



SAN DIEGO
REGIONAL
EDC

ECONOMIC SNAPSHOT

A Summary of the San Diego Regional Economy

JULY 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 January 2014-April 2014 quarter.

Highlights

San Diego County's April 2014 unemployment rate was down 1.1 percentage points from April 2013.

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

The region added 28,800 jobs since last April - 25,900 of which came from the private sector.

San Diego outpaced the U.S. in growth of 25-34 year-old college graduates, but was behind all of its key peers.

San Diego had the fourth highest year-over-year change in median home price.

Industrial vacancy rates have finally returned to the pre-recession level of 7.6 percent.

The Q1 2014 VC investment total of \$242.9 million marks the highest recorded quarter since Q2 2012.

UNEMPLOYMENT

San Diego metro remained ranked 17th in unemployment rate in April 2014, the same position as last quarter (January 2014). San Diego's 6.1 percent rate is slightly above the U.S. rate of 5.9 percent. The year-over-year decline in unemployment remains a positive trend in the region. The rate fell by more than a full percentage point from 2013 to 2014, a trend common among major U.S. metros.

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.

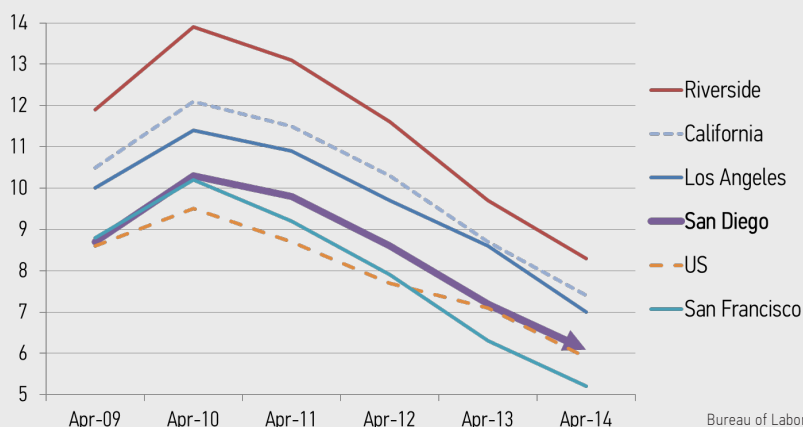
Unemployment Rate: 25 Most Populous U.S. Metros

RANK	METRO	APR-14	APR-13	CHANGE
1	Minneapolis	4.1	4.8	-0.7
2	San Antonio	4.4	5.7	-1.3
3	Washington D.C.	4.5	5.1	-0.6
4	Houston	4.6	5.9	-1.3
5	Pittsburgh	4.7	6.4	-1.7
6	Dallas	4.7	5.9	-1.2
7	Seattle	4.8	5.5	-0.7
8	Boston	5.0	5.9	-0.9
9	San Francisco	5.2	6.3	-1.1
10	Phoenix	5.3	6.5	-1.2
11	Denver	5.4	6.5	-1.1
12	Baltimore	5.5	6.6	-1.1
13	Philadelphia	5.6	7.6	-2.0
14	Miami	5.8	7.4	-1.6
15	Tampa	5.9	7.2	-1.3
	U.S.	5.9	7.1	-1.2
16	Charlotte	6.0	8.0	-2.0
17	San Diego	6.1	7.2	-1.1
18	Portland	6.2	7.2	-1.0
19	Saint Louis	6.3	6.6	-0.3
20	New York	6.3	7.6	-1.3
21	Atlanta	6.5	7.7	-1.2
22	Los Angeles	7.0	8.6	-1.6
23	Chicago	7.3	8.9	-1.6
24	Detroit	7.9	8.7	-0.8
25	Riverside	8.3	9.7	-1.4

San Diego's unemployment rate fell by more than one full percentage point.

Source:
Bureau of Labor Statistics

Unemployment Rate: California Comparison



Source:
Bureau of Labor Statistics



EMPLOYMENT

Employment growth was strong in the January to April quarter, with the region adding about 24,800 jobs during the period. More than 20,000 of these jobs came from the private sector, with all government sectors except federal growing as well in the quarter.

The largest growing industries in the quarter were leisure and hospitality and education and health services. Both industries are commonly subjected to seasonal employment changes this time of year, to accommodate the tourism/convention season and the return to classes and test preparation. More importantly than the seasonal growth, both industries have significantly more jobs this April than last, showing that growth is occurring beyond the seasonal norms.

Professional, scientific and technical services (PST) had the greatest annual growth, adding more than 5,900 jobs to the region. The PST sector is heavily associated with our innovation economy, so the outstanding 4.8 percent growth is a good sign for our traded economies.

Manufacturing and construction industries continued to add jobs at a steady pace. Manufacturing added 1,400 jobs from January to April. Construction only added 300 jobs in the quarter, but had 4,300 more jobs in April 2014 than 2013. Real estate and retail also experienced significant growth from 2013 to 2014. All of these are positive signs for the economy, indicating that San Diego is making, building, buying and selling.

Employment by Industry (in thousands)

INDUSTRY	APR-14	JAN-14	APR-13	CHANGE FROM PREV. QUARTER	CHANGE FROM PREV. YEAR
Total (Private and Government)	1337.6	1312.8	1308.8	24.8	28.8
Total Private	1102.8	1082.1	1076.9	20.7	25.9
<i>Professional and Business Services*</i>	226.9	224.6	221.1	2.3	5.8
Prof., Scientific, & Tech. Services*	129.4	127	123.5	2.4	5.9
Mgmt. of Companies & Enterprises	20.7	20.5	20.2	0.2	0.5
Administrative	76.8	77.1	77.4	-0.3	-0.6
<i>Trade, Transportation, and Utilities</i>	213.9	211.7	208.9	2.2	5.0
Wholesale Trade	46.4	44.6	44.2	1.8	2.2
Retail Trade	140.5	140.2	137.5	0.3	3.0
Transportation and Utilities	27.0	26.9	27.2	0.1	-0.2
<i>Education and Health Services</i>	184.0	179.9	180.9	4.1	3.1
Education Services	31.9	30.3	32	1.6	-0.1
Health Care and Social Assistance	152.1	149.6	148.9	2.5	3.2
<i>Leisure and Hospitality*</i>	171.4	163.3	166.9	8.1	4.5
<i>Manufacturing*</i>	96.1	94.7	94.8	1.4	1.3
<i>Financial Activities</i>	71.2	70.8	71.3	0.4	-0.1
Finance and Insurance	44.2	44.3	44.6	-0.1	-0.4
Real Estate and Rental and Leasing	27.0	26.5	26.7	0.5	0.3
<i>Construction</i>	64.2	63.9	59.9	0.3	4.3
<i>Other Services</i>	50.5	49.1	48.6	1.4	1.9
<i>Information*</i>	24.2	23.7	24.1	0.5	0.1
<i>Mining and Logging</i>	0.4	0.4	0.4	0.0	0.0
Government	234.8	230.7	231.9	4.1	2.9
Federal Government	45.9	46	46.6	-0.1	-0.7
State Government	43.1	41.9	43.8	1.2	-0.7
Local Government	145.8	142.8	141.5	3.0	4.3

Source: California Employment Development Department

Italics = Supersector | Ordered by largest Supersectors

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

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

RANK	METRO	% CHANGE YEAR	% CHANGE QTR
		APR '13 - APR '14	JAN '14 - APR '14
1	Dallas	3.66%	2.44%
2	Houston	3.20%	2.11%
3	Miami	3.13%	1.59%
4	Portland	2.83%	2.18%
5	Denver	2.82%	2.39%
6	Riverside	2.60%	1.10%
7	Seattle	2.57%	1.63%
8	Tampa	2.56%	2.22%
9	San Antonio	2.28%	2.13%
10	Los Angeles	2.27%	1.42%
11	San Diego	2.20%	1.89%
12	San Francisco	2.16%	1.48%
13	Charlotte	2.09%	1.34%
14	Phoenix	2.08%	1.23%
15	Atlanta	2.04%	1.44%
16	Baltimore	1.86%	3.05%
	U.S.	1.73%	2.08%
17	Minneapolis	1.52%	1.60%
18	Boston	1.13%	1.89%
19	New York	1.11%	1.99%
20	Chicago	0.79%	1.53%
21	Saint Louis	0.75%	2.75%
22	Philadelphia	0.52%	2.08%
23	Pittsburgh	0.52%	3.04%
24	Washington D.C.	0.22%	1.11%
25	Detroit	-0.40%	1.10%

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

TOTAL EMPLOYMENT CHANGES

San Diego's annual employment growth was more than two percent, making it the 11th fastest growing major metro from April 2013 to 2014. The region's employment grew by nearly half a percentage point more than the U.S. average. San Diego's quarterly employment growth was more modest at 1.89 percent, below the U.S. average rate of 2.08 percent. This was the 14th fastest growth rate among the major metros, falling roughly in the middle of the 1-3 percent range experienced by the rest of the 25 metros shown.

Source:
Bureau of Labor Statistics
Ranked by % Change Year



SPOTLIGHT ON TALENT

National research overwhelmingly suggests that the most successful economic regions are able to attract and retain talented, skilled and educated people. Preliminary research by EDC suggests that the region has exhibited strengths and weaknesses regarding this topic, but has also revealed alarming trends. In this month's Economic Snapshot, we will highlight some key trends and new data on our talent profile in the region, and discuss tactics that EDC is taking to address the issue.

San Diego outpaced the U.S. in growth of 25-34 year-old college graduates, but was behind all of its key peers.

KEY FINDINGS

By many measures, San Diego has been attractive for business because of its talented and well-educated workforce. More than one-third (34.8 percent) of the region's population 25 and older has at least a bachelor's degree. The region ranked fourth among major metros for percentage of population with a Ph.D. and nearly half of San Diego's degree holders have their first degree in a science, engineering or a related field. We also know that the region is attractive to the next wave of talented individuals. The region has the highest concentration of 18-34 year olds in the U.S. (among major metros), and from 2008-2012, the region added more than 64,000 people in this age group.

However, recent data shows that the region may be struggling to keep up with its peers in attracting and retaining talented people that drive the next generation economy. As illustrated in Figure 1, San Diego falls behind all of the peer metros shown in growth of its young degree-holding population. From 2008 to 2012, the region grew by 12.5 percent in terms of 25-34 year olds with at least a bachelor's degree. While that growth is positive and outpaces the national average, it falls well below its Northern California peers and below the growth experienced in places like Portland, Austin, Seattle and Denver.

Also troublesome, San Diego is losing degree-holders in the 35-54 year old age group, as shown in Figure 2. While that negative trend is not unlike the rest of California and the U.S. as a whole, the region's peers are continuing to add 35-54 year old degree holders. While we do not know for certain the driving forces behind this trend, the California metros including San Diego remain the highest priced real estate markets in the country and also have higher costs of living. Therefore, as people begin to reach the age of desired home-ownership and growing families, we speculate that many may be priced out of markets like San Diego, San Jose and San Francisco, and instead seek out more affordable competing markets.

Figure 3 specifically highlights migration flows out of or into San Diego to or from other metro areas. Most alarming is that the region had a net loss of more than 700 college graduates from 2010 to 2011 due to migration, with losses going to peers like San Francisco, Seattle and Austin. While the figures aren't staggering in terms of the amount of people, the negative trend remains concerning. On a positive note, San Diego had a net gain of college graduates from Denver and San Jose. The region also had a net gain of advanced degree holders from several peer metros who are likely attracted to Ph.D. level positions in Life Sciences or Engineering.

NEXT STEPS

Despite these negative trends, San Diego clearly remains an attractive place for talent. However, to compete moving forward, organizations like San Diego Regional EDC and its partners must work to retain and grow the region's talented workforce.

Pending funding, San Diego Regional EDC intends to produce a *Trends in Talent* study to better understand the region's talent profile. A more thorough and comprehensive study will allow us to analyze these trends in key neighborhoods, to compare San Diego to competitive peer metro areas, and to put context around the potential problem facing the region. If you are interested in more information on the study or supporting the effort, please contact Michael Combs, Research Manager at mpc@sandiegobusiness.org.

EDC has also engaged regional stakeholders in a talent attraction program. The campaign features a digital ambassador program, a group of more than 30 San Diegans who have been using the hashtag #GoSanDiego to disseminate messages via social media about San Diego's strengths. Additionally, EDC will be embarking on an aggressive media relations campaign, creating video content about dynamic companies and people, and launching a first-of-its-kind website to highlight career paths and dynamic San Diego neighborhoods. For more information on the program, please contact Sarah Lubeck, Marketing Manager at sl@sandiegobusiness.org.

Figure 1: Percent Change in Population Age 25-34, Metropolitan Comparison (2008-2012)

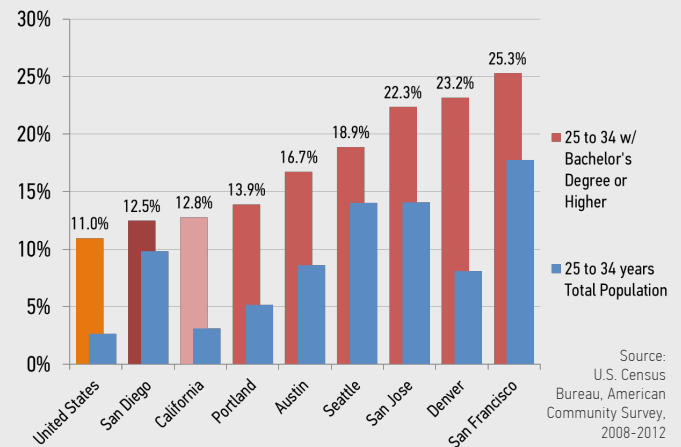


Figure 2: Percent Change in Population w/ Bachelor's Degree or Higher, Age 35-54, Metropolitan Comparison (2008-2012)

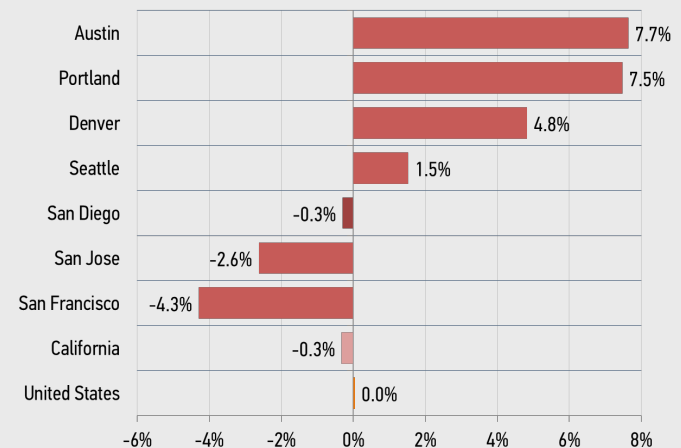


Figure 3: Net 1-Year Migration Flows to/from San Diego MSA to/from Select Peer MSAs by Education Attainment, 2011

MSA*	No College Degree	Bachelor's Degree	Advanced Degree	College Graduate	Total
Austin	-443	-131	-92	-223	-666
Denver	-209	157	166	323	114
Portland	-47	-196	109	-87	-134
San Francisco	-407	-379	15	-364	-771
San Jose	-14	44	48	92	78
Seattle	60	-36	-98	-134	-74
All Other Metros	-6,182	-349	-380	-729	-6,911

Source: U.S. Census Bureau, American Community Survey, 2011 5-year Data Series
*MSA stands for Metropolitan Statistical Area



REAL ESTATE

FORECLOSURES

San Diego's foreclosure rate remained much lower than the U.S. average in April 2014, with only 2.29 out of every 10,000 homes foreclosed during that month. The region had the fourth lowest foreclosure rate in April 2014 and the sixth greatest decline among major U.S. metros from April 2013 to April 2014. Foreclosures increased in the January-April quarter, but only by a marginal amount, consistent with many other metros with low foreclosure rates.

Foreclosure Rate: 25 Most Populous U.S. Metros

RANK	METRO	RATE APR '14	POINT CHANGE PREV. QUARTER	POINT CHANGE PREV. YEAR
1	Pittsburgh	1.19	0.02	0.14
2	New York	1.19	0.14	0.47
3	San Francisco	1.96	-0.41	-2.05
4	San Diego	2.29	0.04	-1.72
5	Los Angeles	2.30	-0.16	-1.46
6	Denver	2.94	-0.77	2.48
7	Philadelphia	3.97	1.46	0.24
8	Minneapolis	4.04	-0.40	-2.82
9	Dallas	4.58	-0.99	-0.18
10	Phoenix	4.72	-1.33	-5.25
11	Washington	4.79	0.71	0.62
12	Portland	4.93	0.57	1.56
	U.S.	5.09	0.01	-0.33
13	Riverside	5.19	-0.11	-2.55
14	Seattle	6.91	-1.74	-7.01
15	Baltimore	7.52	1.78	2.92
16	Charlotte	8.51	-0.68	-1.19

Source: Zillow

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

San Diego had the fourth highest year-over-year change in home price.

OFFICE & INDUSTRIAL SNAPSHOT

County-wide office vacancy rates remained the same from Q4 2013 to Q1 2014. However, rates fell by 1.4 percentage points in North County. Rates went up in South County, but only by about 0.4 percentage points. Absorption and asking rents were up county-wide and in both North County and Central County. This marks the sixth straight quarter of positive county-wide net absorption in the office market.

San Diego's industrial market continues to perform well, opening 2014 with its 11th consecutive quarter of positive net absorption. Vacancy rates were down county-wide, which also marks the 11th straight quarter of falling vacancy rates. As of Q1, Industrial vacancy rates are again at their pre-recession levels from 2006.

Real Estate Snapshot: San Diego County (Q1 2014)

AREA/SUB-REGION	OFFICE VACANCY RATE	AVERAGE ABSORPTION (SF)	AVERAGE ASKING RENT
San Diego County	18.0%	167,057	\$2.89
North County	18.4%	81,588	\$2.48
Central County	18.1%	158,938	\$3.19
South County	17.2%	(73,469)	\$2.20

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., with prices continuing to increase at a slower pace, according to National Association of Realtors. From Q4 2013 to Q1 2014, home prices increased by about 1.3 percent in the San Diego region. Historically, prices tend to grow slowly during this period and pick up more substantially around Q2. Despite the slow quarterly growth, San Diego had the fourth highest percentage change from Q1 2013 (one year prior), with the region's prices rising by about 17.1 percent. The slow quarterly growth rate was not uncommon among major metros, and even exceeded the U.S. rate by more than 3.5 percentage points.

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

RANK	METRO	PRICE 2014 Q1	% CHANGE FROM PREV. QUARTER	% CHANGE FROM PREV. YEAR
1	San Francisco	\$679,800	-0.4%	14.5%
2	San Diego	\$483,000	1.3%	17.1%
3	Los Angeles	\$406,200	-4.0%	17.6%
4	New York	\$388,900	0.7%	5.6%
5	Boston	\$363,200	-2.2%	9.3%
6	Washington D.C.	\$358,900	-2.5%	2.9%
7	Seattle	\$339,900	-1.3%	8.7%
8	Denver	\$288,400	3.3%	10.4%
9	Portland	\$271,900	1.6%	10.3%
10	Riverside	\$266,800	1.2%	23.1%
11	Miami	\$259,000	1.6%	15.1%
12	Baltimore	\$224,500	-7.1%	-0.9%
13	Philadelphia	\$201,800	-5.8%	2.1%
14	Phoenix	\$194,300	0.8%	15.0%
	U.S.	\$191,600	-2.7%	8.6%
15	Minneapolis	\$188,200	-4.5%	10.3%
16	Houston	\$184,600	1.3%	12.8%
17	Chicago	\$176,900	-5.5%	11.0%
18	Dallas	\$174,800	0.5%	9.0%
19	San Antonio	\$169,300	-1.4%	8.0%
20	Charlotte	\$167,500	-2.9%	7.8%
21	Tampa	\$145,000	1.8%	7.4%
22	Atlanta	\$141,900	-0.4%	23.3%
23	Saint Louis	\$120,500	-7.5%	8.6%

Source: National Association of Realtors

Note: Pittsburgh and Detroit not available

Industrial vacancy rates have finally returned to the pre-recession level of 7.6 percent.

INDUSTRIAL VACANCY RATE	AVERAGE ABSORPTION (SF)	AVERAGE ASKING RENT
7.6%	372,869	\$0.80
8.2%	82,833	\$0.72
6.4%	158,264	\$0.97
10.1%	131,772	\$0.57



VENTURE CAPITAL

In Q1 2014, the San Diego region ranked 9th 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 up more than \$97 million in Q1 2014 from Q4 2013, and up more than \$39 million from the same quarter the previous year.

Data from Q1 shows that VC investment is off to a good start in 2014. After a sluggish 2013, \$242.9 million in total VC investment marks the highest recorded quarter since Q2 2012. Nearly \$200 million of the total funds were invested in two industries, biotechnology and semiconductors, with biotech accounting for more than 64 percent of the funding alone. The biotech and semiconductor industries both suffered in 2013, with the latter only recording \$1.5 million over the entire year.

The Q1 2014 VC investment total of \$242.9 million marks the highest recorded quarter since Q2 2012.

San Diego companies were involved in 23 VC deals in Q1 2014. Biotech firm Lumena Pharmaceuticals Inc. scored the highest deal of the quarter, securing more than \$45 million in early stage funding. The company, which was set to go public later this year with an IPO of \$75 million, was acquired in May by Dublin, Ireland-based pharmaceutical giant Shire. Lumena CEO Mike Grey reported that the company will remain in San Diego for the time being. San Diego-based Abide Therapeutics Inc. and Carlsbad-based Thesano Pharmaceuticals Inc. were two other firms receiving major biotech deals, securing \$25 million and \$17 million respectively.

Q1 2014 was also a big quarter for the media and entertainment industry as well, with San Diego firms TakeLessons and MOGL Loyalty Services Inc. securing more than \$12 million in expansion funds combined. Other major deals include \$37 million in later stage funds for semiconductor firm Luxtera Inc. and \$20 million in expansion funds for healthcare services firm Suneva Medical.

San Diego Venture Capital Funding by Industry (Q1 2013 - Q1 2014)

INDUSTRY	Q1 2014	Q1 2013	Prev 4Q Total
Biotechnology	\$156,353,406	\$74,310,000	\$469,546,609
Computers and Peripherals	\$0	\$8,000,000	\$0
Electronics/Instrumentation	\$0	\$0	\$7,500,000
Financial Services	\$0	\$0	\$1,375,000
Healthcare Services	\$20,000,102	\$0	\$32,171,102
IT Services	\$0	\$6,999,900	\$1,250,000
Industrial/Energy	\$0	\$700,000	\$65,200,102
Media and Entertainment	\$12,887,000	\$4,000,000	\$24,537,000
Medical Devices and Equipment	\$0	\$47,762,200	\$79,276,300
Networking and Equipment	\$0	\$0	\$19,980,000
Retailing/Distribution	\$3,000,000	\$0	\$3,000,000
Semiconductors	\$39,740,000	\$1,500,000	\$39,740,000
Software	\$11,000,000	\$59,968,900	\$64,231,200
Total	\$242,980,500	\$203,241,000	\$807,827,297

Source: PricewaterhouseCoopers MoneyTree Report

Note: Only industries with funding in Q1 2013 - Q1 2014 period in San Diego shown

Prev 4Q Total reflects total from Q2 2013 - Q1 2014

San Diego Venture Capital Funding by Stage (Q1 2013 - Q1 2014)

STAGE	Q1 2014	Q1 2013	Prev 4Q Total
Startup/Seed	\$0	\$0	\$15,514,100
Early Stage	\$133,521,203	\$120,600,800	\$404,450,003
Expansion	\$51,972,301	\$22,249,900	\$145,908,301
Later Stage	\$57,487,000	\$60,390,300	\$241,954,900
Total	\$242,980,500	\$203,241,000	\$807,827,297

Source: PricewaterhouseCoopers MoneyTree Report

Note: Only industries with funding in Q1 2013 - Q1 2014 period in San Diego shown

Prev 4Q Total reflects total from Q2 2013 - Q1 2014

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