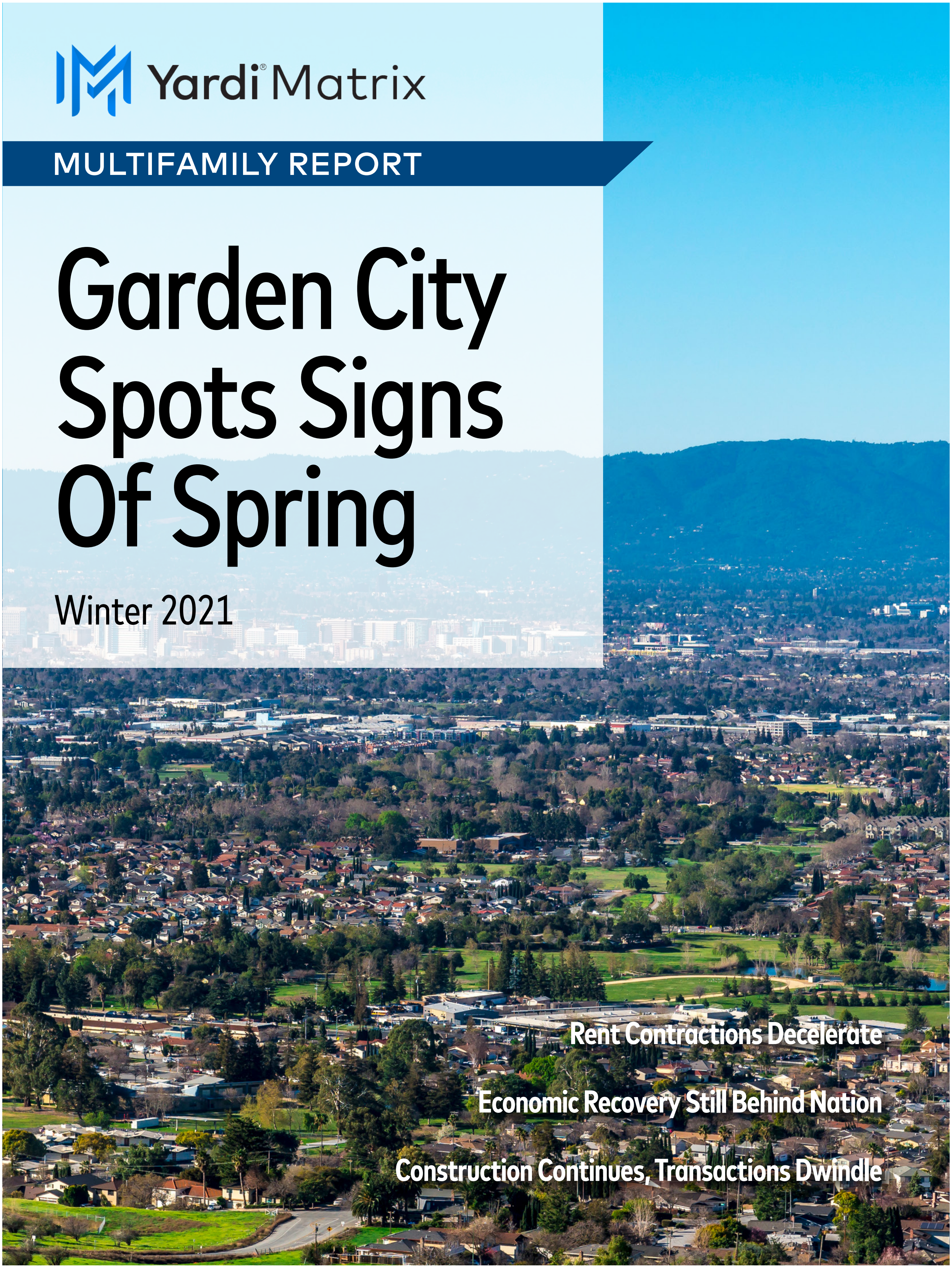
Yardi Matrix

MULTIFAMILY REPORT

Garden City Spots Signs Of Spring

Winter 2021



Rent Contractions Decelerate

Economic Recovery Still Behind Nation

Construction Continues, Transactions Dwindle

SAN JOSE MULTIFAMILY

Yardi Matrix

Slow Economic Recovery Sustained by Big Tech

Pandemic-induced woes have hit coastal California metros directly, with residents fleeing to more affordable cities, and Silicon Valley was no stranger to that. In metro San Jose, occupancy in stabilized properties dropped to 92.7% as of December, while rents were down 13.0% year-over-year through January, marking the largest drop in the country. However, signs that the market might have bottomed out are emerging: San Jose led the country for month-over-month growth in January, at 0.9%.

The unemployment rate has been slowly recovering, clocking in at 5.2% in November, but December preliminary data pointed to a new rise, to 6.0%. Employment marked a 7.4% contraction in the 12 months ending in November, 20 basis points below the national rate. Although the metro's largest sector—professional and business services—rose 0.9% during the period, the tech sector alone won't be sufficient to keep the job market afloat. A rising number of companies announced relocations, including Oracle, which is moving its headquarters to Austin. Meanwhile, Google's plans for revitalizing the Diridon Station area remain on track.

San Jose development continued, with 765 units delivered in January and an additional 10,481 apartments underway. Mirroring nationwide trends, investors expressed caution, with just $608 million in multifamily assets changing hands in 2020.

Market Analysis | Winter 2021

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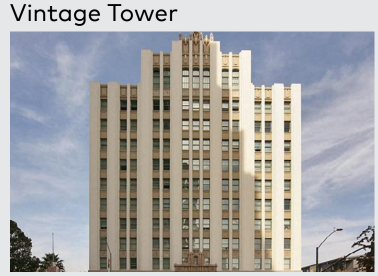
Recent San Jose Transactions

Victorian Square

City: Milpitas, Calif.
Buyer: Klingbeil Capital Management
Purchase Price: $36 MM
Price per Unit: $377,604

Vintage Tower

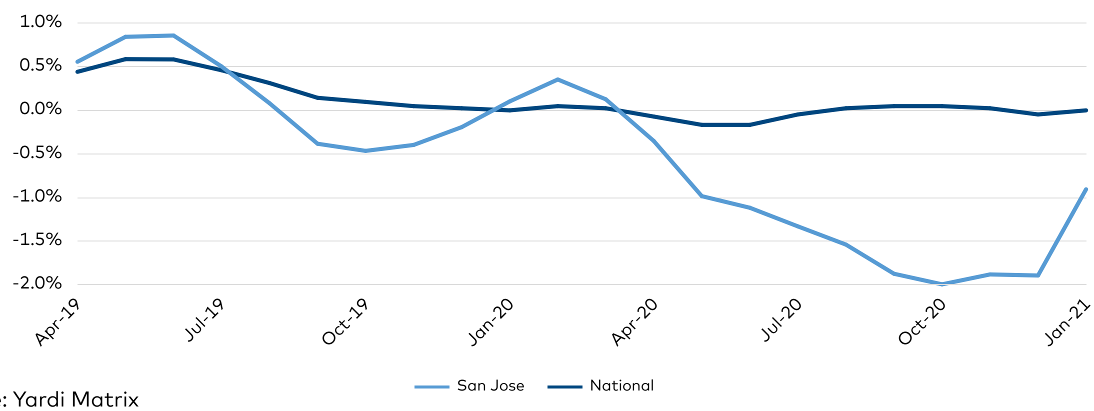


City: San Jose, Calif.
Buyer: Avanath Capital Management
Purchase Price: $17 MM
Price per Unit: $293,220

RENT TRENDS

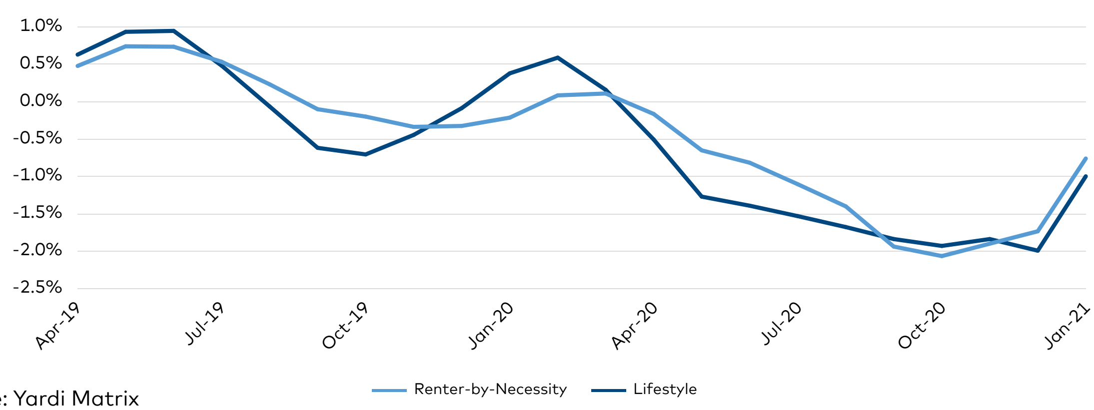
- San Jose rents fell 0.9% on a trailing three-month (T3) basis through January to $2,545, above only New York at the bottom of the list. Yet recovery came at the beginning of 2021, with month-over-month growth clocking in at 0.9% in January, marking the strongest rebound across major U.S. metros.
- Unsurprisingly, rates in the Lifestyle segment led the drop, down 1.0% on a T3 basis through January to $2,725, while Renter-by-Necessity rents fell 0.8% to $2,359. San Jose led the nation in percentage of properties offering concessions as of December 2020, with 40.2% of upscale properties offering an average concession of $3,500.
- Only one submarket posted an average rent above the $3,000 mark as of January: Palo Alto–Stanford, where rents fell 15.3% year-over-year through January, to $3,200. Mountain View–Los Altos (-17.3% to $2,706) and Cupertino (-17.1% to $2,773) recorded the sharpest year-over-year drops. These two submarkets in particular have a multifamily market that is highly dependent on whether employers allow employees to continue working from home. With Google and Apple having invested massively in office space in the area, a post-pandemic return of these two companies alone would mark a serious boost.
- While the market is bound to start its recovery this year, we still expect the average San Jose rent to drop 1.4% in 2021.

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

- San Jose unemployment fell to 5.2% in November, but with California under stricter restrictions since mid-month, December preliminary Bureau of Labor Statistics data showed a new increase, to 6.0%. Still, employment is slowly recovering from the 9.2% contraction registered in the year ending in September, to -7.4% as of November.

- While the early stages of the COVID-19 pandemic primarily impacted service jobs, high-cost tech-oriented markets, for which San Jose is a poster child, started losing office-using positions as 2020 progressed. The information sector was one of the hardest hit, down 10.8% in the 12 months ending in November. Professional and business services—the metro's largest sector—propped up the economy to a certain extent, expanding 0.9%, but the tech sector alone won't be enough for a quick rebound. Meanwhile, a rising number of companies, as well as employees who can work remotely, are relocating to lower-cost, secondary inland metros. A prime example is Oracle, which is moving its headquarters to Austin.

- Even so, some large-scale projects are still on the books, including Google's proposed revitalization of the area near Diridon Station. The project includes 7.3 million square feet of office space and up to 5,900 housing units, 1,000 of which will be affordable.

San Jose Employment Share by Sector

		Current Employment	
Code	Employment Sector	(000)	% Share
60	Professional and Business Services	247	22.6%
55	Financial Activities	37	3.4%
15	Mining, Logging and Construction	52	4.8%
90	Government	95	8.7%
65	Education and Health Services	172	15.8%
80	Other Services	24	2.2%
40	Trade, Transportation and Utilities	129	11.8%
30	Manufacturing	163	14.9%
50	Information	93	8.5%
70	Leisure and Hospitality	81	7.4%

Sources: Yardi Matrix, Bureau of Labor Statistics

Population

- San Jose marked a 0.4% population decline in 2019. Meanwhile, the U.S. population rose by 0.3%.

- Between 2016 and 2019, San Jose's population rose by 0.9%. While immigration boosted the rise, negative domestic migration has been steadily dampening growth since 2014.

San Jose vs. National Population

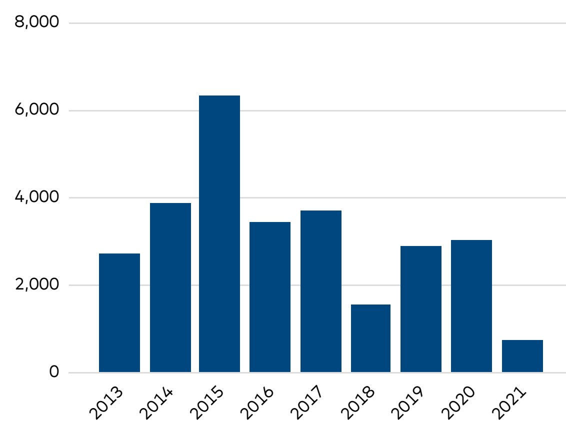
	2016	2017	2018	2019
National	323,071,342	325,147,121	327,167,434	328,239,523
San Jose Metro	1,988,816	1,993,582	1,999,107	1,990,660

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

SUPPLY

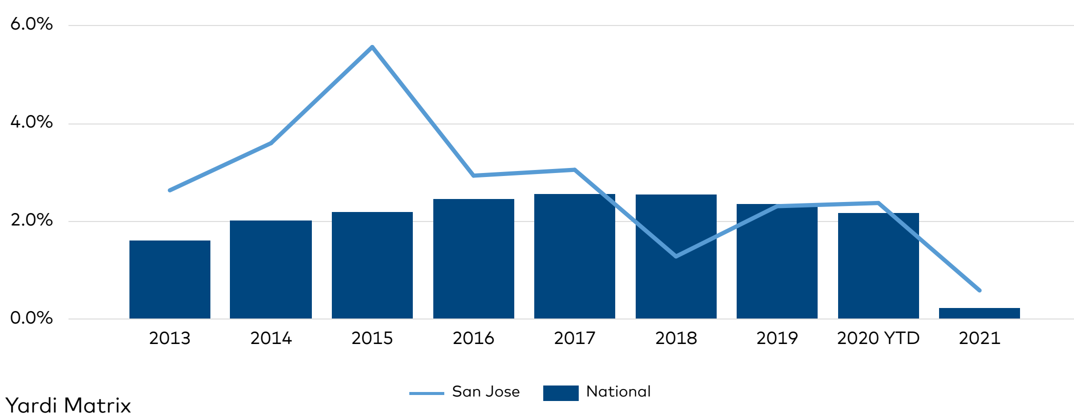
- Developers delivered 765 units in January 2021, or 0.6% of the metro's total stock. This came on the heels of 3,067 units coming online last year, which accounted for 2.4% of existing inventory, 20 basis points above the U.S. rate. The pipeline had 10,481 units under construction as of January. Yardi Matrix expects a little more than 3,000 units to be delivered in 2021, in line with last year's completions.
- The continued out-migration driven by a lack of affordable options—a trend strongly accelerated by the COVID-19 pandemic—pushed down the occupancy rate in stabilized properties from 95.4% to 92.7% in 2020. Another factor contributing to the dent in the occupancy rate was developers' focus on Lifestyle properties, as both recent deliveries and projects underway lean heavily toward the upscale segment. Affordable housing, a pressing issue for the area, is very slowly gaining ground—last year, 404 units in four fully affordable communities were added to the inventory, while projects underway amount to 632 units in seven fully affordable properties.
- Five submarkets had more than 1,000 units under construction as of January, with Santa Clara and Central San Jose in the lead with 2,202 and 1,929 units, respectively. The largest project under construction as of January was Santa Clara Square, an Irvine Co. multiphase development comprising a total of 1,847 rental units, in addition to 1.8 million square feet of office space and nearly 200,000 square feet of retail.

San Jose Completions (as of January 2021)



Source: Yardi Matrix

San Jose vs. National Completions as a Percentage of Total Stock (as of January 2021)



Source: Yardi Matrix

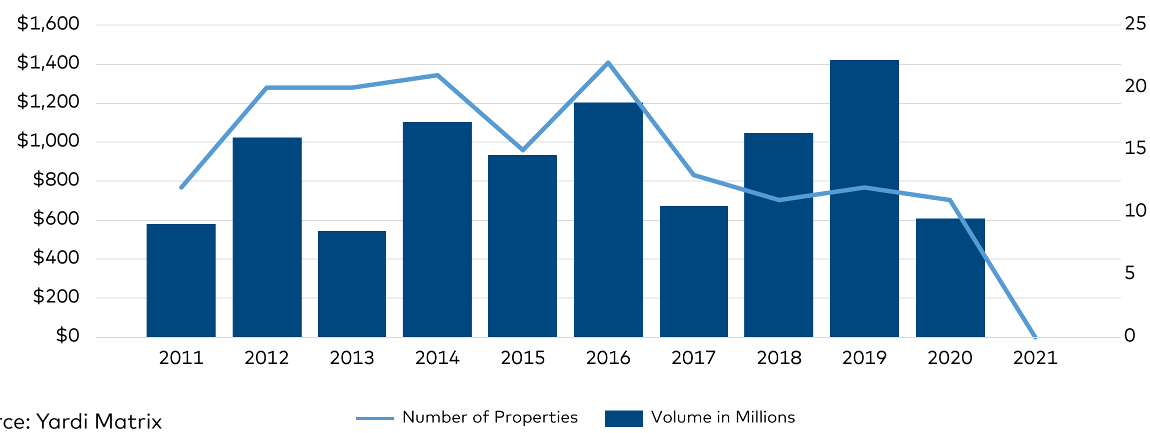
TRANSACTIONS

- A total of $607 million in multifamily assets traded in San Jose in 2020, less than half the 2019 transaction volume. As with most major markets, investors have taken a step back during the health crisis, with activity in the second and third quarters lagging volumes in previous years considerably.

- The pandemic has shifted buyer interest from luxury apartments toward value-add assets, with eight of the 13 properties that traded last year catering to the Renter-by-Necessity segment. Even so, the price per unit was up 6.7% to $511,144 in 2020. The figure is more than triple the U.S. average, which rose 2.2% to $157,900 during the period.

- The largest deal of 2020 was Northwestern Mutual Real Estate's acquisition of 808 West, a 315-unit Lifestyle asset completed in 2019. Fairfield Residential sold the property for $184 million, or $584,127 per unit.

San Jose Sales Volume and Number of Properties Sold (as of January 2021)



Source: Yardi Matrix

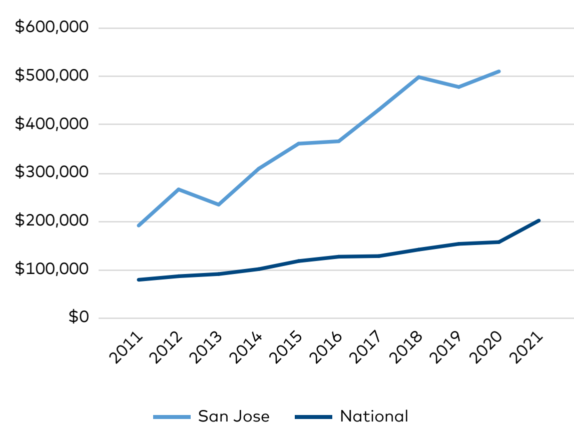
Top Submarkets for Transaction Volume[1]

Submarket	Volume ($MM)
Central San Jose West	292
Central San Jose	192
Cupertino	70
Milpitas	36
Sunnyvale	17

Source: Yardi Matrix

[1] From February 2020 to January 2021

San Jose vs. National Sales Price per Unit



Source: Yardi Matrix

LISTICLE

MHN MULTI-HOUSING NEWS

data by Yardi Matrix

Top California Markets for Construction Activity

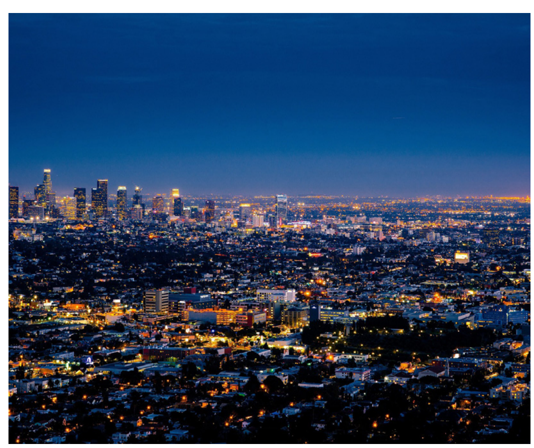
By Razvan Cimpean

One of the immediate effects at the start of the health crisis last year, as most states took action to prevent the spread of the virus in March and April, was that construction activity slowed down. While deliveries did not meet initial expectations in all markets, it's important to note that they only saw a 4.9 percent drop from the previous year, to more than 315,000 units, as states came out of lockdown, according to Yardi Matrix data.

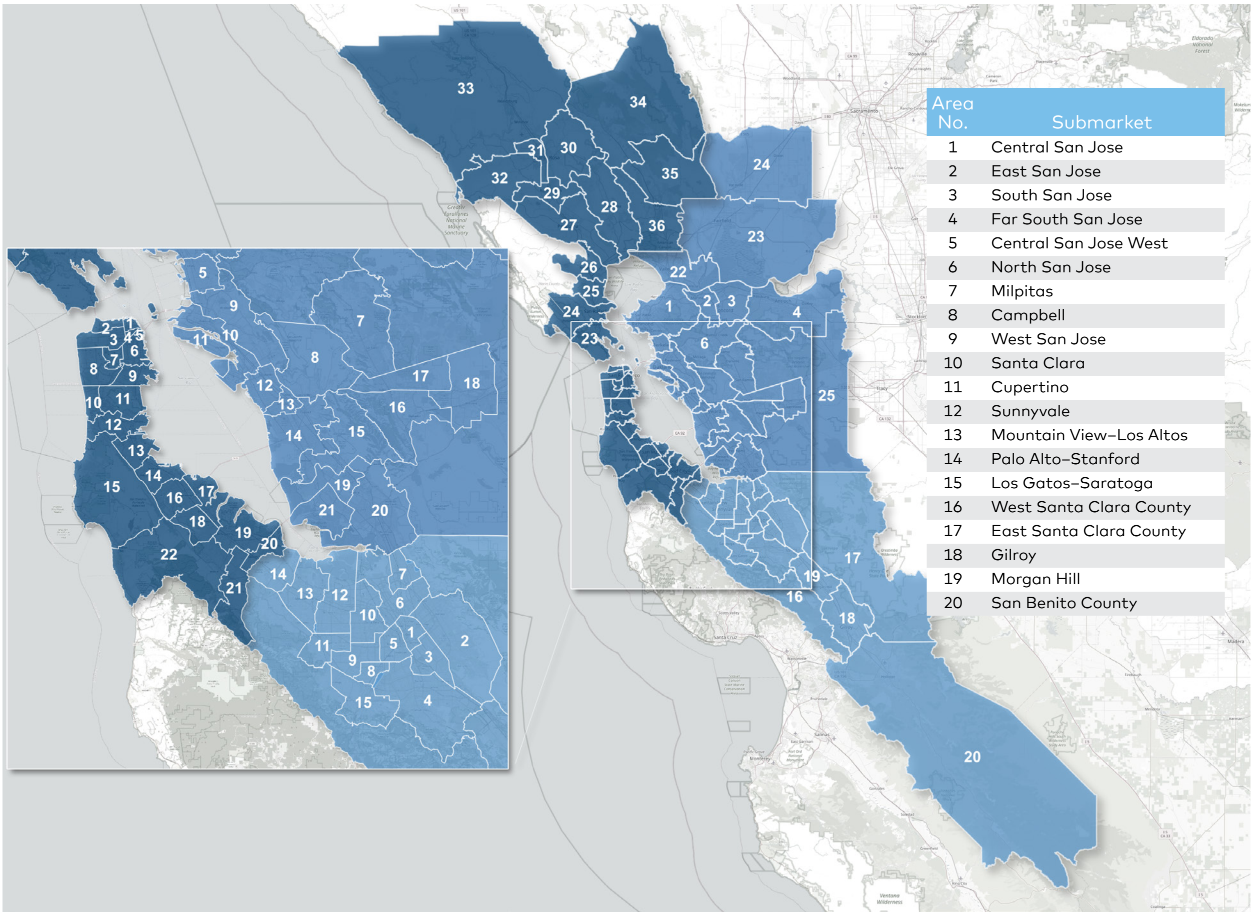
Rank	Market	Units Underway (as of January 2021)	Prop. Underway (as of January 2021)
1	Los Angeles	25,640	182
2	Bay Area–East and South Bay	24,019	103
3	San Francisco	9,497	54
4	San Diego	8,300	35
5	Orange County	6,686	27
6	Sacramento	4,701	23
7	Inland Empire	3,240	19
8	Central Valley	2,072	16
9	Central Coast	678	5

BAY AREA–EAST AND SOUTH BAY

Because California was one of the first states to impose restrictions meant to prevent the spread of the virus, the completion date for many projects underway in 2020 in the state was moved to 2021. As a result, deliveries this year are projected to surpass 18,000 units. As of January, a little more than 24,000 units were under construction throughout the metro, with the largest project being Irvine Co.'s 1,847-unit Santa Clara Square. At full build-out, the seven-building community will be the Santa Clara submarket's largest multifamily property and the metro's sixth-largest property.



SAN JOSE SUBMARKETS



Area No.	Submarket
1	Central San Jose
2	East San Jose
3	South San Jose
4	Far South San Jose
5	Central San Jose West
6	North San Jose
7	Milpitas
8	Campbell
9	West San Jose
10	Santa Clara
11	Cupertino
12	Sunnyvale
13	Mountain View–Los Altos
14	Palo Alto–Stanford
15	Los Gatos–Saratoga
16	West Santa Clara County
17	East Santa Clara County
18	Gilroy
19	Morgan Hill
20	San Benito County

Area No.	Submarket
1	Northeast San Francisco
2	Northwest San Francisco
3	Golden Gate Park
4	Market Street
5	China Basin
6	Eastern San Francisco
7	Central San Francisco
8	Southwest San Francisco
9	Southeast San Francisco
10	Broadmoor/Daly City
11	Colma/Brisbane
12	South San Francisco
13	Millbrae/Airport
14	Burlingame
15	Moss Beach
16	San Mateo
17	Foster City
18	Belmont/San Carlos

Area No.	Submarket
19	Redwood City
20	Menlo Park/East Palo Alto
21	Atherton/Portola
22	Woodside
23	Tiburon/Sausalito
24	San Rafael
25	Lucas Valley
26	Novato
27	Petaluma
28	Sonoma
29	Rohnert Park
30	Santa Rosa
31	Roseland
32	Sebastopol
33	Northern Sonoma County
34	Deer Park/St. Helena
35	Napa North
36	Napa South

Area No.	Submarket
1	Richmond
2	Pleasant Hill/Martinez
3	Concord
4	Antioch/Oakley
5	Berkeley
6	Walnut Creek/Lafayette
7	San Ramon–West/Danville
8	Castro Valley
9	Oakland East/Oakland Hills
10	Downtown Oakland
11	Alameda
12	San Leandro
13	San Lorenzo

Area No.	Submarket
14	Hayward
15	Union City
16	Pleasanton
17	Dublin
18	Livermore
19	West Fremont
20	East Fremont
21	Newark
22	Vallejo/Benicia
23	Fairfield
24	Vacaville
25	San Ramon–East

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 December 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 December 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, December 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.

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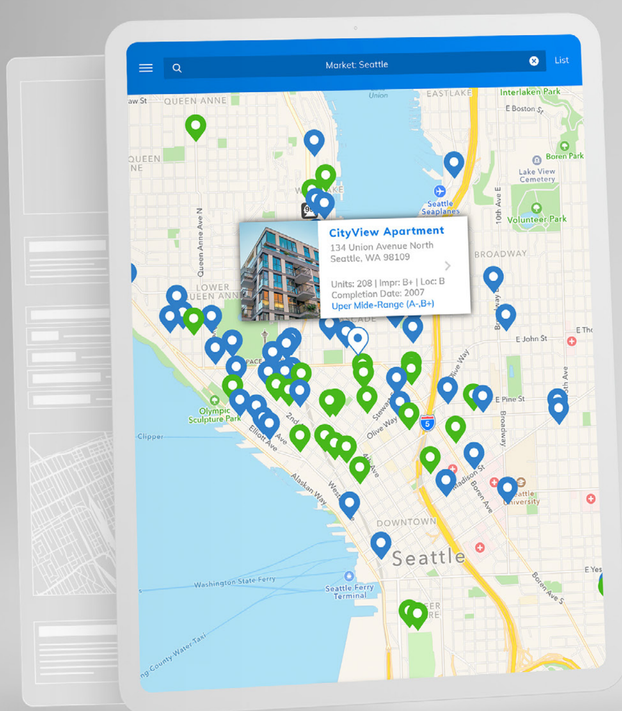

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