



SAN DIEGO
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ECONOMIC SNAPSHOT

A Summary of the San Diego Regional Economy



JANUARY 2014

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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 mostly covers data from the July-October quarter of 2013.

Highlights

San Diego County's October 2013 unemployment rate was down 1.5 percentage points from October 2012.

The San Diego region added 21,400 private sector jobs from October 2012 to October 2013.

The San Diego regional economy is likely to continue to modestly grow in 2014. Employment is expected to finally exceed pre-recession levels, while unemployment is expected to fall below or around six percent.

San Diego had the fifth lowest foreclosure rate among recorded major U.S. metropolitan areas in October 2013.

Industrial tenants absorbed more than one million square feet of space in Q3 2013, as the industrial real estate market continues to perform well.

San Diego firms were involved in 28 venture capital deals in Q3 2013 and received more than \$200 million in venture capital funding.

UNEMPLOYMENT

San Diego metro ranked 17th in unemployment rate in October 2013, with a rate slightly higher than the U.S. average. In July 2013, San Diego's unemployment rate had fallen below the U.S. average. Despite the seasonal climb in unemployment in the July-October quarter, San Diego experienced the third greatest year-over-year decline in the U.S. from October 2012 to October 2013.

San Diego has continued to fare better than other California metros and the state in terms of the unemployment rate. San Diego continues to maintain a lower unemployment rate than all other major California metros except San Francisco.

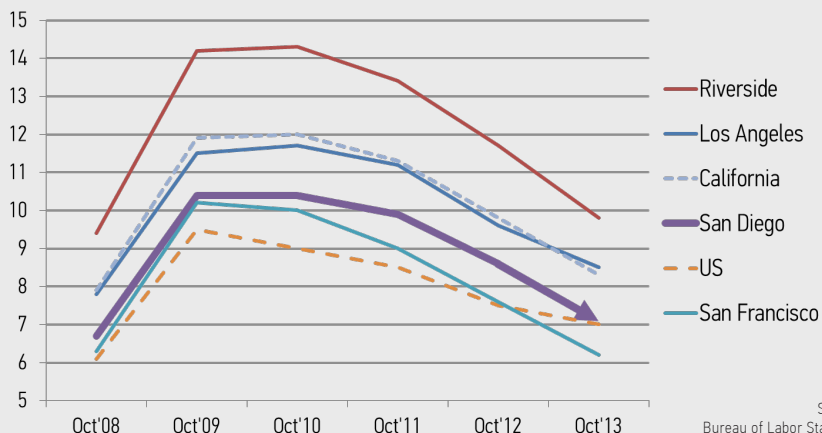
Unemployment Rate: 25 Most Populous US Metros

RANK	METRO	OCT-13	OCT-12	CHANGE
1	Minneapolis	4.1	5.0	-0.9
2	Washington D.C.	5.8	5.3	0.5
3	San Antonio	5.8	5.9	-0.1
4	Dallas	5.9	6.1	-0.2
5	Houston	5.9	6.1	-0.2
6	Denver	6.0	7.3	-1.3
7	Seattle	6.0	6.8	-0.8
8	Pittsburgh	6.1	6.7	-0.6
9	San Francisco	6.2	7.6	-1.4
10	Boston	6.3	5.8	0.5
11	Tampa	6.4	8.2	-1.8
12	Saint Louis	6.5	7.1	-0.6
13	Portland	6.5	7.6	-1.1
14	Phoenix	6.7	7.0	-0.3
15	Miami	7.0	8.2	-1.2
16	Baltimore	7.0	6.9	0.1
	U.S.	7.0	7.5	-0.5
17	San Diego	7.1	8.6	-1.5
18	Charlotte	7.5	9.3	-1.8
19	Philadelphia	7.6	8.4	-0.8
20	Atlanta	7.7	8.5	-0.8
21	New York	7.8	8.5	-0.7
22	Chicago	8.3	8.4	-0.1
23	Los Angeles	8.5	9.6	-1.1
24	Detroit	9.0	10.4	-1.4
25	Riverside	9.8	11.7	-1.9

San Diego experienced the third greatest year-over-year decline in unemployment.

Source:
Bureau of Labor Statistics

Unemployment Rate: California Comparison



Source:
Bureau of Labor Statistics



EMPLOYMENT

Private industry employment continued to grow in the San Diego economy, over both the 12-month period and the July-October quarter. Of the 23,000 jobs added from October 2012 to October 2013, more than 91.8 percent (21,400) of that job growth came from the private sector. The Leisure and Hospitality industry added the most jobs over the 12-month period, contributing nearly 6,200 jobs, despite losing nearly 2,500 jobs in the July-October quarter. Education and Health Services were additional key drivers in the economy, adding 5,900 jobs over the 12-month period, 5,000 of which were added in the July-October quarter.

The year-over-year employment growth in the construction sector is a promising sign that San Diego is building again. The industry added 4,400 jobs from October 2012 to October 2013, which is approximately a 7.7 percent annual job growth rate. This figure far exceeds the 1.8 percent job growth rate across the economy.

It is important to note that State and Local Government figures over the July-October quarter are skewed due to seasonal changes in public education employment. However, both showed steady growth over the 12-month period. Federal Government employment continued to decline, both over the July-October quarter and the 12-month period, likely due to heavily publicized federal budget issues.

Employment by Industry (in thousands)

INDUSTRY	OCT-13	JUL-13	OCT-12	CHANGE FROM PREV. QUARTER	CHANGE FROM PREV. YEAR
Total (Private and Government)	1295.7	1274.9	1272.4	20.8	23.3
Total Private	1064.8	1057.1	1043.4	7.7	21.4
<i>Professional and Business Services*</i>	223.3	221.3	220.3	2.0	3.0
Prof., Scientific, & Tech. Services*	123.8	122.5	122.3	1.3	1.5
Mgmt. of Companies & Enterprises	18.6	18.3	18.2	0.3	0.4
Administrative	80.9	80.5	79.8	0.4	1.1
<i>Trade, Transportation, and Utilities</i>	213.2	209.7	209	3.5	4.2
Wholesale Trade	44.3	44.2	44.7	0.1	-0.4
Retail Trade	139.8	136.8	136.1	3.0	3.7
Transportation and Utilities	29.1	28.7	28.2	0.4	0.9
<i>Leisure and Hospitality*</i>	168.4	170.9	162.2	-2.5	6.2
<i>Education and Health Services</i>	162.5	157.5	156.6	5.0	5.9
Education Services	31.3	28.3	29.7	3.0	1.6
Health Care and Social Assistance	131.2	129.2	126.9	2.0	4.3
<i>Manufacturing*</i>	91.7	91.6	93.9	0.1	-2.2
<i>Financial Activities</i>	69.0	71.2	69.6	-2.2	-0.6
Finance and Insurance	43.2	44.5	43.7	-1.3	-0.5
Real Estate and Rental and Leasing	25.8	26.7	25.9	-0.9	-0.1
<i>Construction</i>	61.6	60.1	57.2	1.5	4.4
<i>Other Services</i>	50.3	49.9	49.6	0.4	0.7
<i>Information*</i>	24.4	24.5	24.6	-0.1	-0.2
<i>Mining and Logging</i>	0.4	0.4	0.4	0.0	0.0
Government	230.9	217.8	229	13.1	1.9
Federal Government	45.8	46.2	46.9	-0.4	-1.1
State Government	44.7	40.8	43.1	3.9	1.6
Local Government	140.4	130.8	139	9.6	1.4

Source: Bureau of Labor Statistics

Italics = Supersector | Ordered by largest Supersectors

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

Total Employment Growth: 25 Most Populous US Metros

RANK	METRO	% CHANGE YEAR	
		OCT '12 - OCT '13	JUL '13 - OCT '13
1	Tampa	3.35%	1.87%
2	Dallas	3.14%	0.92%
3	Houston	2.97%	0.96%
4	Charlotte	2.96%	4.50%
5	Denver	2.80%	0.51%
6	Atlanta	2.62%	0.84%
7	Minneapolis	2.47%	0.54%
8	Seattle	2.32%	-0.05%
9	Phoenix	2.14%	3.35%
10	Boston	2.06%	1.19%
11	San Diego	1.83%	1.63%
12	Portland	1.81%	0.98%
13	Miami	1.80%	2.41%
14	Pittsburgh	1.73%	1.30%
	U.S.	1.69%	1.44%
15	New York	1.63%	0.52%
16	Los Angeles	1.60%	1.79%
17	San Francisco	1.44%	1.34%
18	Baltimore	1.36%	1.54%
19	Chicago	1.32%	0.66%
20	Riverside	1.16%	3.30%
21	San Antonio	1.07%	0.55%
22	Detroit	1.05%	1.80%
23	Philadelphia	0.82%	1.30%
24	Washington D.C.	0.67%	-0.24%
25	Saint Louis	0.44%	1.26%

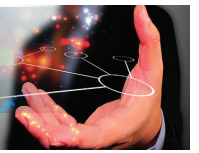
San Diego metro added 20,800 jobs from July to October 2013, exceeding the national growth average.

TOTAL EMPLOYMENT CHANGES

San Diego metro added approximately 23,300 jobs from October 2012 to October 2013. This represents an approximately 1.8 percent increase, which was the 11th highest growth rate among the 25 most populous U.S. metros. San Diego's growth rate exceeded the U.S. growth rate over both the past year and past quarter.

San Diego's July-October quarterly growth rate was the 8th highest increase among the 25 most populous U.S. metros. More than 89 percent of San Diego's 12-month job growth occurred in the July-October quarter, a period in which more than 20,000 jobs were added in the region. However, most of these jobs were from State and Local Government, due mostly to the return of public education staff after the summer break.

Source: Bureau of Labor Statistics
Ranked by % Change Year



SPOTLIGHT ON 2014

Economists and experts around San Diego have weighed in on the direction of the economy in 2014. University of San Diego recently hosted the 30th Annual San Diego County Economic Roundtable, which featured many of San Diego's top economic thinkers, and most agreed that 2014 will be a year for continued growth and recovery. In this release, we will walk through some predictions for San Diego's economy in 2014, along with some context around how San Diego has fared since the recession, focusing on the key areas of employment and housing.

EMPLOYMENT

Most regional experts agree that 2014 will be a year of moderate employment growth in San Diego. We will likely exceed pre-recession total employment levels later in the year, and unemployment will likely drop to below the pre-recession level of approximately six percent, which San Diego hasn't recorded since June 2008.

Figure 1 shows San Diego's total and private employment from 2006-2014. Total employment peaked before the recession at 1.322 million employees in San Diego in December 2007. Employment reached its lowest point in January 2010, with only 1.199 million employees in the region. During that period, San Diego lost 122,700 jobs. From January 2010 to November 2013, San Diego added 104,800 jobs. Based on a moderately conservative projection of 2.5 percent annual employment growth, San Diego is projected to finally exceed the pre-recession peak in late 2014. However, a variety of factors can change the expected pace of growth, such as local, state and federal policies.

Figure 2 demonstrates that the recession and recovery did not affect all sectors equally by highlighting the professional, scientific and technical services (PST) sector. Though PST does not perfectly capture the region's innovation economy, it is a strong indicator of growth and decline in innovation industries. As the chart shows, PST employment mirrors the economy as a whole from mid-2008 through late-2009. However, the recovery in that sector occurred more rapidly and had already exceeded peak pre-recession employment as early as July 2012. The projected continued expansion of the innovation economy is contingent on the region attracting and developing adequately skilled and talented employees for new positions.

Figure 1: San Diego MSA Employment, 2006-2014 (Projected)

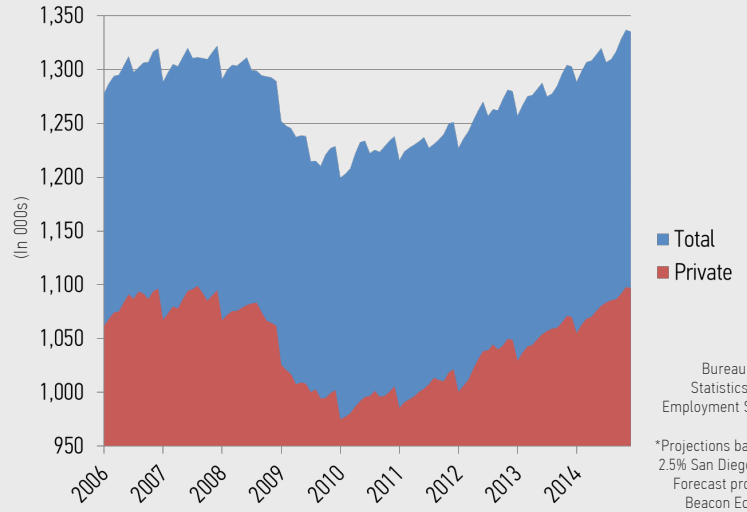


Figure 2: San Diego MSA Professional, Scientific and Technical (PST) Services Employment, 2006-2014 (Projected)

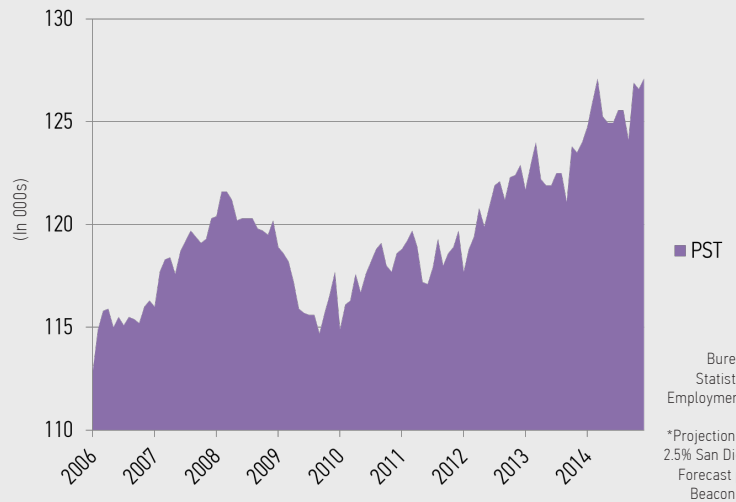
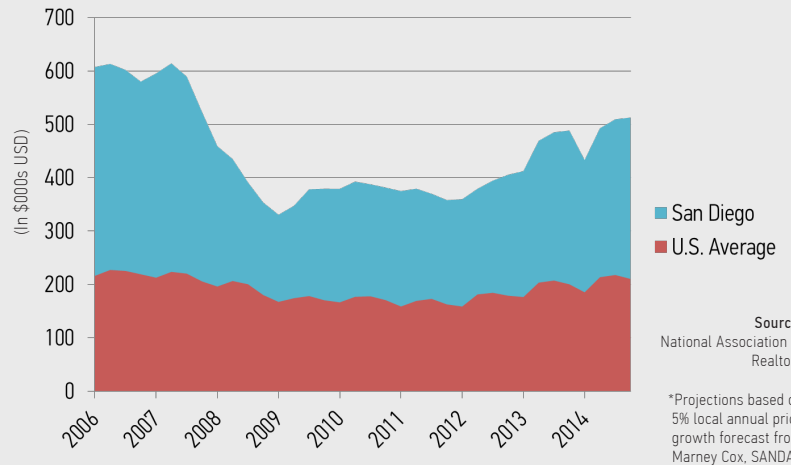


Figure 3: San Diego MSA Median Home Price, 2006-2014 (Projected)



The housing market bubble and burst disproportionately affected the San Diego market.

HOUSING

Housing played a significant role in the recession and will continue to play a role in the recovery. Figure 3 shows the region's median home price alongside the national average before and after the recession. As the chart demonstrates, San Diego was disproportionately affected by the housing bubble and burst in 2007 through 2008. Beginning in 2009, the housing recovery was much rockier until 2013, when the region experienced extreme annual growth rates as high as 23 percent. Experts predict that growth will slow in 2014 as the foreclosure market dries up and cash buyers get priced out. It is highly unlikely that the median home price will reach the \$600,000 range that was typical throughout 2006, as median home prices project to max out slightly above \$500,000 in 2014.



REAL ESTATE

FORECLOSURES

San Diego's foreclosure rate remained much lower than the U.S. average in October 2013, with only 2.38 out of every 10,000 homes foreclosed during that month. The region had the fifth lowest foreclosure rate in the U.S. and the fourth greatest decline from October 2012 to October 2013. Foreclosures rose in the July-October quarter, but historical data indicates this is a seasonal expectation.

Foreclosure Rate: 25 Most Populous US Metros

RANK	METRO	RATE OCT '13	POINT CHANGE PREV. QUARTER	POINT CHANGE PREV. YEAR
1	Denver	0.30	-0.04	-0.30
2	Pittsburgh	1.15	0.32	-1.52
3	New York	1.18	0.27	0.57
4	Philadelphia	2.34	-0.24	-0.20
5	San Diego	2.38	0.01	-5.17
6	San Francisco	2.42	0.02	-4.82
7	Los Angeles	2.45	-0.32	-4.88
8	Portland	3.57	-0.12	-1.16
9	Minneapolis	3.79	-2.22	-7.24
10	Washington D.C.	3.80	0.81	0.60
11	Baltimore	5.17	1.31	2.76
	U.S.	5.60	0.29	-1.06
12	Riverside	5.78	-0.12	-11.42
13	Dallas	6.15	1.03	-1.88
14	Phoenix	6.78	-1.20	-11.68
15	Seattle	9.12	-0.81	2.97
16	Charlotte	11.24	1.33	1.22

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

San Diego's quarterly home price growth rate is beginning to slow, but still exceeds U.S. average growth.

HOME PRICES

San Diego remains one of the most expensive for-sale home markets in the U.S. and prices continued to increase in the July-October 2013 quarter, according to National Association of Realtors. From Q2 2013 to Q3 2013, home prices grew about 3.4 percent in the San Diego region. While this growth is still above average, it's slower than the growth between previous quarters and much slower than the 23 percent annual growth the region experienced between Q3 2012 and Q3 2013. Although this 23 percent 12-month price surge was much higher than the national average, it was the lowest percentage change among major California metros.

Median Home Price: 25 Most Populous US Metros

RANK	METRO	PRICE 2013 Q3	% CHANGE FROM PREV. QUARTER	% CHANGE FROM PREV. YEAR
1	San Francisco	\$704,990	-0.2%	24.1%
2	San Diego	\$485,040	3.4%	23.0%
3	Los Angeles	\$448,920	18.6%	26.2%
4	New York	\$405,400	1.4%	3.4%
5	Boston	\$393,700	3.0%	7.6%
6	Washington D.C.	\$392,500	-2.6%	8.3%
7	Seattle	\$354,700	2.6%	15.9%
8	Denver	\$286,900	0.1%	10.2%
9	Portland	\$276,200	4.5%	15.5%
10	Baltimore	\$266,500	1.4%	4.8%
11	Miami	\$252,200	0.5%	21.3%
12	Riverside	\$249,050	3.9%	28.4%
13	Philadelphia	\$231,600	1.9%	3.5%
14	Chicago	\$209,000	3.8%	13.3%
15	Minneapolis	\$208,000	4.2%	14.6%
	U.S.	\$207,300	1.9%	12.5%
16	Phoenix	\$191,700	4.6%	25.0%
17	Houston	\$186,600	-1.3%	11.4%
18	Charlotte	\$183,800	2.1%	11.1%
19	Dallas	\$181,300	-0.3%	9.7%
20	San Antonio	\$175,000	-0.3%	8.1%
21	Atlanta	\$152,300	6.3%	41.8%
22	Tampa	\$151,800	4.2%	10.0%
23	Saint Louis	\$143,700	0.6%	8.5%

Source: National Association of Realtors
Note: Pittsburgh and Detroit not available

Industrial tenants absorbed more than 1 million square feet of space in Q3 2013.

OFFICE & INDUSTRIAL SNAPSHOT

Office vacancy rates fell throughout the San Diego region in Q3 2013, with county-wide rates dropping 0.2 percentage points from Q2 2013. Rates have been steadily declining since mid-2009. Q3 2013 is the fourth consecutive quarter of positive absorption county-wide. While asking rents declined from Q2 to Q3 2013 in all sub-regions except South County, the decline appears to be seasonal, since asking rates are up 2.2 percent from Q3 2012.

San Diego's industrial market continues to perform well, with vacancy rates declining in all areas except South County. Absorption rates are way up in all sub-regions and asking rents are up in North and Central County.

Real Estate Snapshot: San Diego County (Q3 2013)

AREA/SUB-REGION	OFFICE		AVERAGE ASKING RENT	INDUSTRIAL		AVERAGE ASKING RENT
	VACANCY RATE	ABSORPTION (SF)		VACANCY RATE	ABSORPTION (SF)	
San Diego County	17.7%	143,790	\$2.73	8.7%	1,098,577	\$0.80
North County	20.1%	28,210	\$2.33	8.9%	213,824	\$0.75
Central County	17.4%	(20,591)	\$3.03	6.9%	548,900	\$0.98
South County	17.1%	136,171	\$2.46	13.1%	335,853	\$0.58

Source: Cassidy Turley Market Report
Note: Monthly asking rates converted to triple net (NNN). Vacancy Rate includes direct and sublease. Net absorption excludes sublease. Green indicates lower vacancy, positive absorption or higher rents.



VENTURE CAPITAL

In Q3 2013, the San Diego region ranked 9th out of the 18 U.S. regions tracked by the PricewaterhouseCoopers MoneyTree Report in terms of VC dollars invested in regional companies. Total VC dollars were down more than \$46 million in Q3 2013 from Q2 2012. Every quarter in 2013 has been lower than that same quarter recorded in 2012. Barring a very good fourth quarter, 2013 is poised to finish with significantly lower total VC investment than 2012.

Biotechnology remains the primary industry involved in VC activity. While biotechnology firms attracted nearly \$100 million in Q3 2013, this figure is lower than it has been in previous years. Companies in all industries have struggled to match the expansion and later stage funds recorded in previous years. However, as Dave Titus of the San Diego Venture Group points out, eight San Diego companies went public in 2013, which makes 2013 one of the strongest in 10-15 years. This means in many cases biotechnology companies did not raise later stage funds that they otherwise would have needed to raise.

San Diego companies were involved in 28 VC deals in Q3 2013. San Diego based Suneva Medical Inc. received \$10 million in expansion funds, the region's first venture deal in healthcare in 2013. Biotechnology firm Otonomy received \$46 million in early stage funds, the largest deal of the quarter. Other notable biotechnology deals include ViaCyte and Tragara Pharmaceuticals, who each received \$12 million. 3D Robotics, a San Diego firm who develops unmanned aerial vehicle (UAV) technology received \$30 million in expansion funding.

San Diego based Suneva Medical Inc. received \$10 million in expansion funds in Q3, the region's first venture deal in healthcare in 2013.

San Diego Venture Capital Funding by Industry (Q3 2012 - Q3 2013)

INDUSTRY	Q3 2013	Q3 2012	Prev 4Q Total
Biotechnology	\$98,118,900	\$150,213,000	\$409,135,700
Computers and Peripherals	\$0	\$0	\$8,000,000
Electronics/Instrumentation	\$7,500,000	\$0	\$7,500,000
Healthcare Services	\$10,000,000	\$0	\$45,200,000
IT Services	\$0	\$0	\$25,246,900
Industrial/Energy	\$30,000,100	\$30,146,000	\$40,195,100
Media and Entertainment	\$1,100,000	\$0	\$14,198,000
Medical Devices and Equipment	\$24,769,200	\$42,838,000	\$127,122,600
Networking and Equipment	\$15,000,000	\$5,250,000	\$19,980,000
Semiconductors	\$0	\$1,000,000	\$0
Software	\$18,738,200	\$22,510,000	\$104,487,900
Total	\$205,226,400	\$251,957,000	\$801,066,200

Source: PricewaterhouseCoopers MoneyTree Report
Note: Only industries with funding in Q3 2012 - Q3 2013 period in San Diego shown
Prev 4Q Total reflects total from Q4 2012 - Q3 2013

San Diego Venture Capital Funding by Stage (Q3 2012 - Q3 2013)

STAGE	Q3 2013	Q3 2012	Prev 4Q Total
Startup/Seed	\$0	\$9,000,000	\$514,000
Early Stage	\$126,839,500	\$75,408,000	\$393,239,900
Expansion	\$39,834,000	\$56,888,000	\$133,724,900
Later Stage	\$38,552,900	\$110,661,000	\$206,860,400
Total	\$205,226,400	\$251,957,000	\$734,339,200

Source: PricewaterhouseCoopers MoneyTree Report
Note: Only industries with funding in Q3 2012 - Q3 2013 period in San Diego shown
Prev 4Q Total reflects total from Q4 2012 - Q3 2013

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