



Yardi® Matrix

MULTIFAMILY REPORT

San Jose's Peaks And Valleys

Spring 2020

Construction Takes a Hit, but Relief is Expected

Rent Growth Positive Through the First Quarter

Economic Profile Favors Quicker Recovery

SAN JOSE MULTIFAMILY

Yardi® Matrix

The South Bay Economy Preps for a Reset

The San Jose metro is bolstered by its tech-anchored economy, which, in the course of the ongoing slowdown, is fairly well insulated to withstand the economic fallout. Rents in the metro were even up 0.1% on a trailing three-month basis as of April, while the U.S. rate plateaued. The metro had been gearing up for record rental inventory growth this year, but delays due to pandemic-related restrictions will likely curb that rise.

With the state processing over 4.7 million initial unemployment claims since the start of the outbreak, economic issues are in sight for California as a whole. While the South Bay's economy is well insulated against the bulk of the issues that are projected, some sectors saw mounting trouble as early as March—leisure and hospitality, the hardest-hit industry, had already lost 9,100 jobs year-over-year. With construction procedures put in place to help get projects back underway, some relief in that sector is expected this summer.

San Jose's average occupancy in stabilized assets stood at 95.4% as of March, well above the national figure. With broad eviction moratoriums in place, that figure hasn't seen significant fluctuations yet, although county authorities are seeking to prolong the measure, pending state-level decisions.

Market Analysis | Spring 2020

Contacts

Jeff Adler

Vice President & General
Manager of Yardi Matrix
Jeff.Adler@Yardi.com
(800) 303-615-3676

Jack Kern

Director of Research
and Publications
Jack.Kern@Yardi.com
(800) 866-1124 x2444

Ron Brock, Jr.

Industry Principal, Matrix
JR.Brock@Yardi.com
(480) 663-1149 x2404

Author

Alex Girda

Senior Editor

Recent San Jose Transactions

Sofi Waterford Park



City: San Jose, Calif.
Buyer: Pacific Urban Residential
Purchase Price: \$194 MM
Price per Unit: \$449,074

Terra House

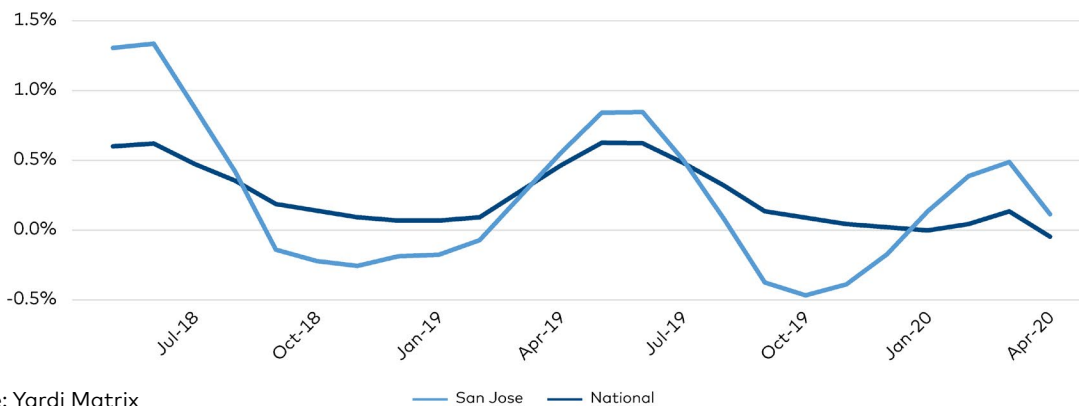


City: San Jose, Calif.
Buyer: Nuveen Real Estate
Purchase Price: \$145 MM
Price per Unit: \$417,241

RENT TRENDS

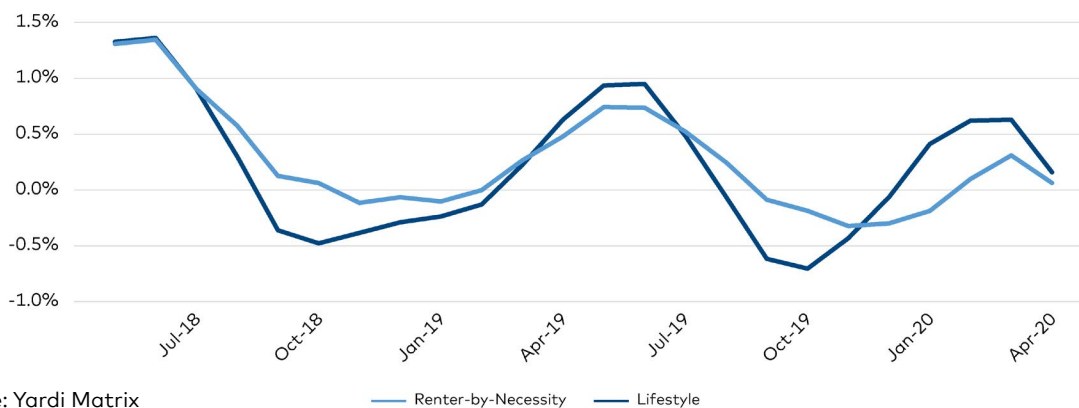
- ▶ San Jose rents were up 0.1% on a trailing three-month basis through April, while the U.S. average stagnated during that timeframe. The overall average rent stood at \$2,931—one of the highest in the nation—only trailing Manhattan (\$4,211), San Francisco-Peninsula (\$3,878) and New York City overall (\$3,139).
- ▶ Rents in the Lifestyle segment recorded a 0.2% improvement on a trailing three-month basis, to an average of \$3,187. The working-class Renter-by-Necessity segment saw rents rise 0.1% through the interval, to an average of \$2,677. The average occupancy rate in stabilized assets was 95.4% as of March, above the U.S. figure. Renter-by-Necessity assets were in higher demand due to limited inventory, at 95.8%, while occupancy in the Lifestyle segment reached the 95.0% mark.
- ▶ Following a strict shutdown in the wake of COVID-19, Santa Clara County moved to the second of the four stages outlined in California's state-wide guidance system that allows businesses across the South Bay to slowly reopen.
- ▶ The submarkets with the highest average rents were Palo Alto-Stanford (\$3,816 average rent), Cupertino (\$3,335) and Mountain View-Los Altos (\$3,287). These areas are all strongly defined by their tech appeal and feature a heavy presence from some of Silicon Valley's most high-profile companies and intellectual operations.

San Jose vs. National Rent Growth (Trailing 3 Months)



Source: Yardi Matrix

San Jose Rent Growth by Asset Class (Trailing 3 Months)



Source: Yardi Matrix

ECONOMIC SNAPSHOT

- ▶ Although overall employment growth had been largely unfazed in San Jose through March, at 1.3% year-over-year, some areas have already seen significant effects. Leisure and hospitality, the sector that has carried the brunt of the hardship from the COVID-19 outbreak and ensuing shutdowns, lost 9,100 jobs year-over-year through March, with more downward movement likely surfacing in the coming months.
- ▶ California has not been immune to economic fallout from the coronavirus outbreak by any stretch, with the state processing over 4.7 million of initial unemployment claims since the start of the crisis. The state has distributed roughly \$12 billion in aid to residents to curb the effects of the slowdown, but further efforts are likely required.
- ▶ Despite a grim showing nationwide, the South Bay's economic profile is somewhat set up to weather the storm better than others. Its tech-centric economy and strong infrastructure allows companies to pivot to a work-from-home environment, while its lower-density population—especially when compared to nearby San Francisco or L.A.—will allow it to go through the state's four phases of reopening more efficiently.

San Jose Employment Share by Sector

Code	Employment Sector	Current Employment	
		(000)	% Share
50	Information	103	9.0%
60	Professional and Business Services	244	21.3%
30	Manufacturing	175	15.3%
55	Financial Activities	39	3.4%
65	Education and Health Services	179	15.6%
80	Other Services	30	2.6%
90	Government	99	8.6%
15	Mining, Logging and Construction	51	4.5%
40	Trade, Transportation and Utilities	130	11.4%
70	Leisure and Hospitality	95	8.3%

Sources: Yardi Matrix, Bureau of Labor Statistics

Population

- ▶ The South Bay's population was just under the 2 million mark as of 2018.
- ▶ The metro gained nearly 25,000 residents since 2015; growth was bolstered by its world-class tech sector and education centers.

San Jose vs. National Population

	2015	2016	2017	2018
National	320,742,673	323,071,342	325,147,121	327,167,434
San Jose Metro	1,975,724	1,988,816	1,993,582	1,999,107

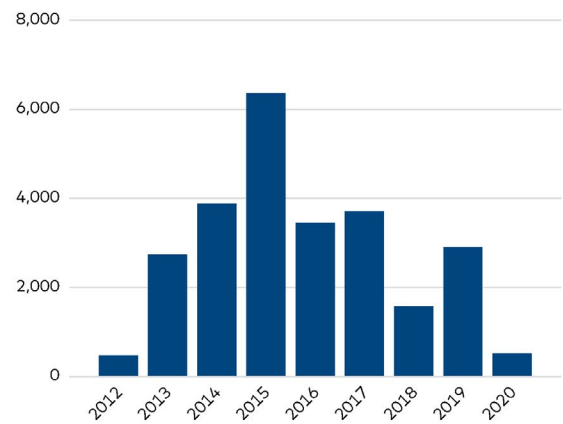
Sources: U.S. Census, Moody's Analytics

SUPPLY

- ▶ Developers had 11,783 rental units underway in metro San Jose as of April, with an additional 63,000 apartments in the planning and permitting stages.
- ▶ Some 6,500 units were slated for completion by the end of 2020, which, when also factoring in the 521 units that came online during the first third of the year, would have been the metro's strongest delivery total of the past 10 years.
- ▶ Though some delays are expected due to strict shutdown orders in California during the first weeks of the crisis, places such as Santa Clara County established new rules and protocols that allowed construction to resume. The county is also pushing to extend the eviction moratorium in order to protect workers affected by the strict shelter-in-place order and economic fallout from the COVID-19 outbreak.
- ▶ The average occupancy rate in stabilized assets in metro San Jose was 95.4% as of March, well above the U.S. figure, but the rate's evolution during coming months will be more indicative of the pandemic's full effect on occupancy.

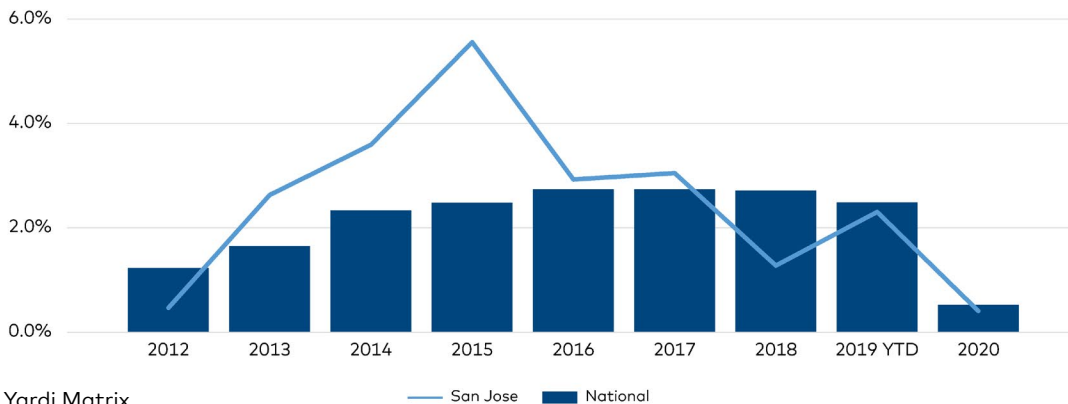
- ▶ Four South Bay submarkets had more than 1,000 units underway as of April: Central San Jose (2,555 units), Santa Clara (2,294 units), Sunnyvale (1,966 units) and Mountain View-Los Altos (1,463 units).

San Jose Completions (as of April 2020)



Source: Yardi Matrix

San Jose vs. National Completions as a Percentage of Total Stock (as of April 2020)



Source: Yardi Matrix

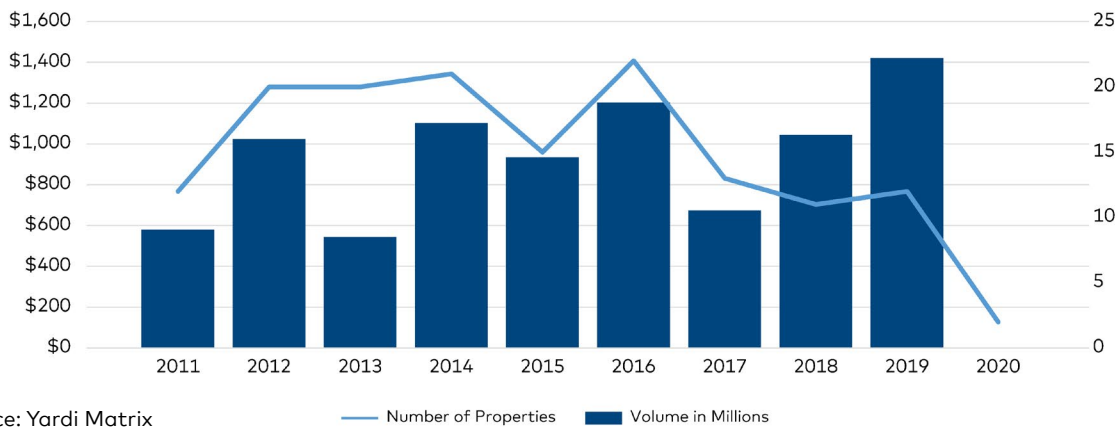
TRANSACTIONS

- ▶ Transactions were at a standstill in San Jose in 2020, following the cycle high of \$1.4 billion in multifamily assets that closed last year. Elevated per-unit averages and limited inventory mean that deals require large amounts of capital, leading to decreased deal velocity amid the ongoing health crisis.
- ▶ With average per-unit prices at \$479,011—three times the U.S. average of \$168,186—even value-add plays carry a hefty price across met-

ro San Jose. As a result, Renter-by-Necessity assets that traded in the metro in 2019 had an average price per unit of \$400,000, more than most major metros. Lifestyle assets traded at \$516,630 per unit—one of the highest rates in the U.S. last year.

- ▶ Over the 12 months ending in April, capital was focused largely in the Far South San Jose, where transactions totaled \$520 million.

San Jose Sales Volume and Number of Properties Sold (as of April 2020)



Source: Yardi Matrix

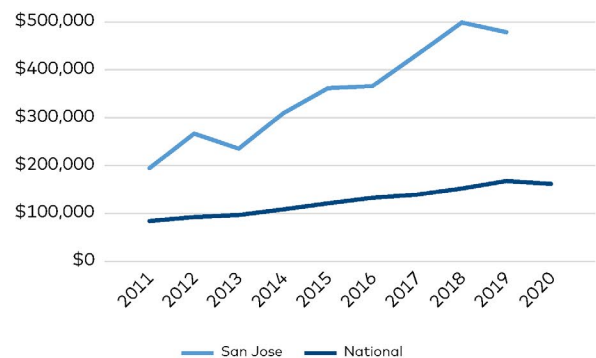
Top Submarkets for Transaction Volume¹

Submarket	Volume (\$MM)
Far South San Jose	520
Mountain View-Los Altos	292
North San Jose	256
East San Jose	104
Milpitas	62
Gilroy	26

Source: Yardi Matrix

¹ From May 2019 to April 2020

San Jose vs. National Sales Price per Unit



Source: Yardi Matrix

TOP 5 SAN JOSE SUBMARKETS FOR CONSTRUCTION ACTIVITY

By Jeff Hamann



data by

Yardi® Matrix

With multifamily deliveries cooling in the years following the 2015 cycle high of 6,365 units, San Jose faces several challenges related to its rental market. Though only 521 units were delivered in the first four months of 2020, developers have been moving forward on a wide range of projects—at the end of April, 11,783 units were under construction. However, the COVID-19 pandemic is likely to cause the South Bay’s housing shortage to grow even more acute.

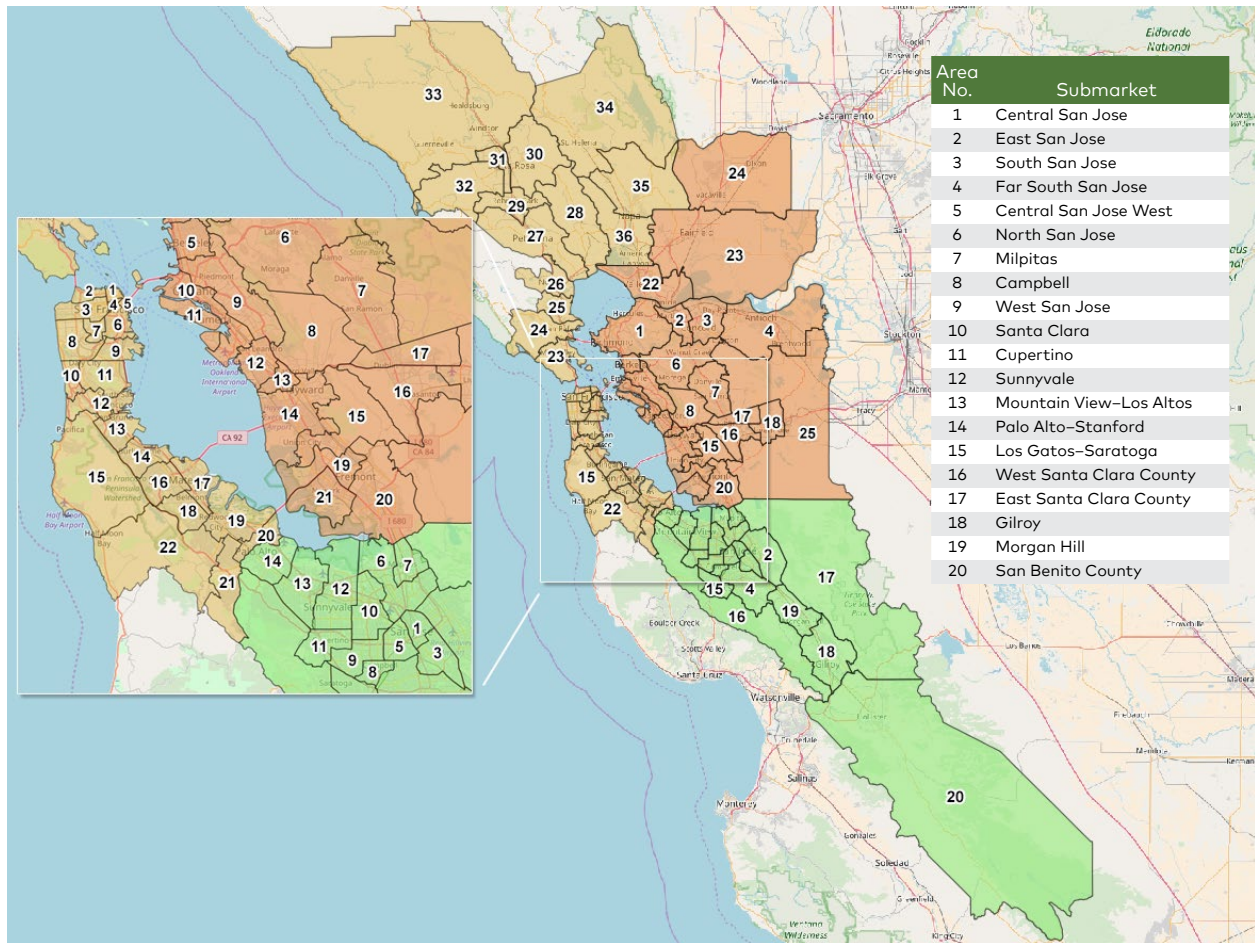
Rank	Submarket	Units Underway	Projects Underway	Percentage of Stock
1	Central San Jose	2,555	10	37.7%
2	Santa Clara	2,294	3	20.9%
3	Sunnyvale	1,966	6	10.7%
4	Mountain View - Los Altos	1,463	6	13.2%
5	Milpitas	916	2	21.0%

Santa Clara

With just under 2,300 units underway, accounting for more than one-fifth of existing inventory, Santa Clara is one of the South Bay’s busiest development scenes. The submarket’s most recent major delivery occurred nearly three years ago, in mid-2017, with few new units coming online since. As a result, demand has pushed developers to move forward with a number of major projects. Irvine Co.’s Santa Clara Square, with 1,847 units, is by far the largest development underway.



SAN JOSE SUBMARKETS



Area No.	Submarket	Area No.	Submarket	Area No.	Submarket	Area No.	Submarket
1	Northeast San Francisco	19	Redwood City	1	Richmond	14	Hayward
2	Northwest San Francisco	20	Menlo Park/East Palo Alto	2	Pleasant Hill/Martinez	15	Union City
3	Golden Gate Park	21	Atherton/Portola	3	Concord	16	Pleasanton
4	Market Street	22	Woodside	4	Antioch/Oakley	17	Dublin
5	China Basin	23	Tiburon/Sausalito	5	Berkeley	18	Livermore
6	Eastern San Francisco	24	San Rafael	6	Walnut Creek/Lafayette	19	West Fremont
7	Central San Francisco	25	Lucas Valley	7	San Ramon-West/Danville	20	East Fremont
8	Southwest San Francisco	26	Novato	8	Castro Valley	21	Newark
9	Southeast San Francisco	27	Petaluma	9	Oakland East/Oakland Hills	22	Vallejo/Benicia
10	Broadmoor/Daly City	28	Sonoma	10	Downtown Oakland	23	Fairfield
11	Colma/Brisbane	29	Rohnert Park	11	Alameda	24	Vacaville
12	South San Francisco	30	Santa Rosa	12	San Leandro	25	San Ramon-East
13	Millbrae/Airport	31	Roseland	13	San Lorenzo		
14	Burlingame	32	Sebastapol				
15	Moss Beach	33	Northern Sonoma County				
16	San Mateo	34	Deer Park/St. Helena				
17	Foster City	35	Napa North				
18	Belmont/San Carlos	36	Napa South				

DEFINITIONS

Lifestyle households (renters by choice) have wealth sufficient to own but have chosen to rent. Discretionary households, most typically a retired couple or single professional, have chosen the flexibility associated with renting over the obligations of ownership.

Renter-by-Necessity households span a range. In descending order, household types can be:

- ▶ *A young-professional*, double-income-no-kids household with substantial income but without wealth needed to acquire a home or condominium;
- ▶ *Students*, who also may span a range of income capability, extending from affluent to barely getting by;
- ▶ *Lower-middle-income ("gray-collar") households*, composed of office workers, policemen, firemen, technical workers, teachers, etc.;
- ▶ *Blue-collar households*, which may barely meet rent demands each month and likely pay a disproportionate share of their income toward rent;
- ▶ *Subsidized households*, which pay a percentage of household income in rent, with the balance of rent paid through a governmental agency subsidy. Subsidized households, while typically low income, may extend to middle-income households in some high-cost markets, such as New York City;
- ▶ *Military households*, subject to frequency of relocation.

These differences can weigh heavily in determining a property's ability to attract specific renter market segments. The five-star resort serves a very different market than the down-and-outer motel. Apartments are distinguished similarly, but distinctions are often not clearly definitive without investigation. The Yardi® Matrix Context rating eliminates that requirement, designating property market positions as:

Market Position	Improvements Ratings
Discretionary	A+ / A
High Mid-Range	A- / B+
Low Mid-Range	B / B-
Workforce	C+ / C / C- / D

The value in application of the Yardi® Matrix Context rating is that standardized data provides consistency; information is more meaningful because there is less uncertainty. The user can move faster and more efficiently, with more accurate end results.

The Yardi® Matrix Context rating is not intended as a final word concerning a property's status—either improvements or location. Rather, the result provides reasonable consistency for comparing one property with another through reference to a consistently applied standard.

To learn more about Yardi® Matrix and subscribing, please visit www.yardimatrix.com or call Ron Brock, Jr., at 480-663-1149 x2404.

How do you | find properties to buy or develop?

Invest confidently using the industry's most comprehensive market intelligence service. Only Yardi Matrix continuously updates and verifies critical data for 17 million+ units within more than 90,000 multifamily properties in 133 U.S. metros that encompass 90% of the population.



(800) 866-1144
YardiMatrix.com

DISCLAIMER

Although every effort is made to ensure the accuracy, timeliness and completeness of the information provided in this publication, the information is provided "AS IS" and Yardi Matrix does not guarantee, warrant, represent or undertake that the information provided is correct, accurate, current or complete. Yardi Matrix is not liable for any loss, claim, or demand arising directly or indirectly from any use or reliance upon the information contained herein.

COPYRIGHT NOTICE

This document, publication and/or presentation (collectively, "document") is protected by copyright, trademark and other intellectual property laws. Use of this document is subject to the terms and conditions of Yardi Systems, Inc. dba Yardi Matrix's Terms of Use (<http://www.yardimatrix.com/Terms>) or other agreement including, but not limited to, restrictions on its use, copying, disclosure, distribution and decompilation. No part of this document may be disclosed or reproduced in any form by any means without the prior written authorization of Yardi Systems, Inc. This document may contain proprietary information about software and service processes, algorithms, and data models which is confidential and constitutes trade secrets. This document is intended for utilization solely in connection with Yardi Matrix publications and for no other purpose.

Yardi®, Yardi Systems, Inc., the Yardi Logo, Yardi Matrix, and the names of Yardi products and services are trademarks or registered trademarks of Yardi Systems, Inc. in the United States and may be protected as trademarks in other countries. All other product, service, or company names mentioned in this document are claimed as trademarks and trade names by their respective companies.

© 2020 Yardi Systems, Inc. All Rights Reserved.