



SAN DIEGO  
REGIONAL  
EDC

# ECONOMIC SNAPSHOT

A Summary of the San Diego Regional Economy

OCTOBER 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 April 2014-July 2014 quarter.

## Highlights

San Diego County's July 2014 unemployment rate was down 1.4 percentage points from July 2013.

Private employment in San Diego grew by more than 3.2 percent from July 2013 to July 2014.

The region added 36,400 jobs since last July - 35,400 of which came from the private sector.

San Diego has the highest percentage of bachelor's degree holders with a STEM degree among major regional peers.

2014 year-to-date net absorption of industrial real estate is the best mid-year performance since 2008.

July's 2.02 percent foreclosure rate marks the lowest rate in San Diego since July 2006, making it an eight-year low for the region.

Biotechnology companies continued to receive larger sums in 2014, with two-thirds of all activity going toward Biotech in Q2.

## UNEMPLOYMENT

San Diego metro ranked 14th in unemployment rate in July 2014, up three spots from last quarter (April 2014). San Diego's 6.6 percent rate is slightly above the U.S. rate of 6.5 percent. The year-over-year decline in unemployment remains a positive trend in the region. The rate fell by 1.4 percentage points, out-pacing the U.S. average 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 Riverside and Los Angeles metros, as well as the state average.

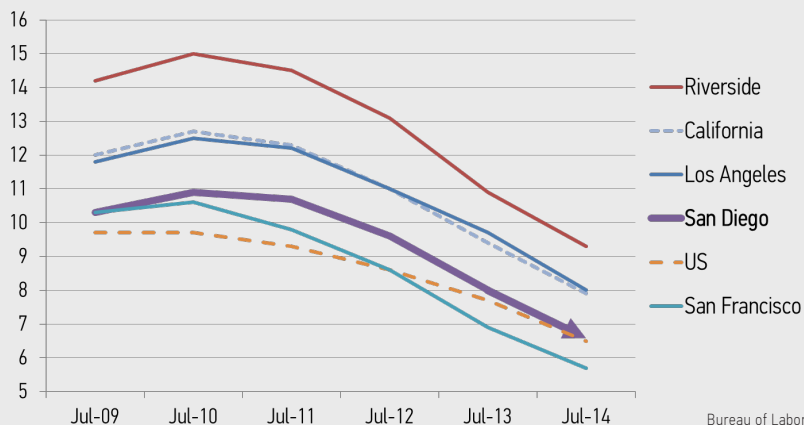
### Unemployment Rate: 25 Most Populous U.S. Metros

RANK	METRO	JUL-14	JUL-13	CHANGE
1	Minneapolis	4.3	5.0	-0.7
2	Seattle	5.1	6.0	-0.9
3	Denver	5.2	6.7	-1.5
4	San Antonio	5.2	6.4	-1.2
5	Washington DC	5.4	5.7	-0.3
6	Dallas	5.5	6.5	-1.0
7	Houston	5.5	6.5	-1.0
8	Boston	5.6	6.7	-1.1
9	San Francisco	5.7	6.9	-1.2
10	Pittsburgh	5.8	7.1	-1.3
11	Portland	6.3	7.3	-1.0
12	Phoenix	6.3	7.2	-0.9
13	Miami	6.4	7.7	-1.3
	U.S.	6.5	7.7	-1.2
<b>14</b>	<b>San Diego</b>	<b>6.6</b>	<b>8.0</b>	<b>-1.4</b>
15	Philadelphia	6.7	8.3	-1.6
16	Charlotte	6.8	8.5	-1.7
17	Tampa	6.8	7.6	-0.8
18	Chicago	6.8	9.4	-2.6
19	Baltimore	6.8	7.2	-0.4
20	New York	7.0	8.2	-1.2
21	Saint Louis	7.1	7.7	-0.6
22	Atlanta	7.9	8.3	-0.4
23	Los Angeles	8.0	9.7	-1.7
24	Riverside	9.3	10.9	-1.6
25	Detroit	9.8	10.6	-0.8

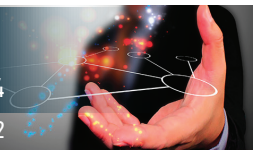
California metros experienced some of the steepest declines in the unemployment rate.

Source:  
Bureau of Labor Statistics  
Seasonally Unadjusted

### Unemployment Rate: California Comparison



Source:  
Bureau of Labor Statistics



## EMPLOYMENT

Employment growth slowed in the April to July quarter, mostly due to seasonal layoffs in private and public education services. Other private sectors continued drive the economy through recovery, with growth in manufacturing, professional and business services, and construction. Health care and retail trade also experienced positive growth in the quarter. Meanwhile, the region's tourism industry added more than 10,000 jobs this quarter, largely due to summer travel and seasonal effects.

Despite the slow season, year-over-year growth continued to show positive signs of a healthy recovery. Private employment grew by more than 35,000 employees. San Diego experienced growth in the region's traded sectors, like professional, scientific and technical services (PST), tourism, and manufacturing. Large industries like health care and retail trade also added thousands of employees.

Like previous quarters, we have continued to see growth in leading indicator sectors like construction and manufacturing. Construction added more than 7,000 jobs from July 2013 to 2014, which is approximately 11.3 percent growth, compared to about 2.8 percent growth in overall employment.

Federal and state government employment has continued to decline year-over-year like many experts expected, as the federal government implements budget cuts and winds down military activity. It will be worth keeping an eye on this trend as global events may potentially force the federal government to increase defense spending.

San Diego's annual employment growth of 2.78 percent made it the 11th fastest growing major metro from July 2013 to 2014. The region's employment grew much higher than the U.S. average. San Diego's quarterly employment growth was more modest at 0.46 percent, but still above the U.S. average rate of 0.29 percent. San Diego's quarterly growth was the 14th fastest growth rate among the major metros, held back mostly by seasonal private and public education layoffs.

### Total Employment Growth: 25 Most Populous U.S. Metros

RANK	METRO	% CHANGE YEAR JUL '13 - JUL '14	% CHANGE QTR APR '14 - JUL '14
1	Houston	3.92%	0.94%
2	Dallas	3.77%	0.84%
3	Miami	3.33%	-1.67%
4	Portland	3.18%	0.45%
5	Riverside	3.15%	-0.85%
6	Charlotte	3.02%	-0.86%
7	Seattle	2.90%	1.89%
8	Minneapolis	2.83%	1.60%
9	San Francisco	2.82%	1.01%
10	Atlanta	2.81%	0.79%
<b>11</b>	<b>San Diego</b>	<b>2.78%</b>	<b>0.46%</b>
12	Denver	2.76%	1.55%
13	Phoenix	2.65%	-2.28%
14	Baltimore	2.57%	0.24%
15	San Antonio	2.39%	0.40%
16	Boston	2.20%	1.42%
	U.S.	1.93%	0.29%
17	New York	1.79%	1.23%
18	Saint Louis	1.78%	-0.07%
19	Los Angeles	1.78%	-0.77%
20	Tampa	1.74%	-1.97%
21	Philadelphia	1.26%	-0.14%
22	Pittsburgh	1.18%	0.54%
23	Chicago	1.12%	1.57%
24	Detroit	1.01%	0.96%
25	Washington DC	0.65%	0.73%

Source: Bureau of Labor Statistics | Ranked by % Change Year

### Employment by Industry (in thousands)

INDUSTRY	JUL-14	APR-14	JUL-13	CHANGE PREV. QTR	CHANGE PREV. YR	%CHANGE PREV. QTR	%CHANGE PREV. YR
<b>Total (Private and Government)</b>	<b>1343.7</b>	<b>1337.6</b>	<b>1307.3</b>	<b>6.1</b>	<b>36.4</b>	<b>0.46%</b>	<b>2.78%</b>
<b>Total Private</b>	<b>1122.2</b>	<b>1102.8</b>	<b>1086.8</b>	<b>19.4</b>	<b>35.4</b>	<b>1.76%</b>	<b>3.26%</b>
<i>Professional and Business Services*</i>	230.4	226.9	223.7	3.5	6.7	1.54%	3.00%
<i>Prof., Scientific, &amp; Tech. Services*</i>	131.2	129.4	124.5	1.8	6.7	1.39%	5.38%
<i>Mgmt. of Companies &amp; Enterprises</i>	20.9	20.7	20.1	0.2	0.8	0.97%	3.98%
<i>Administrative</i>	78.3	76.8	79.1	1.5	-0.8	1.95%	-1.01%
<i>Trade, Transportation, and Utilities</i>	216.4	213.9	211.1	2.5	5.3	1.17%	2.51%
<i>Wholesale Trade</i>	45.9	46.4	44.1	-0.5	1.8	-1.08%	4.08%
<i>Retail Trade</i>	142.5	140.5	139.8	2.0	2.7	1.42%	1.93%
<i>Transportation and Utilities</i>	28.0	27	27.2	1.0	0.8	3.70%	2.94%
<i>Education and Health Services</i>	182.7	184	175.2	-1.3	7.5	-0.71%	4.28%
<i>Education Services</i>	28.4	31.9	27.1	-3.5	1.3	-10.97%	4.80%
<i>Health Care and Social Assistance</i>	154.3	152.1	148.1	2.2	6.2	1.45%	4.19%
<i>Leisure and Hospitality*</i>	181.4	171.4	174.1	10.0	7.3	5.83%	4.19%
<i>Manufacturing*</i>	96.9	96.1	94.6	0.8	2.3	0.83%	2.43%
<i>Financial Activities</i>	70.8	71.2	71.9	-0.4	-1.1	-0.56%	-1.53%
<i>Finance and Insurance</i>	43.6	44.2	44.6	-0.6	-1.0	-1.36%	-2.24%
<i>Real Estate and Rental and Leasing</i>	27.2	27	27.3	0.2	-0.1	0.74%	-0.37%
<i>Construction</i>	68.8	64.2	61.8	4.6	7.0	7.17%	11.33%
<i>Other Services</i>	50.1	50.5	50	-0.4	0.1	-0.79%	0.20%
<i>Information*</i>	24.3	24.2	24	0.1	0.3	0.41%	1.25%
<i>Mining and Logging</i>	0.4	0.4	0.4	0.0	0.0	0.00%	0.00%
<b>Government</b>	<b>221.5</b>	<b>234.8</b>	<b>220.5</b>	<b>-13.3</b>	<b>1.0</b>	<b>-5.66%</b>	<b>0.45%</b>
<i>Federal Government</i>	45.8	45.9	46.6	-0.1	-0.8	-0.22%	-1.72%
<i>State Government</i>	40.1	43.1	40.7	-3.0	-0.6	-6.96%	-1.47%
<i>Local Government</i>	135.6	145.8	133.2	-10.2	2.4	-7.00%	1.80%

Source: California Employment Development Department | Italics = Supersector | Ordered by largest Supersectors

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

Private employment grew by more than 3.2 percent from July 2013 - 2014.



### SPOTLIGHT ON THE AMERICAN COMMUNITY SURVEY

The U.S. Census Bureau recently released 2013 data from its annual American Community Survey (ACS). The ACS is the most comprehensive U.S. data source for information on demographics, talent and household patterns, among other relevant metrics. In the previous snapshot, we highlighted some talent trends in the region using 2012 and prior data. In this issue, we will discuss where SD stands relative to peers on some of these measures, plus explore some additional demographic and talent data revealed by the most recent ACS.

In 2013, the region continued to compare favorably in most indicators. When compared to the 25 most populous U.S. metros, San Diego ranked 13th in bachelor's degrees, 10th in advanced degree holders and 5th in doctorate degree holders, in terms of percentage of its population age 25 and older (see Figure 3 below). In 2012, these rankings were 12th (bachelor's), 10th (advanced) and 5th (doctorate), indicating a very slight drop in positioning, but the region remained well above U.S. averages in all of these indicators.

When taking a closer look at changes in degree classes (see Figure 1), we see that San Diego's degree holding population has grown relatively well from 2009-2013, keeping up with total 25 or older population growth. Much of the growth in degree holders was specifically attributed to graduate or professional degree holders, which recorded 13.7 percent growth over the five-year period, while bachelor's degree holders grew at a much slower 3.4 percent pace. The key takeaway is that while San Diego's degree-holding population grew rather modestly, that growth was concentrated among more educated professional degree holders.

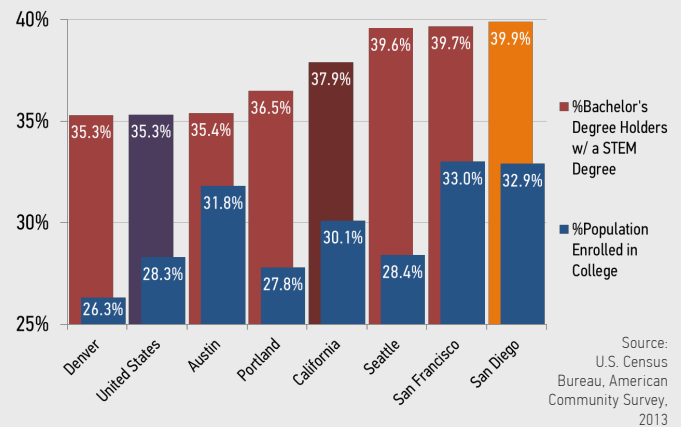
If we break these numbers down by key age groups, we continue to see favorable growth among 25-34 year olds, with degree holders growing by more than nine percent. When specifically looking at graduate or professional degree holders, we see an astounding 28.9 percent growth in that age bracket, nearly double the rate of the 25 and older population. We also see modest growth in this degree class among the 35-44 age group. However, growth in the 35-44 group was either lower than the 25+ average or negative in all other classes except associate degree holders.\* As discussed in previous EDC publications, the key takeaway is that San Diego continued to experience signs of retention problems among college educated people as they aged, except for those with the most advanced degrees.

Figure 1: Percentage Change in Population from 2009-2013 by Age Group and Degree Class

HIGHEST DEGREE CLASS	AGE GROUP		
	25-34	35-44	25+
Total Age Group Population	10.1%	1.7%	7.2%
No Diploma	-0.1%	5.3%	6.8%
High School Graduate	11.8%	-4.5%	4.4%
Associate Degree*	20.9%	40.5%	22.8%
Bachelor's Degree	2.1%	-5.7%	3.4%
Graduate or Professional Degree	28.9%	8.4%	13.7%
Bachelor's or Higher	9.1%	-0.3%	7.2%

Source: U.S. Census Bureau, American Community Survey, 2009-2013 1-year Data Series

Figure 2: STEM Education and College Enrollment, Peer Metropolitan Area Comparison (2013)



Source: U.S. Census Bureau, American Community Survey, 2013

San Diego has the highest percentage of bachelor's degree holders with a STEM degree among major regional peers.

Despite some of these concerning trends, the region continues to compare favorably in areas that are essential to its core innovation economy. In terms of STEM educated degree holders, San Diego ranks higher than its key peer western metros (see Figure 2), and is 2nd only to Houston when compared to the 25 most populous U.S. metros (see Figure 3). Nearly 40 percent of San Diego's degree holders had their first degree in a STEM field, which indicates that the region is well-equipped with the talent to drive high-tech and scientific industries. Similarly, the region was second only to San Francisco in terms of percentage of its qualified population currently enrolled in college, when compared to western peers. Nearly 33 percent of San Diegans age three and older enrolled in school are enrolled in college or graduate school. Therefore, while the region shows some signs of challenges in retention of its talented population, it appears as though the region is well-equipped to face the needs of employers in the future.

For more figures from the 2013 ACS, please visit <http://www.sandiegobusiness.org/research>

\*Immense growth in the associate class can likely be explained by people returning to school to improve employability or employed persons entering programs for job retention purposes during the recession.

Figure 3: Select Talent Indicators for 2013, including San Diego's Rank among 25 Most Populous U.S. Metros

	% Population w/ Bachelor's Degree or Higher	% Population w/ Advanced Degree or Higher	% Population w/ Ph.D or Higher	% College Grads w/ Science or Engineering Majors	% of Population Multi-Lingual English-Speaking Residents
TALENT	34.6 percent	13.4 percent	1.9 percent	39.9 percent	21.8 percent
	Rank: 13th (2013)	Rank: 10th (2013)	Rank: 5th (2013)	Rank: 2nd (2013)	Rank: 6th (2013)



REAL ESTATE

FORECLOSURES

San Diego's foreclosure rate remained much lower than the U.S. average in July 2014, with only 2.02 out of every 10,000 homes foreclosed during that month. The region had the fourth lowest foreclosure rate in July and the fifth greatest decline among major U.S. metros from April 2014 to July 2014. July's 2.02 rate marks the lowest rate in San Diego since July 2006, making it an eight-year low for the region.

Foreclosure Rate: 25 Most Populous U.S. Metros

RANK	METRO	RATE JUL '14	POINT CHANGE PREV. QUARTER	POINT CHANGE PREV. YEAR
1	New York	1.34	0.13	0.49
2	San Francisco	1.61	-0.38	-0.80
3	Pittsburgh	1.67	0.46	0.86
<b>4</b>	<b>San Diego</b>	<b>2.02</b>	<b>-0.27</b>	<b>-0.38</b>
5	Los Angeles	2.12	-0.17	-0.64
6	Denver	2.96	0.03	2.56
7	Philadelphia	3.53	-0.60	0.36
8	Washington	4.00	-0.95	0.89
9	Minneapolis	4.03	-0.11	-2.20
10	Dallas	4.47	-0.10	-0.60
11	Phoenix	4.50	-0.22	-3.37
	U.S.	4.98	-0.25	-0.39
12	Portland	5.23	0.29	1.64
13	Riverside	5.32	0.12	-0.61
14	Seattle	6.77	-0.17	-9.36
15	Charlotte	7.50	-1.64	-2.33
16	Baltimore	7.73	0.19	3.86

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

HOME PRICES

San Diego remains the second most expensive for-sale home market in the U.S., according to National Association of Realtors. From Q1 to Q2 2014, home prices increased by about 4.4 percent in the San Diego region. This pace was slower than all but four of the other regions shown below and slower than the U.S. average. However, the annual growth rate was a higher 7.5 percent, putting San Diego in the middle of the pack in terms of home price growth. While San Diego's home prices are nearly certain to remain higher than most other major markets for the foreseeable future, recent numbers indicate the potential for the gap to narrow a bit, as other lower cost markets begin to grow at a pace faster than San Diego.

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

RANK	METRO	PRICE 2014 Q2	% CHANGE FROM PREV. QUARTER	% CHANGE FROM PREV. YEAR
1	San Francisco	\$769,600	13.2%	10.1%
<b>2</b>	<b>San Diego</b>	<b>\$504,200</b>	<b>4.4%</b>	<b>7.5%</b>
3	Los Angeles	\$420,300	3.5%	11.1%
4	Washington DC	\$403,600	12.5%	0.1%
5	Boston	\$398,100	9.6%	4.2%
6	New York	\$396,700	4.0%	-0.8%
7	Seattle	\$357,400	5.1%	3.4%
8	Denver	\$316,300	9.7%	10.4%
9	Portland	\$286,200	5.3%	8.3%
10	Riverside	\$274,600	3.0%	14.6%
11	Miami	\$270,000	4.2%	7.6%
12	Baltimore	\$255,600	13.9%	-2.7%
13	Philadelphia	\$227,200	12.6%	0.0%
14	Chicago	\$218,000	23.2%	8.3%
15	Minneapolis	\$212,900	13.1%	6.7%
	U.S.	\$212,400	11.1%	4.4%
16	Houston	\$204,000	10.5%	7.9%
17	Charlotte	\$203,600	21.6%	13.0%
18	Phoenix	\$198,600	2.2%	8.3%
19	Dallas	\$191,300	9.4%	5.2%
20	San Antonio	\$184,200	8.8%	5.0%
21	Atlanta	\$166,200	17.1%	16.0%
22	Tampa	\$156,000	7.6%	1.3%
23	Saint Louis	\$149,900	24.4%	4.9%

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

While still rising, home price growth is beginning to slow relative to other markets.

OFFICE & INDUSTRIAL SNAPSHOT

Q2 2014 marked a step back for the office market in San Diego. The county as a whole, and all sub-regions except South County experienced rising vacancy rates and negative absorption. According to Cassidy Turley Market Reports, most of the setback was in the sub-markets of Eastgate, Rancho Bernardo and Scripps, following departures or down-sizings from Lockheed Martin, MedImpact Healthcare Services, JPMorgan Chase and Sony. On a more positive note, Cassidy Turley expects a quick turnaround in Q3, with much of the vacated space accounted for by future tenants.

The industrial market in San Diego continues to flourish. According to Cassidy Turley, San Diego's 862,008 SF of year-to-date net absorption is the best mid-year performance since 2008.

2014 year-to-date net absorption of industrial real estate is the best mid-year performance since 2008.

Real Estate Snapshot: San Diego County (Q2 2014)

AREA/SUB-REGION	OFFICE			INDUSTRIAL		
	VACANCY RATE	ABSORPTION (SF)	AVERAGE ASKING RENT	VACANCY RATE	ABSORPTION (SF)	AVERAGE ASKING RENT
San Diego County	18.6%	(250,595)	\$2.94	7.2%	489,139	\$0.80
North County	19.4%	(42,222)	\$2.54	7.5%	523,910	\$0.76
Central County	19.0%	(238,021)	\$3.24	6.0%	31,863	\$0.98
South County	16.9%	29,648	\$2.55	10.0%	(66,634)	\$0.54

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 Q2 2014, 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 slightly down from last quarter, but Q1 to Q2 declines are historically common. It is most important to note that San Diego received more this year than it did last, with Q2 2014 dollars up more than \$40 million from Q2 2013.

Data from Q2 indicates that VC investment continued to rebound in 2014 after a sluggish 2013. The first half total for San Diego is about \$483 million, well above the \$385 million first half recorded last year, but far behind the \$726 million first half recorded in 2012. However, 2012 was an uncharacteristically great year for VC activity. Excluding 2012, the first half of 2014 is off to the best start since 2008.

Biotechnology companies continued to receive larger sums in 2014, with two-thirds of all activity going toward Biotech in Q2.

San Diego companies were involved in 26 VC deals in Q2 2014. Despite biotechnology companies clearly receiving the most dollars, software companies actually received more deals, tallying nine deals, compared to eight for biotech. The rest of the industries listed in the table to the right received one or two major deals.

Companies in every stage of funding received more dollars in Q2 2014 from Q2 2013. Startup activity has been inconsistent at best since 2010, thus four deals for \$14.2 million for San Diego startups in Q2 is a positive sign. Three of these deals were for biotech startups, with the fourth going toward a computers and peripherals company, Nervana Systems, Inc.

The largest deals, unsurprisingly, went to three biotech companies, which accounted for more than half of the total dollar activity. Otonomy Inc., who has received several major deals in the past year, received another \$49 million in early stage funds. Verdezyne, Inc received \$48 million in later stage funds and Cidara Therapeutics received \$32 million in early stage funds. Sotera wireless, a local Wireless health and medical device company, secured another \$20 million in later stage funding.

### San Diego Venture Capital Funding by Industry (Q2 2013 - Q2 2014)

INDUSTRY	Q2 2014	Q2 2013	PREV 4Q Total
Biotechnology	\$145,974,500	\$98,224,203	\$517,796,797
Computers and Peripherals	\$600,000	\$0	\$600,000
Consumer Products and Services	\$5,000,100	\$0	\$21,500,100
Electronics/Instrumentation	\$0	\$0	\$7,500,000
Financial Services	\$0	\$0	\$2,775,000
Healthcare Services	\$0	\$0	\$32,171,102
Industrial/Energy	\$0	\$0	\$65,200,102
IT Services	\$5,167,000	\$0	\$6,417,000
Media and Entertainment	\$699,000	\$9,000,000	\$16,236,000
Medical Devices and Equipment	\$20,705,000	\$44,691,102	\$52,015,199
Networking and Equipment	\$13,612,000	\$4,980,000	\$28,612,000
Retailing/Distribution	\$0	\$0	\$3,000,000
Semiconductors	\$3,572,000	\$0	\$43,312,000
Software	\$27,000,000	\$25,308,000	\$65,923,200
<b>Total</b>	<b>\$222,439,594</b>	<b>\$182,223,297</b>	<b>\$863,668,500</b>

Source: PricewaterhouseCoopers MoneyTree Report  
Note: Only industries with funding in Q2 2013 - Q2 2014 period in San Diego shown  
Prev 4Q Total reflects total from Q3 2013 - Q2 2014

### San Diego Venture Capital Funding by Stage (Q2 2013 - Q2 2014)

STAGE	Q2 2014	Q2 2013	PREV 4Q Total
Startup/Seed	\$14,225,000	\$514,000	\$29,225,100
Early Stage	\$83,434,500	\$62,176,301	\$445,208,094
Expansion	\$42,533,102	\$41,166,000	\$147,275,403
Later Stage	\$82,247,000	\$78,367,000	\$241,459,900
<b>Total</b>	<b>\$222,439,594</b>	<b>\$182,223,297</b>	<b>\$863,668,500</b>

Source: PricewaterhouseCoopers MoneyTree Report  
Note: Only industries with funding in Q2 2013 - Q2 2014 period in San Diego shown  
Prev 4Q Total reflects total from Q3 2013 - Q2 2014

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EDC economic research is made possible with support from Bridgepoint, Qualcomm and Union Bank



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