SAN DIEGO REGIONAL EDC

SAN DIEGO'S QUARTERLY ECONOMIC SNAPSHOT

February 2017

SAN DIEGO HIGHLIGHTS

9th LARGEST DROP IN UNEMPLOYMENT RATE

12th LARGEST EMPLOYMENT GROWTH

8th LARGEST HOME PRICE GROWTH

8th LOWEST FORECLOSURE RATE

IN THIS ISSUE

Every quarter, San Diego Regional EDC analyzes key economic indicators that are important to understanding the regional economy and the region's standing relative to the 25 most populous metropolitan areas in the U.S.

This issue covers data from Q4 2016.

UNEMPLOYMENT

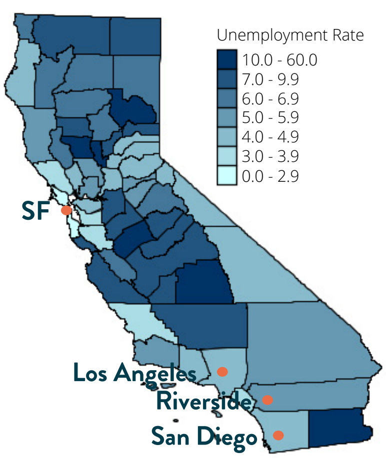
- The San Diego region had the 14th lowest unemployment rate amongst the top 25 metros. This ranking is down four spots from Q2 2016.
- The region's rate of 4.2 percent continues to be lower than the national and state rates of 4.5 and 5.0 percent, respectively.
- The region's unemployment rate decreased by 0.5 percentage points between Q3 and Q4 2016, the 9th largest decrease among major metros.
- San Diego and Los Angeles experienced the same percentage point decrease in unemployment rate between Q3 and Q4. However, San Diego continues to have a slightly lower rate than its neighbor.

Unemployment Rate: 25 Most Populous U.S. Metros Q3 & Q4 2016

Rank	Metro	Q4 2016	Q3 2016	PP Change
1	Boston	2.5	3.1	-0.6
2	Denver	2.6	2.9	-0.3
3	San Francisco	3.4	3.8	-0.4
4	Washington DC	3.4	3.8	-0.4
5	Minneapolis	3.6	3.3	0.3
6	Dallas	3.7	4.1	-0.4
7	San Antonio	3.7	4.1	-0.4
8	Baltimore	4.0	4.1	-0.1
9	Saint Louis	4.0	4.7	-0.7
10	Portland	4.0	4.8	-0.8
11	Seattle	4.0	4.4	-0.4
12	New York	4.1	5.2	-1.1
13	Phoenix	4.1	4.8	-0.7
14	**San Diego**	**4.2**	**4.7**	**-0.5**
15	Orlando	4.2	4.5	-0.3
16	Los Angeles	4.4	4.9	-0.5
17	Philadelphia	4.4	5.2	-0.8
18	Tampa	4.5	4.7	-0.2
-	US	4.5	4.8	-0.3
19	Charlotte	4.6	4.6	0.0
20	Detroit	4.8	5.4	-0.6
21	Miami	4.9	5.2	-0.3
22	Atlanta	5.0	5.0	0.0
23	Riverside	5.2	6.2	-1.0
24	Houston	5.3	5.7	-0.4
25	Chicago	5.4	5.2	0.2

Source: Bureau of Labor Statistics
Note: Data not seasonally adjusted. Quarter-end monthly data.

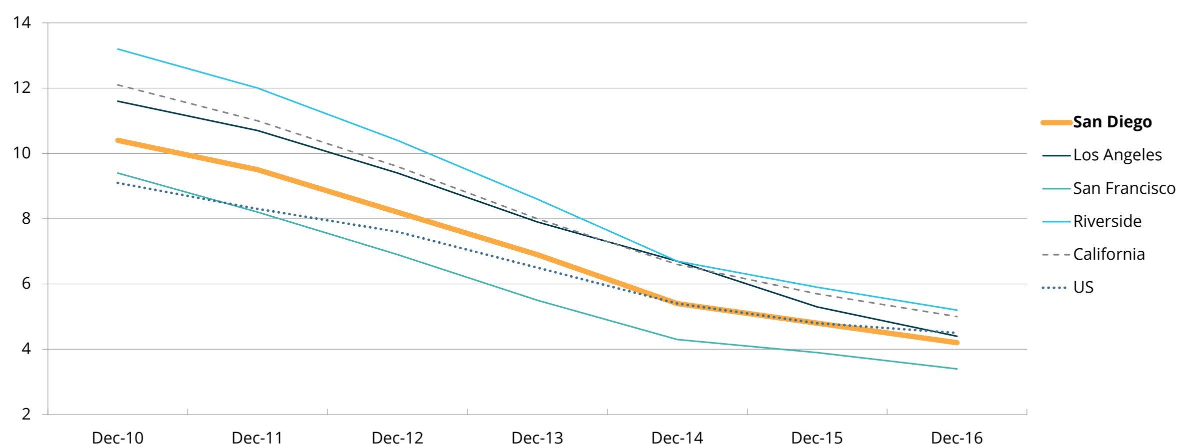
CALIFORNIA'S UNEMPLOYMENT BY COUNTY



Source: Bureau of Labor Statistics
Note: Data not seasonally adjusted.

HISTORICAL UNEMPLOYMENT COMPARISONS

Year-End Unemployment Rate
San Diego & Key California Metros

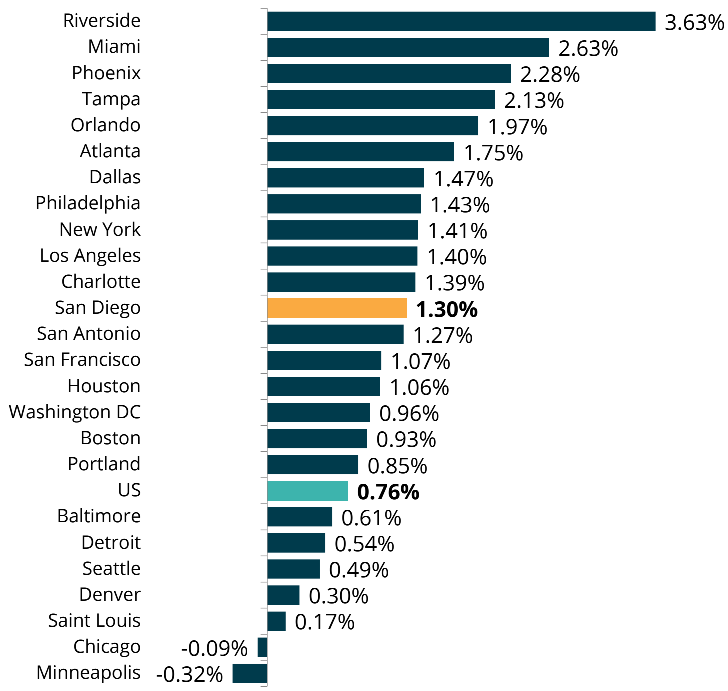


Source: Bureau of Labor Statistics
Note: Data not seasonally adjusted.

EMPLOYMENT

- San Diego's labor market shows steady growth, adding 18,500 jobs in Q4 2016 - a 1.3 percent increase.
- Year-over-year, the region has added 28,900 jobs - a 2.0 percent increase.
- The trade, transportation and utilities supersector was responsible for adding 11,000 jobs, or 59.5 percent of the total number of jobs created in Q4. A significant majority of these jobs were created within the retail sector.
- With the exception of manufacturing, all of the region's sectors experienced year-over-year growth. Leading the way was real estate and rental leasing which increased by 6.1 percent or 1,700 jobs.
- The largest quarter-to-quarter growth was seen in state government, with a 7.5 percent growth, or 3,400 jobs.
- Other sectors driving the region's employment growth include healthcare and social assistance, professional, scientific and technical services (PST), and education services, together accounting for 54 percent of private growth in Q4.
- With an employment growth rate of 3.6 percent, total goverment jobs grew 2.8 percentage points more than total private jobs in Q4. This growth rate translates into an additional 8,500 government jobs.

Percent Change in Employment
Q3 to Q4 2016



Source: Bureau of Labor Statistics
Note: Changes in quarter-end monthly data.

TOP OCCUPATIONS HIRED

3,137
Heavy & Tractor-Trailer Truck Drivers

2,739
Registered Nurses

2,083
Retail Salespersons

1,679
Supervisors of Retail Sales Workers

1,660
Applications Software Developers

Source: EMSI, Job Posting Analytics, Q4 2016

EMPLOYMENT CHANGES BY SECTOR

Employment by Sector (in thousands)	Q4 2016	Q3 2016	Q4 2015	Change Prev. QTR	Change Prev. YR	% Change Prev. QTR	% Change Prev. YR
Total (Private and Government)	**1,441.3**	**1,422.8**	**1,412.4**	**18.5**	**28.9**	**1.3%**	**2.0%**
Total Private	**1,194.4**	**1,184.4**	**1,171.8**	**10.0**	**22.6**	**0.8%**	**1.9%**
Professional and Business Services	239.5	239.4	234.0	0.1	5.5	0.0%	2.4%
Prof., Scientific, and Tech. Services*	131.2	129.3	127.4	1.9	3.8	1.5%	3.0%
Mgmt. of Companies and Enterprises	22.9	22.7	22.4	0.2	0.5	0.9%	2.2%
Administrative	85.4	87.4	84.2	(2.0)	1.2	-2.3%	1.4%
Trade, Transportation, and Utilities	231.3	220.3	228.8	11.0	2.5	5.0%	1.1%
Wholesale Trade	46.1	45.4	44.0	0.7	2.1	1.5%	4.8%
Retail Trade	155.3	146.1	155.3	9.2	-	6.3%	0.0%
Transportation and Utilities	29.9	28.8	29.5	1.1	0.4	3.8%	1.4%
Education and Health Services	204.9	201.4	199.2	3.5	5.7	1.7%	2.9%
Education Services	31.2	29.6	30.4	1.6	0.8	5.4%	2.6%
Healthcare and Social Assistance	173.7	171.8	168.8	1.9	4.9	1.1%	2.9%
*Leisure and Hospitality**	187.8	194.3	182.4	(6.5)	5.4	-3.3%	3.0%
*Manufacturing**	105.1	105.7	106.7	(0.6)	(1.6)	-0.6%	-1.5%
Financial Activities	75.1	73.3	72.9	1.8	2.2	2.5%	3.0%
Finance and Insurance	45.5	44.9	45.0	0.6	0.5	1.3%	1.1%
Real Estate and Rental and Leasing	29.6	28.4	27.9	1.2	1.7	4.2%	6.1%
Construction	71.8	71.9	71.4	(0.1)	0.4	-0.1%	0.6%
Other Services	54.3	53.7	52.2	0.6	2.1	1.1%	4.0%
*Information**	24.2	24.0	23.8	0.2	0.4	0.8%	1.7%
Mining and Logging	0.4	0.4	0.4	-	-	0.0%	0.0%
Total Government	**246.9**	**238.4**	**240.6**	**8.5**	**6.3**	**3.6%**	**2.6%**
Federal Government	47.2	46.7	46.7	0.5	0.5	1.1%	1.1%
State Government	48.7	45.3	47.0	3.4	1.7	7.5%	3.6%

Source: Bureau of Labor Statistics
Notes: Italics denote supersectors. Asterisk (*) denotes sectors strongly associated with San Diego's traded economies. Quarter-end monthly data.

RESIDENTIAL REAL ESTATE

HOME PRICES

San Diego's housing market remains one of the most expensive in the nation according to the National Association of Realtors. The median home price increased 0.6 percent from the previous quarter and 8.4 percent from the previous year - the 8th fastest pace among the 25 largest metros.

Median Home Price for Select U.S. Metros (Q4 2016)

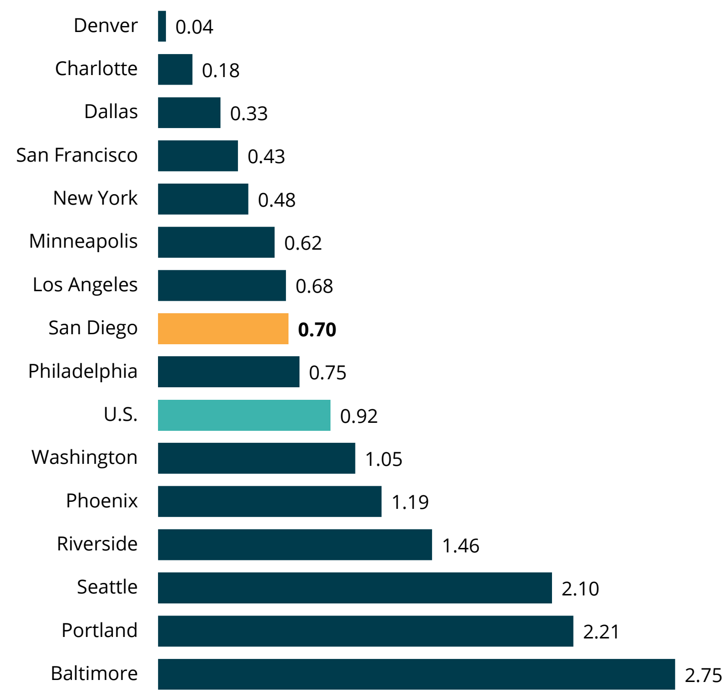
RANK	METRO	PRICE Q4 2016	% CHANGE FROM PREV. QUARTER	% CHANGE FROM PREV. YEAR
1	San Francisco	837,500	0.8%	7.3%
2	**San Diego**	**593,000**	**0.6%**	**8.4%**
3	Los Angeles	503,400	-6.2%	4.5%
4	Seattle	423,300	0.3%	9.9%
5	Boston	417,400	-4.1%	6.0%
6	Washington DC	384,300	-2.3%	3.9%
7	New York	382,300	-3.8%	2.4%
8	Denver	381,600	-1.3%	7.9%
9	Portland	354,700	-1.1%	11.3%
10	Riverside	317,700	-0.4%	7.5%
11	Miami	310,500	-1.4%	8.9%
12	Baltimore	245,900	-7.0%	5.3%
13	Phoenix	235,600	0.1%	6.6%
14	Minneapolis	235,200	-2.1%	5.9%
-	U.S.	235,000	-2.6%	5.7%
15	Dallas	230,600	0.0%	11.8%
16	Orlando	227,700	-1.0%	11.1%
17	Chicago	226,500	-7.2%	8.0%
18	Houston	224,500	3.3%	7.3%
19	Philadelphia	221,600	-5.6%	3.7%
20	San Antonio	206,300	-2.8%	7.4%
21	Charlotte	205,800	-4.7%	10.3%
22	Tampa	205,000	0.0%	14.5%
23	Atlanta	182,900	-4.5%	8.1%
24	Saint Louis	160,800	-5.4%	6.1%

Source: National Association of Realtors
Note: Detroit not available.

FORECLOSURES

The foreclosure rate in the San Diego region remained lower than the U.S. in Q4 2016, with 0.7 homes out of every 10,000 foreclosing during the quarter. The region's foreclosure rate remained lower than Riverside's and is now slighly higher than Los Angeles'.

Foreclosure Rate for Select U.S. Metros (Q4 2016)

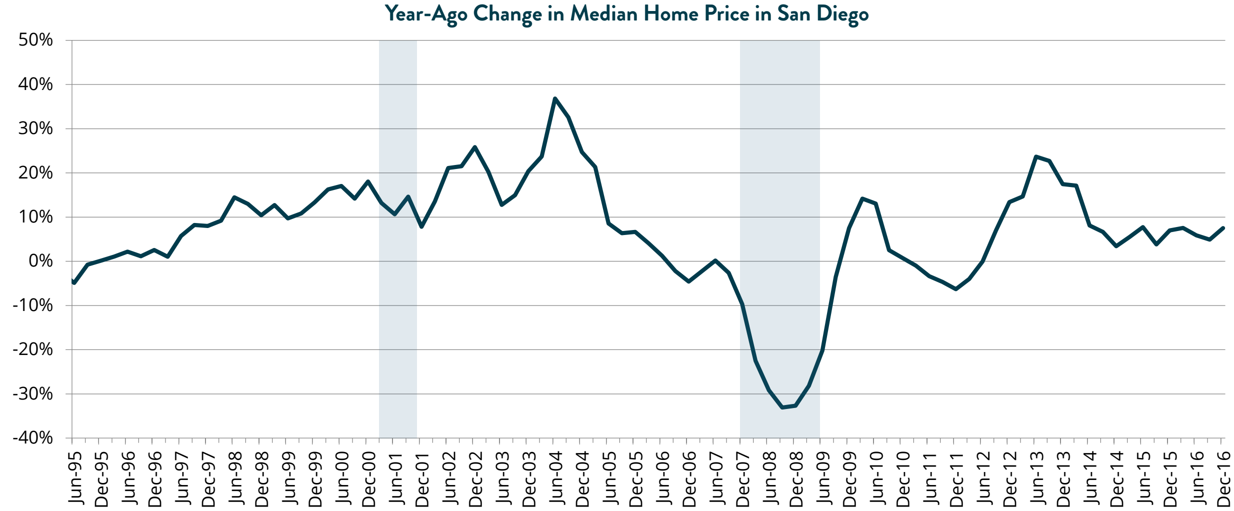


Source: Zillow
Note: Rate is per 10,000 homes. Ten major metros not reported.

SAN DIEGO HOME PRICE TRENDS

The broader trend in permitting, away from single-family in favor of multi-family, continues due to development costs and land constraints. Single-family housing permits ended the quarter down 12.9 percent, whereas permits for multi-family housing rose sharply, up 127.7 percent. Compared to a year-ago, single-family permits declined 35.4 percent while multi-family is down 3.2 percent. This means slower construction and additional upward pressure on prices. The median home in San Diego, continues to appreciate above its historical average of 5.2 percent, but has slowed from the double-digit rates of 2013 and 2014.

Year-Ago Change in Median Home Price in San Diego



Source: California Association of Realtors

COMMERCIAL REAL ESTATE

OFFICE

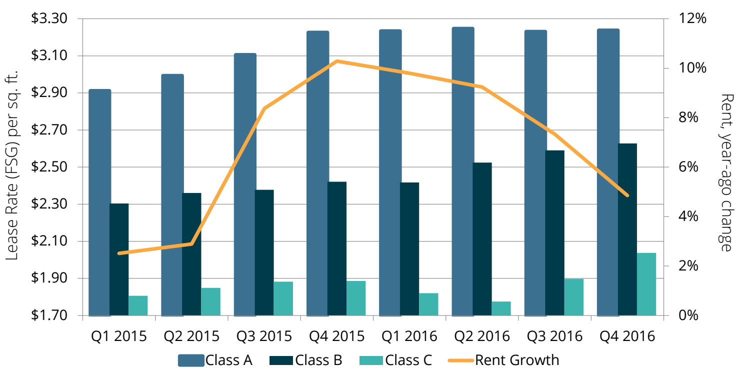
11.5%	916,819 sq. ft.	341,424 sq. ft.	$2.81 FSG
Vacancy Rate	Net Absorption	Construction	Lease Rate

Note: Arrows indicate the quarterly directional change of an indicator.

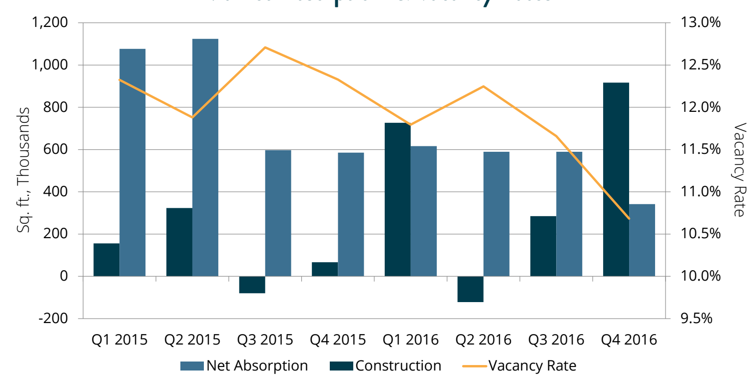
The San Diego office market had a strong year overall and a particularly strong Q4. Vacancy fell to a new historic low in Q4, while average asking rates increased from the previous quarter and the previous year. A major new construction delivery and a few large deals produced a strong quarter in terms of net absorption. The year closed with a new post-recession high of 1.8 million square feet in absorption, with half coming in Q4, driving the overall vacancy rate down 98 basis points year-over-year to 10.7 percent.

The average asking rate increased $0.04 quarter-over-quarter to $2.81 full service gross (FSG). Year-over-year growth was high at $0.15, but less than the $0.26 increase in Q4 2015. Both the overall rate and the Class B rate have steadily increased over the past two years. The Class A rate stabilized in 2016 after sharp increases in 2015. Rent growth slowed from a double-digit pace a year-ago to 4.9 percent.

Asking Lease Rate & Rent Growth



Market Absorption & Vacancy Rates



INDUSTRIAL

4.5%	(89,390) sq. ft.	788,317 sq. ft.	$1.13 NNN
Vacancy Rate	Net Absorption	Construction	Lease Rate

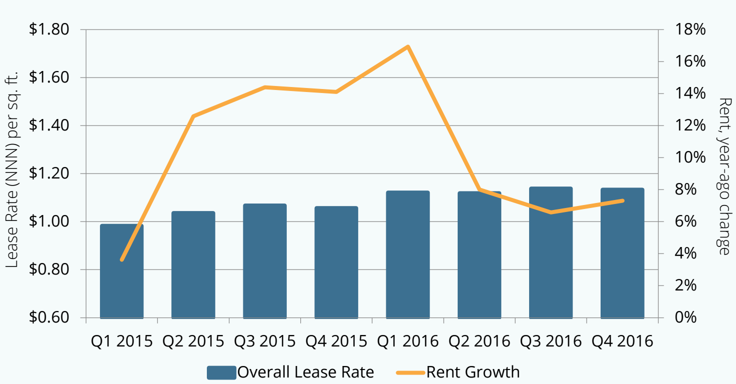
Note: Arrows indicate the quarterly directional change of an indicator.

The San Diego industrial market had a historic 2016, producing an all-time low in vacancy and all-time high in asking rates.

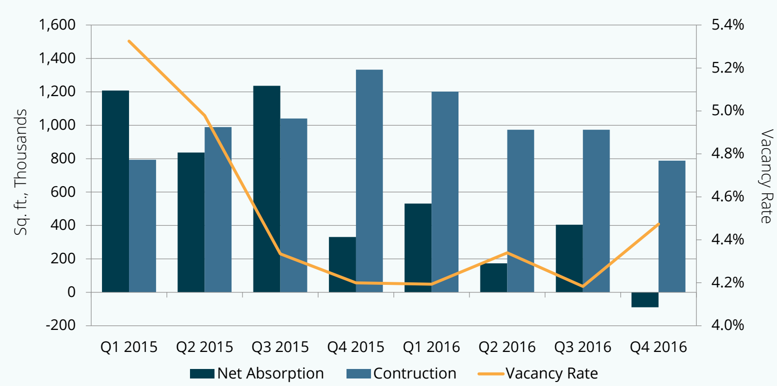
However, Q4 showed a change of pace given the tightness of the market. For the first time in 17 consecutive quarters, the industrial market showed negative net absorption. The negative absorption, combined with more than 200,000 square feet of vacant deliveries, drove the total vacancy rate up 30 basis points to 4.5 percent – the largest increase in seven years.

Overall asking rates decreased $0.01 quarter-over-quarter to $1.13 triple net (NNN), down from a record high. Looking ahead, slowing employment growth for industrial users in San Diego may soften demand if the trend continues. In addition, 800,000 square feet of space is under construction and may further impact asking rates and rent growth, which slowed markedly in 2016.

Asking Lease Rate & Rent Growth



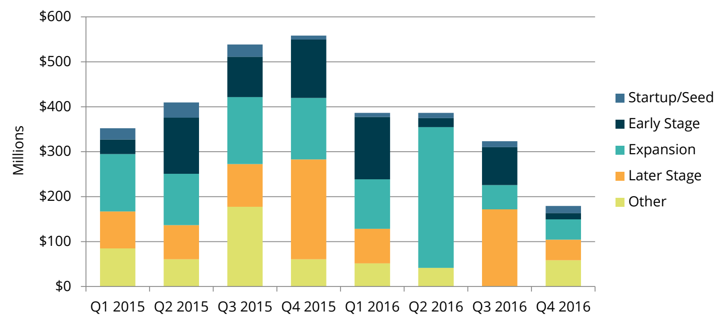
Market Absorption & Vacancy Rates



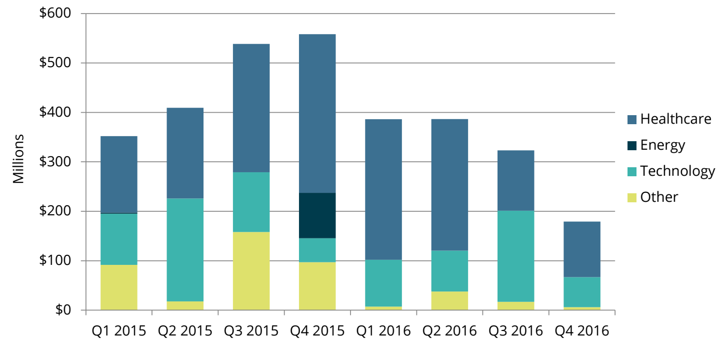
VENTURE CAPITAL

- In Q4 2016, the San Diego region ranked 11th out of the 17 U.S. regions tracked by the PricewaterhouseCoopers MoneyTree Report in terms of VC dollars received by regional companies; San Diego ranked 12th in number of deals.
- Total VC dollars declined substantially in Q4, down 44.5 percent from the previous quarter and 70.4 percent when compared to the same period a year ago.
- Q4 saw a total of over $179 million of VC investment in the region coming from 20 deals, the fewest number going back to 2015. Nearly two-thirds, or $112.5 million, of that went to the healthcare sector, which includes biotech and medical devices, and has consistently drawn the bulk of VC dollars in recent quarters. The technology sector received $60.5 million, primarily to internet-related companies.
- Expansion and later stage funding were the preferred channels, representing $90.9 million or half of all VC dollars for the quarter. Conversely, seed and early stage funding in Q4 was only $29.8 million.
- The largest investments were in disease diagnosis, internet software and services and biotechnology companies. The top two deals accounted for 44.1 percent of the region's total investment for the quarter, or $79 million.

Venture Capital Dollars Received in San Diego by Funding Stage



Venture Capital Dollars Received in San Diego by Sector



Source: PwC/CB Insights MoneyTree™ Report

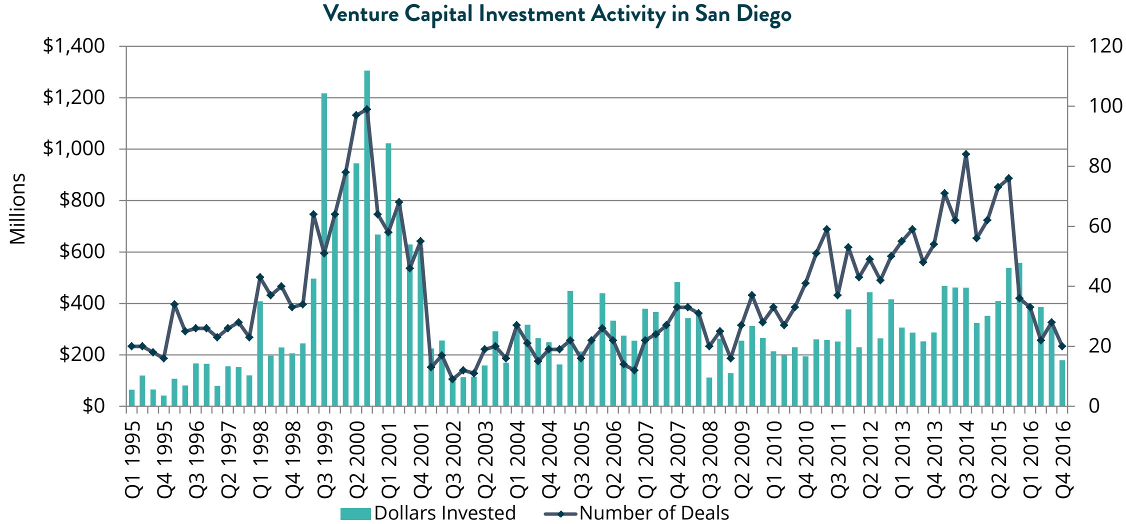
TOP VENTURE CAPITAL DEALS

$43M	$36M	$30M	$11M	$9.7M
Astute Medical Disease Diagnosis	Genalyte Disease Diagnosis	Classy Internet Software & Services	Allele Biotechnology Biotechnology	MD Revolution Internet Software & Services

Source: PwC/CB Insights MoneyTree™ Report, Q4 2016

HISTORICAL VENTURE CAPITAL ACTIVITY

Venture Capital Investment Activity in San Diego



Source: PwC/CB Insights MoneyTree™ Report
Note: PwC changed its data sourcing in Q4 leading to major upward revisions, as well as changes in sectoral and stage funding definitions. PwC's methodolgy can be found here.

For more information, please contact:
Kirby Brady, Research Director
kb@sandiegobusiness.org | 619-234-8484
sandiegobusiness.org

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