

SAN DIEGO HIGHLIGHTS

3.2% unemployment rate

2.6% year-over-year growth in median home price

\$713M VC dollars received

THIS QUARTER IN RESEARCH:
AN IN-DEPTH LOOK AT
SAN DIEGO'S SMALL
BUSINESS ECOSYSTEM

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 2018**.

UNEMPLOYMENT

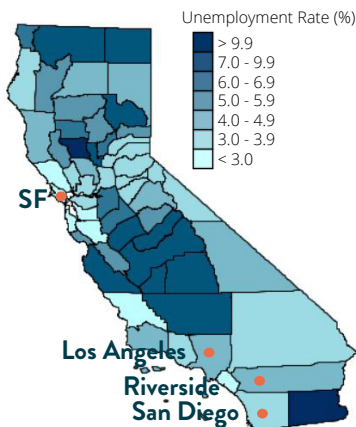
- The region's unemployment rate was 3.2 percent in Q4. Although the majority of the 25 most populous metros saw an increase in unemployment rate, San Diego's rate remained unchanged and placed the region as the 6th lowest unemployment rate, up four spots from the previous quarter.
- San Diego's unemployment rate remained below the state and national rates of 4.1 and 3.7 percent, respectively.
- When compared to its regional neighbors, San Diego's unemployment rate continued to fare better than both Riverside (4.0 percent) and Los Angeles (4.2 percent).
- Year-over-year, San Diego's unemployment rate decreased by 0.1 percentage points.

Unemployment Rate - 25 Most Populous US Metros

Rank	Metro	Q4 2018	Q3 2018	PP Change
1	Boston	2.4	2.9	-0.5
2	San Francisco	2.5	2.5	0.0
3	Minneapolis	2.8	2.2	0.6
4	Washington DC	2.9	3.3	-0.4
5	Orlando	3.0	2.7	0.3
6	San Antonio	3.2	3.3	-0.1
6	San Diego	3.2	3.2	0.0
6	Tampa	3.2	2.9	0.3
9	Dallas	3.3	3.4	-0.1
9	Miami	3.3	3.2	0.1
11	Saint Louis	3.4	2.9	0.5
11	Charlotte	3.4	2.9	0.5
13	Baltimore	3.5	3.9	-0.4
14	New York	3.6	3.9	-0.3
14	Atlanta	3.6	3.1	0.5
16	Philadelphia	3.7	4.1	-0.4
-	US	3.7	3.6	0.1
16	Denver	3.7	3.0	0.7
18	Seattle	3.8	3.6	0.2
18	Portland	3.8	3.5	0.3
20	Houston	3.9	4.1	-0.2
21	Riverside	4.0	4.1	-0.1
21	Chicago	4.0	3.7	0.3
23	Los Angeles	4.2	4.3	-0.1
24	Detroit	4.3	4.0	0.3
25	Phoenix	4.5	4.2	0.3

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

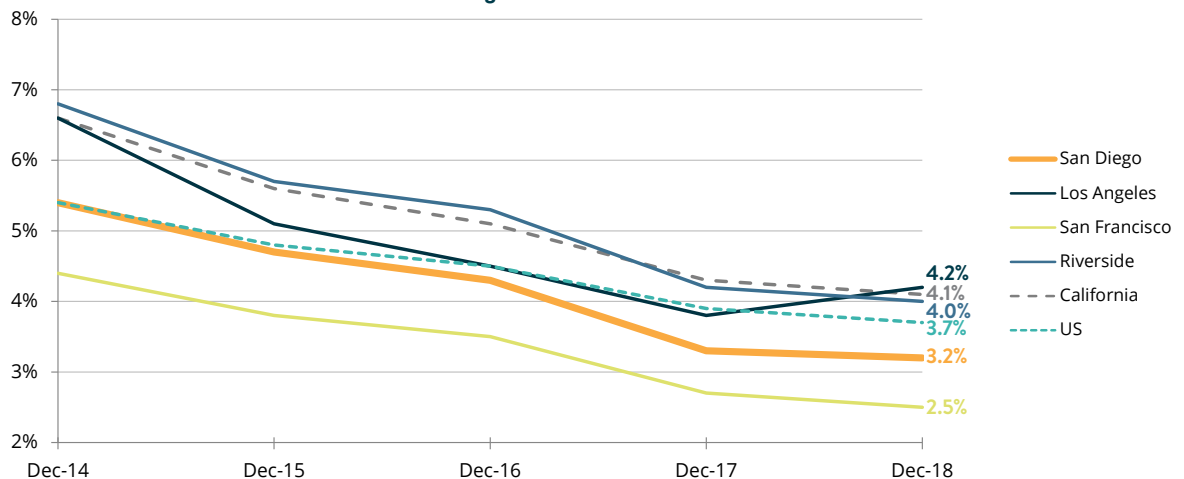
CALIFORNIA'S UNEMPLOYMENT BY COUNTY



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

UNEMPLOYMENT TRENDS

Quarter-End Unemployment Rate San Diego & Select California Metros

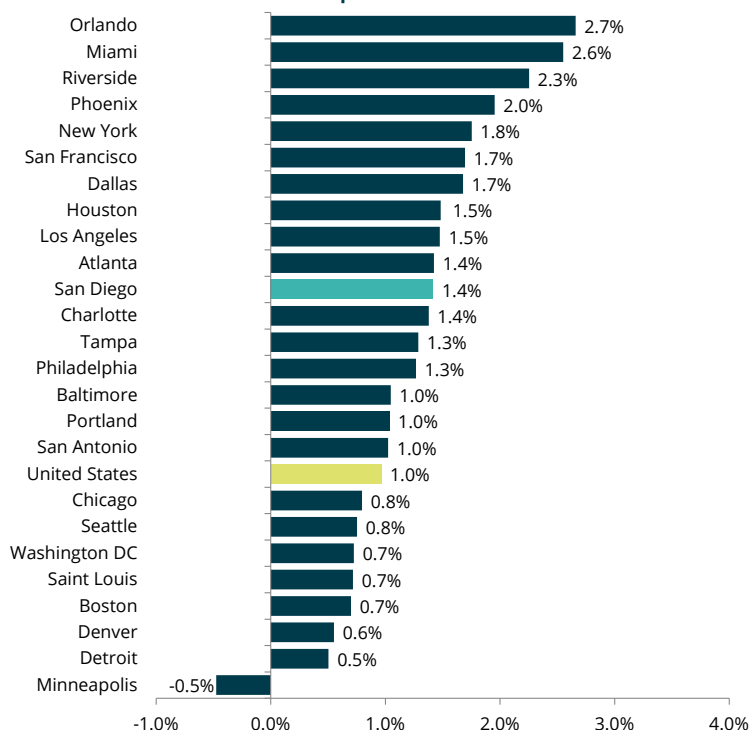


Source: Bureau of Labor Statistics
Note: Data not seasonally adjusted. Quarter-end monthly data.

EMPLOYMENT

- Recovering from a decrease in employment during Q3, San Diego, and 24 of the most populous metros, experienced an increase in total nonfarm employment during Q4. Ramping up for the holiday season, the region added 21,500 jobs – a 1.4 percent increase in employment during the quarter. Compared to a year ago, nonfarm employment was up 25,400 jobs, or 1.7 percent.
- With the holiday season in full bloom, the retail sector continued to grow, adding 8,500 jobs in Q4. Other strong contributors to the quarterly employment growth were education and health services, and transportation and utilities, together adding 4,100 jobs.
- Education and health services and leisure and hospitality recorded the two largest year-over-year gains, increasing by 6,900 and 6,200 jobs, respectively.
- There were 743,711 total job postings during Q4, of which 142,292 were unique. With 5,150 job postings during the quarter, applications software developers topped the charts, indicating continued demand in one of the region's fastest growing sectors – tech. In alignment with the growth experienced by the retail sector, retail salespersons were the second highest posted occupation, responsible for 4,615 unique job postings.

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 UNIQUE JOB POSTINGS

5,150
Applications Software
Developers

4,615
Retail
Salespersons

4,040
Registered
Nurses

3,970
Supervisors of Retail
Sales Workers

3,620
Heavy & Tractor-Trailer
Truck Drivers

Source: EMSI, Job Posting Analytics, Q4 2018

EMPLOYMENT CHANGES BY SECTOR

Employment by Sector (in thousands)	Q4 2018	Q3 2018	Q4 2017	Change Prev. QTR	Change Prev. YR	% Change Prev. QTR	% Change Prev. YR
Total (Private and Government)	1,505.9	1,484.4	1,480.5	21.5	25.4	1.4%	1.7%
Total Private	1,253.4	1,240.5	1,230.7	12.9	22.7	1.0%	1.8%
<i>Professional and Business Services</i>	249.7	249.2	245.0	0.5	4.7	0.2%	1.9%
Prof., Scientific, and Tech. Services*	138.6	138.2	136.2	0.4	2.4	0.3%	1.8%
Mgmt. of Companies and Enterprises	24.4	24.0	23.3	0.4	1.1	1.7%	4.7%
Administrative	86.7	87.0	85.5	-0.3	1.2	-0.3%	1.4%
<i>Trade, Transportation, and Utilities</i>	233.5	223.6	234.8	9.9	-1.3	4.4%	-0.6%
Wholesale Trade	43.7	43.6	44.2	0.1	-0.5	0.2%	-1.1%
Retail Trade	154.8	146.3	156.7	8.5	-1.9	5.8%	-1.2%
Transportation and Utilities	35.0	33.7	33.9	1.3	1.1	3.9%	3.2%
<i>Education and Health Services</i>	215.2	212.4	208.3	2.8	6.9	1.3%	3.3%
Education Services	33.1	31.6	30.0	1.5	3.1	4.7%	10.3%
Healthcare and Social Assistance	182.1	180.8	178.3	1.3	3.8	0.7%	2.1%
<i>Leisure and Hospitality*</i>	200.9	201.6	194.7	-0.7	6.2	-0.3%	3.2%
<i>Manufacturing*</i>	114.6	112.8	110.9	1.8	3.7	1.6%	3.3%
<i>Financial Activities</i>	76.0	75.4	76.0	0.6	0.0	0.8%	0.0%
Finance and Insurance	47.1	46.5	47.1	0.6	0.0	1.3%	0.0%
Real Estate and Rental and Leasing	28.9	28.9	28.9	0.0	0.0	0.0%	0.0%
<i>Construction</i>	83.1	86.2	82.1	-3.1	1.0	-3.6%	1.2%
<i>Other Services</i>	56.1	55.3	54.5	0.8	1.6	1.4%	2.9%
<i>Information*</i>	24.0	23.7	24.1	0.3	-0.1	1.3%	-0.4%
<i>Mining and Logging</i>	0.3	0.3	0.3	0.0	0.0	0.0%	0.0%
Total Government	252.5	243.9	249.8	8.6	2.7	3.5%	1.1%
Federal Government	47.5	46.9	47.2	0.6	0.3	1.3%	0.6%
State Government	52.7	47.6	50.9	5.1	1.8	10.7%	3.5%
Local Government	152.3	149.4	151.7	2.9	0.6	1.9%	0.4%

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 \$626,000, San Diego's housing market remained the second most expensive in the nation in Q4.
- The region's median home price declined from the previous quarter, and was up 2.6 percent compared to a year ago.

Median Home Price for 25 Most Populous US Metros (Q4 2018)

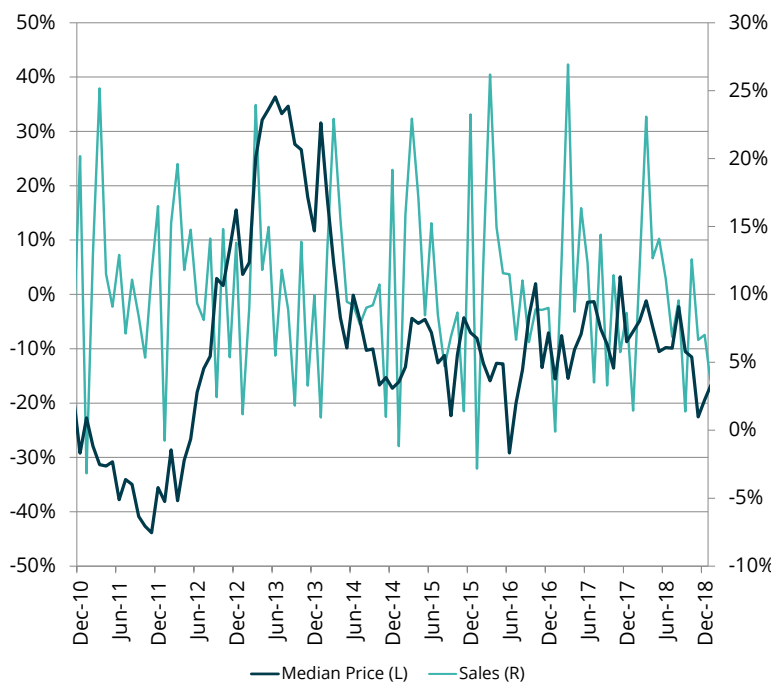
Rank	Metro	Price Q4 2018	% Change From Prev. Quarter	% Change From Prev. Year
1	San Francisco	\$952,400	-3.7%	3.5%
2	San Diego	\$626,000	-3.7%	2.6%
3	Los Angeles	\$576,100	-8.4%	4.1%
4	Seattle	\$489,600	-2.6%	3.8%
5	Boston	\$460,300	-6.3%	2.6%
6	Denver	\$438,300	-2.6%	5.8%
7	Washington DC	\$417,400	-2.0%	5.1%
8	New York	\$371,300	-5.3%	-0.4%
9	Riverside	\$360,000	-0.7%	5.9%
10	Miami	\$350,000	-1.4%	4.5%
11	Portland	\$290,700	0.4%	9.0%
12	Baltimore	\$280,200	-6.9%	8.9%
13	Phoenix	\$272,700	0.0%	8.0%
14	Minneapolis	\$271,200	-1.2%	8.4%
15	Orlando	\$265,000	-0.4%	6.0%
-	US	\$257,600	-3.3%	4.0%
16	Dallas	\$254,900	-2.7%	3.6%
17	Chicago	\$243,300	-8.3%	2.7%
18	Houston	\$237,900	-1.0%	3.5%
19	Charlotte	\$235,400	-3.9%	5.3%
20	Tampa	\$235,000	-0.4%	5.4%
21	San Antonio	\$229,100	-1.2%	5.2%
22	Philadelphia	\$224,600	-6.7%	0.0%
23	Atlanta	\$216,100	-3.6%	8.6%
24	Saint Louis	\$174,100	-4.3%	4.4%

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 6.7 percent.
- Despite a reprieve during Q4, price growth accelerated in 2018, ending the year up 2.2 percent compared to last year.

Year-Ago Change in Median Home Price & Sales

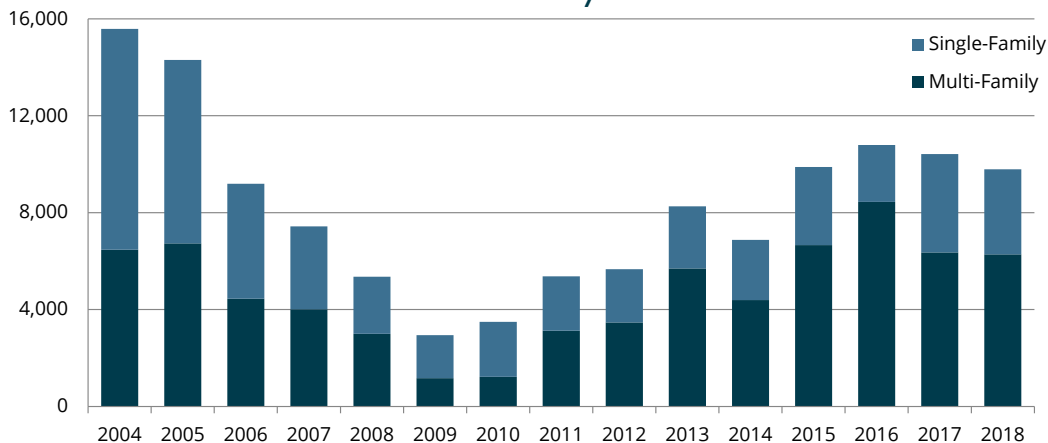


Source: California Association of Realtors

BUILDING PERMITS

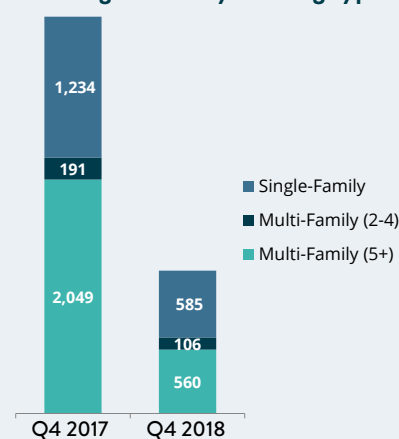
Housing permits slightly decreased year-over-year in San Diego, largely due to single-family housing declining by 13.5 percent. The annual decline can partially be attributed to a slow Q4, which was 64 percent lower than the year-ago figure.

Permit Activity



Source: US Census Bureau, Building Permits Survey, 2004-2018
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

10.2%
Vacancy Rate

154K sq. ft.
Net Absorption

421K sq. ft.
Construction

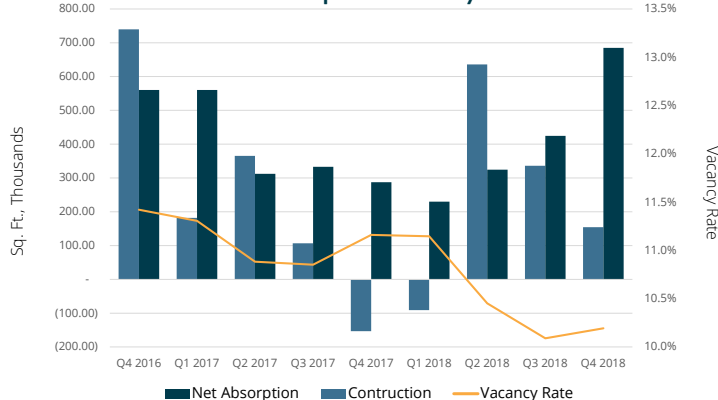
\$2.97 FSG
Lease Rate

- The San Diego office market closed the year on a high note, with vacancy, net absorption, and asking rates all stronger than 2017. Asking rates increased 0.5 percent quarter over quarter and 2.6 percent year over year to \$2.97 per sq. ft., another high for the region.
- Net absorption was lower than the previous two quarters, but positive at 154,477 sq. ft. for the quarter. Year-to-date net absorption was double the figure in 2017, driven by several large deals throughout the year as well as minimal sizeable move-outs.

Asking Lease Rate & Rent Growth



Market Absorption & Vacancy Rates



INDUSTRIAL MARKET

4.4%
Vacancy Rate

-756K sq. ft.
Net Absorption

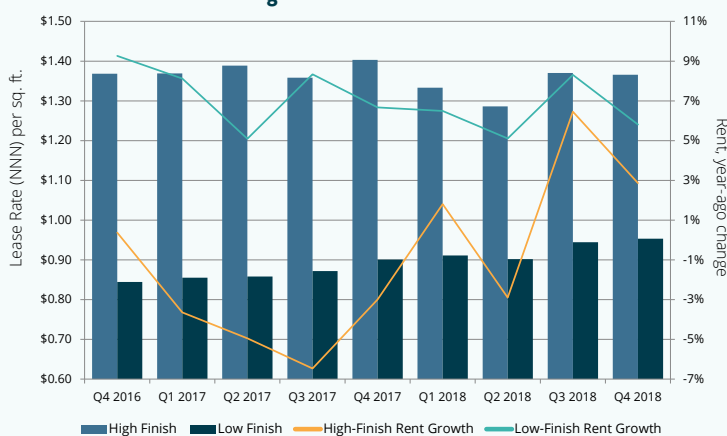
2.6M sq. ft.
Construction

\$1.37 NNN
High-Finish Lease Rate

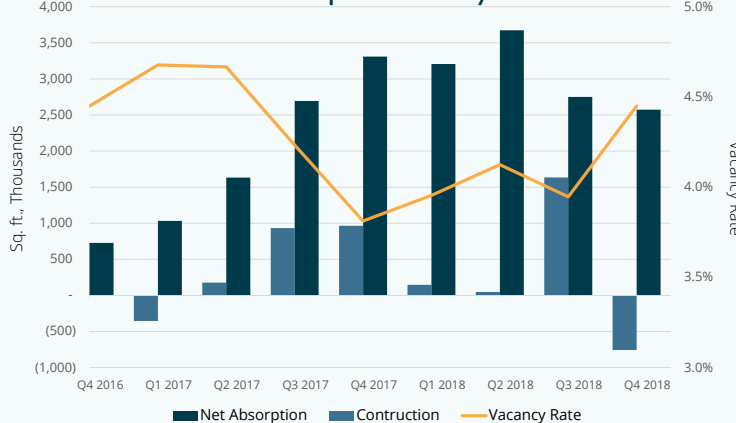
\$0.95 NNN
Low-Finish Lease Rate

- The San Diego industrial market closed 2018 with a slight bump in an otherwise overwhelmingly positive year. Anticipated vacancies of several large spaces led to negative 756,126 sq. ft. of net absorption in Q4, but year-to-date net absorption closed more than 1.0 million sq. ft. in the positive.
- Six new buildings delivered in Q4 adding 337,308 sq. ft. to the base, about one-third of which was pre-leased.
- The large volume of newly-delivered vacant space coupled with large move-outs bumped the vacancy rate 50 basis points (bps) quarter over quarter to 4.4 percent.
- The setback in other fundamentals did not negatively impact asking rates. The average asking rate for low-finish product increased \$0.01 to \$0.95 NNN and high-finish product was unchanged at \$1.37 NNN.

Asking Lease Rate & Rent Growth



Market Absorption & Vacancy Rates

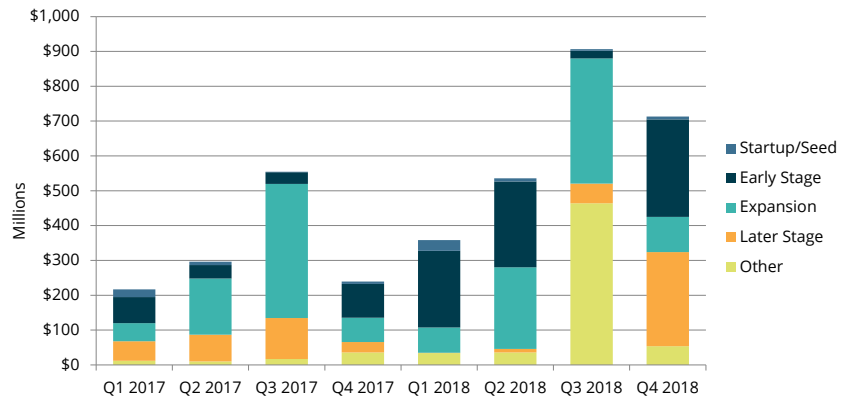


Note: CBRE no longer reports an overall industrial asking rate. It now separately reports high-finish rates and low-finish rates. High-finish generally has more office build-out, multiple stories, and consists of business park R&D and R&D subtypes. Low-finish has higher clearance, more dock doors, and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

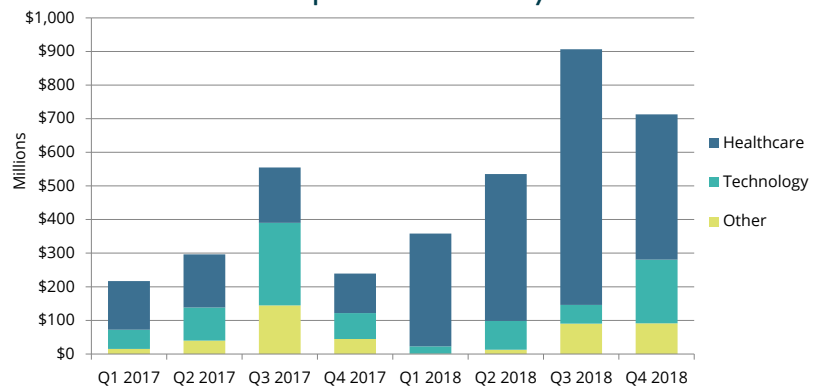
VENTURE CAPITAL

- In Q4, the San Diego region saw 30 venture capital (VC) deals worth nearly \$713 million. This places San Diego eight out of the 19 U.S. regions tracked by the PwC MoneyTree Report in terms of VC dollars received.
- VC investment in the region decreased 21.4 percent compared to the previous quarter. Compared to the same period a year ago, VC investment in the region is up 198 percent.
- The majority, or \$432 million, of VC received in Q4 went to healthcare companies. Healthcare consistently draws the bulk of VC dollars into the region.
- The technology cluster received \$189 million during the quarter, most of which went to internet companies.
- Early stage funding jumped from \$22 million in Q3 to \$280 million in Q4, growing by 1,173 percent and commanding 30.9 percent of VC received during the quarter.

Venture Capital Dollars Received by Funding Stage

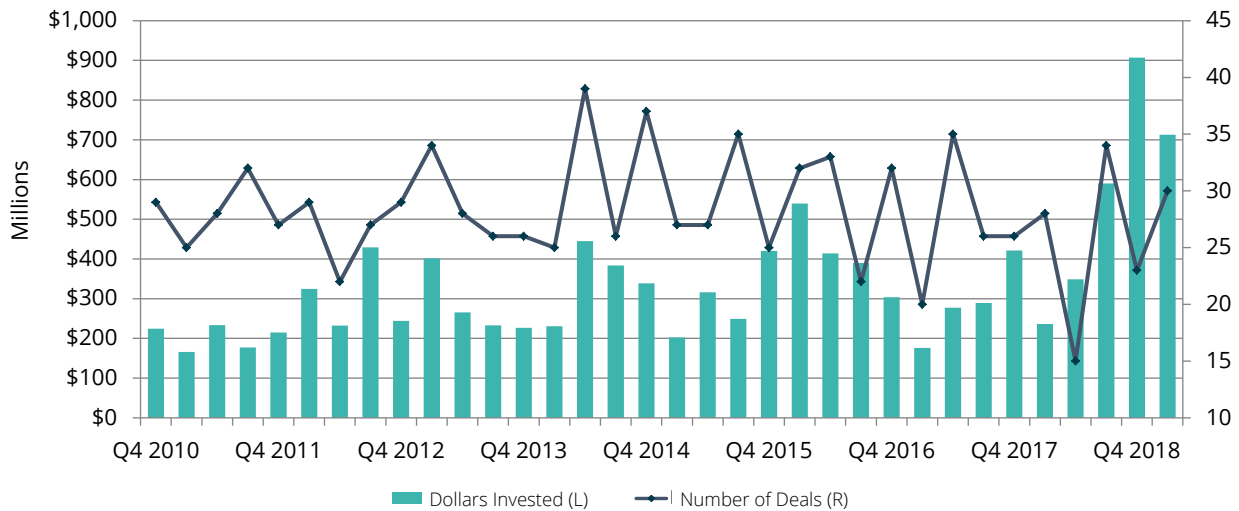


Venture Capital Dollars Received by Sector



Source: PwC/CB Insights MoneyTree™ Report

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](#).

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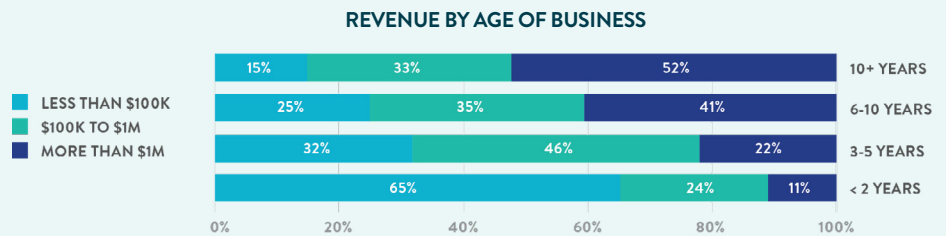
Today, small businesses - those with fewer than 100 employees - represent 98% of San Diego's businesses and employ roughly 59% of the workforce. Moving forward, it is projected that small businesses will be the primary driver of regional economic growth.

This initiative, which includes a survey of 522 local small businesses, seeks to uncover insight and gain a deeper understanding of small business perceptions of the regional business climate. The end goal is to develop new and enhance existing programming and support for small businesses in the region.



REVENUE

Nearly two-thirds of companies who have been operating less than two years generate less than \$100K in annual revenue, while more than half of established companies (10 years or longer) generate more than \$1M in revenue annually.

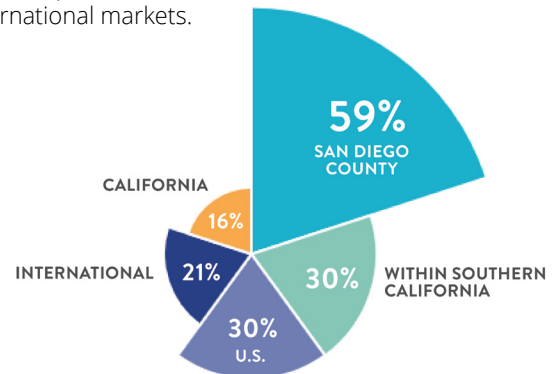
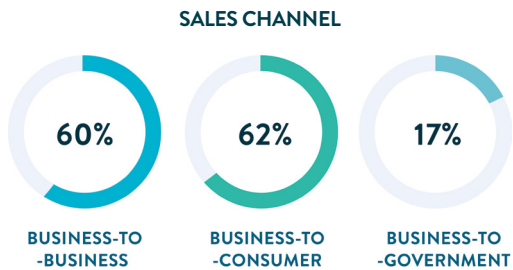


CUSTOMER BASE

The majority of businesses in the region are primarily engaged in business-to-consumer and business-to-business operations. The share of companies doing business-to-government contracting is relatively high, and largely reflective of the procurement opportunities in San Diego's defense-related industries.

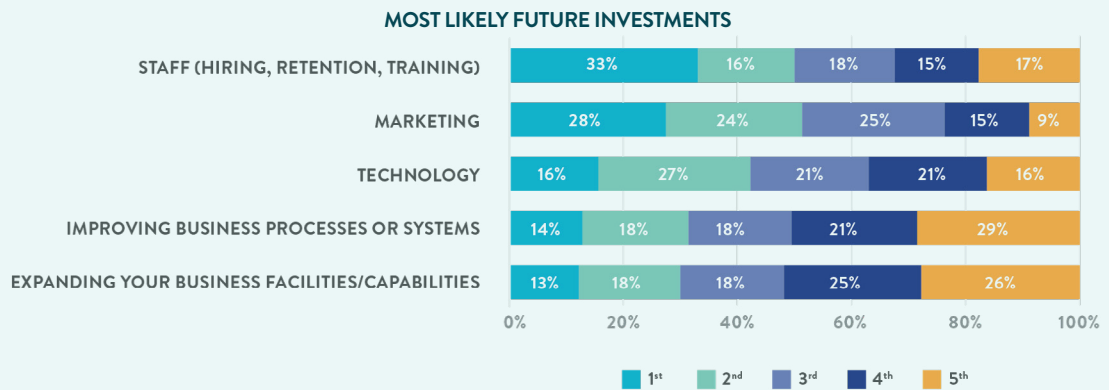
CUSTOMERS NEAR & FAR

The majority - 59% - of the region's small businesses have local customers. Additionally, a significant portion of small businesses sell their products to the rest of the state, nation, and even international markets.



LOOKING AHEAD

Overall, small businesses feel confident about the future. Of firms surveyed, roughly 43% expect to grow in terms of workforce and 81% expect to grow in terms of financial performance. For 33% of firms, staff (including hiring, retention, and training) will be the most likely future investment. Additionally, 52% of firms indicated marketing was the first or second most likely investment in the near future.



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