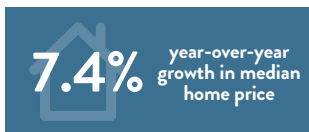
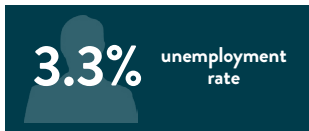


SAN DIEGO HIGHLIGHTS



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.

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This issue covers data from **Q4 2017**.

UNEMPLOYMENT

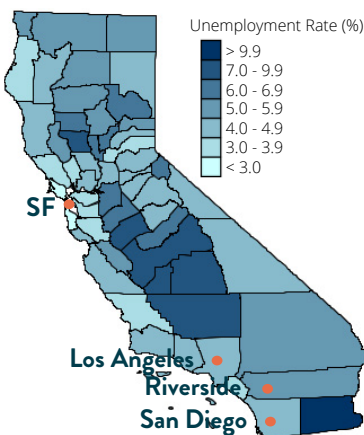
- The region's unemployment rate was 3.3 percent in Q4, the lowest the region has seen in the last 17 years and down from 4.1 percent in Q3. In fact, the 0.8 percentage point decrease placed the region as the 7th lowest unemployment rate among the 25 most populous metros, up ten spots from the previous quarter.
- San Diego's unemployment rate remained below the state and national rates of 4.2 and 3.9 percent, respectively.
- When compared to its regional neighbors, San Diego's unemployment rate continued to fare better than both Riverside (4.1 percent) and Los Angeles (3.9 percent).
- Year-over-year, the region's unemployment rate has decreased by 0.8 percentage points.

Unemployment Rate - 25 Most Populous US Metros

Rank	Metro	Q4 2017	Q3 2017	PP Change
1	San Francisco	2.7	3.3	-0.6
2	Boston	2.8	3.3	-0.5
3	Denver	2.9	2.2	0.7
3	Minneapolis	2.9	2.8	0.1
5	San Antonio	3.0	3.2	-0.2
6	Dallas	3.1	3.4	-0.3
7	Orlando	3.3	3.2	0.1
7	San Diego	3.3	4.1	-0.8
7	Washington DC	3.3	3.6	-0.3
10	Saint Louis	3.4	3.4	0.0
10	Tampa	3.4	3.3	0.1
12	Portland	3.6	3.9	-0.3
13	Baltimore	3.9	3.6	0.3
13	Los Angeles	3.9	4.6	-0.7
13	Miami	3.9	4.0	-0.1
13	Phoenix	3.9	4.0	-0.1
-	US	3.9	4.1	-0.2
17	New York	4.0	4.7	-0.7
18	Atlanta	4.1	4.0	0.1
19	Riverside	4.1	5.4	-1.3
19	Seattle	4.1	4.1	0.0
19	Charlotte	4.2	3.8	0.4
22	Detroit	4.2	4.4	-0.2
22	Philadelphia	4.2	4.6	-0.4
22	Houston	4.3	4.8	-0.5
25	Chicago	4.7	4.7	0.0

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

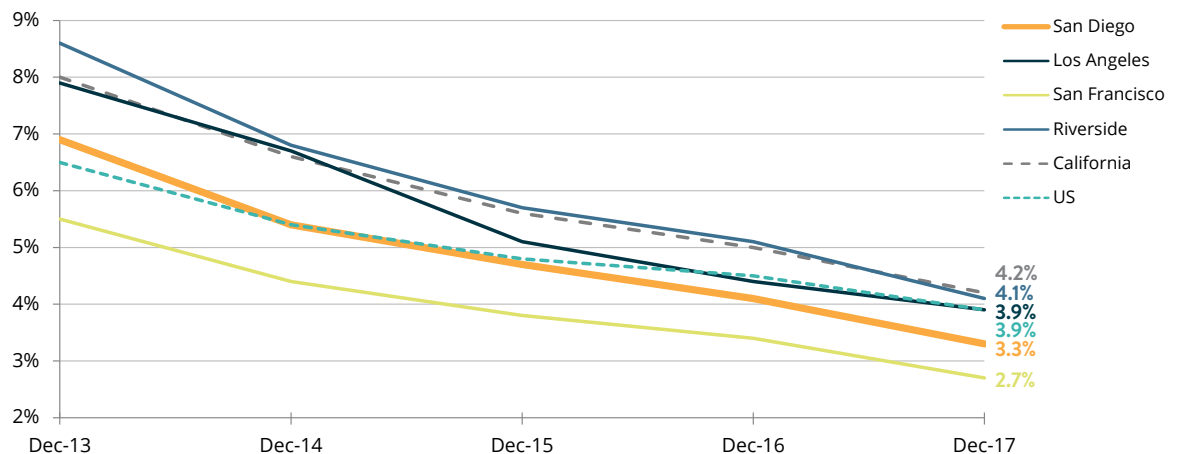
CALIFORNIA'S UNEMPLOYMENT BY COUNTY



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

UNEMPLOYMENT TRENDS

Quarter-End Unemployment Rate San Diego & Select California Metros

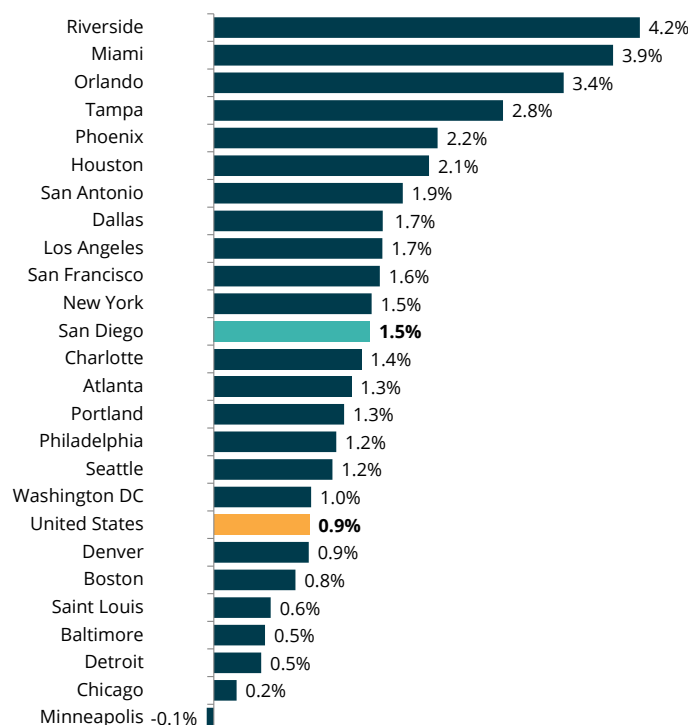


Source: Bureau of Labor Statistics
Note: Data not seasonally adjusted. Quarter-end monthly data.

EMPLOYMENT

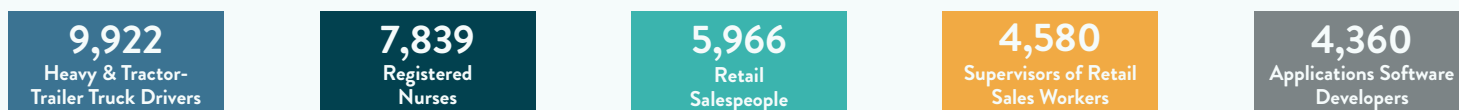
- Recovering from a decrease in employment during Q3, San Diego, and the overwhelming majority of the most populous metros, experienced an increase in employment during Q4. The region's total nonfarm employment grew 22,100, or 1.5 percent during the quarter. Compared to a year ago, nonfarm employment was up 21,100, or 1.5 percent.
- Transportation and utilities recorded the largest quarterly *gain* and the largest year-over-year *loss*. Although 9,500 jobs were added during the quarter, 2,300 jobs were lost over the year.
- With the holiday season in full bloom, the retail sector continued to grow, adding 7,500 jobs in Q4. Other strong contributors to the quarterly employment growth were professional, scientific, and technical services and state and local government, together adding 13,200 jobs.
- With the summer season officially drawing to a close at the beginning of Q4, the leisure and hospitality sector recorded the largest quarterly decrease, losing 1,500 jobs. Not far behind were the construction, administrative, and other services sectors, together losing 3,600 jobs.
- There were 1,048,948 total job postings during the quarter, of which 179,618 were unique. Heavy and tractor-trailer truck drivers topped the charts, with nearly 10,000 unique job postings during the quarter. Registered nurses remained in the top three, indicating continued demand in one of the region's fastest growing sectors - healthcare.

Quarter-Over-Quarter Change in Employment 25 Most Populous US Metros



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

TOP IN-DEMAND OCCUPATIONS BY JOB UNIQUE JOB POSTINGS



Source: EMSI, Job Posting Analytics, Q4 2017

EMPLOYMENT CHANGES BY SECTOR

Employment by Sector (in thousands)	Q4 2017	Q3 2017	Q4 2016	Change Prev. QTR	Change Prev. YR	% Change Prev. QTR	% Change Prev. YR
Total (Private and Government)	1,465.7	1,443.6	1,444.6	22.1	21.1	1.5%	1.5%
Total Private	1,213.0	1,200.7	1,195.7	12.3	17.3	1.0%	1.4%
<i>Professional and Business Services</i>	236.4	233.2	234.5	3.2	1.9	1.4%	0.8%
Prof., Scientific, and Tech. Services*	131.9	128.1	129.9	3.8	2.0	3.0%	1.5%
Mgmt. of Companies and Enterprises	22.0	21.7	21.6	0.3	0.4	1.4%	1.9%
Administrative	82.5	83.4	83.0	-0.9	-0.5	-1.1%	-0.6%
<i>Trade, Transportation, and Utilities</i>	228.4	218.9	230.7	9.5	-2.3	4.3%	-1.0%
Wholesale Trade	45.0	44.4	45.5	0.6	-0.5	1.4%	-1.1%
Retail Trade	154.1	146.6	155.1	7.5	-1.0	5.1%	-0.6%
Transportation and Utilities	29.3	27.9	30.1	1.4	-0.8	5.0%	-2.7%
<i>Education and Health Services</i>	205.9	203.3	202.0	2.6	3.9	1.3%	1.9%
Education Services	30.8	29.5	30.6	1.3	0.2	4.4%	0.7%
Healthcare and Social Assistance	175.1	173.8	171.4	1.3	3.7	0.7%	2.2%
<i>Leisure and Hospitality*</i>	194.3	195.8	189.4	-1.5	4.9	-0.8%	2.6%
<i>Manufacturing*</i>	108.3	107.6	107.4	0.7	0.9	0.7%	0.8%
<i>Financial Activities</i>	76.2	76.0	75.1	0.2	1.1	0.3%	1.5%
Finance and Insurance	46.1	45.9	45.9	0.2	0.2	0.4%	0.4%
Real Estate and Rental and Leasing	30.1	30.1	29.2	0.0	0.9	0.0%	3.1%
<i>Construction</i>	80.0	81.4	76.7	-1.4	3.3	-1.7%	4.3%
<i>Other Services</i>	59.2	60.5	55.9	-1.3	3.3	-2.1%	5.9%
<i>Information*</i>	24.0	23.7	23.7	0.3	0.3	1.3%	1.3%
<i>Mining and Logging</i>	0.3	0.3	0.3	0.0	0.0	0.0%	0.0%
Total Government	252.7	242.9	248.9	9.8	3.8	4.0%	1.5%
Federal Government	46.5	46.1	46.6	0.4	-0.1	0.9%	-0.2%
State Government	50.0	45.7	49.1	4.3	0.9	9.4%	1.8%
Local Government	156.2	151.1	153.2	5.1	3.0	3.4%	2.0%

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

- With a median home price of \$610,000 in Q4, San Diego's housing market remained the second most expensive in the nation.
- The region's median home price continued to climb. In fact, while most major metros saw a decline in median home price, the region experienced a 0.5 percent quarterly increase.

Median Home Price for 25 Most Populous US Metros (Q4 2017)

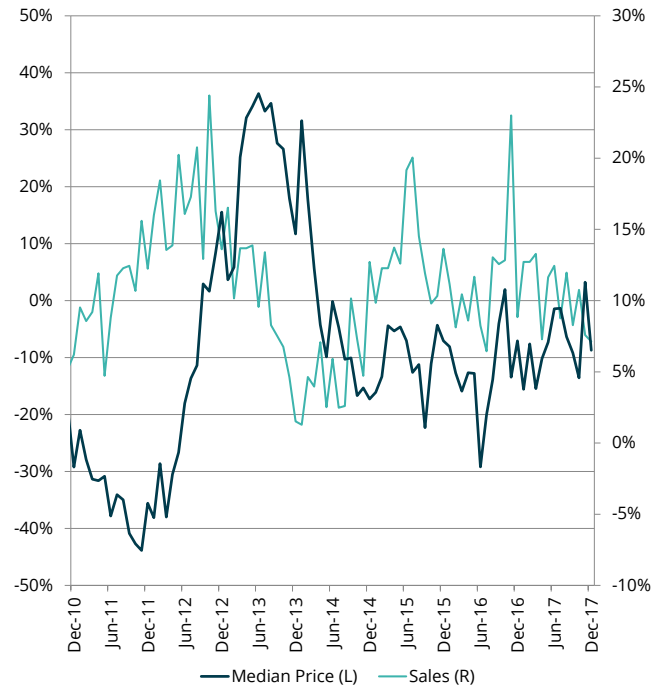
Rank	Metro	Price Q4 2017	% Change From Prev. Quarter	% Change From Prev. Year
1	San Francisco	\$920,000	2.2%	10.8%
2	San Diego	\$610,000	0.5%	7.4%
3	Los Angeles	\$553,300	-7.0%	9.2%
4	Seattle	\$471,700	-1.4%	11.4%
5	Boston	\$448,500	-3.4%	7.5%
6	Denver	\$414,400	-0.9%	8.6%
7	Washington DC	\$397,100	-2.8%	3.3%
8	New York	\$395,900	-5.0%	3.6%
9	Portland	\$380,400	-2.3%	7.2%
10	Riverside	\$340,000	0.0%	7.9%
11	Miami	\$335,000	-1.5%	7.9%
12	Baltimore	\$257,400	-4.7%	4.7%
13	Phoenix	\$252,600	1.5%	7.2%
14	Minneapolis	\$250,200	-2.9%	6.4%
15	Orlando	\$250,000	0.8%	9.8%
-	US	\$247,800	-2.7%	5.3%
16	Dallas	\$246,100	-1.2%	6.7%
17	Chicago	\$236,800	-7.4%	4.5%
18	Houston	\$229,800	-1.8%	2.4%
19	Philadelphia	\$224,600	-6.0%	1.4%
20	Charlotte	\$223,500	-4.2%	8.6%
21	Tampa	\$223,000	-0.9%	8.8%
22	San Antonio	\$217,800	-1.3%	5.6%
23	Atlanta	\$198,900	-2.6%	8.7%
24	Saint Louis	\$166,700	-5.6%	3.7%

Source: National Association of Realtors
Notes: Detroit not available. Single-family detached homes. Data not seasonally adjusted.

SALES & PRICE TRENDS

- Median home price appreciation has been strong and consistent since 2015, with a compound annual growth rate of 6.8 percent.
- Despite a reprieve during Q4, price growth accelerated in 2017, ending the year up 6.5 percent compared to last year.
- Home sales fluctuated in Q4, ending 7.2 percent lower than a year ago.

Year-Ago Change in Median Home Price & Sales

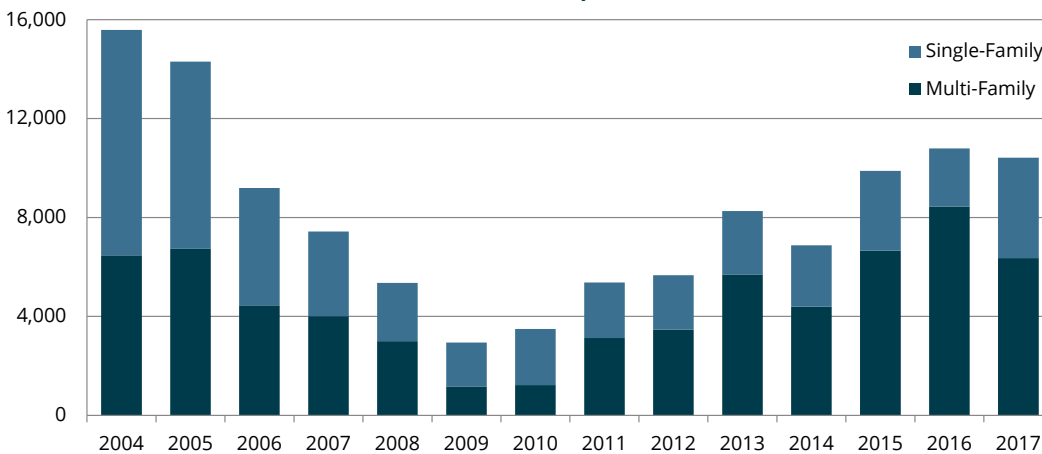


Source: California Association of Realtors

BUILDING PERMITS

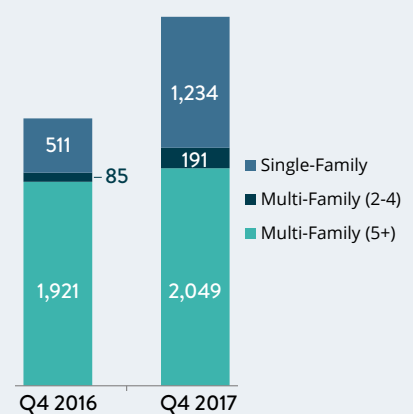
While the number of annual building permits declined slightly in 2017, the total number of housing permits issued in Q4 2017 was up 27.5 percent compared to the same period in 2016.

Permit Activity



Source: US Census Bureau, Building Permits Survey, 2004-2017
Notes: The survey universe increased in 2014.

Building Permits by Housing Type



Source: US Census Bureau, Building Permits Survey
Note: Quarter-end monthly data.

COMMERCIAL REAL ESTATE

OFFICE MARKET

11.3%
Vacancy Rate

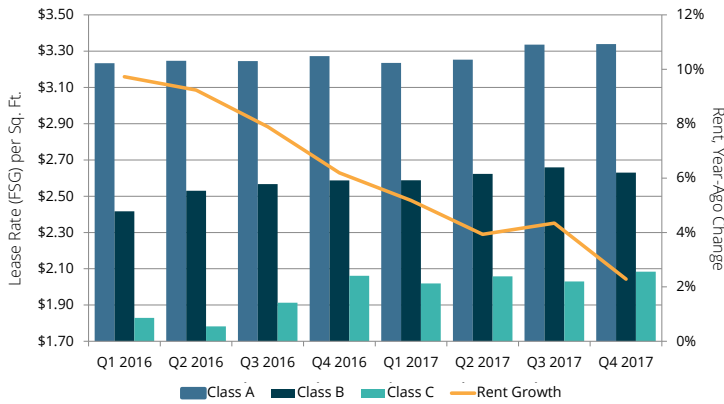
-154K sq. ft.
Net Absorption

349K sq. ft.
Construction

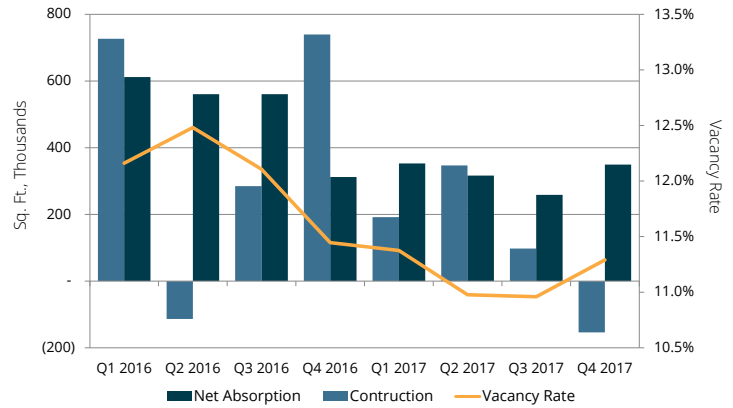
\$2.90 FSG
Lease Rate

- The San Diego office market had a strong year, despite a slower Q4. Record low vacancy rates and record high asking rates were both reached throughout the year and many of the major submarkets trended positively.
- Net absorption was negative (154,006) sq. ft. in Q4 2017 after five consecutive quarters of positive absorption. This brought year-to-date absorption down to 482,241 sq. ft., slower than the five-year average of 1.29 million sq. ft.

Asking Lease Rate & Rent Growth



Market Absorption & Vacancy Rates



INDUSTRIAL MARKET

3.9%
Vacancy Rate

1.0M sq. ft.
Net Absorption

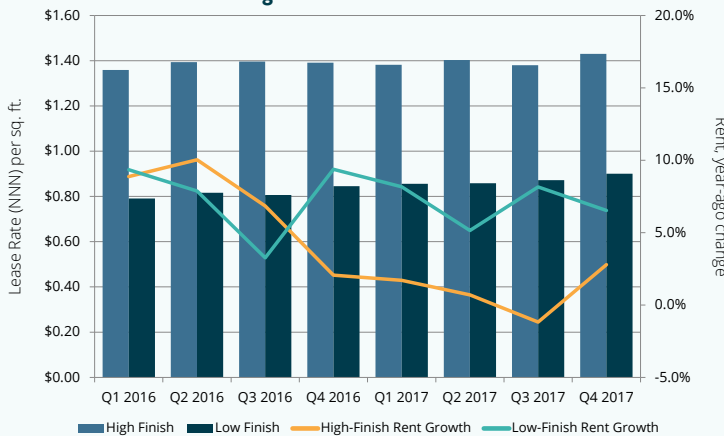
3.5M sq. ft.
Construction

\$1.43 NNN
High-Finish Lease Rate

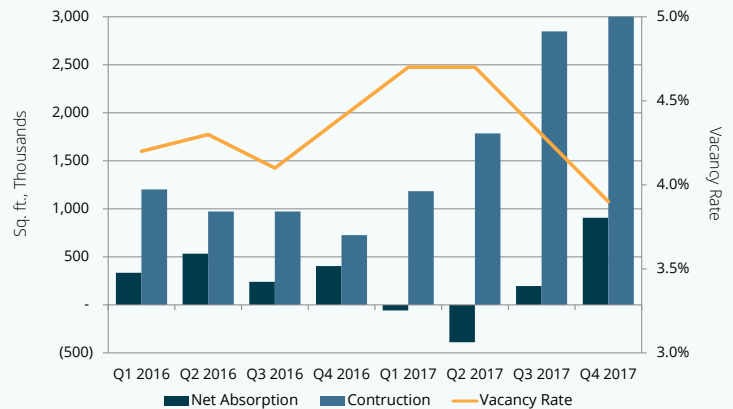
\$0.90 NNN
Low-Finish Lease Rate

- The San Diego industrial market closed out Q4 setting many post-recession records.
- The overall vacancy rate decreased sizably quarter-over-quarter, dropping 40 basis points (bps) to 3.9 percent. Vacancy and availability rates are now at a post-recession lows.
- Net absorption surged in Q4, surpassing one million sq. ft. In total, 1,716,603 sq. ft. was net absorbed in 2017.
- Average asking rates for low-finish product increased quarter-over-quarter by \$0.03 to a post-recession high of \$0.90 triple net lease (NNN). High-finish product increased \$0.05 quarter-over-quarter to \$1.43 NNN, also a post-recession high.
- Construction activity continued to boom relative to recent years as eight new buildings broke ground in Q4 2017. Overall construction activity totals more than 3.4 million sq. ft. as of year-end 2017, a post-recession high.

Asking Lease Rate & Rent Growth



Market Absorption & Vacancy Rates

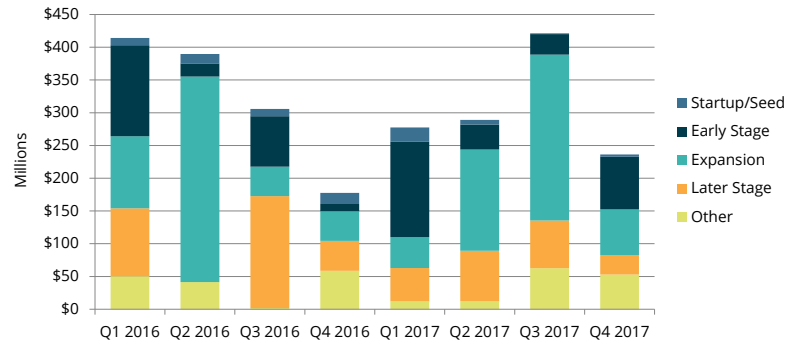


Note: CBRE no longer reports an overall industrial asking rate. It now separately reports high-finish rates and low-finish rates. High-finish generally has more office build-out, multiple stories, and consists of business park R&D and R&D subtypes. Low-finish has higher clearance, more dock doors, and consists of business park industrial, light industrial, manufacturing, and warehouse subtypes.

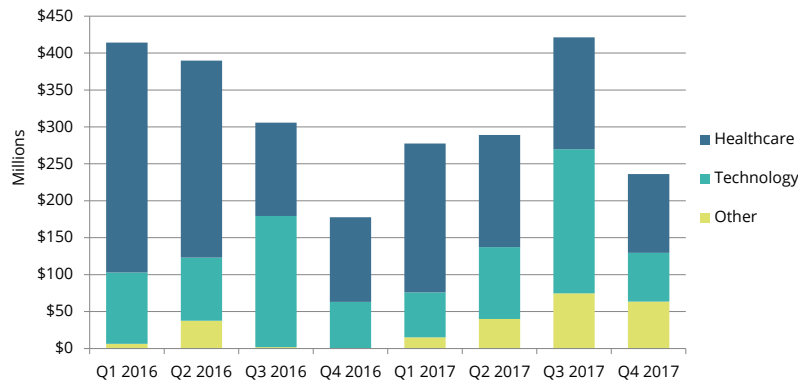
VENTURE CAPITAL

- In Q4 the San Diego region saw 28 venture capital (VC) deals worth more than \$236 million. This places San Diego twelfth out of the 19 U.S. regions tracked by the PwC MoneyTree Report in terms of VC dollars and in number of deals.
- VC investment in the region decreased 43.9 percent compared to the previous quarter, despite having two more deals. Compared to the same period a year ago, VC investment is up 33 percent.
- Roughly \$106.7 million, the majority of VC received in Q4, went to healthcare companies. Healthcare consistently draws the bulk of VC dollars into the region. In fact, 49.9 percent, or \$611.3 million, of total 2017 VC dollars received by the region went to healthcare companies.
- The technology cluster received \$66 million during the quarter, most of which went into internet, mobile, and telecomm companies.
- Early stage funding jumped 158 percent to \$80.4 million, commanding 34 percent of all VC dollars for the quarter. Expansion stage funding made up nearly 30 percent of the quarter's total.
- The quarter's top five deals combined represent 52.3 percent of all investment in Q4. The largest investment was in 12 Sigma, a biotechnology company that integrates artificial intelligence and deep learning into medical diagnosis.

Venture Capital Dollars Received by Funding Stage



Venture Capital Dollars Received by Sector



Source: PwC/CB Insights MoneyTree™ Report

TOP VENTURE CAPITAL DEALS

\$30.2M
12 SIGMA
Biotechnology

\$29.8M
Achatas Power
Auto & Transportation

\$22.5M
Impact Biomedines
Healthcare

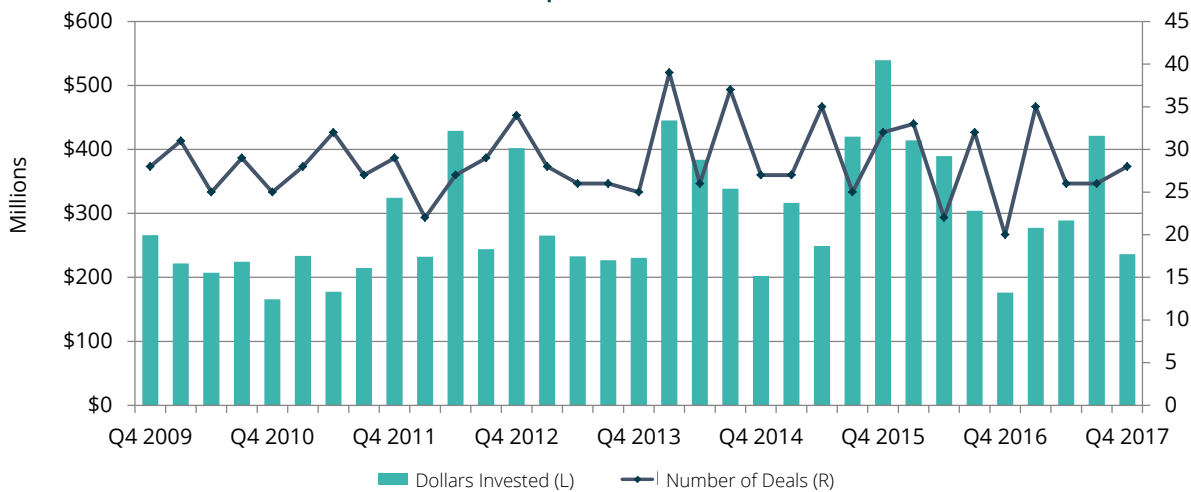
\$22.0M
Metacrine
Biotechnology

\$19.1M
Cibus Global
Agriculture

Source: PwC/CB Insights MoneyTree™ Report, Q4 2017

VENTURE CAPITAL TRENDS

Venture Capital Investment Trends



Source: PwC/CB Insights MoneyTree™ Report

Note: Data is subject to revision, as VC activity is not always disclosed during the quarter of investment. PwC's methodology can be found [here](#).

THIS QUARTER IN RESEARCH:

MAPPING SAN DIEGO'S DEFENSE ECOSYSTEM

In order to better demonstrate how fluctuations in defense spending impact the regional economy, San Diego Regional EDC released "[Mapping San Diego's Defense Ecosystem](#)," a regional study focusing on the industrial composition of the defense supply chain and quantifying the number of firms and jobs that are impacted by defense spending.

For more than a century, San Diego's defense cluster has been at the heart of the regional economy. The breadth and depth of defense activity stretches far beyond military bases and naval ships; from telecomm to robotics, aerospace to cybersecurity, San Diego's defense cluster is the driving force behind the region's innovation economy. In absence of the defense cluster, it is doubtful San Diego would be the global innovation hub it is today.

\$9.2B
DEFENSE CONTRACTS

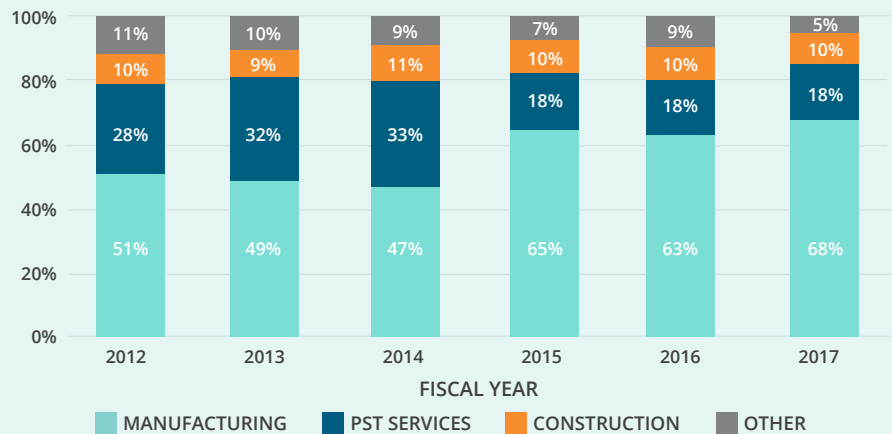
5,600+
DEFENSE CONTRACTOR FIRMS

62K
CONTRACTOR JOBS

DEFENSE CONTRACTS

Fluctuations in defense spending directly impact local defense contractors, creating potential vulnerabilities for the regional economy. In 2017, the region received \$9.2 billion in defense contracts. The overwhelming majority of contract dollars went to the manufacturing, professional, scientific, and technical services, and construction industries. Collectively, these three industries received more than 95 percent of total awards.

INDUSTRY CONTRACT TRENDS



Source: USAspending.gov; EMSI

DEFENSE ECOSYSTEM

The top 10 counties, in terms of defense procurement dollars received, account for almost 23 percent - or \$93.3 billion - of total U.S. Department of Defense contract and payroll procurement. San Diego ranks second among the top 10. The majority of the defense contractors are concentrated in either the professional, scientific, and technical services or manufacturing industries. These two industries represent 61 percent of defense contractor firms and 81 percent of all defensespecific contractor employment.

BUSINESS CLIMATE

An extensive survey of defense contractors was conducted to better understand what makes the San Diego region uniquely positioned to foster growth and what, if any, needs remain unmet. Defense contractors cited proximity to customers and access to vendors and suppliers as the top advantages to being located in San Diego.

9.3%
EMPLOYER-PROJECTED JOB GROWTH OVER THE NEXT YEAR

71%
OF DEFENSE CONTRACTORS VIEW SD AS A GOOD OR EXCELLENT PLACE TO DO BUSINESS

83%
OF DEFENSE CONTRACTORS ARE INTERESTED IN GROWING THEIR COMMERCIAL PORTFOLIO

FOR THE FULL REPORT & AN INTERACTIVE TOOL THAT DISPLAYS DEFENSE CONTRACTS WITHIN THE REGION,

VISIT >> SanDiego.DODspend.com



This project is funded with Community Economic Adjustment Assistance for Reductions in Defense Industry Employment funds provided by the U.S. Department of Defense Office of Economic Adjustment to the City of San Diego.

For more information, please contact our research team:

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