



SAN DIEGO
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EDC

ECONOMIC SNAPSHOT

A Summary of the San Diego Regional Economy

October 2016

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San Diego Regional EDC analyzes key economic metrics that are important to understanding the regional economy and San Diego's standing relative to other major metropolitan areas in the U.S.

This issue covers data from the April 2016 to July 2016 quarter.

Highlights

San Diego's July 2016 unemployment rate recorded the 17th largest drop among major metros.

The region had the 16th highest employment growth rate from July 2015 to July 2016.

Over 30,700 jobs were added to the regional economy since July 2015 with 24,400 of those jobs coming from the private sector.

San Diego's education services sector had the highest annual growth rate of any sector – 5.2 percent – and added 1,400 jobs to the region's economy.

The region's market for commercial real estate remained strong, as overall vacancy rate for office space remained at 12.5 percent; the lowest rate experienced in 10 years.

Biotechnology continues to attract the largest share of venture capital dollars, accounting for nearly two-thirds of all VC funding flowing into the region during Q2.

UNEMPLOYMENT

The San Diego metro ranked 18th in unemployment rate in July 2016, down six spots from last quarter (April 2016). The region's rate of 5.3 percent is slightly above the national rate of 5.1 percent, but is lower than the state of California at 5.9 percent. The year-over-year decline in unemployment remains a positive trend in the region. The rate fell by 0.2 percentage points, the 17th largest decrease among major metros.

When compared to regional neighbors, San Diego fares better than Riverside, who, at 6.9 percent, has the largest unemployment rate among major metros. Neighboring Los Angeles has seen the largest drop in year-over-year unemployment among major metros of 1.4 percentage points, and is on now on par with San Diego.

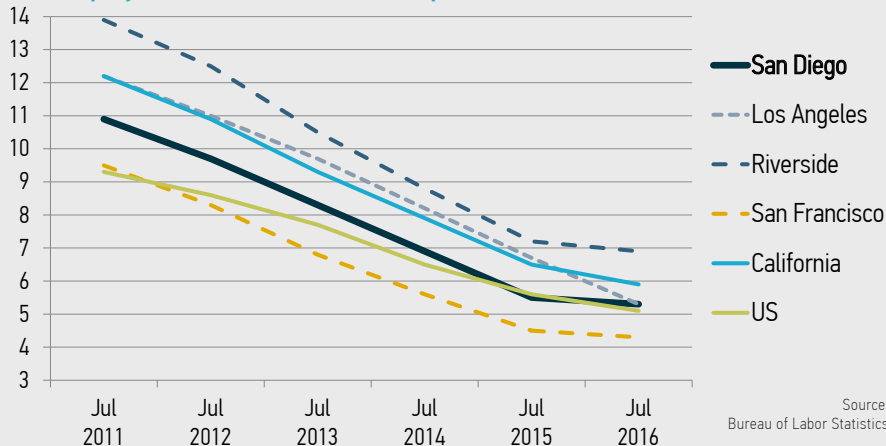
Unemployment Rate: 25 Most Populous U.S. Metros

RANK	METRO	JUL-16	APR-16	PP CHANGE
1	Denver	3.4	3.7	-0.3
2	Minneapolis	3.5	3.5	0.0
3	Boston	3.7	4.7	-1.0
4	Washington DC	3.9	4.6	-0.7
5	Dallas	4.2	4.3	-0.1
6	San Antonio	4.2	4.2	0.0
7	San Francisco	4.3	4.5	-0.2
8	Baltimore	4.7	5.6	-0.9
9	Orlando	4.7	5.3	-0.6
10	Charlotte	4.8	5.9	-1.1
11	Tampa	4.8	5.5	-0.7
12	Seattle	4.9	5.0	-0.1
13	Saint Louis	5.0	5.4	-0.4
14	Atlanta	5.1	6.0	-0.9
-	US	5.1	5.6	-0.5
15	Miami	5.2	5.9	-0.7
16	New York	5.2	5.5	-0.3
17	Los Angeles	5.3	6.7	-1.4
18	San Diego	5.3	5.5	-0.2
19	Portland	5.4	5.6	-0.2
20	Phoenix	5.4	5.6	-0.2
21	Chicago	5.5	6.1	-0.6
22	Philadelphia	5.8	5.9	-0.1
23	Houston	5.8	5.0	0.8
24	Detroit	6.1	7.4	-1.3
25	Riverside	6.9	7.2	-0.3

San Diego's unemployment rate dropped 0.2 percentage points between April and July 2016.

Source:
Bureau of Labor Statistics
Seasonally Unadjusted
PP = Percentage Point

Unemployment Rate: California Comparison





EMPLOYMENT

The region's labor market continued to show signs of improvement, adding 8,500 jobs between April and July 2016. The leisure and hospitality sector continued to build on a strong first quarter, adding 12,200 jobs in Q2, now surpassing education and health services with a total of 199,800 people employed. The region's two largest sectors, professional and business services and trade and transportation, saw modest employment gains, rebounding from declines between January and April 2016.

Some of the industrial laggards include educational services, losing 2,700 jobs since April, or -8.7 percent, and wholesale trade, which is down 500 jobs, or -1.1 percent. Meanwhile, government employment saw the largest decline, losing 9,000 jobs over the past three months.

Among neighboring metros, the San Diego region was the only metro to experience positive employment growth during Q2.

Year-over-year, San Diego experienced moderate job growth of 2.2 percent, placing it 16th among major metros. Much of the growth over the last year can be attributed to growth in key sectors including professional and business services (PBS), education and healthcare services, and leisure and hospitality. Other sectors leading the way include education services employment, which, despite losses during the second quarter, grew by 5.2 percent compared to a year ago. This translates to an increase of 1,400 jobs. The administrative sector (a subset of PBS) added an additional 3,500 jobs; an increase of 4.2 percent.

Total Employment Growth: 25 Most Populous U.S. Metros

RANK	METRO	% CHANGE YEAR JUL '15 - JUL '16	% CHANGE QTR APR '16 - JUL '16
1	Orlando	4.24%	-0.33%
2	Seattle	3.87%	2.32%
3	Denver	3.57%	1.94%
4	Dallas	3.37%	0.51%
5	Tampa	3.24%	-1.12%
6	Phoenix	3.19%	-2.59%
7	Miami	3.13%	-1.08%
8	Portland	2.80%	0.19%
9	Atlanta	2.79%	0.31%
10	San Francisco	2.70%	0.84%
11	Baltimore	2.47%	0.75%
12	Riverside	2.44%	-1.12%
13	Detroit	2.42%	0.88%
14	Washington DC	2.38%	0.90%
15	Philadelphia	2.36%	-0.51%
16	San Diego	2.21%	0.60%
17	Charlotte	2.20%	-1.26%
18	New York	2.14%	1.09%
19	San Antonio	2.09%	-0.18%
20	Los Angeles	2.09%	-0.65%
21	Saint Louis	1.98%	-0.39%
22	Boston	1.98%	1.34%
23	Minneapolis	1.88%	1.52%
-	US	1.70%	0.17%
24	Chicago	1.43%	1.43%
25	Houston	0.43%	-0.07%

Source: Bureau of Labor Statistics | Ranked by % Change Year

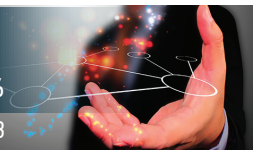
Employment by Industry (in thousands)

INDUSTRY	JUL-16	APR-16	JUL-15	CHANGE PREV. QTR	CHANGE PREV. YR	%CHANGE PREV. QTR	%CHANGE PREV. YR
Total (Private and Government)	1420.8	1412.3	1390.1	8.5	30.7	0.6%	2.2%
Total Private	1186.9	1169.4	1162.5	17.5	24.4	1.5%	2.1%
<i>Professional and Business Services*</i>	237.7	233.8	233.2	3.9	4.5	1.7%	1.9%
Prof., Scientific, & Tech. Services*	128.7	127.3	128.2	1.4	0.5	1.1%	0.4%
Mgmt. of Companies & Enterprises	22.5	22.5	22.0	0.0	0.5	0.0%	2.3%
Administrative	86.5	84.0	83.0	2.5	3.5	3.0%	4.2%
<i>Trade, Transportation, and Utilities</i>	219.3	219.2	219.1	0.1	0.2	0.0%	0.1%
Wholesale Trade	44.7	45.2	44.6	-0.5	0.1	-1.1%	0.2%
Retail Trade	146.4	145.4	146.0	1.0	0.4	0.7%	0.3%
Transportation and Utilities	28.2	28.6	28.5	-0.4	-0.3	-1.4%	-1.1%
<i>Education and Health Services</i>	197.5	199.1	190.6	-1.6	6.9	-0.8%	3.6%
Education Services	28.3	31.0	26.9	-2.7	1.4	-8.7%	5.2%
Health Care and Social Assistance	169.2	168.1	163.7	1.1	5.5	0.7%	3.4%
<i>Leisure and Hospitality*</i>	199.8	187.6	190.7	12.2	9.1	6.5%	4.8%
<i>Manufacturing*</i>	107.0	106.4	106.2	0.6	0.8	0.6%	0.8%
<i>Financial Activities</i>	73.3	72.9	72.3	0.4	1.0	0.5%	1.4%
Finance and Insurance	44.6	45.0	43.8	-0.4	0.8	-0.9%	1.8%
Real Estate and Rental and Leasing	28.7	27.9	28.5	0.8	0.2	2.9%	0.7%
<i>Construction</i>	72.7	72.4	71.4	0.3	1.3	0.4%	1.8%
<i>Other Services</i>	55.3	53.5	54.4	1.8	0.9	3.4%	1.7%
<i>Information*</i>	23.9	24.1	24.2	-0.2	-0.3	-0.8%	-1.2%
<i>Mining and Logging</i>	0.4	0.4	0.4	0.0	0.0	0.0%	0.0%
Government	233.9	242.9	227.6	-9.0	6.3	-3.7%	2.8%
Federal Government	46.7	46.5	45.9	0.2	0.8	0.4%	1.7%
State Government	45.4	48.0	43.1	-2.6	2.3	-5.4%	5.3%
Local Government	141.8	148.4	138.6	-6.6	3.2	-4.4%	2.3%

Source: Bureau of Labor Statistics | Italics = Supersector |

*Denotes industry sectors strongly associated with San Diego's Traded Economies

Education Services recorded the highest annual growth rate at 5.2 percent.



OFFICE

In Q2 2016, San Diego office asking lease rates continued to climb to a new historical record high of \$2.73. Several large move-outs in Central San Diego resulted in negative net absorption for the quarter and a slight increase in vacancy. Overall, fundamentals in the San Diego office market remain strong as year-to-date net absorption surpassed total net absorption for 2015 and overall vacancy remained near pre-recession levels.

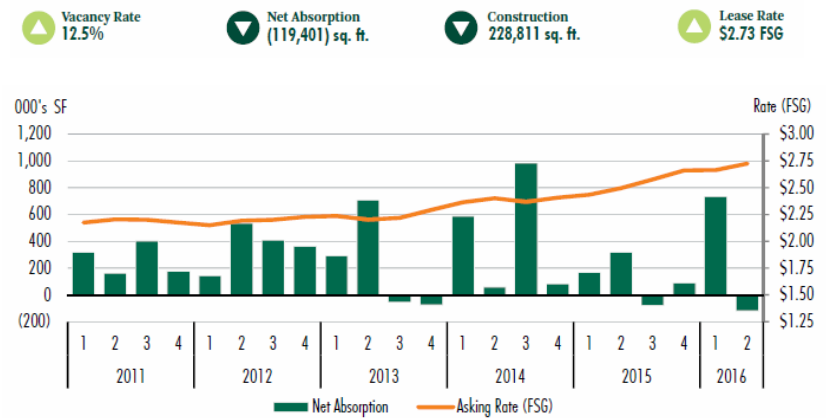
Despite a slight increase in vacancy year-over-year, rents in Class A and B buildings continued to push upward across the San Diego office market. Landlords have continued their efforts to improve and amenitize buildings with the addition of common areas and features to take advantage of outdoor space, therefore justifying higher rents. Given the rising costs of construction loans, upgrades such as these and other renovations are sometimes more economically feasible than a new spec building. As employers place more emphasis on workplace strategy, employee wellness and talent retention, they are willing to allocate more capital to a workplace that embodies these features.

INDUSTRIAL

The San Diego industrial market continued to benefit from new construction deliveries in Q2 2016. Three buildings totaling 461,891 sq. ft. were delivered in Q2 2016; two of these buildings were fully leased upon delivery and added nearly 340,000 sq. ft. of positive net absorption. Construction activity should continue as San Diego's construction industry is expected to grow 4.5 percent over the next 12 months, according to CBRE Econometric Advisors (CBRE EA). Average asking rates increased to \$1.20 NNN. The sustained increases in asking rates point to the high demand the industrial market has been experiencing in recent quarters. The total dollar amount of industrial sales was in line with previous quarters. The largest single building sale of the quarter was General Atomics' purchase of the 127,185 sq. ft. building at 14100 Danielson St. for \$17.7 million.

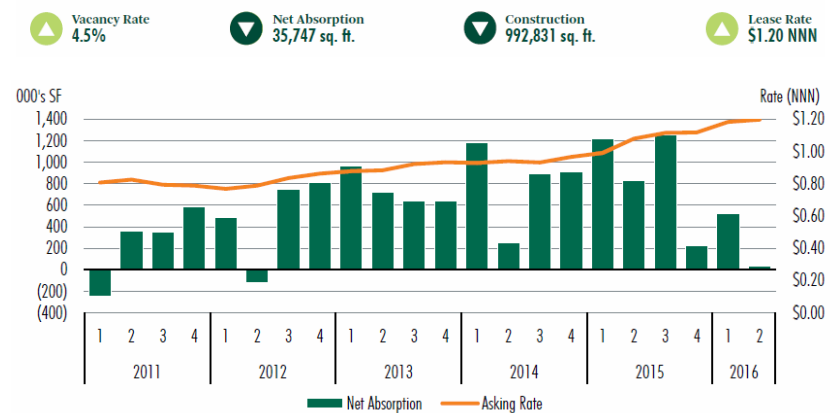
The continued delivery of new construction shows confidence from developers and the strength of the San Diego industrial market. Overall asking rates had a healthy increase once again in Q2 2016 and were at the highest point in over a decade. Flight to new construction has become apparent for tenants as new buildings are being delivered fully leased and have been keeping net absorption positive for the past two quarters. CBRE EA forecasts San Diego industrial rates to steadily increase 11.3 percent by Q4 2021, while also forecasting vacancy to increase 2.6 percent in the same time period. No matter what the future holds, the current market fundamentals are compelling tenants to renew earlier and earlier, and landlords are pursuing longer-term leases.

San Diego Historical Office Stats - Net Absorption vs. Asking Lease Rate



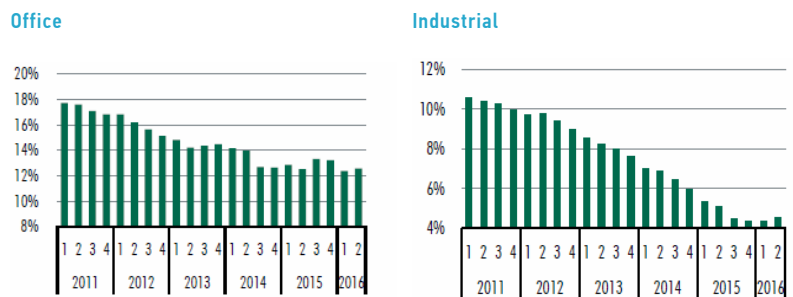
Source: CBRE Research, Q2 2016.

San Diego Historical Industrial Stats - Net Absorption vs. Asking Lease Rate



Source: CBRE Research, Q2 2016

San Diego Historical Stats - Overall Vacancy Rate



Source: CBRE Research, Q2 2016



RESIDENTIAL REAL ESTATE HOME PRICES

San Diego's housing market continues to remain one of the most expensive in the nation according to the National Association of Realtors. Regional home prices have increased 6.4 percent from the previous quarter and 7.7 percent from the previous year. Home prices in the region are significantly higher than those of its neighboring metros.

FORECLOSURES

The foreclosure rate in the San Diego region remained lower than the U.S. in July 2016, with only 0.73 homes out of every 10,000 foreclosing during the month. The region's rate is the lowest amongst its neighboring metros with a slightly lower rate than Los Angeles and significantly lower rate than Riverside.

Median Home Price: 25 Most Populous U.S. Metros

RANK	METRO	PRICE	% CHANGE FROM	% CHANGE FROM
		2016 Q2	PREV. QUARTER	PREV. YEAR
1	San Francisco	885,600	14.8%	9.5%
2	San Diego	589,900	6.4%	7.7%
3	Los Angeles	480,000	4.5%	6.9%
4	Boston	435,800	15.1%	5.1%
5	Seattle	420,500	9.8%	9.1%
6	Washington DC	406,900	10.5%	1.4%
7	New York	395,400	6.0%	-0.7%
8	Denver	394,400	6.9%	8.7%
9	Portland	356,700	9.2%	13.3%
10	Riverside	315,500	5.9%	8.2%
11	Miami	310,000	-0.9%	7.3%
12	Baltimore	265,800	16.0%	4.4%
13	Chicago	246,400	18.1%	6.9%
14	Minneapolis	242,400	9.4%	6.3%
-	U.S.	240,700	10.8%	4.9%
15	Phoenix	234,700	5.2%	7.7%
16	Dallas	232,200	10.5%	7.9%
17	Philadelphia	232,200	13.9%	0.2%
18	Orlando	223,000	0.9%	12.6%
19	Charlotte	218,100	18.0%	5.6%
20	Houston	217,400	4.5%	-1.7%
21	San Antonio	210,500	7.7%	5.6%
22	Tampa	199,900	-0.3%	14.2%
23	Atlanta	192,000	14.4%	5.8%
24	Saint Louis	170,300	15.2%	4.1%

Source: National Association of Realtors
Note: Detroit not available

Zillow Foreclosure Index: 25 Most Populous U.S. Metros

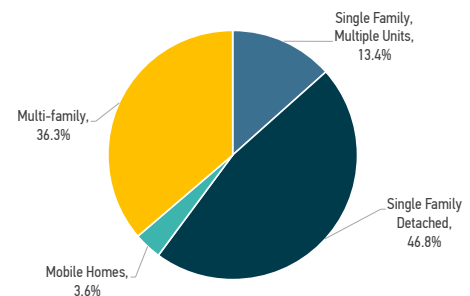
RANK	METRO	INDEX
		APR-16
1	Denver	0.21
2	Philadelphia	0.31
3	New York	0.38
4	San Francisco	0.53
5	Charlotte	0.64
6	Minneapolis	0.73
7	San Diego	0.73
8	Los Angeles	0.86
9	Dallas	1.26
-	United States	1.37
10	Washington	1.48
11	Phoenix	1.77
12	Riverside	2.13
13	Baltimore	2.34
14	Portland	3.32
15	Seattle	3.53

Source: Zillow
10 major metros not reported
Technical Note: Rate is per 10,000 homes

The region's foreclosure rate ranks 7th lowest among the largest US metros.

HOUSING STOCK

Today, the San Diego region has approximately 1.19 million housing units. At a combined total of 60 percent, the overwhelming majority of homes in the region are single family. Currently, multi-family units (condominiums, townhomes, and duplexes) account for approximately 36 percent of all homes. Although relatively few, mobile homes account for the remaining 3.6 percent. Moving forward, it is projected that the region's share of single family homes will steadily decrease as greenfield development opportunities dwindle, and more new homes come from urban infill and redevelopment.



Source: SANDAG, 2016

BUILDING PERMITS

Building permit activity in the region has decreased between July 2015 and July 2016. While the amount of permits issued for single family and 2-4 family homes increased from April to July 2016, the overall decrease in permit activity for units is largely due to the sharp decline in multi-family units built during the same timeframe.

Residential Building Permits: San Diego County

BUILDING SIZE	TOTAL NUMBER OF BUILDINGS			TOTAL NUMBER OF UNITS			TOTAL CONSTRUCTION COST		
	JUL-16	CHANGE QTR	CHANGE YR	JUL-16	CHANGE QTR	CHANGE YR	JUL-16	CHANGE QTR	CHANGE YR
Total	212	33	-113	399	-556	-107	\$168,207,528	\$66,867,247	\$26,979,258
Single Family	182	28	-117	182	28	-117	\$54,682,103	\$2,157,473	\$45,792,048
2-4 Family	23	19	6	52	44	2	\$7,777,214	\$6,648,574	\$167,033
Multi-family (5+)	7	-14	-2	165	-628	8	\$105,748,211	\$71,358,348	\$72,938,339

Source: U.S. Census Bureau Building Permits Survey
Note: Monthly New Privately-Owned Residential Building Permits. Imputed figures used.



VENTURE CAPITAL

Investment in biotechnology continues to be a bright spot for venture capital investment in San Diego.

In Q2 2016, the San Diego region ranked 7th out of the 18 U.S. regions tracked by the PricewaterhouseCoopers MoneyTree Report in terms of VC dollars received by regional companies. Total VC dollars grew over the second quarter outpaced national trends, 34 percent compared to 23 percent, with VC investment in the quarter more than tripling compared to a year ago. While VC dollars are trending down for the year relative to 2015, it is on pace to reach the \$1 billion dollar threshold for the second consecutive year.

The second quarter saw a total of over \$351 million of VC investment in the region coming from 19 deals, the fewest number going back to 2015.

More than \$233 million, or nearly two-thirds, of that activity was in the biotechnology industry, which has consistently drawn the bulk of VC dollars in recent quarters. Software received the next largest infusion of more than \$53 million, which is a modest increase from the previous four quarters.

Early stage funding continues to be the preferred channel, representing nearly 69 percent of all VC dollars for the quarter and compared to 24 percent of the total a year ago. Conversely, seed funding in the second quarter was only \$10.7 million, which is up from \$0 in the prior quarter, but significantly lower than the same period in 2015.

The Quarterly Snapshot series is brought to you by

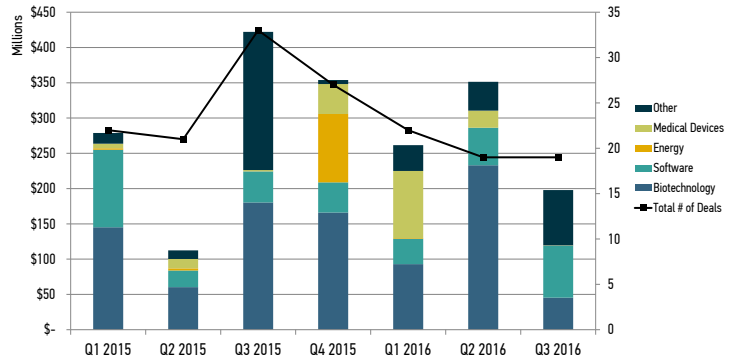


San Diego Venture Capital Funding by Industry (Q2 2015 - Q2 2016)

INDUSTRY	Q2 2015	Q2 2016	2016 YTD
Biotechnology	\$60,406,000	\$233,007,000	\$371,488,900
Consumer Products and Services	\$30,000	\$25,000,000	\$55,500,000
Electronics/Instrumentation	\$4,710,000	\$9,900,000	\$51,725,000
Financial Services	\$0	\$0	\$30,000,000
Healthcare Services	\$0	\$0	\$675,000
Industrial/Energy	\$3,000,000	\$0	\$960,000
IT Services	\$2,200,200	\$3,000,000	\$5,250,000
Media and Entertainment	\$5,212,000	\$2,970,000	\$9,478,000
Medical Devices and Equipment	\$13,358,000	\$24,243,000	\$119,893,200
Retailing/Distribution	\$0	\$0	\$3,109,000
Software	\$23,463,000	\$53,278,900	\$162,776,900
Total	\$112,379,200	\$351,398,900	\$810,856,000

Source: PricewaterhouseCoopers MoneyTree Report
Note: Only industries with funding in San Diego shown
2016 YTD reflects total from Q1 2016 - Q3 2016

Venture Capital Dollars Received in San Diego by Industry (2015 - Q3 2016)



San Diego Venture Capital Funding by Stage (Q2 2015 - 2016)

STAGE	Q2 2015	Q2 2016	2016 YTD
Startup/Seed	\$62,973,000	\$10,733,000	\$33,733,100
Early Stage	\$27,193,200	\$241,090,000	\$493,373,000
Expansion	\$12,922,000	\$72,307,900	\$100,079,900
Later Stage	\$9,291,000	\$27,268,000	\$183,670,000
Total	\$112,379,200	\$351,398,900	\$810,856,000

Source: PricewaterhouseCoopers MoneyTree Report



San Diego Regional EDC's mission is to maximize the region's economic prosperity and global competitiveness.

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