

SAN DIEGO HIGHLIGHTS

3.2% unemployment rate

8.2% year-over-year growth in median home price

3.3M sq. ft. industrial buildings under construction

60% year-over-year growth in VC dollars

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.

Interested in sponsoring this product?

Contact us at:
research@sandiegobusiness.org

This issue covers data from **Q1 2018**.

UNEMPLOYMENT

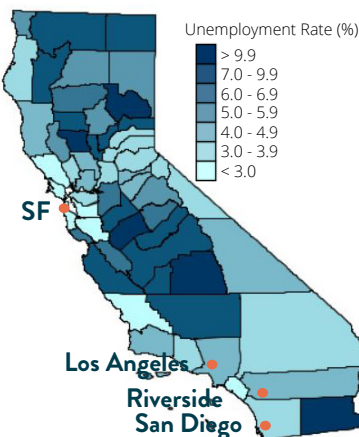
- The region's unemployment rate was 3.2 percent in Q1, the lowest the region has seen in the last 17 years and down from 3.3 percent in Q4 2017. In fact, the 0.1 percentage point decrease positioned the region as the third lowest unemployment rate among the 25 most populous metros, up four spots from the previous quarter.
- San Diego's unemployment rate remained below the state and national rates of 4.2 and 4.1 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 (3.8 percent).
- Year-over-year, the San Diego region's unemployment rate decreased by a full percentage point.

Unemployment Rate - 25 Most Populous US Metros

Rank	Metro	Q1 2018	Q4 2017	PP Change
1	San Francisco	2.7	2.7	0.0
2	Denver	2.8	2.9	-0.1
3	San Diego	3.2	3.3	-0.1
4	Minneapolis	3.3	3.0	0.3
4	Orlando	3.3	3.3	0.0
6	Boston	3.4	2.8	0.6
7	San Antonio	3.5	3.0	0.5
8	Washington DC	3.6	3.3	0.3
8	Tampa	3.6	3.4	0.2
10	Dallas	3.7	3.2	0.5
10	Saint Louis	3.7	3.4	0.3
12	Los Angeles	3.8	3.8	0.0
13	Seattle	3.9	4.0	-0.1
14	Atlanta	4.0	4.1	-0.1
14	Charlotte	4.0	4.1	-0.1
16	Portland	4.1	3.6	0.5
16	Phoenix	4.1	4.0	0.1
16	Riverside	4.1	4.2	-0.1
-	US	4.1	3.9	0.2
20	Miami	4.2	4.0	0.2
21	Detroit	4.3	4.1	0.2
21	Chicago	4.3	4.7	-0.4
23	New York	4.4	4.0	0.4
23	Philadelphia	4.4	4.2	0.2
25	Baltimore	4.6	3.9	0.7
25	Houston	4.6	4.3	0.3

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

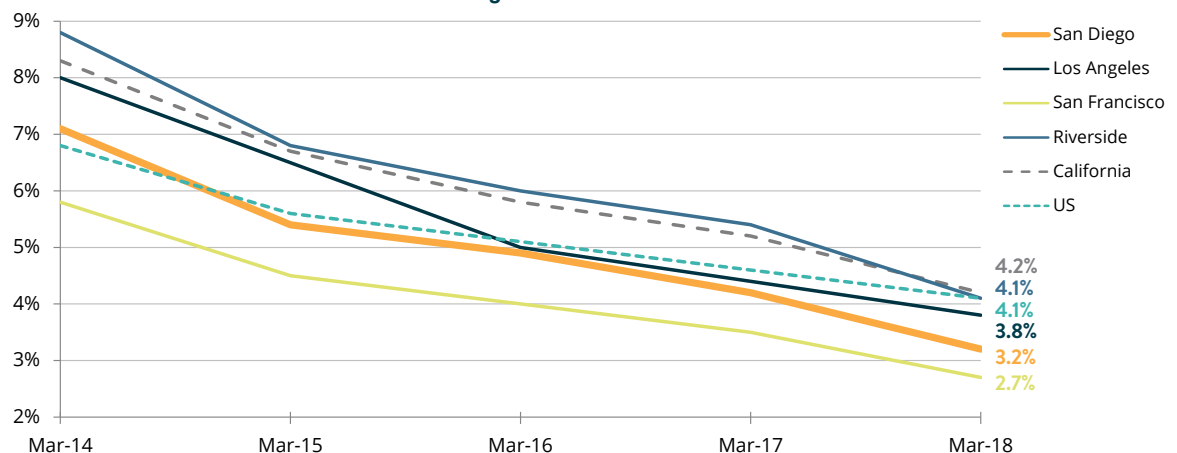
CALIFORNIA'S UNEMPLOYMENT BY COUNTY



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

UNEMPLOYMENT TRENDS

Quarter-End Unemployment Rate San Diego & Select California Metros

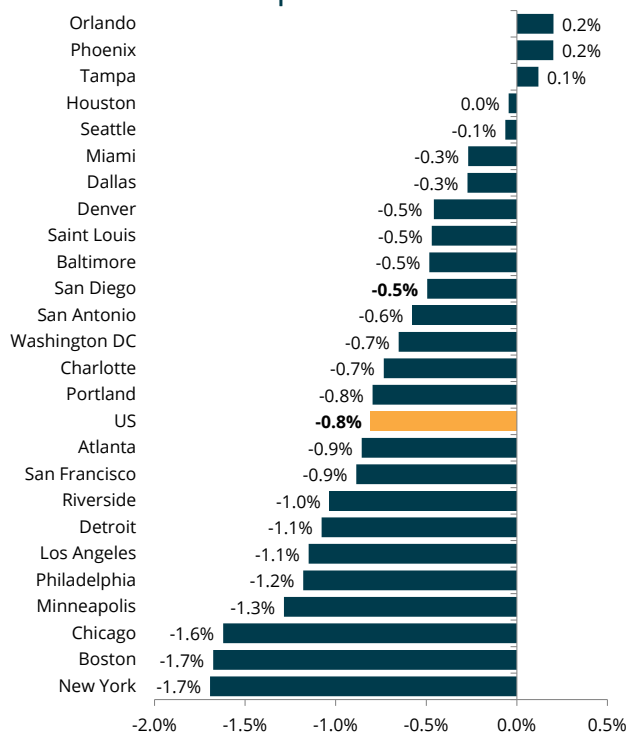


Source: Bureau of Labor Statistics
Note: Data not seasonally adjusted. Quarter-end monthly data.

EMPLOYMENT

- Due to regularly occurring seasonal effects, San Diego, and the overwhelming majority of the most populous metros, experienced a decline in employment during Q1. Leaving the holiday season behind, the region's total nonfarm employment declined 7,300, or 0.5 percent. Compared to a year ago, nonfarm employment was up 27,000, or 1.9 percent.
- Following an addition of 9,500 jobs in Q4 2017, the trade, transportation, and utilities supersector decreased by 11,200 jobs in Q1, the largest quarterly loss. The majority of these jobs were lost within the retail trade sector as seasonal employees transitioned out. Not far behind were leisure and hospitality and financial activities, together shedding 3,500 jobs.
- The largest quarterly gain was seen in education and health services, adding 1,900 jobs in Q1. Other strong contributors to quarterly employment growth were manufacturing and professional and business services, together adding 3,100 jobs.
- There were 834,192 total job postings during Q1 of which 156,850 were unique. With 5,590 unique job postings during the quarter, registered nurses topped the charts, 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

5,590

Registered Nurses

4,830

Applications Software Developers

4,550

Heavy & Tractor-Trailer Truck Drivers

3,970

Retail Salespeople

3,880

Taxi Drivers & Chauffeurs

Source: EMSI, Job Posting Analytics, Q1 2018

EMPLOYMENT CHANGES BY SECTOR

Employment by Sector (in thousands)	Q1 2018	Q4 2017	Q1 2017	Change Prev. QTR	Change Prev. YR	% Change Prev. QTR	% Change Prev. YR
Total (Private and Government)	1,466.7	1,474.0	1,439.7	-7.3	27.0	-0.5%	1.9%
Total Private	1,213.1	1,221.5	1,189.9	-8.4	23.2	-0.7%	1.9%
<i>Professional and Business Services</i>	239.8	238.4	231.4	1.4	8.4	0.6%	3.6%
Prof., Scientific, and Tech. Services*	132.0	132.0	126.5	0.0	5.5	0.0%	4.3%
Mgmt. of Companies and Enterprises	21.9	21.8	21.2	0.1	0.7	0.5%	3.3%
Administrative	85.9	84.6	83.7	1.3	2.2	1.5%	2.6%
<i>Trade, Transportation, and Utilities</i>	226.3	237.5	225.2	-11.2	1.1	-4.7%	0.5%
Wholesale Trade	49.0	48.9	47.5	0.1	1.5	0.2%	3.2%
Retail Trade	146.1	155.4	146.3	-9.3	-0.2	-6.0%	-0.1%
Transportation and Utilities	31.2	33.2	31.4	-2.0	-0.2	-6.0%	-0.6%
<i>Education and Health Services</i>	209.1	207.2	203.7	1.9	5.4	0.9%	2.7%
Education Services	30.8	30.1	30.3	0.7	0.5	2.3%	1.7%
Healthcare and Social Assistance	178.3	177.1	173.4	1.2	4.9	0.7%	2.8%
<i>Leisure and Hospitality*</i>	191.0	193.2	192.3	-2.2	-1.3	-1.1%	-0.7%
<i>Manufacturing*</i>	112.4	110.7	107.8	1.7	4.6	1.5%	4.3%
<i>Financial Activities</i>	73.1	74.4	73.1	-1.3	0.0	-1.7%	0.0%
Finance and Insurance	45.2	46.2	45.8	-1.0	-0.6	-2.2%	-1.3%
Real Estate and Rental and Leasing	27.9	28.2	27.3	-0.3	0.6	-1.1%	2.2%
<i>Construction</i>	81.2	81.0	77.7	0.2	3.5	0.2%	4.5%
<i>Other Services</i>	55.6	54.4	54.1	1.2	1.5	2.2%	2.8%
<i>Information*</i>	24.3	24.4	24.3	-0.1	0.0	-0.4%	0.0%
<i>Mining and Logging</i>	0.3	0.3	0.3	0.0	0.0	0.0%	0.0%
Total Government	253.6	252.5	249.8	1.1	3.8	0.4%	1.5%
Federal Government	46.7	47.2	46.6	-0.5	0.1	-1.1%	0.2%
State Government	51.7	50.9	50.2	0.8	1.5	1.6%	3.0%
Local Government	155.2	154.4	153.0	0.8	2.2	0.5%	1.4%

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 Q1, San Diego's housing market remained the second most expensive in the nation.
- Year-over-year, the region's median home price continued to climb, growing by 8.2 percent.

Median Home Price for 25 Most Populous US Metros (Q1 2018)

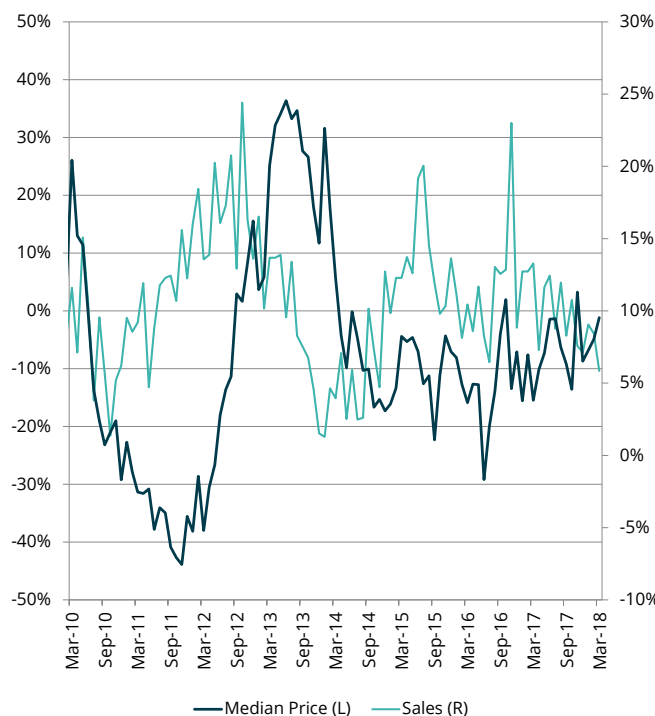
Rank	Metro	Price Q1 2018	% Change From Prev. Quarter	% Change From Prev. Year
1	San Francisco	\$917,000	-0.3%	12.5%
2	San Diego	\$610,000	0.0%	8.2%
3	Los Angeles	\$545,500	-1.4%	12.3%
4	Seattle	\$484,400	2.7%	14.8%
5	Boston	\$442,700	-1.3%	6.9%
6	Denver	\$441,500	6.5%	11.5%
7	Washington DC	\$394,400	-0.7%	2.8%
8	New York	\$363,300	-2.6%	-3.6%
9	Riverside	\$350,000	2.9%	7.7%
10	Miami	\$340,000	1.5%	6.9%
11	Portland	\$279,400	4.8%	12.7%
12	Phoenix	\$261,100	3.4%	9.8%
13	Minneapolis	\$260,400	4.1%	11.0%
14	Orlando	\$255,000	2.0%	10.9%
15	Baltimore	\$253,700	-1.4%	6.8%
16	Dallas	\$250,700	1.9%	6.0%
-	US	\$245,500	-0.9%	5.7%
17	Chicago	\$242,100	2.2%	5.9%
18	Houston	\$229,800	0.0%	3.4%
19	Charlotte	\$226,400	1.3%	8.0%
20	Tampa	\$225,000	0.9%	8.4%
21	San Antonio	\$218,900	0.5%	8.0%
22	Atlanta	\$204,500	2.8%	11.9%
23	Philadelphia	\$196,900	-12.3%	-5.8%
24	Saint Louis	\$162,400	-2.6%	4.8%

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 5.5 percent.
- Despite a small drop early in the quarter, price growth accelerated in Q1, ending the quarter up 9.5 percent compared to a year ago.

Year-Ago Change in Median Home Price & Sales

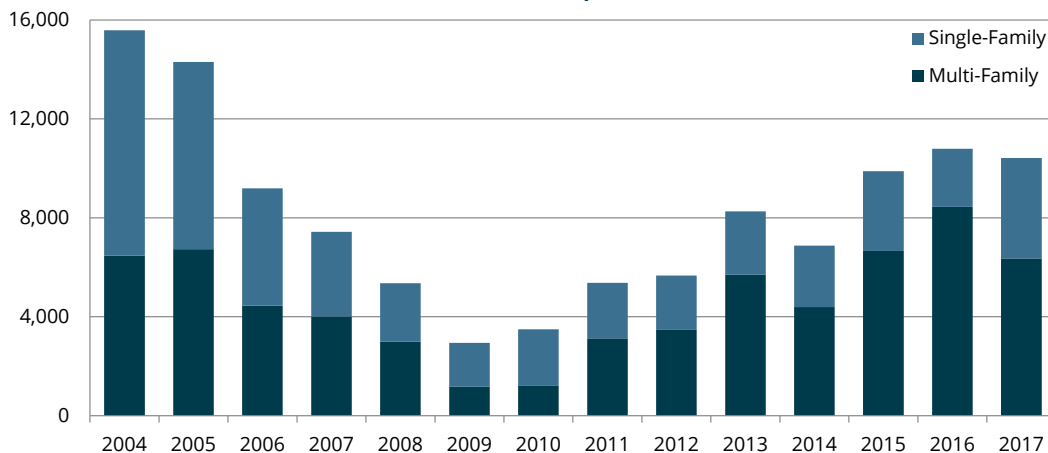


Source: California Association of Realtors

BUILDING PERMITS

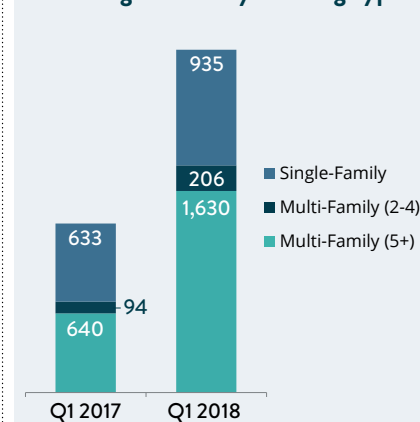
Housing permits doubled year-over-year in San Diego, with multi-family housing with five or more units growing by more than 60 percent.

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

11.2%
Vacancy Rate

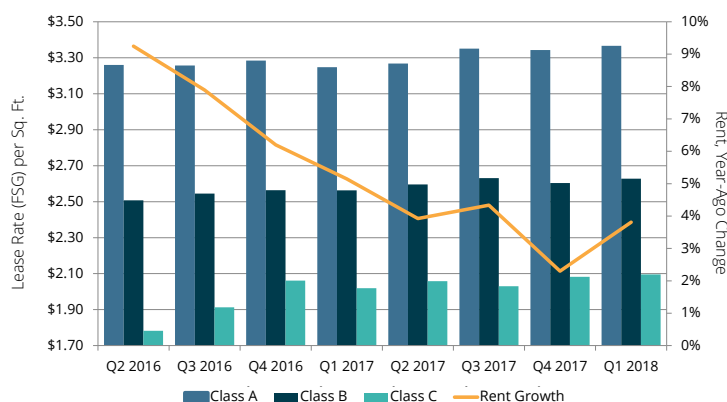
-53K sq. ft.
Net Absorption

613K sq. ft.
Construction

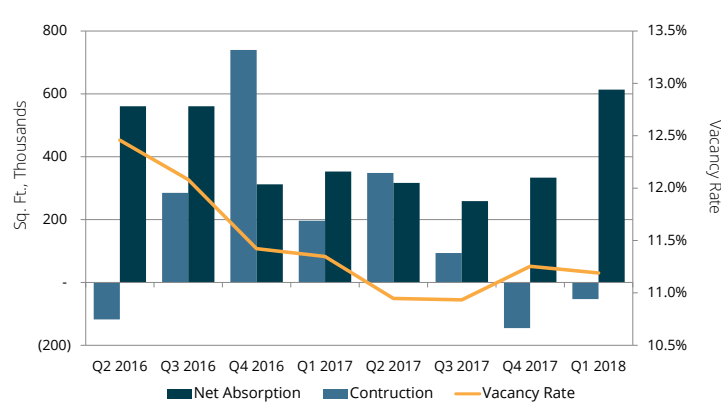
\$2.92 FSG
Lease Rate

- Positive market fundamentals continued to define the San Diego office market in Q1. Average asking lease rates increased by 0.7 percent in Q1, surpassing the all-time high reached in Q3 2017.
- Net absorption was negative for the second consecutive quarter with -53,220 sq. ft., improved from Q4 2017 but much lower than the same time a year ago.

Asking Lease Rate & Rent Growth



Market Absorption & Vacancy Rates



INDUSTRIAL MARKET

4%
Vacancy Rate

108K sq. ft.
Net Absorption

3.3M sq. ft.
Construction

\$1.42 NNN
High-Finish Lease Rate

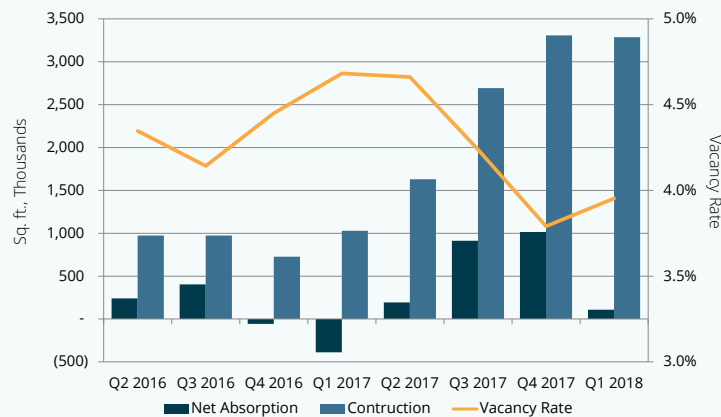
\$0.91 NNN
Low-Finish Lease Rate

- The San Diego industrial market carried the positive momentum into the beginning of 2018.
- The overall vacancy rate climbed slightly quarter-over-quarter, increasing 20 basis points (bps) to 4.0 percent. Relative to past years, the vacancy rate remains extremely tight and is still 70 bps lower than Q1 2017.
- Net absorption slowed in Q1, but remained strong with 107,860 sq. ft. net absorbed during the quarter.
- Average asking rates for low-finish product increased quarter-over-quarter by \$0.01 to a post-recession high of \$0.91 triple net lease (NNN). High-finish product increased \$0.02 quarter-over-quarter to \$1.42 NNN - also a post-recession high.
- Construction activity continued to boom relative to recent years, with 37 buildings totaling nearly 3.3 million sq. ft. under construction in Q1. Ten new buildings broke ground during the quarter.

Asking Lease Rate & Rent Growth



Market Absorption & Vacancy Rates

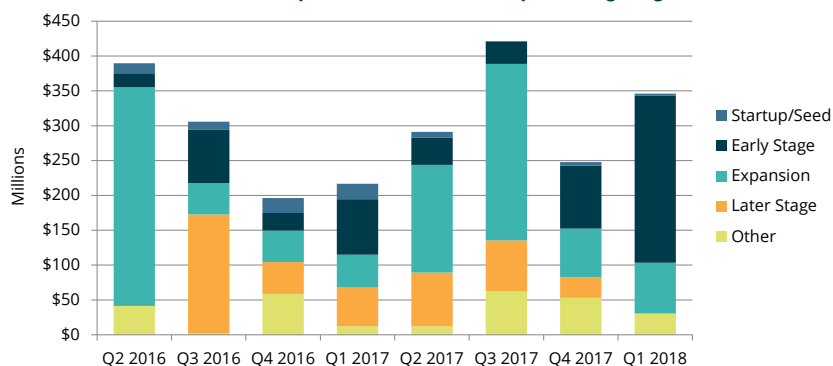


Note: CBRE no longer reports an overall industrial asking rate. It now separately reports high-finish rates and low-finish rates. High-finish generally has more office build-out, multiple stories, and consists of business park R&D and R&D subtypes. Low-finish has higher clearance, more dock doors, and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

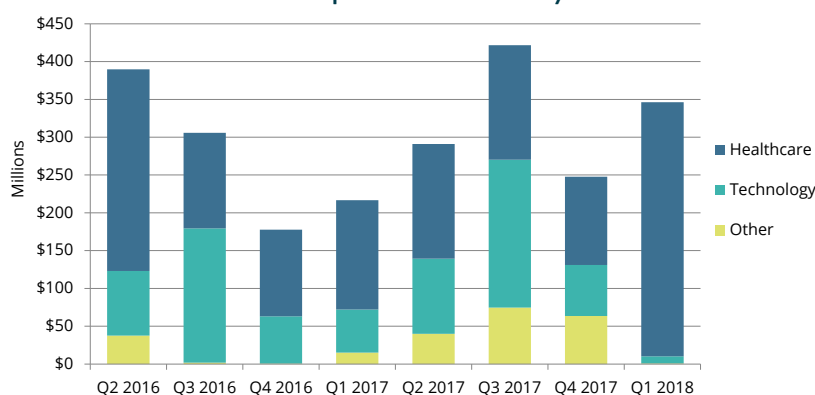
VENTURE CAPITAL

- In Q1, the San Diego region saw 15 venture capital (VC) deals worth more than \$346 million. This places San Diego eleventh out of the 19 U.S. regions tracked by the PwC MoneyTree Report in terms of VC dollars received.
- VC investment in the region increased 39.7 percent compared to the previous quarter, despite having half the deals. Compared to the same period a year ago, VC investment is up 59.8 percent.
- Roughly \$336 million - 97 percent of total VC received in Q1 - went to healthcare companies.
- The technology cluster received shy of \$10 million during the quarter, most of which went to internet, mobile, and telecomm companies.
- Early stage funding jumped 166 percent to \$240.3 million, commanding 69.4 percent of all VC dollars for the quarter. Expansion stage funding made up more than 20 percent of the quarter's total.
- The quarter's top five deals combined represent 87.8 percent of all investment in Q1. The largest investment was in Gossamer Bio, a company focused on the discovery and development of novel and differentiated therapeutic products.

Venture Capital Dollars Received by Funding Stage



Venture Capital Dollars Received by Sector



Source: PwC/CB Insights MoneyTree™ Report

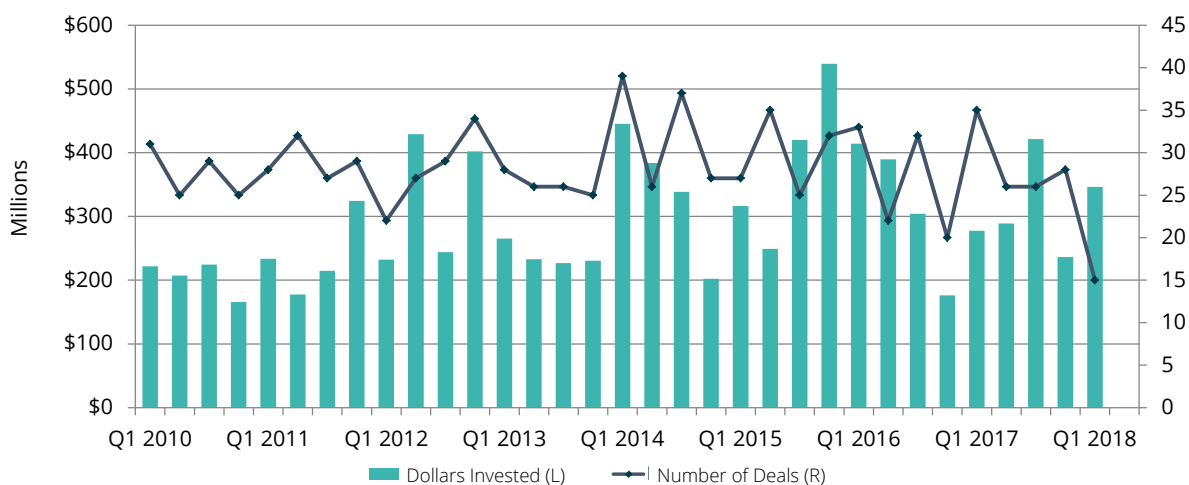
TOP VENTURE CAPITAL DEALS



Source: PwC/CB Insights MoneyTree™ Report, Q1 2018

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: INCLUSIVE GROWTH

The growth of San Diego's innovation economy has made the region better educated and more prosperous than most of its peers, but also presents new challenges for future growth. Changing skill requirements, a nationwide battle for talent, and a soaring cost of living are combining to form an unequivocal threat to our regional competitiveness.

85%
OF HISPANICS
DO NOT HOLD
A BACHELOR'S
DEGREE

20%
LOWER
AVERAGE WAGES
ARE PAID BY SMALL
BUSINESSES

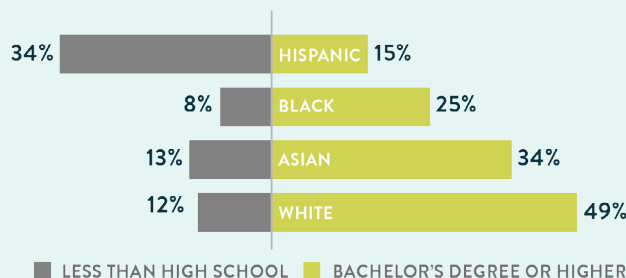
1M
PEOPLE
CANNOT
AFFORD TO
LIVE HERE

Talent shortages are likely to grow as demand for new skills accelerates, while demographic gaps in educational attainment persist. For the region to remain competitive, proactive measures to promote economic inclusion must be taken. **Throughout the year, EDC will produce in-depth analysis along with regional targets and employer-driven recommendations around each of these three goals.**

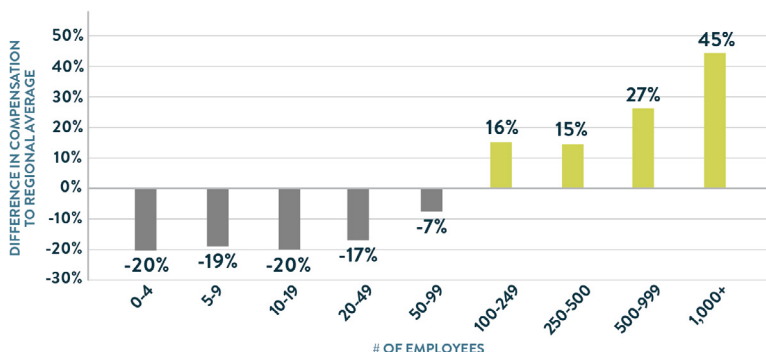
CLOSE THE MINORITY ACHIEVEMENT GAP

San Diego's Hispanic population is the fastest growing and will become the region's largest group by 2030. However, this population is dramatically underrepresented in the region's innovation occupations and possesses the lowest rate of educational attainment by race and ethnicity - only 15 percent hold a bachelor's degree or higher. Preparing the region's workforce of the future means ensuring minorities are competitive.

EDUCATIONAL ATTAINMENT RATES BY RACE & ETHNICITY



RELATIVE COMPENSATION BY FIRM SIZE



EQUIP SMALL BUSINESSES TO COMPETE

Small businesses - those with fewer than 100 employees - represent 98 percent of firms in San Diego but struggle to compete with larger businesses for talent. Compared to the overall average, employees of these small businesses earn up to 20 percent lower wages, while employees of the largest firms receive up to a 45 percent wage premium. This disparity makes small businesses less competitive in attracting and retaining talent.

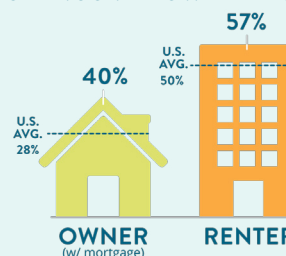
Inner City Capital Connections is national program designed to help small businesses in economically distressed areas build capacity for sustainable growth, and participation is **FREE**. Apply or nominate a small business: <http://nominate.iccapitalconnections.org>



ADDRESS THE AFFORDABILITY CRISIS

More than one million San Diegans cannot make ends meet. San Diego has the fourth highest overall cost of living and second highest median home price among major metros. This means that San Diegans spend a much greater proportion of their incomes on housing than the national average, leaving less income available for other necessities including food, transportation, and retirement. These pressures are already impacting the region's top employers' ability to attract and retain talent.

PROPORTION OF HOUSEHOLDS PAYING MORE THAN 30%* OF INCOME TOWARD HOUSING



*30% of income is a standard measure for housing affordability.

TO LEARN MORE, VISIT sandiegobusiness.org/inclusivegrowth

For more information, please contact our research team:

Kirby Brady, Director
Eduardo Velasquez, Manager
Marcela Alvarez, Coordinator

research@sandiegobusiness.org | 619-234-8484
sandiegobusiness.org



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