



SAN DIEGO  
REGIONAL  
EDC

# ECONOMIC SNAPSHOT

A Summary of the San Diego Regional Economy



APRIL 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 covers data from the October 2013-January 2014 quarter.

## Highlights

San Diego County's January 2014 unemployment rate was down 1.6 percentage points from January 2013.

The San Diego region added 25,900 jobs from January 2013 to January 2014.

According to a recent EDC report, cybersecurity employers expect to see their total employment grow by more than 13 percent and their cybersecurity workforce to grow by more than 25 percent in 2014.

San Diego had the third lowest foreclosure rate among recorded major U.S. metropolitan areas in January 2014.

Led by the manufacturing industry, industrial tenants absorbed 2.3 million square feet in 2013.

San Diego firms were involved in 23 venture capital deals in Q4 2013 and received more than \$145 million in venture capital funding.

## UNEMPLOYMENT

San Diego metro ranked 17th in unemployment rate in January 2014, the same position as last quarter (October 2013). This rate is slightly higher than the U.S. average. The year-over-year decline in unemployment remains a positive trend in the region. The rate fell by 1.6 percentage points from 2013 to 2014. However, every metro in this analysis experienced an annual decline.

San Diego has continued to fare better than other California metros and the state in terms of the unemployment rate. San Diego maintained a lower unemployment rate than all other major California metros except San Francisco, though all of those areas experienced the same or greater annual decline.

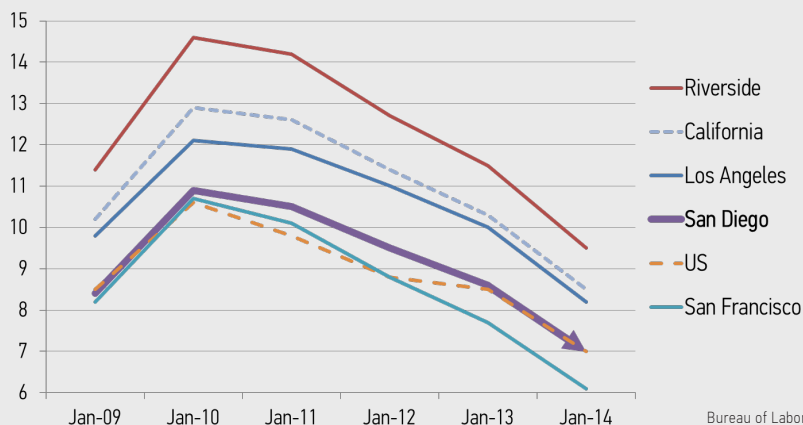
### Unemployment Rate: 25 Most Populous US Metros

RANK	METRO	JAN-14	JAN-13	CHANGE
1	Washington DC	5.0	5.7	-0.7
2	Minneapolis	5.1	6.0	-0.9
3	San Antonio	5.4	6.6	-1.2
4	Houston	5.6	6.7	-1.1
5	Dallas	5.7	6.7	-1.0
6	Seattle	5.8	7.1	-1.3
7	San Francisco	6.1	7.7	-1.6
8	Miami	6.2	8.2	-2.0
9	Boston	6.2	6.5	-0.3
10	Baltimore	6.3	7.5	-1.2
11	Denver	6.4	7.4	-1.0
12	Tampa	6.5	8.0	-1.5
13	Pittsburgh	6.5	8.6	-2.1
14	Phoenix	6.7	7.2	-0.5
15	Portland	6.8	8.7	-1.9
16	Charlotte	6.9	10.0	-3.1
<b>17</b>	<b>San Diego</b>	<b>7.0</b>	<b>8.6</b>	<b>-1.6</b>
	U.S.	7.0	8.5	-1.5
18	Philadelphia	7.1	9.4	-2.3
19	Atlanta	7.2	8.7	-1.5
20	New York	7.3	9.4	-2.1
21	Saint Louis	7.5	8.1	-0.6
22	Los Angeles	8.2	10.0	-1.8
23	Detroit	8.5	10.9	-2.4
24	Chicago	8.6	9.9	-1.3
25	Riverside	9.5	11.5	-2.0

San Diego continues to hover around the US average unemployment rate.

Source:  
Bureau of Labor Statistics

### Unemployment Rate: California Comparison



Source:  
Bureau of Labor Statistics



## EMPLOYMENT

San Diego experienced a seasonal employment drop in the October-January quarter, losing about 11,100 jobs. This yearly trend is common in San Diego and in most regions in the U.S. Both private and government employment experienced job loss in the quarter.

Despite the overall seasonal decline, the construction, manufacturing and wholesale trade industries all experienced quarterly increases. The three industries combined added about 1,700 jobs in the quarter. The professional, scientific and technical services (PST) and management sectors also avoided job losses in the quarter, but only added about 100 jobs.

Annual employment trends paint a rosier picture for the region. From January 2013 to January 2014, private businesses added 22,800 jobs. Government added an additional 3,100 jobs for a total of 25,900 jobs. The construction industry added 6,000 jobs over the year, the most of any industry in San Diego. The professional and business services industry (including PST and management) added 5,800 jobs, the most of any industry besides construction. The leisure and hospitality industry, despite a poor 4th quarter, added 5,700 jobs, the third most over the year. Health care and local government were the other sectors with significant job gains from 2013 to 2014.

### Employment by Industry (in thousands)

INDUSTRY	JAN-14	OCT-13	JAN-13	CHANGE FROM PREV. QUARTER	CHANGE FROM PREV. YEAR
<b>Total (Private and Government)</b>	1,312.8	1,323.9	1,286.9	-11.1	25.9
<b>Total Private</b>	1,082.1	1,092.3	1,059.3	-10.2	22.8
<i>Professional and Business Services*</i>	224.6	226.1	218.8	-1.5	5.8
Prof., Scientific, & Tech. Services*	127	126.9	122.6	0.1	4.4
Mgmt. of Companies & Enterprises	20.5	20.3	19.6	0.2	0.9
Administrative	77.1	78.9	76.6	-1.8	0.5
<i>Trade, Transportation, and Utilities</i>	211.7	213.6	210.3	-1.9	1.4
Wholesale Trade	44.6	43.9	43.9	0.7	0.7
Retail Trade	140.2	142.8	139.2	-2.6	1.0
Transportation and Utilities	26.9	26.9	27.2	0.0	-0.3
<i>Education and Health Services</i>	179.9	181.1	177.1	-1.2	2.8
<i>Leisure and Hospitality*</i>	163.3	168.5	157.6	-5.2	5.7
Education Services	30.3	30.9	29.6	-0.6	0.7
Health Care and Social Assistance	149.6	150.2	147.5	-0.6	2.1
<i>Manufacturing*</i>	94.7	94.3	94.5	0.4	0.2
<i>Financial Activities</i>	70.8	71.3	70.8	-0.5	0.0
Finance and Insurance	44.3	44.5	44.5	-0.2	-0.2
Real Estate and Rental and Leasing	26.5	26.8	26.3	-0.3	0.2
<i>Construction</i>	63.9	63.3	57.9	0.6	6.0
<i>Other Services</i>	49.1	49.7	47.6	-0.6	1.5
<i>Information*</i>	23.7	24	24.3	-0.3	-0.6
<i>Mining and Logging</i>	0.4	0.4	0.4	0.0	0.0
<b>Government</b>	230.7	231.6	227.6	-0.9	3.1
Federal Government	46	46.4	46.8	-0.4	-0.8
State Government	41.9	42.1	42.7	-0.2	-0.8
Local Government	142.8	143.1	138.1	-0.3	4.7

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	
		JAN '13 - JAN '14	OCT '13 - JAN '14
1	Houston	3.43%	-0.43%
2	Riverside	3.19%	-0.18%
3	Dallas	3.16%	-1.05%
4	Portland	2.98%	-1.26%
5	Miami	2.96%	0.77%
6	Denver	2.91%	-2.17%
7	San Francisco	2.90%	-1.16%
8	Charlotte	2.78%	-1.34%
9	Phoenix	2.66%	-0.15%
10	Atlanta	2.55%	-0.84%
11	Seattle	2.48%	-1.00%
12	San Antonio	2.43%	-1.00%
13	Tampa	2.35%	-0.15%
14	Los Angeles	2.30%	-0.90%
<b>15</b>	<b>San Diego</b>	<b>2.01%</b>	<b>-0.84%</b>
	US	1.77%	-1.87%
16	New York	1.62%	-2.18%
17	Minneapolis	1.52%	-2.52%
18	Boston	1.32%	-2.43%
19	Chicago	1.28%	-2.88%
20	Baltimore	1.08%	-2.47%
21	Philadelphia	0.69%	-2.30%
22	Washington DC	0.67%	-1.35%
23	Saint Louis	0.57%	-2.38%
24	Detroit	0.08%	-3.00%
25	Pittsburgh	-0.34%	-3.40%

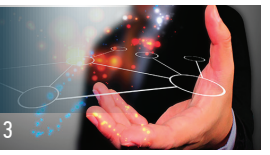
San Diego metro grew by more than two percent year-over-year, exceeding the U.S. average.

### TOTAL EMPLOYMENT CHANGES

Despite the aforementioned seasonal decline that the region experienced, San Diego's -0.84 percent growth in the quarter was the 5th best performance among major U.S. metros. That is because most regions suffered much more significant seasonal declines.

While the region's year-over-year growth was positive, it was only the 15th greatest percentage increase among the 25 most populous U.S. metros. San Diego did outperform the U.S. average in both year-over-year and quarterly change. Two percent annual growth is around what most economists had predicted for 2014.

Source:  
Bureau of Labor Statistics  
Ranked by % Change Year



### INDUSTRY SPOTLIGHT: CYBERSECURITY

Cyberspace has become ever present in modern life. As information technology's pervasiveness has grown, so too have the threats to these networks and the spending to defend them. San Diego is especially well-positioned to benefit from this trend, with both a critical mass of firms and a solid economic foundation on which to grow. The region is already home to large market leaders in cybersecurity solutions such as ESET and Sentek Global and a workforce of more than 40,000 IT professionals. The region's universities and colleges graduate several thousand computer scientists, computer engineers, and other IT workers every year.

There is a robust demand for cybersecurity solutions across many sectors and facets of San Diego's economy:

- **Defense:** the Department of Defense (DoD) recently proposed a five-year cybersecurity budget of more than \$23 billion.
- **Private Industry:** Companies across all of San Diego's economies employ cybersecurity solutions; Firms such as Sempra Energy and Qualcomm have made significant investments to protect their customers.
- **Industry Collaborations:** Securing Our eCity, has drawn attention to the ubiquitous nature of cyberthreats and the importance of every individual and business taking action to protect themselves. A new group, the Cyber Center of Excellence (CCOE), has also formed to help accelerate the region's cyber innovation economy.

Figure 1: Employment-Growth Expectations and Projections for the Next 12 Months in San Diego County

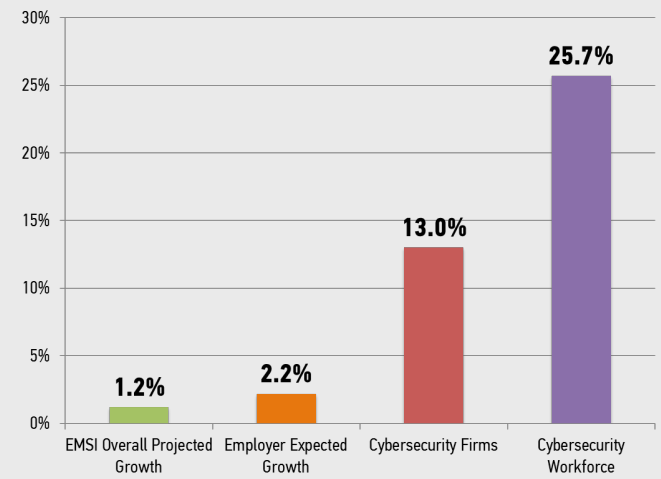
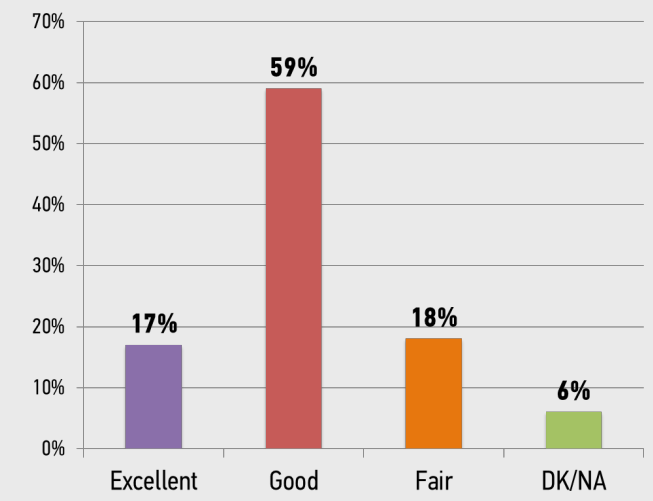


Figure 2: San Diego County Business Climate for Cybersecurity Firms



More than 75% of cybersecurity firms agree that San Diego has a 'Good' or 'Excellent' business climate.

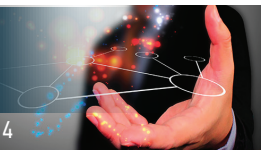
### KEY FINDINGS

In March 2014, EDC released their *Cybersecurity in San Diego: An Economic Impact and Industry Assessment* to quantify and better understand the cybersecurity industry in the region. Below are some key findings from the report. To view the full report, please visit: [sandiegobusiness.org/research](http://sandiegobusiness.org/research)

- **Growth:** Cybersecurity employers expect to see their total employment grow by more than 13 percent and their cybersecurity workforce to grow by more than 25 percent in 2014, compared to 1.2-2.2 percent expected total regional employment growth (see Figure 1). Cyberbusinesses were also more than twice as likely to indicate that they had grown in terms of permanent employment rather than declined in the last three years.
- **Business Climate:** More than 75 percent of cybersecurity firms agreed that San Diego was a good or excellent business climate for their cyberbusiness, while no cyberemployers surveyed indicated that the county was an overall poor or very poor place to do business (see Figure 2).
- **Critical Mass:** The region is home to more than 100 core cyber firms that employ at least 3,500 private sector employees, in addition to SPAWAR's 3,095 cybersecurity professionals (see Figure 3).
- **Impacts:** The industry impacts more than 13,000 jobs and generates an economic impact of more than \$1.5 billion, the equivalent of hosting three Super Bowls every year (see Figure 3).
- **Assets:** More than 50 percent of respondents strongly agree that the county's military footprint and research assets are critical to cyberbusiness, and more than half of all cyberbusinesses indicated that the federal government, including the Department of Defense, was a customer of their cybersecurity work.
- **Diverse:** 40 percent of San Diego County cyberemployers were focused on serving private-sector businesses or a combination of businesses and consumers.

Figure 3: Economic Impacts of Cybersecurity Industry

Impact Type	Employment	Value Added (millions)
<b>Private Sector:</b>		
Direct	3,550	\$502.1
Indirect/Induced	3,539	\$307.4
<b>Total Effect</b>	<b>7,089</b>	<b>\$809.5</b>
<b>SPAWAR:</b>		
Direct	3,095	\$437.8
Indirect/Induced	3,085	\$268.0
<b>Total Effect</b>	<b>6,180</b>	<b>\$705.8</b>
<b>Total Industry Impact:</b>		
Direct	6,645	\$939.9
Indirect/Induced	6,624	\$575.4
<b>Total Effect</b>	<b>13,269</b>	<b>\$1,515.3</b>



REAL ESTATE

FORECLOSURES

San Diego's foreclosure rate remained much lower than the U.S. average in January 2014, with only 2.26 out of every 10,000 homes foreclosed during that month. The region had the third lowest foreclosure rate in January 2014 and the fifth greatest decline among major U.S. metros from January 2013 to January 2014. Foreclosures continued to decline in the October-January quarter, and are down 3.7 percentage points from the previous year.

Foreclosure Rate: 25 Most Populous US Metros

RANK	METRO	RATE JAN '14	POINT CHANGE PREV. QUARTER	POINT CHANGE PREV. YEAR
1	New York	1.04	-0.25	0.47
2	Pittsburgh	1.18	0.05	-0.76
<b>3</b>	<b>San Diego</b>	<b>2.26</b>	<b>-0.14</b>	<b>-3.70</b>
4	San Francisco	2.36	-0.11	-3.33
5	Philadelphia	2.42	-0.18	0.12
6	Los Angeles	2.49	0.05	-3.27
7	Denver	3.69	3.38	2.91
8	Washington	4.09	0.28	0.08
9	Portland	4.38	0.83	1.10
10	Minneapolis	4.46	-0.16	-5.13
	U.S.	5.05	-0.29	-0.95
11	Riverside	5.33	-0.46	-6.44
12	Dallas-Fort Worth	5.62	-0.52	-0.78
13	Baltimore	5.69	0.52	1.84
14	Phoenix	6.08	-0.70	-5.88
15	Seattle	8.66	-0.46	-7.36
16	Charlotte	9.23	-1.96	-0.13

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

San Diego's quarter-to-quarter home price declined for the first time in two years.

OFFICE & INDUSTRIAL SNAPSHOT

While countywide office vacancy rates increased from Q3 to Q4 2013, the rate remained lower than it was a year prior in Q4 2012. North and South County both experienced declines in Q3 to Q4 vacancy rates, and both experienced positive absorption. Central County dragged the countywide rate, due to negative absorption in the quarter. Asking rents increased in all submarkets. Central County is expecting significant positive office absorption in early 2014, due mostly to upcoming deals made by Rady Children's Hospital and Kleinfelder's.

San Diego's industrial market continues to perform well, closing 2013 with its 10th consecutive quarter of positive net absorption. Vacancy rates were down in all submarkets, and more than half a million square feet of industrial space was absorbed in the quarter.

Real Estate Snapshot: San Diego County (Q4 2013)

AREA/SUB-REGION	OFFICE			INDUSTRIAL		
	VACANCY RATE	ABSORPTION (SF)	AVERAGE ASKING RENT	VACANCY RATE	ABSORPTION (SF)	AVERAGE ASKING RENT
San Diego County	18.0%	6,832	\$2.85	7.8%	559,267	\$0.78
North County	19.8%	24,054	\$2.39	8.6%	136,585	\$0.72
Central County	18.1%	(26,790)	\$3.18	6.4%	277,742	\$0.95
South County	16.8%	9,568	\$2.48	10.4%	144,940	\$0.55

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.

HOME PRICES

San Diego remains the second most expensive for-sale home market in the U.S., but prices finally decreased in the fourth quarter, according to National Association of Realtors. From Q3 2013 to Q4 2013, home prices declined by about 1.7 percent in the San Diego region. This marks the first quarter-to-quarter decline in prices in two years, since Q3 2011 to Q4 2011. Historically, prices tend to decline during this period each year, so it is unlikely an indication of a downward trend. Despite the seasonal decline, home prices in Q4 2013 were 17.6 percent higher than they were in Q4 2012, which is the sixth highest increase among major U.S. metros.

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

RANK	METRO	PRICE 2013 Q4	% CHANGE FROM PREV. QUARTER	% CHANGE FROM PREV. YEAR
1	San Francisco	\$682,410	-3.2%	15.0%
<b>2</b>	<b>San Diego</b>	<b>\$476,790</b>	<b>-1.7%</b>	<b>17.6%</b>
3	Los Angeles	\$423,090	-5.8%	20.9%
4	New York	\$386,300	-4.9%	2.8%
5	Boston	\$371,300	-5.7%	7.9%
6	Washington DC	\$368,000	-6.2%	4.2%
7	Seattle	\$344,400	-2.9%	9.9%
8	Denver	\$279,300	-2.6%	9.6%
9	Portland	\$267,500	-3.1%	10.5%
10	Riverside	\$263,580	5.8%	26.0%
11	Miami	\$254,900	1.1%	19.7%
12	Baltimore	\$241,700	-9.3%	0.4%
13	Philadelphia	\$214,300	-7.5%	2.1%
14	Minneapolis	\$197,100	-5.2%	12.4%
	U.S.	\$196,900	-4.9%	10.1%
15	Phoenix	\$192,700	0.5%	21.1%
16	Chicago	\$187,100	-10.5%	11.8%
17	Houston	\$182,300	-2.3%	8.6%
18	Dallas	\$173,900	-4.1%	10.6%
19	Charlotte	\$172,500	-6.1%	12.7%
20	San Antonio	\$171,700	-1.9%	6.9%
21	Atlanta	\$142,400	-6.5%	33.2%
22	Tampa	\$142,400	-6.2%	3.8%
23	Saint Louis	\$130,300	-9.3%	11.1%

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

Led by the manufacturing industry, industrial tenants absorbed 2.3 million square feet in 2013.



### VENTURE CAPITAL

In Q4 2013, the San Diego region ranked 10th 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 \$33 million in Q4 2013 from Q4 2012. Every quarter in 2013 was lower than that same quarter recorded in 2012.

With data from all four quarters of 2013 reported, San Diego companies received approximately \$359 million less in venture capital in 2013 compared to 2012. While venture activity was down in 2013, San Diego experienced a rise in companies going public, which likely means some companies needed less venture funding in the later stage, according to San Diego Venture Group. This trend was most pronounced in the biotechnology sector, San Diego's largest generator of VC activity. Total year 2013 funding for biotechnology ventures was down 36%, or about \$215 million from 2012.

From 2012 to 2013, the region experienced decline in all stages of funding, except a marginal increase in startup/seed funding, nearly all of which came in the fourth quarter of 2013. While the decline in later stage funding can be explained by an increase in companies going public, the decline in early stage and expansion funds are particularly concerning. Those two stages accounted for more than \$150 million in decline from 2012 to 2013.

**Achates Power Inc., an industrial/energy engine technology developer received more than \$35 million in later stage funding in Q4.**

San Diego companies were involved in 23 VC deals in Q4 2013. Sorrento Valley based Achates Power Inc. received the largest deal of the quarter, receiving more than \$35 million in later stage funds. Clinical stage biopharmaceutical firm Otonomy received another \$23 million dollars in early stage funds, after receiving \$46 million in early stage funds in Q3. Other notable deals include \$20 million in later stage funding for Auspex Pharmaceuticals and \$1.69 million in later stage funding for Senior Quote Insurance, a financial services firm. The latter is the largest financial services VC deal in the region since the first quarter of 2010.

### San Diego Venture Capital Funding by Industry (Q4 2012 - Q4 2013)

INDUSTRY	Q4 2013	Q4 2012	2013 Total	2012 Total
Biotechnology	\$91,392,100	\$113,924,600	\$387,003,200	\$602,489,800
Computers and Peripherals	\$0	\$0	\$8,000,000	\$0
Electronics/Instrumentation	\$0	\$0	\$7,500,000	\$2,195,000
Financial Services	\$1,690,000	\$0	\$1,690,000	\$1,690,000
Healthcare Services	\$2,171,000	\$0	\$2,171,000	\$2,171,000
IT Services	\$1,250,000	\$0	\$26,496,900	\$195,871,200
Industrial/Energy	\$35,200,000	\$7,975,000	\$67,420,100	\$22,211,000
Media and Entertainment	\$2,650,000	\$98,000	\$15,650,000	\$7,437,000
Medical Devices and Equipment	\$3,280,000	\$28,500,100	\$127,038,500	\$106,726,000
Networking and Equipment	\$0	\$0	\$19,980,000	\$9,173,000
Software	\$7,450,000	\$27,619,800	\$94,718,100	\$156,889,600
<b>Total</b>	<b>\$145,083,100</b>	<b>\$178,117,500</b>	<b>\$757,667,800</b>	<b>\$1,116,740,600</b>

Source: PricewaterhouseCoopers MoneyTree Report  
Note: Only industries with funding in Q4 2012 - Q4 2013 period in San Diego shown  
Prev 4Q Total reflects total from Q1 2013 - Q4 2013

### San Diego Venture Capital Funding by Stage (Q4 2012 - Q4 2013)

STAGE	Q4 2013	Q4 2012	2013 Total	2012 Total
Startup/Seed	\$15,000,100	\$0	\$15,514,100	\$15,200,000
Early Stage	\$57,878,000	\$86,123,300	\$390,794,600	\$500,103,400
Expansion	\$3,900,000	\$30,475,000	\$106,185,900	\$153,519,200
Later Stage	\$68,305,000	\$61,519,200	\$245,173,200	\$447,918,000
<b>Total</b>	<b>\$145,083,100</b>	<b>\$178,117,500</b>	<b>\$757,667,800</b>	<b>\$1,116,740,600</b>

Source: PricewaterhouseCoopers MoneyTree Report  
Note: Only industries with funding in Q4 2012 - Q4 2013 period in San Diego shown  
Prev 4Q Total reflects total from Q1 2013 - Q4 2013

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