



MULTIFAMILY REPORT

San Jose's Fall Balance Sheet

Fall 2021

Lifestyle Segment Leads Occupancy, Supply

Rents Growth Softens Going Into Q4

Deliveries Hit New Highs

SAN JOSE MULTIFAMILY



Demand Bolsters Rents, Occupancy, Supply

San Jose's multifamily market made good progress in 2021, sustained by unexpectedly strong demand. While Silicon Valley did not rebound as fast as less expensive inland markets, rent growth, occupancy and supply are following a steady recovery. Rents in the Lifestyle segment led growth on a trailing three-month basis through October, up 1.4% to \$3,080. The upscale segment also recorded a 200-basis-point jump in occupancy in the 12 months ending in September, to 94.3%. Considering the trough brought by last year's swift downturn, the metro's overall 7.6% year-over-year rent growth is highly notable.

The unemployment rate clocked in at 4.0% in September, according to the Bureau of Labor Statistics, outperforming the state (7.5%) and U.S. (4.8%) rates. The job market posted the second-consecutive month of annual growth, even though three sectors lost jobs—construction, government and financial activities. The metro added 11,000 office-using positions, but major tech employers have announced delays in return-to-office timelines due in good part to pandemic pains brought by the COVID-19 delta variant.

Development activity intensified, with 3,717 units delivered in 2021 through October, already surpassing last year's total. Another 9,520 units were under construction. Meanwhile, transaction activity nearly came to a halt, totaling just \$181 million.

Market Analysis | Fall 2021

Contacts

Jeff Adler

Vice President & General Manager of Yardi Matrix
Jeff.Adler@Yardi.com
(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

Doug Ressler

Media Contact
Doug.Ressler@Yardi.com
(480) 695-3365

Author

Anca Gagiuc

Senior Associate Editor

Recent San Jose Transactions

One38



City: San Jose, Calif.
Buyer: Carmel Partners
Purchase Price: \$53 MM
Price per Unit: \$529,208

678 Bellflower



City: Sunnyvale, Calif.
Buyer: Sack Properties
Purchase Price: \$49 MM
Price per Unit: \$526,882

The Bungalows at Ahwanee



City: Sunnyvale, Calif.
Buyer: MJM Properties
Purchase Price: \$24 MM
Price per Unit: \$352,941

Green Villa

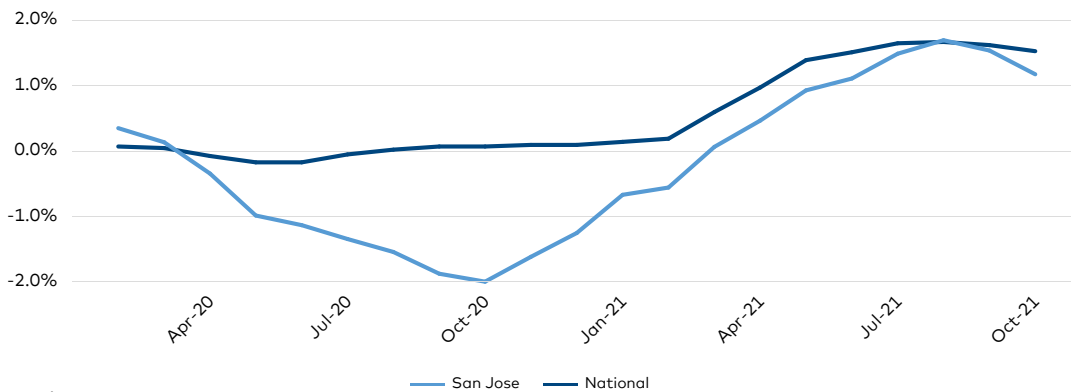


City: San Jose, Calif.
Buyer: CityTeam
Purchase Price: \$15 MM
Price per Unit: \$290,000

RENT TRENDS

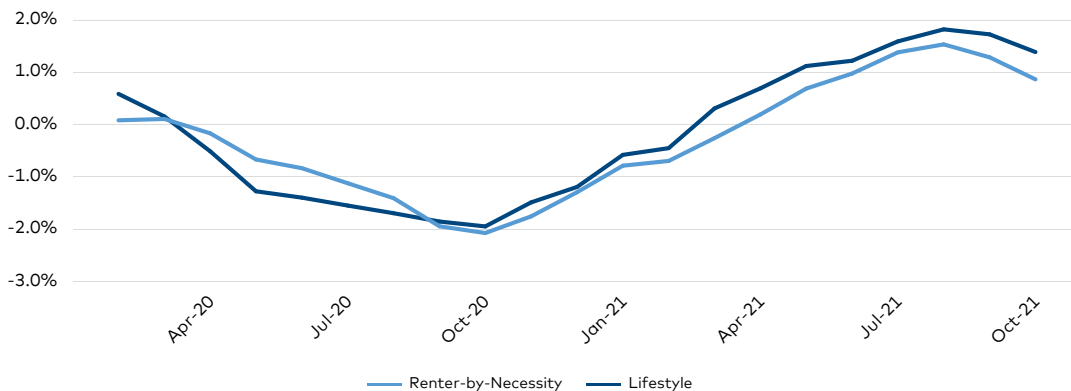
- ▶ San Jose rents steadily improved since hitting rock bottom last October, with growth plateauing in August 2021. The average rent rose 1.2% on a trailing three-month (T3) basis through October, to \$2,816. Meanwhile, the U.S. average continued its astonishing performance, up 1.5% to \$1,572. Year-over-year, the 13.7% U.S. rate remained well above San Jose's 7.6% average. However, considering the time it took Silicon Valley to nearly reach double-digit growth, the performance remains more than notable.
- ▶ Upscale Lifestyle rents led growth, up 1.4% on a T3 basis through October to \$3,080, while in the Renter-by-Necessity segment the average rent increased 0.9%, to \$2,538.
- ▶ Despite hefty rents, demand for Lifestyle units is strongly mirrored by the segment's occupancy rate in stabilized properties, which rose 270 basis points in the 12 months ending in September, to 95.3%. Occupancy in the RBN segment increased by 110 basis points, to 93.2%. Overall, occupancy in San Jose clocked in at 94.3% in September, following a 200-basis-point rise.
- ▶ As of October, San Jose had three submarkets with average rents above the \$3,000 mark, up from one a year ago: Palo Alto-Stanford (up 6.1% to \$3,559), Cupertino (7.2% to \$3,102) and Mountain View - Los Altos (9.4% to \$3,050). Meanwhile, North San Jose rents marked a double-digit increase, up 12.7% to \$2,974 as of October.

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's unemployment rate maintained an improving trend throughout 2021, except for a spike in May. The rate stood at 4.0% as of September, according to preliminary data from the Bureau of Labor Statistics, surpassing both the state (7.5%) and national (4.8%) averages.
- ▶ The employment market expanded by 2.5% in the 12 months ending in August, lagging the 4.6% U.S. rate. Even so, the local economy had a steady run in 2021, marking the second-consecutive month of year-over-year expansion. Only three sectors lost jobs in the 12 months ending in August: construction (-1,400 jobs), government (-2,900 jobs) and financial activities (-200 jobs).
- ▶ Leisure and hospitality led by the number of jobs added (14,900 jobs), while by employment share the other services sector took the lead, expanding by 34.7% in the 12 months ending in August.
- ▶ The metro gained 11,000 office-using jobs, or a quarter of all newly added positions, but the rise of COVID-19's Delta variant pushed large employers such as Apple, Facebook and Google to postpone return-to-office timelines to early 2022. This is having a ripple effect, impacting businesses around offices. Even as many restrictions are being lifted across the U.S., expensive tech-centric metros continue to bear the brunt while employees work from home.

San Jose Employment Share by Sector

Code	Employment Sector	Current Employment	
		(000)	% Share
70	Leisure and Hospitality	78	7.1%
65	Education and Health Services	174	15.8%
60	Professional and Business Services	244	22.2%
80	Other Services	26	2.4%
50	Information	111	10.1%
30	Manufacturing	174	15.8%
40	Trade, Transportation and Utilities	119	10.8%
55	Financial Activities	38	3.5%
15	Mining, Logging and Construction	51	4.6%
90	Government	87	7.9%

Sources: Yardi Matrix, Bureau of Labor Statistics

Population

- ▶ San Jose lost 19,500 residents in 2020, marking a 1.0% population decline, more than double the 0.4% rate of 2019.
- ▶ Outmigration intensified throughout the state since the onset of the pandemic, sustained by the work-from-home lifestyle.

San Jose vs. National Population

	2017	2018	2019	2020
National	325,147,121	327,167,434	328,239,523	329,484,123
San Jose Metro	1,993,582	1,999,107	1,990,660	1,971,160

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

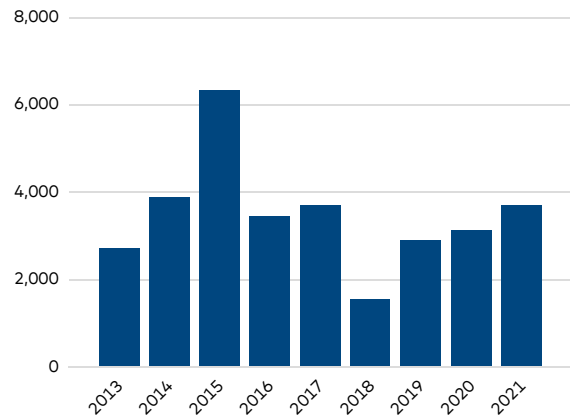
SUPPLY

- ▶ San Jose's multifamily inventory expanded by 3,717 units in 2021 through October, the equivalent of 2.8% of total stock, 100 basis points above the national average. The figure has already surpassed last year's total (3,717 units), and makes 2021 the second-best year in deliveries during the past decade.
- ▶ All apartments delivered during the first three quarters of 2021 are aimed at high-income renters. The trend continues as, by the end of the year, another 1,023 units are slated for completion, of which just 206 are in fully affordable communities.
- ▶ Developers had 9,520 units under construction and another 54,000 in the planning and permitting stages as of October. Despite the stringent need for affordable housing, of the projects under construction just roughly 10% will serve the Renter-by-Necessity segment, most in fully affordable properties.
- ▶ Development is uneven across the map, with four submarkets accounting for about 80% of units under construction: Santa Clara (2,398

units), Sunnyvale (1,842 units), Central San Jose (1,753 Units) and Mountain View - Los Altos (1,748 units).

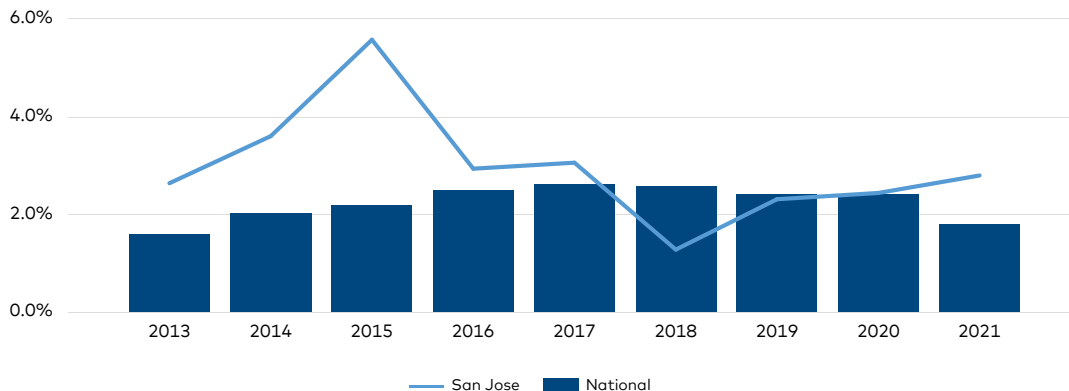
- ▶ The largest project delivered in 2021 through October was Lynhaven, a 636-unit Lifestyle property in West San Jose, built by Greystar with the help of a \$201 construction loan originated by Otera Capital. The project was fully completed in March.

San Jose Completions (as of October 2021)



Source: Yardi Matrix

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



Source: Yardi Matrix

TRANSACTIONS

- ▶ San Jose's transaction activity plummeted in 2021, with multifamily deals through October totaling just \$181 million. This is far below last year's volume, which recorded \$608 million for the same time frame. Moreover, when comparing investment activity to last year, the premise is not encouraging as, in 2020, investors completely halted activity in the fourth quarter.
- ▶ The price per unit dropped by 18.4% year-over-year through October, as nearly all the assets

that traded were Renter-by-Necessity properties. Still, even after the price decrease, San Jose's \$417,281 per-unit price is far above the \$184,007 national average.

- ▶ Sunnyvale led the way in transactions, accounting for half the volume during the 12 months ending in October. Yet, the largest sale occurred in San Jose—Carmel Partners paid \$53.5 million to Silicon Sage Builders for the 101-unit One38, a community completed in 2019.

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



Source: Yardi Matrix

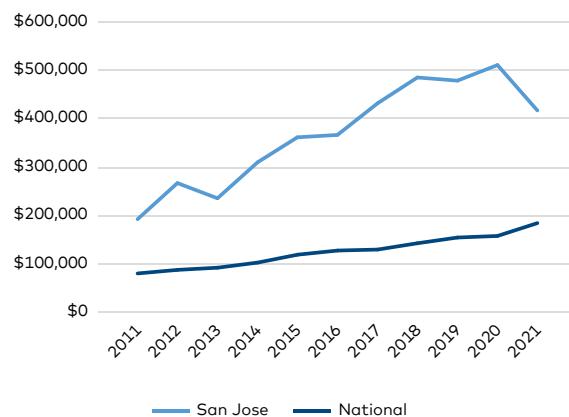
Top Submarkets for Transaction Volume¹

Submarket	Volume (\$MM)
Sunnyvale	91
Central San Jose	68
West San Jose	22

Source: Yardi Matrix

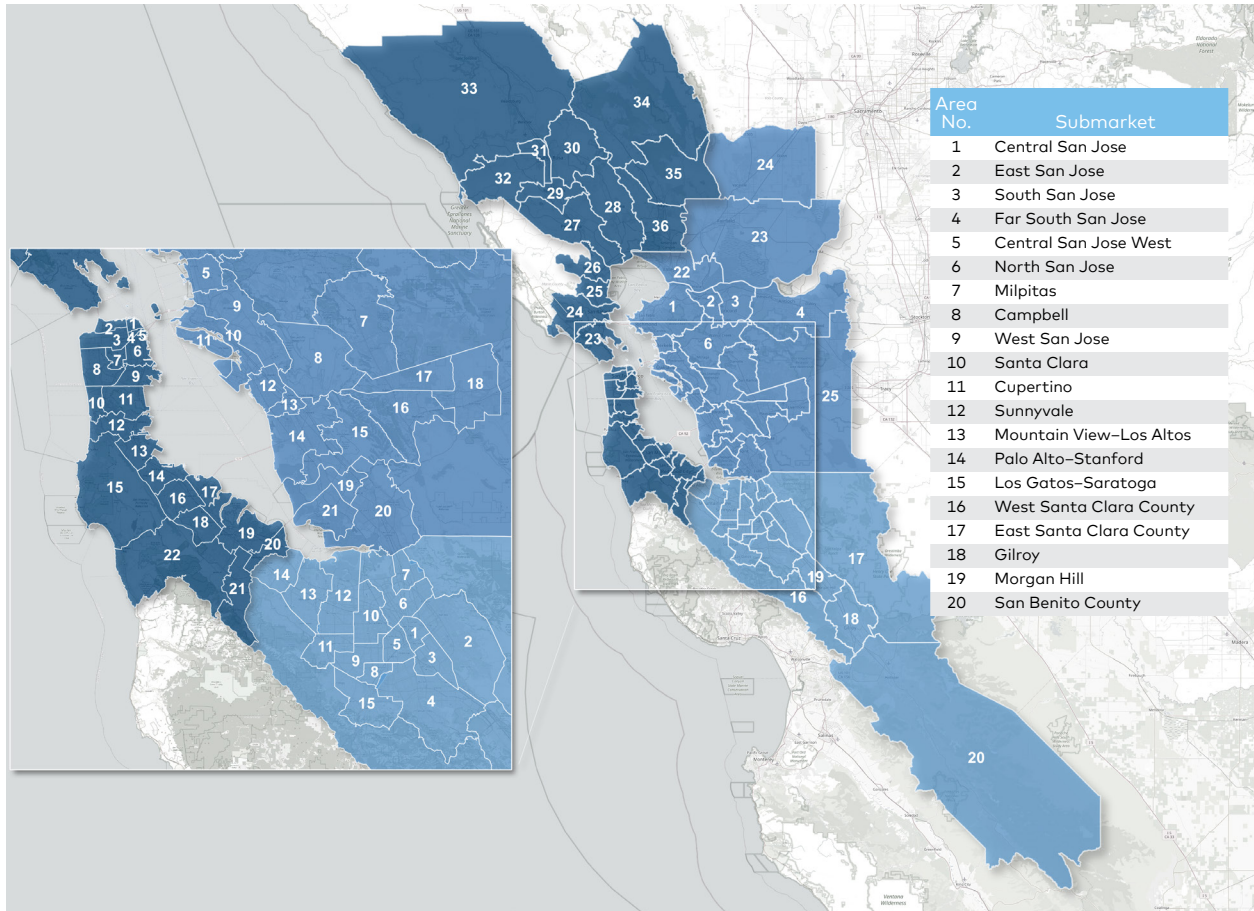
¹ From November 2020 to October 2021

San Jose vs. National Sales Price per Unit



Source: Yardi Matrix

SAN JOSE SUBMARKETS



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	Sebastapol
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.

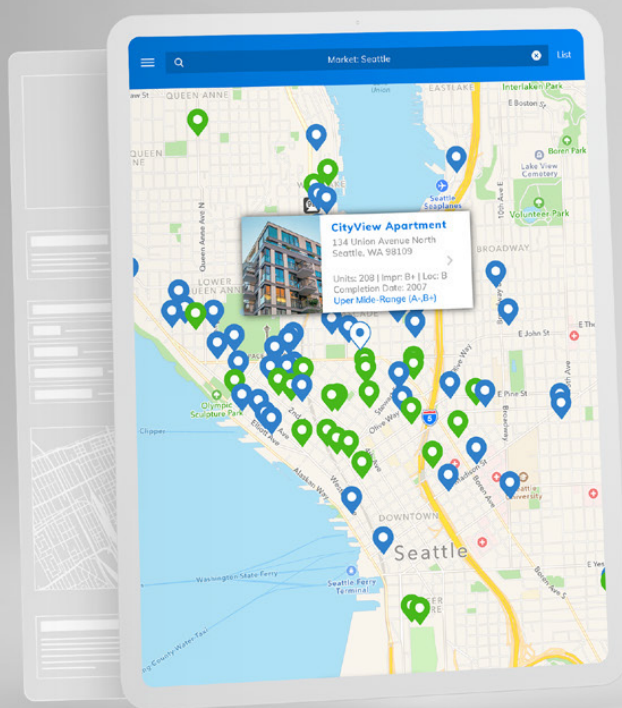
The Yardi® Matrix Context rating is not intended as a final word concerning a property's status—either improvements or location. Rather, the result provides reasonable consistency for comparing one property with another through reference to a consistently applied standard.

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