



SAN DIEGO REGIONAL EDC

ECONOMIC SNAPSHOT

A Summary of the San Diego Regional Economy



OCTOBER 2015

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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 collected from the April 2015 to July 2015 quarter.

Highlights

San Diego County's July 2015 unemployment rate recorded the 3rd largest drop among major metros.

San Diego had the 6th highest employment growth rate from July 2014 to July 2015.

The region added 47,800 jobs since last July, with 43,500 of those jobs coming from the private sector.

San Diego's research institutions have a \$4.6 billion economic impact on the region's economy.

The industrial vacancy rate of 6.0 percent in Q2 2015 remained the lowest ever recorded for the San Diego region.

San Diego's median home price is 8.6 percent higher than it was a year ago.

Investment in software continues to be a bright spot for venture capital investment in San Diego.

UNEMPLOYMENT

San Diego metro ranked 10th in unemployment rate in July 2015, down one spot from last quarter (April 2015). San Diego's 5.4 percent rate is below the U.S. rate of 5.6 percent. The year-over-year decline in unemployment remained a positive trend in the region. The rate fell by 1.5 percentage points, the 3rd most among major metros.

San Diego has continued to fare better than other California metros and the state in terms of the unemployment rate. Riverside and Los Angeles recorded two of the three highest unemployment rates among major metros, and the region was well below the state average of 6.5 percent.

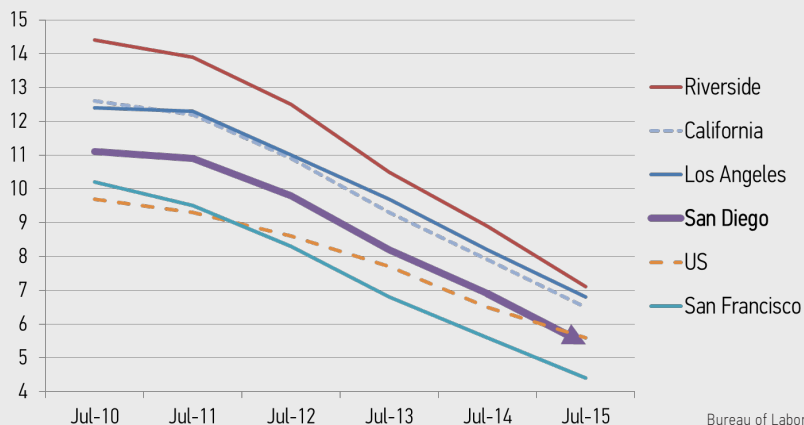
Unemployment Rate: 25 Most Populous U.S. Metros

RANK	METRO	JUL-15	JUL-14	PP CHANGE
1	Minneapolis	3.7	3.9	-0.2
2	Denver	3.8	4.8	-1.0
3	San Antonio	3.9	5.0	-1.1
4	Dallas	4.1	5.4	-1.3
5	San Francisco	4.4	5.6	-1.2
6	Boston	4.5	5.5	-1.0
6	Seattle	4.5	5.4	-0.9
8	Washington DC	4.6	5.3	-0.7
9	Houston	4.7	5.4	-0.7
10	San Diego	5.4	6.9	-1.5
10	Tampa	5.4	6.5	-1.1
12	New York	5.6	6.8	-1.2
-	US	5.6	6.5	-0.9
13	Baltimore	5.7	6.6	-0.9
13	Saint Louis	5.7	6.7	-1.0
13	Phoenix	5.7	6.3	-0.6
16	Miami	5.8	6.7	-0.9
16	Pittsburgh	5.8	6.2	-0.4
18	Charlotte	5.9	6.6	-0.7
18	Chicago	5.9	7.3	-1.4
18	Portland	5.9	6.4	-0.5
21	Atlanta	6.1	7.6	-1.5
21	Philadelphia	6.1	6.8	-0.7
23	Los Angeles	6.8	8.2	-1.4
24	Detroit	7.0	9.9	-2.9
25	Riverside	7.1	8.9	-1.8

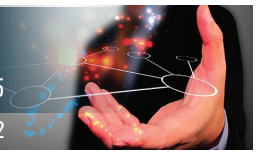
San Diego's unemployment rate dropped 1.5 percentage points, 3rd largest drop among major metros.

Source: Bureau of Labor Statistics Seasonally Unadjusted PP = Percentage Point

Unemployment Rate: California Comparison



Source: Bureau of Labor Statistics



EMPLOYMENT

San Diego experienced a small seasonal increase in employment in the April to July quarter, but lagged behind many peer metros in this regard. The region's 0.76 percent growth was 14th among major metros. Despite the comparative under-performance over Q2, nearly all sectors of the economy experienced quarterly growth, with the exception of the education sector and government, which was largely due to seasonal employment trends in public and private education. The leisure and hospitality sector had huge quarterly growth, likely due to hotels, restaurants and entertainment venues ramping up for the summer season.

Annual growth shows the region's economy picking up significant steam. San Diego recorded the 6th highest growth rate from July 2014 to July 2015. The region's employment grew by more than 3.5 percent, compared with the U.S. average growth rate of only 2.2 percent.

While San Diego's overall growth is very positive, we continued to see explosive growth in one of the region's most important sectors. Professional, scientific and technical services (PST) is a sector of the economy very heavily associated with the region's innovation clusters. Many of the companies and much of the employment in clusters like biotechnology, biomedical products, cleantech and information technology fall within the PST sector. Employment in the region's PST sector grew by 7.6 percent since last April.

Other key industries in the region experienced above average year-over-year growth. The construction sector continued to boom, adding 4,600 jobs or 7.1 percent growth. Real estate also showed some positive signs. The industry grew by 5.0 percent, adding 1,400 jobs. Leisure and hospitality, the industry most closely associated with tourism, added 8,500 jobs over the year and grew by 4.6 percent.

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

RANK	METRO	% CHANGE YEAR	
		JUL '14 - JUL '15	APR '15 - JUL '15
1	Riverside	4.20%	-0.78%
2	Portland	3.83%	1.06%
3	Seattle	3.79%	1.94%
4	Charlotte	3.70%	-1.06%
5	Dallas	3.65%	0.55%
6	San Diego	3.56%	0.76%
7	Atlanta	3.51%	0.79%
8	San Antonio	3.43%	0.89%
9	Phoenix	3.38%	-2.31%
10	San Francisco	3.20%	0.76%
11	Denver	3.10%	1.56%
12	Baltimore	2.97%	1.46%
13	Miami	2.93%	-2.00%
14	Pittsburgh	2.87%	1.44%
15	Los Angeles	2.79%	-0.53%
16	Tampa	2.77%	-1.40%
17	Detroit	2.52%	0.83%
18	Washington DC	2.32%	0.86%
19	Boston	2.29%	1.37%
-	US	2.18%	0.31%
20	Minneapolis	2.16%	1.63%
21	Houston	2.07%	0.36%
22	New York	1.81%	1.15%
23	Philadelphia	1.50%	-0.25%
24	Saint Louis	1.44%	-0.22%
25	Chicago	1.38%	1.38%

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

Employment by Industry (in thousands)

INDUSTRY	JUL-15	APR-15	JUL-14	CHANGE PREV. QTR	CHANGE PREV. YR	%CHANGE PREV. QTR	%CHANGE PREV. YR
Total (Private and Government)	1389.7	1379.2	1341.9	10.5	47.8	0.8%	3.6%
Total Private	1163.1	1141.9	1119.6	21.2	43.5	1.9%	3.9%
<i>Professional and Business Services*</i>	242.2	238.6	229.2	3.6	13.0	1.5%	5.7%
Prof., Scientific, & Tech. Services*	139.2	136.6	129.4	2.6	9.8	1.9%	7.6%
Mgmt. of Companies & Enterprises	21.8	21.6	21.3	0.2	0.5	0.9%	2.3%
Administrative	81.2	80.4	78.5	0.8	2.7	1.0%	3.4%
<i>Trade, Transportation, and Utilities</i>	218.4	214.8	213.7	3.6	4.7	1.7%	2.2%
Wholesale Trade	45.7	44.6	43.7	1.1	2.0	2.5%	4.6%
Retail Trade	145.9	143.6	142.9	2.3	3.0	1.6%	2.1%
Transportation and Utilities	26.8	26.6	27.1	0.2	-0.3	0.8%	-1.1%
<i>Education and Health Services</i>	191.3	193.5	183.6	-2.2	7.7	-1.1%	4.2%
Education Services	29.2	32.9	27.8	-3.7	1.4	-11.2%	5.0%
Health Care and Social Assistance	162.1	160.6	155.8	1.5	6.3	0.9%	4.0%
<i>Leisure and Hospitality*</i>	191.4	181.4	182.9	10.0	8.5	5.5%	4.6%
<i>Manufacturing*</i>	99.0	97.8	96.5	1.2	2.5	1.2%	2.6%
<i>Financial Activities</i>	73.3	71.7	71.2	1.6	2.1	2.2%	2.9%
Finance and Insurance	43.8	42.9	43.1	0.9	0.7	2.1%	1.6%
Real Estate and Rental and Leasing	29.5	28.8	28.1	0.7	1.4	2.4%	5.0%
<i>Construction</i>	69.0	65.5	64.4	3.5	4.6	5.3%	7.1%
<i>Other Services</i>	52.7	53	53	-0.3	-0.3	-0.6%	-0.6%
<i>Information*</i>	25.4	25.2	24.6	0.2	0.8	0.8%	3.3%
<i>Mining and Logging</i>	0.4	0.4	0.5	0.0	-0.1	0.0%	-20.0%
Government	226.6	237.3	222.3	-10.7	4.3	-4.5%	1.9%
Federal Government	45.8	45.7	45.7	0.1	0.1	0.2%	0.2%
State Government	43.4	46.6	41.8	-3.2	1.6	-6.9%	3.8%
Local Government	137.4	145	134.8	-7.6	2.6	-5.2%	1.9%

PST services recorded the highest annual growth rate at 7.6 percent.

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

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



SPOTLIGHT ON RESEARCH INSTITUTIONS

On October 13, 2015, San Diego Regional EDC released "The Economic Impact of San Diego's Research Institutions" — the first study to comprehensively measure San Diego's scientific R&D cluster. EDC, with the guidance of numerous research institutions including West Health Institute, Salk Institute Biological Studies, The Scripps Research Institute, and many others, completed the most comprehensive analysis on San Diego's research institutions to date. In order to assess the scale and impact of the cluster, the study looked at independent, non-profit research institutes (e.g. Scripps, J. Craig Venter Institute, West Health) and university research centers (e.g. UC San Diego, San Diego State University), which are collectively referred to as "research institutions" in the study.

HIGHLIGHTS

- Research institutions impact roughly 37,000 jobs and have a combined \$4.6 billion total impact on the region's GRP every year.
- The \$4.6 billion economic impact of research institutions equates to that of 4 San Diego Convention Centers, 34 San Diego Comic-Cons, 6 aircraft carriers, or 33 U.S. Open Golf Championships every year.
- All scientific R&D, including for-profit enterprises, generates \$14.4 billion annually in economic impact—roughly equal to the region's visitor industry.
- An estimated \$1.8 billion in federal and philanthropic research funding flows to the region's research institutions every year.
- Independent research institutes in San Diego receive more NIH research funding and generate more patents than counterparts in any metro area of the United States.
- Many of the world's best and brightest scientists perform cutting edge research in San Diego; there are 111 living National Academy of Science members and more than 2,600 postdocs within research institutions alone.

“When it comes to translating scientific discoveries into therapies, there's no place like San Diego. The close proximity of the Salk Institute to numerous biotech firms and academic research institutions makes San Diego the perfect place to start a company.”

- Dr. Ronald Evans, Director of the Gene Expression Laboratory at Salk Institute and Founder of Metacrine

San Diego's non-profit research institutions are the backbone of scientific innovation. They are the birthplace of groundbreaking advances in biosciences and translational research that yield life-changing discoveries and therapies. They are also the genesis of scientific startups and licensed technologies that play a critical role in San Diego's globally recognized scientific research and development cluster. In total, scientific R&D affects more than 100,000 local jobs and generates over \$14 billion in economic impact—a third of which stems from research institutions.

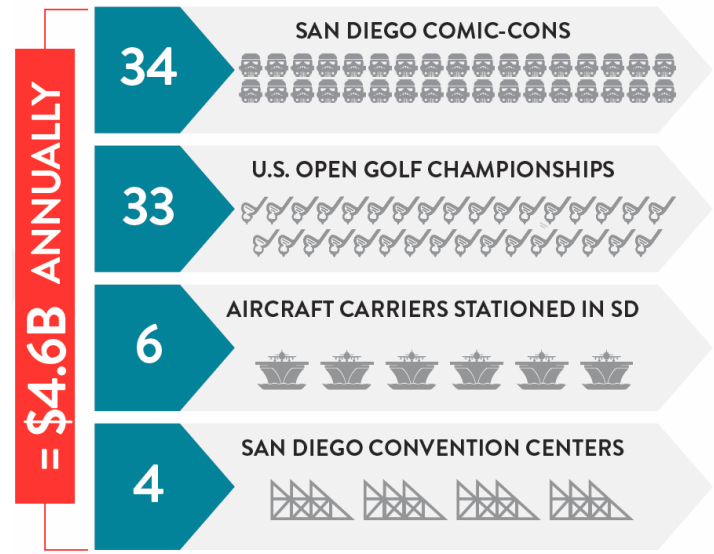
The connections to commercial productivity are profound. San Diego is the most concentrated scientific R&D market in the United States and a global leader in innovation. The business, education, and non-profit communities offer ample resources for company creation and commercialization. Scientists, entrepreneurs, and businesses owners have access to a wide range of assets for commercialization and strategic partnerships, including 16 incubators and accelerators, world-class talent and facilities, and more than 41.8 million square feet of lab and R&D space—more than 3 times the total shopping mall space in the region.

In order to capitalize on the economic impact and grow San Diego's R&D cluster, the study called for the following actions and strategies: build supporting coalitions with industry leaders and institutions; drive the economic development opportunities to retain, expand and attract the investment, support, and companies; and address workforce needs by further developing technical training programs and interactive laboratories. A coalition of research institutions and civic organizations will be working with key elected officials to advocate for funding and ensure San Diego's research narrative is carried to Sacramento, Washington, D.C. and across the globe.

For more on the release event: <http://bit.ly/1PG0809>

For the executive summary of the study: <http://bit.ly/1NUhCs6>

For the full study: <http://bit.ly/1NUHER1>



Breakdown of Economic Impacts of Scientific R&D components

Industry/ Impact Type	Regional Employment	Value Added (GRP)
Independent Research Institutes		
Direct	5,640	\$1,153,865,000
Indirect/Induced	7,950	\$708,809,000
Total Impact	13,590	\$1,862,674,000
+		
University Research		
Direct	12,450	\$1,742,437,000
Indirect/Induced	11,220	\$987,905,000
Total Impact	23,670	\$2,730,341,000
=		
Research Institutions (Independent Research Institutes + University Research)		
Direct	18,090	\$2,896,302,000
Indirect/Induced	19,170	\$1,696,714,000
Total Impact	37,260	\$4,593,015,000
+		
For-Profit Enterprises		
Direct	24,630	\$5,671,436,000
Indirect/Induced	45,380	\$4,150,748,000
Total Impact	70,010	\$9,822,184,000
=		
All Scientific R&D (For Profit Enterprises + Research Institutions)		
Direct	42,720	\$8,567,738,000
Indirect/Induced	64,550	\$5,847,462,000
Total Impact	107,270	\$14,415,199,000



REAL ESTATE

FORECLOSURES

San Diego's foreclosure rate remained much lower than the U.S. average in July 2015, with only 1.61 out of every 10,000 homes foreclosing during that month. The region remained the third lowest foreclosure market in July. The region's foreclosure rate fell from the revised April 2015 figure by 0.4 homes out of 10,000.

Foreclosure Rate: 25 Most Populous U.S. Metros

RANK	METRO	RATE JUL '15	POINT CHANGE PREV. QUARTER	POINT CHANGE PREV. YEAR
1	San Francisco	1.29	-0.20	-0.41
2	Denver	1.35	-0.15	-1.61
3	San Diego	1.61	-0.41	-0.45
4	Los Angeles	1.83	-0.33	-0.40
5	New York	2.05	-0.26	0.67
6	Dallas	3.12	-0.80	-1.24
7	Minneapolis	3.30	-0.60	-0.90
8	Pittsburgh	3.30	0.11	1.70
9	Phoenix	3.51	-0.21	-1.05
10	Washington	3.78	-1.40	-0.28
11	Philadelphia	3.78	-0.25	-0.40
-	US	4.01	-0.56	-1.16
12	Riverside	4.26	0.06	-1.22
13	Charlotte	4.47	-0.96	-2.97
14	Seattle	4.85	-1.13	-4.30
15	Portland	4.99	-1.20	-0.27
16	Baltimore	6.68	-4.56	-1.15

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

HOME PRICES

San Diego remained the second most expensive for-sale home market in the U.S., according to National Association of Realtors. Home prices increased by about 7.3 percent in the San Diego region from the previous quarter and about 8.6 percent from the previous year. The quarterly growth rate was the 19th highest recorded among major metros, while the annual growth rate was faster than most. The annual rate ranked 9th among major metros and was 0.6 points above the U.S. average.

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

RANK	METRO	PRICE 2015 Q2	% CHANGE FROM PREV. QUARTER	% CHANGE FROM PREV. YEAR
1	San Francisco	\$841,600	12.5%	9.0%
2	San Diego	\$547,800	7.3%	8.6%
3	Los Angeles	\$445,200	3.1%	5.9%
4	Boston	\$414,600	10.7%	4.1%
5	New York	\$410,400	6.6%	3.5%
6	Washington DC	\$403,800	9.8%	0.0%
7	Seattle	\$385,300	9.3%	7.8%
8	Denver	\$362,900	7.3%	14.7%
9	Portland	\$314,800	8.8%	10.0%
10	Riverside	\$291,700	3.8%	6.2%
11	Miami	\$289,900	7.7%	7.4%
12	Baltimore	\$254,500	14.1%	-0.4%
13	Philadelphia	\$231,700	13.1%	2.0%
14	Chicago	\$230,500	19.7%	5.7%
-	US	\$229,400	12.1%	8.2%
15	Minneapolis	\$229,200	9.5%	7.7%
16	Houston	\$221,100	10.4%	8.4%
17	Phoenix	\$217,900	5.7%	9.7%
18	Dallas	\$215,200	11.8%	12.5%
19	Charlotte	\$211,400	17.6%	11.3%
20	San Antonio	\$199,400	8.0%	8.3%
21	Atlanta	\$181,500	14.9%	9.2%
22	Tampa	\$175,000	12.2%	12.2%
23	Saint Louis	\$157,100	16.5%	4.8%

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

San Diego's median home price is 8.6 percent higher than it was a year ago.

OFFICE & INDUSTRIAL SNAPSHOT

The region's office market remained at the lowest region-wide vacancy rate in seven years at 15.9 percent in Q2 2015. According to DTZ's (now Cushman & Wakefield) Office Market Snapshot, the low vacancy rate was driven primarily by leasing activity in the South County sub-region. North and Central County sub-regions experienced slight up-ticks in the vacancy rate, but overall, the San Diego region's office market remained steady.

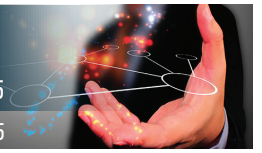
At 5.8 percent, the industrial market vacancy rate in San Diego in Q2 was the lowest ever recorded by DTZ, surpassing the Q1 mark of 6.0 percent. According to DTZ, industrial vacancy in San Diego has declined now for 16 straight quarters. Q2 2015 also marked the 16th straight quarter of positive net absorption in the industrial market.

The industrial vacancy rate of 5.8 percent in Q2 2015 was the lowest ever recorded for the San Diego region.

Real Estate Snapshot: San Diego County (Q2 2015)

AREA/SUB-REGION	OFFICE		AVERAGE	INDUSTRIAL		AVERAGE
	VACANCY RATE	ABSORPTION (SF)	ASKING RENT	VACANCY RATE	ABSORPTION (SF)	ASKING RENT
San Diego County	15.9%	187,057	\$2.57	5.8%	127,384	\$0.90
North County	19.9%	59,071	\$2.35	5.7%	279,384	\$0.83
Central County	15.5%	95,647	\$2.73	5.2%	(195,253)	\$1.09
South County	14.8%	32,339	\$2.35	7.4%	43,253	\$0.58

Source: DTZ Market Report | <http://dtz.cassidyturley.com/markets/us/san-diego>
Note: Monthly asking rates converted to triple net (NNN). Vacancy Rate includes direct and sublease. Net absorption excludes sublease. Green indicates lower vacancy or higher rents than the previous quarter, or positive absorption.



VENTURE CAPITAL

In Q2 2015, the San Diego region ranked 13th out of the 18 U.S. regions tracked by the PricewaterhouseCoopers MoneyTree Report in terms of VC dollars received by regional companies. Total VC dollars was down substantially relative to national trends and the region's performance over the past several quarters.

Data from Q2 indicates that after a good start to the year, investment has slowed significantly. The region is no longer on pace to reach the \$1 billion threshold if the funding keeps pace. Both years 2013 and 2014 failed to reach the \$1 billion mark by a significant portion, after reaching that threshold from 2004 to 2008 and again in 2012.

Investment in software continues to be a bright spot for venture capital investment in San Diego.

Q2 reached only \$122 million in funding with relatively few large deals, despite having more deals overall than the previous quarter. Twenty-two deals were made this quarter and in eight different industries, but biotech and Software dominated the deal flow and dollar amount, accounting for 80 percent of it.

Software had another big quarter, after recording the largest quarter since 2007 in Q1 2015. In the previous four quarters, the software industry has attracted more than \$200 million in total investment. The next quarter appears to continue this trend, with software firms like Classy and Codefiend receiving substantial investments in Q3.

Biotech also continued to excel. Large investments in Ankasa Regenerative Therapeutics and Hera therapeutics leading the way. Metacrine—a spin-out of San Diego's Salk Institute—also received a large investment in Q2. We expect biotech to continue to have a great quarter in Q3, in part due to some large deals that have been announced with firms like Metacrine.

While Q2 did not show great signs for VC investment in 2015, Q3 appears as though it will have some substantial aggregate numbers to make up for it. As noted, many large deals have already been announced in Q3, and we will have aggregate figures in the next report to see if capital investment gets back on track to reach the \$1 billion mark in 2015.

San Diego Venture Capital Funding by Industry (Q2 2014 - Q2 2015)

INDUSTRY	Q2 2015	Q2 2014	Prev. 4Q Total
Biotechnology	\$53,811,000	\$150,974,900	\$403,465,900
Consumer Products and Services	\$0	\$5,000,100	\$28,622,000
Electronics/Instrumentation	\$4,720,000	\$0	\$6,720,000
Financial Services	\$0	\$0	\$8,300,000
Industrial/Energy	\$3,000,000	\$0	\$6,076,000
Healthcare Services	\$3,956,000	\$0	\$0
IT Services	\$2,200,200	\$5,167,000	\$6,296,200
Media and Entertainment	\$5,222,000	\$699,000	\$11,726,800
Medical Devices and Equipment	\$4,820,000	\$20,705,000	\$34,161,000
Networking and Equipment	\$0	\$13,612,000	\$0
Retailing/Distribution	\$0	\$110,000	\$0
Semiconductors	\$0	\$3,572,000	\$14,286,000
Software	\$44,542,000	\$27,065,000	\$213,269,000
Total	\$122,271,200	\$227,505,000	\$736,878,900

Source: PricewaterhouseCoopers MoneyTree Report
Note: Only industries with funding in San Diego shown
Prev. 4Q Total reflects total from Q3 2014 - Q2 2015

San Diego Venture Capital Funding by Stage (Q2 2014 - Q2 2015)

STAGE	Q2 2015	Q2 2014	Prev. 4Q Total
Seed	\$54,862,000	\$14,225,000	\$62,117,000
Early Stage	\$27,193,200	\$83,199,900	\$237,752,000
Expansion	\$12,922,000	\$42,833,100	\$138,483,100
Later Stage	\$27,294,000	\$87,247,000	\$298,526,700
Total	\$122,271,200	\$227,505,000	\$736,878,800

Source: PricewaterhouseCoopers MoneyTree Report
Note: Only stages with funding in San Diego shown
Prev. 4Q Total reflects total from Q3 2014 - Q2 2015

The Quarterly Snapshot series is brought to you by



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



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