor Manufacturing, Inc. (NUMMI) in Fremont in 2010 also plays a role in that decline. When the California Energy Administration releases data from 2012, it should

help to tell a clearer story about the recession's overall impact on total electricity consumption.

Total natural gas consumption, in contrast, rose faster in the East Bay from 2007 to 2011 than in San Francisco or the South Bay. Some of this 14.1% increase came from a rise in residential consumption (5.0%), but the majority of the increase came from a rise in commercial consumption (19.5%). In fact, while the effects of the recession led to a decrease in natural gas consumption in the commercial sector in San Francisco and the South Bay, consumption increased slightly in the East Bay. Yet, as the economy grew from 2010 to 2011, consumption once again ramped up throughout the Bay Area, no greater than in the South Bay.

The East Bay already serves as a national hub for solar tech development, but its solar energy consumption is also strong across several categories, such as residential and government consumption.

Alameda and Contra Costa Counties are among the top 10 counties in California in residential solar energy capacity, at 17.7 megawatts and 21.0 megawatts, respectively. Contra Costa County ranks only 12th in commercial solar energy capacity, at 10.6 megawatts, while Alameda County ranks 9th at 15.7 megawatts, well behind the leader, Los Angeles, at 47.2 megawatts. But several factors play a role in solar qualification, including population size. Many of the counties at the top are some of the largest counties by population in the state. Temperature and sunlight are also crucial, which helps to explain the prevalence of many Southern

California and Central Valley counties at the top of the rankings. In the Bay Area, Alameda and Contra Costa Counties remain the leaders in solar energy capacity. Indeed, the City of Richmond has the highest per capita solar energy consumption in California.

There is too little evidence to conclude that increases in gasoline prices have caused a decrease in vehicle traffic in the East Bay, yet those increases do appear to correlate with an increase in Bay Area Rapid Transit (BART) ridership. The number of annual miles driven per capita on state routes in the East Bay declined by 9% from 5,600 miles in 2006 to 5,100 miles in 2008, while the average price of gasoline increased by \$0.77 per gallon (or 27%) during that time. However, as the average price of gasoline fell in 2009 by nearly the same amount, and increased again in 2011, the number of miles driven per capita has hardly changed. At the same time, East Bay BART ridership per capita increased and decreased concurrent with gasoline prices in from 2007 to 2011, except in 2010. Yet, overall economic growth (which influences gas prices) and employment likely plays a more fundamental role in residents' driving habits.

Although East Bay per capita BART ridership fluctuates slightly from year to year, overall utilization of the BART system has increased in the East Bay over the last decade. From fiscal year 2003 to fiscal year 2012, traffic on BART has increased by 10% to 25% in many areas. Traffic growth on BART has been particularly pronounced in the urban centers of Oakland and Berkeley. There has also been significant BART

Electricity Consumption (in Billion kWh) Residential and Total Usage, Select Regions

Residential Consumption									
Location	2011	2010	One-Year Change (%)	2009	Two-Year Change (%)	2008	Three-Year Change (%)	2007	Four-Year Change (%)
East Bay	5.8	5.8	0.5	5.8	0.2	5.9	-1.2	5.7	1.7
San Francisco	3.9	3.9	0.0	3.8	0.9	3.9	0.2	3.7	2.9
South Bay	4.0	3.9	2.2	4.0	1.4	4.0	0.2	3.9	3.1
California	89.1	88.4	0.8	90.8	-1.9	92.4	-3.5	89.9	-0.9
United States	1,422.8	1,445.7	-1.6	1,364.5	4.3	1,380.0	3.1	1,392.2	2.2
Total Consumption									
Location	2011	2010	One-Year Change (%)	2009	Two-Year Change (%)	2008	Three-Year Change (%)	2007	Four-Year Change (%)
East Bay	20.0	20.1	-0.7	19.5	2.5	20.7	-3.6	20.8	-3.9
San Francisco	11.8	12.0	-2.2	12.1	-2.3	12.3	-4.2	12.0	-1.8
South Bay	16.4	16.6	-1.1	16.5	-0.4	17.1	-4.1	16.7	-1.9
California	272.6	275.0	-0.9	278.5	-2.1	287.8	-5.3	287.3	-5.1
United States	3,882.6	3,886.4	-0.1	3,723.8	4.3	3,865.2	0.5	3,890.2	-0.2

Sources: CA Energy Commission; U.S. Energy Information Administration
Statistics have been rounded to the nearest tenth of a billion kWh.

Natural Gas Consumption (in Billion Therms) Residential and Total Usage, Select Regions

Residential Consumption									
Location	2011	2010	One-Year Change (%)	2009	Two-Year Change (%)	2008	Three-Year Change (%)	2007	Four-Year Change (%)
East Bay	0.44	0.43	3.5	0.42	5.3	0.42	4.2	0.42	5.0
San Francisco	0.35	0.34	1.6	0.34	2.0	0.35	-0.3	0.34	1.8
South Bay	0.27	0.26	4.4	0.26	2.7	0.25	7.0	0.26	3.0
California	5.19	5.10	1.8	4.95	4.8	5.04	2.9	5.07	2.4
United States	47.14	47.82	-1.4	47.79	-1.4	48.92	-3.7	47.22	-0.2
Total Consumption									
Location	2011	2010	One-Year Change (%)	2009	Two-Year Change (%)	2008	Three-Year Change (%)	2007	Four-Year Change (%)
East Bay	1.48	1.43	3.0	1.39	6.6	1.39	6.3	1.29	14.1
San Francisco	0.57	0.56	1.2	0.58	-1.2	0.61	-6.8	0.57	0.8
South Bay	0.47	0.46	3.2	0.46	2.1	0.47	-0.2	0.47	-0.2
California	12.92	12.78	1.1	12.61	2.5	13.12	-1.5	12.89	0.3
United States	243.85	240.87	1.2	229.10	6.4	232.77	4.8	231.04	5.5

Sources: CA Energy Commission; U.S. Energy Information Administration

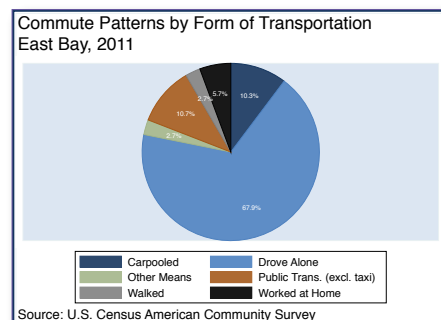
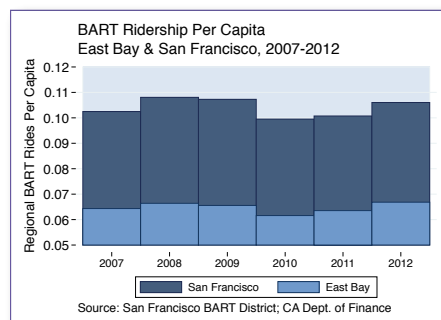
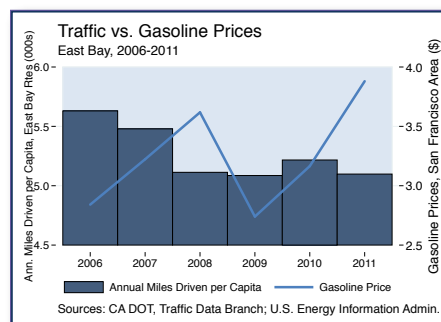
RECENT TRENDS



California Solar Energy Capacity by County

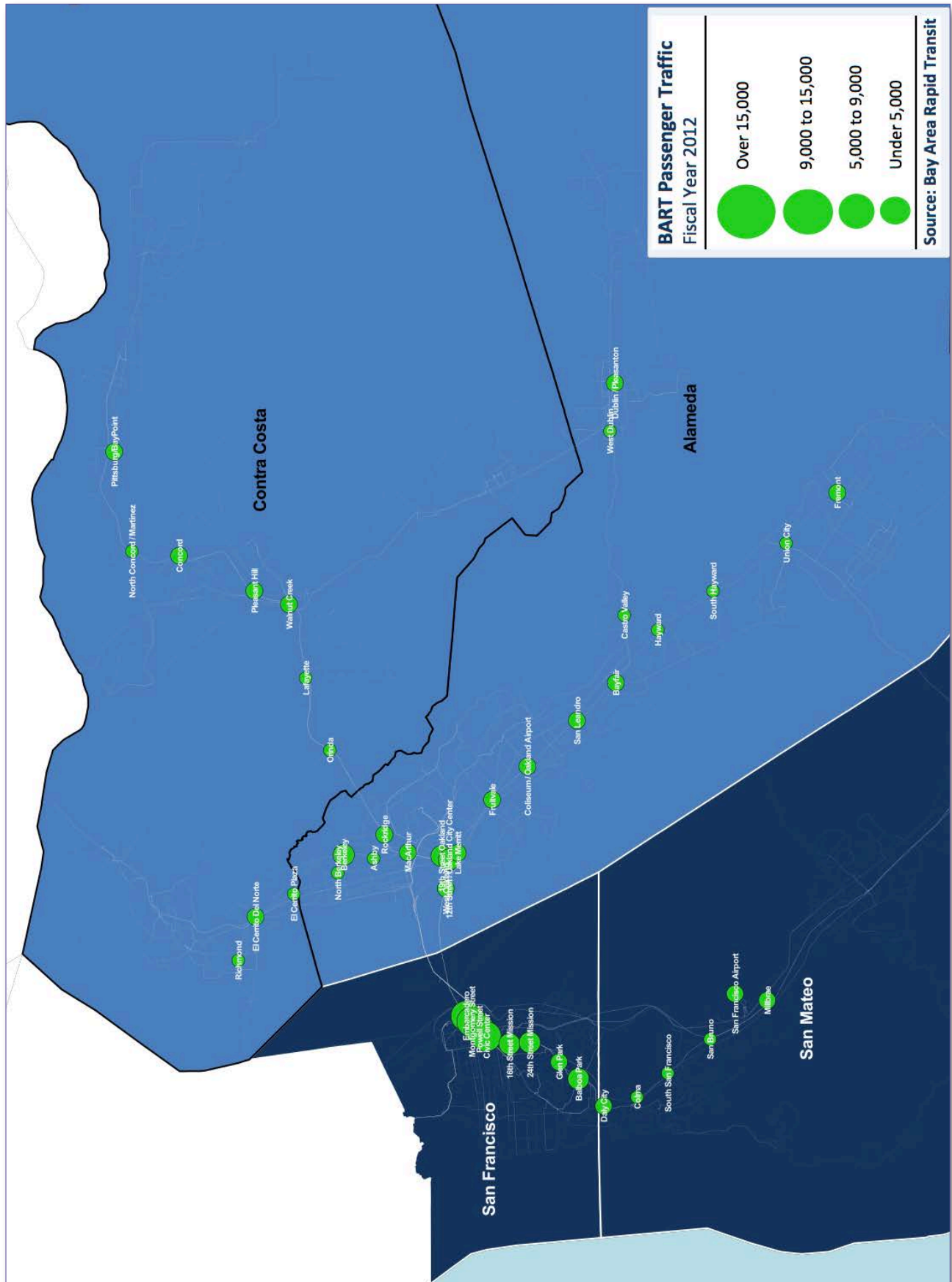
Rank	Residential	Megawatts	Commercial	Megawatts	Non-Profit	Megawatts	Government	Megawatts
1	San Diego	63.2	Los Angeles	47.2	San Diego	9.5	Los Angeles	65.3
2	Los Angeles	50.0	San Diego	28.5	Los Angeles	5.7	Santa Clara	44.1
3	Riverside	44.9	San Bernardino	25.7	Orange	5.1	San Diego	39.5
4	Unspecified	43.2	Fresno	25.1	Santa Clara	3.7	Kern	31.7
5	Santa Clara	34.8	Kern	23.8	Riverside	3.6	Riverside	31.6
6	Orange	32.3	Santa Clara	22.5	Butte	2.4	Contra Costa	29.3
7	San Bernardino	24.2	Orange	20.8	Madera	1.8	San Bernardino	20.7
8	Fresno	23.9	Riverside	20.5	San Francisco	1.7	Alameda	19.2
9	Contra Costa	21.0	Alameda	15.7	Sonoma	1.5	Orange	18.4
10	Alameda	17.7	Sonoma	15.6	Alameda	1.4	Fresno	16.7
11	Kern	17.6	Tulare	13.8	San Bernardino	1.2	San Joaquin	10.1
12	Sonoma	17.0	Contra Costa	10.6	Shasta	1.0	Tulare	10.1
13	Placer	13.0	San Joaquin	10.2	Yuba	1.0	San Mateo	9.1
14	Ventura	12.4	Ventura	10.0	Contra Costa	1.0	Sonoma	8.8
15	San Mateo	10.2	Napa	9.4	Merced	1.0	Kings	8.8
16	Tulare	7.4	Yolo	7.8	Fresno	0.9	Monterey	8.8
17	San Joaquin	7.4	Merced	7.3	Marin	0.8	Solano	8.4
18	San Francisco	7.2	Butte	7.2	Yolo	0.7	Ventura	6.8
19	El Dorado	7.1	San Luis Obispo	6.8	Monterey	0.7	San Luis Obispo	4.2
20	San Luis Obispo	6.9	Solano	6.4	Plumas	0.6	Lake	3.9

Source: CA Solar Initiative

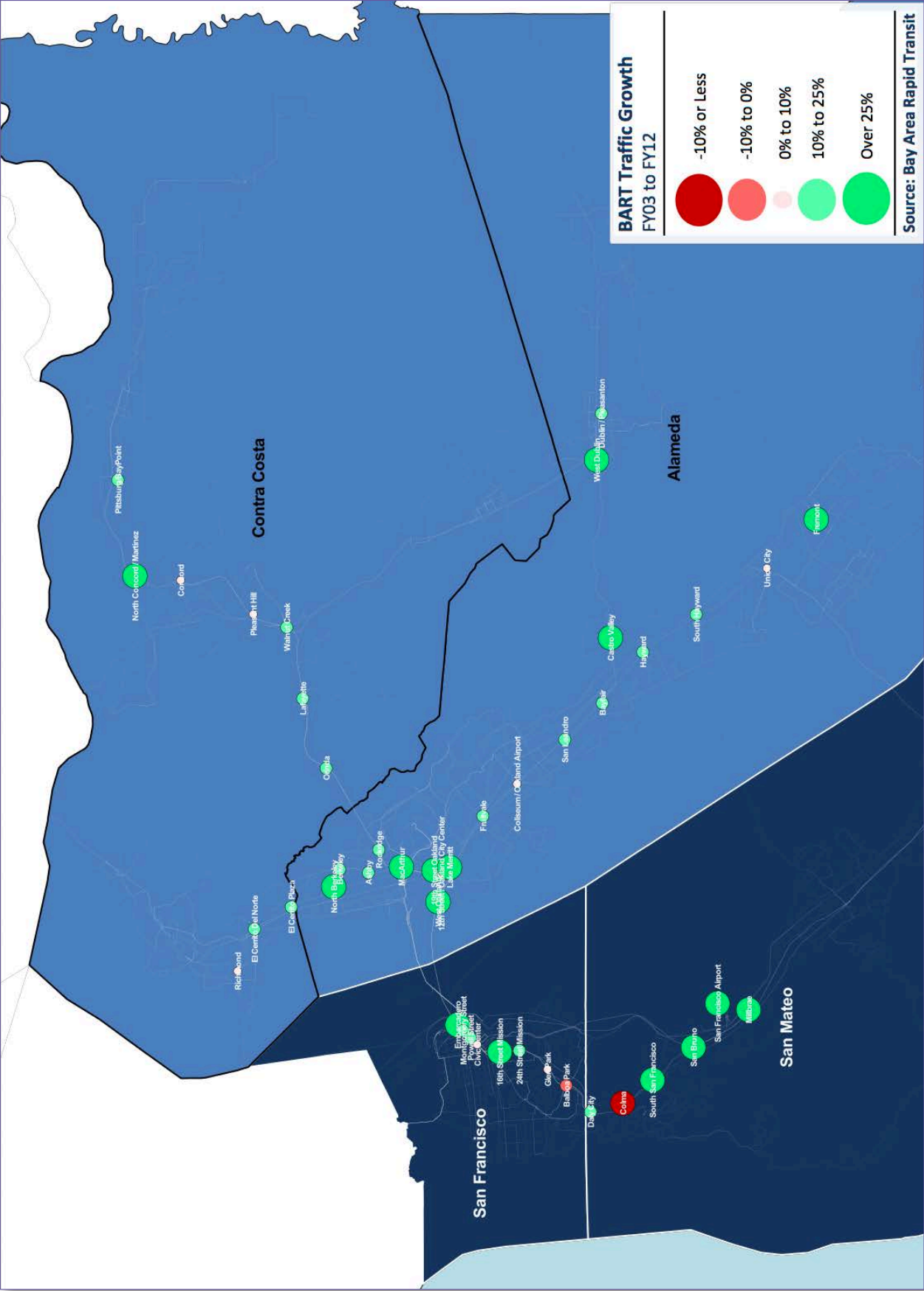


traffic growth in suburban areas like Dublin and Concord. This increased utilization, if it continues, will help to alleviate congestion and improve air quality by stemming the increase in emissions from automobiles as the East Bay population grows over time.

Compared to the average U.S. commuter, the average East Bay commuter is much more likely to use public transportation rather than drive alone to work. In the East Bay, 67.9% of commuters drove alone to work in 2011, which was unchanged from 2006. Yet, this was well below the national average in 2011: 76.4% of U.S. commuters drove alone to work. Supported by efficient public transportation systems in BART and AC Transit, 10.7% of East Bay commuters used public transportation to get to work in 2011—up from 10.3% in 2006—while just 5.0% of U.S. commuters used public transportation.



RECENT TRENDS

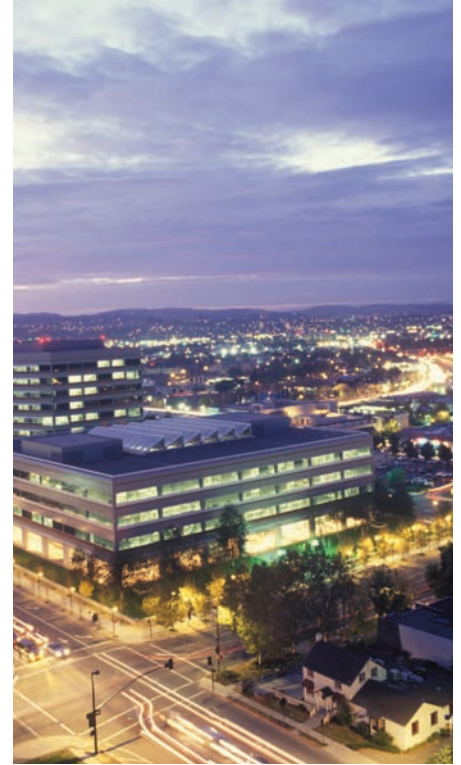


CONCLUSION

The outlook for the East Bay economy going forward remains very positive, as key economic indicators show promising trends. Employment is steadily growing, and consumer demand remains near its highest level since early 2007. Home prices are rising fast, while mortgage defaults and foreclosures are falling precipitously. Single-family and multifamily residential construction picked up considerably in 2012.

Yet, some areas of concern still remain. The economic recovery has brought about very little increase in home sales in the East Bay. Home inventories are very low, which is keeping many potential homebuyers out of the market. Although mortgage defaults and foreclosures are falling, negative equity among homes in the East Bay remains high, at 26.6%. Venture capital funding for businesses in important industries such as cleantech decreased substantially last year.

The economic growth that we expect in the years ahead will help to resolve some of these concerns. Employment and wage growth will continue to boost consumer spending. Business revenues and municipal tax revenues in the East Bay will see an increase, in turn. Strong single-family residential construction will increase the available supply of homes, which should lead to even faster growth in the East Bay housing market. The growth of the labor and housing markets will continue to drive the growth of the East Bay economy overall in the coming years.



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