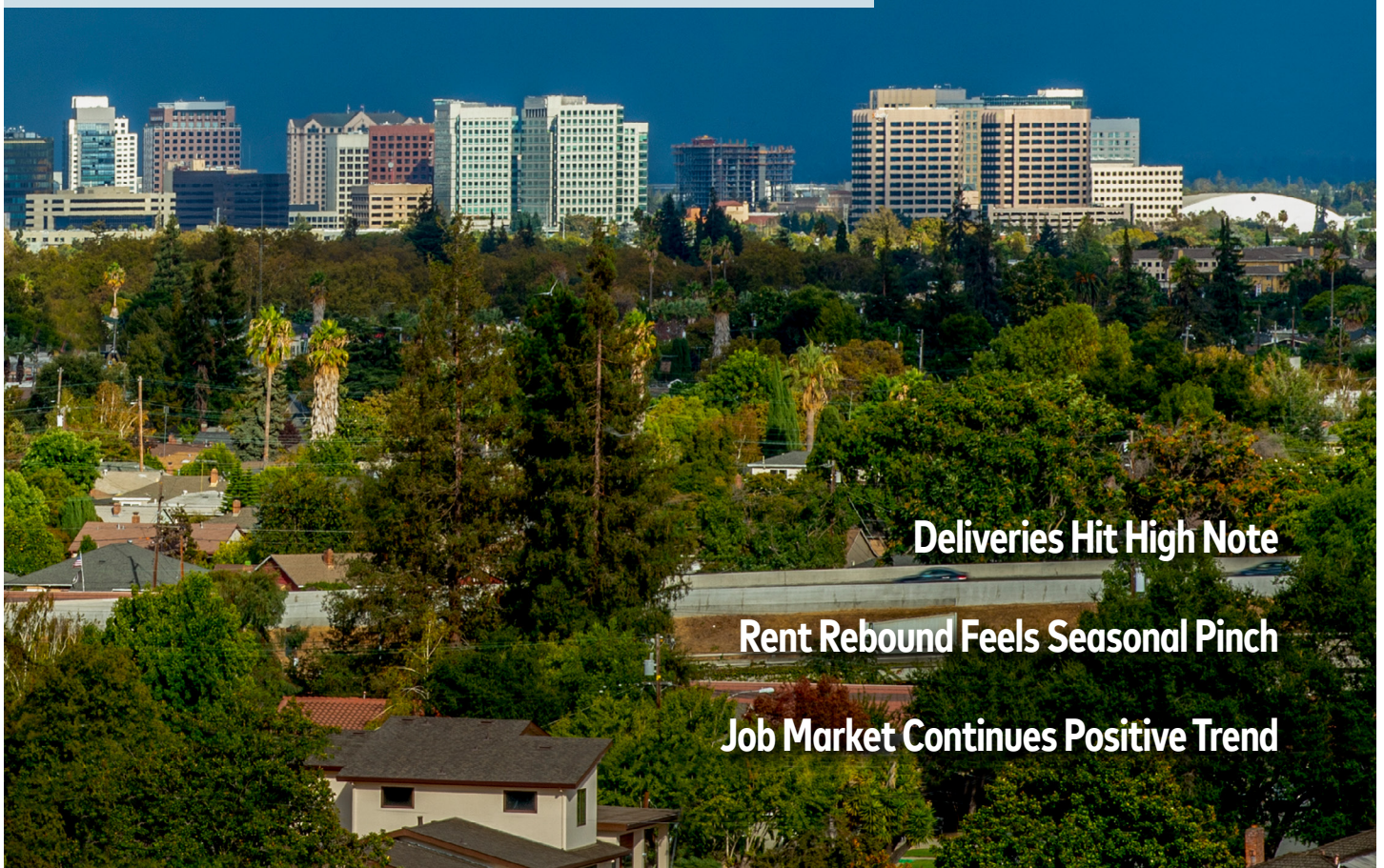




MULTIFAMILY REPORT

Ongoing Recovery In San Jose

March 2022



Deliveries Hit High Note

Rent Rebound Feels Seasonal Pinch

Job Market Continues Positive Trend

SAN JOSE MULTIFAMILY



Fundamentals Point To Sustained Recovery

San Jose ended 2021 on a positive note. Rent growth peaked in August and started to cool off toward the end of the year, clocking in at 0.1% on a trailing three-month (T3) basis through January. The average rate reached \$2,832, up 10.1% year-over-year and significantly above the \$1,604 U.S. figure. While recovering later than most of the country, Silicon Valley did not lose its steam. Month-over-month, it recorded the highest jump among major markets tracked by Yardi Matrix, up 1.2% in January.

As of November, San Jose's employment gains reached 4.2%, 40 basis points below the national figure. The city added 48,000 positions in the 12 months ending in November 2021. The unemployment rate clocked in at a tight 3.0% as of December, Silicon Valley's best figure since March 2020. Besides Google's massive plans for downtown, Boston Properties also received approvals for a mixed-use development, The Almaden Office Project, which is estimated to generate some \$4.3 million annually in taxes for the city.

Multifamily development also hit a high note in 2021, with 5,901 units delivered, nearly double the metro's five-year average. San Jose had an additional 8,288 apartments underway going into 2022, the vast majority of which are aimed at Lifestyle renters.

Market Analysis | March 2022

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Recent San Jose Transactions

One38



City: San Jose, Calif.
Buyer: Carmel Partners
Purchase Price: \$54 MM
Price per Unit: \$529,207

678 Bellflower



City: Sunnyvale, Calif.
Buyer: Sack Properties
Purchase Price: \$49 MM
Price per Unit: \$526,881

Alhambra Gardens

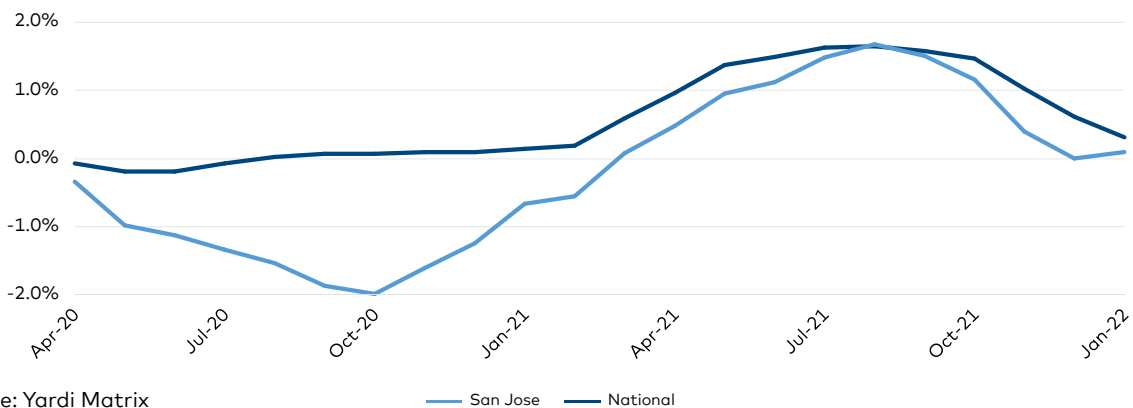


City: Santa Clara, Calif.
Buyer: Stanford Properties
Purchase Price: \$29 MM
Price per Unit: \$467,741

RENT TRENDS

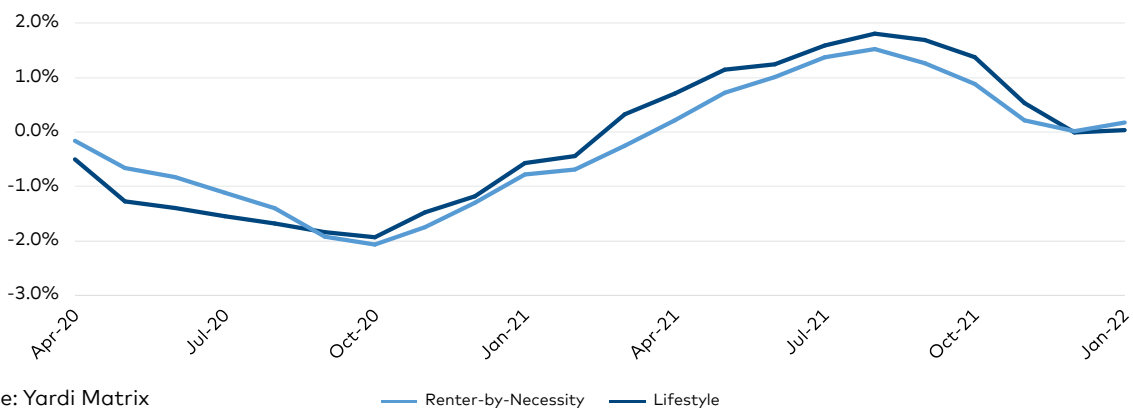
- ▶ San Jose rents were up 0.1% on a trailing three-month (T3) basis as of January—20 basis points below the national rate of growth—to \$2,832. Although expansion decelerated after a third-quarter peak, San Jose's rates were still up 10.1% year-over-year and continued to sport a significant premium over the \$1,604 U.S. figure. Demand is bouncing back, with rents accompanied by improving occupancy and pipeline additions.
- ▶ Both quality segments recorded rent gains starting in 2021's second quarter and slowed down with the start of winter. Rates for working-class Renter-by-Necessity properties were up 0.2%, to \$2,552, on a T3 basis as of January, while Lifestyle rents stalled at \$3,095.
- ▶ Occupancy in stabilized assets rebounded at a healthy pace in 2021, despite lingering uncertainty surrounding the health crisis. San Jose's overall occupancy improved by 280 basis points year-over-year, to 94.7%, as of December, but remained below 2019 levels. RBN assets rebounded at a faster pace, up 310 basis points year-over-year, to 94.0%. The figure for Lifestyle properties improved by 250 basis points, to 94.7%.
- ▶ Somewhat counterintuitively, San Jose's priciest submarkets saw some of the fastest rent gains. Rates in Mountain View-Los Altos grew by 14.1% year-over-year, to \$3,075, as of January, followed by North San Jose (13.5%, to \$2,972), Sunnyvale (11.7%, to \$2,816), Cupertino (10.5%, to \$3,115) and Santa Clara (10.0%, to \$2,869).

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 employment expanded by 48,000 positions over the 12 months ending in November, with employment growth at 4.2%, 40 basis points below the national figure. Although the metro has more ground to cover before reaching pre-pandemic levels, 2021's second half saw the strongest gains since the recovery began, with signs that growth will continue through 2022.
- ▶ Unemployment in San Jose stood at 3.0% as of December, 90 basis points above the national figure, according to preliminary data from the Bureau of Labor Statistics. The metro has recorded a healthy rate of improvement since January—when unemployment was 5.8%—with some sectors mitigating losses incurred due to migration and the hybridization of office-using sectors of the economy.
- ▶ Two sectors accounted for more than half of all jobs added in the 12 months ending in November. Leisure and hospitality, along with professional and business services, added 13,600 positions each, up a respective 20.4% and 5.7%. While the former mirrors a nationwide pattern, the latter hints that Silicon Valley's staple industries are slowly recovering. Meanwhile, education and health services added 7,900 jobs for a 4.6% increase, followed by manufacturing (up 3.3%, 5,500 jobs) and information (up 4.9%, 5,200).

San Jose Employment Share by Sector

Code	Employment Sector	Current Employment	
		(000)	% Share
60	Professional and Business Services	252	22.4%
70	Leisure and Hospitality	80	7.1%
65	Education and Health Services	179	15.9%
30	Manufacturing	174	15.5%
50	Information	112	10.0%
80	Other Services	24	2.1%
40	Trade, Transportation and Utilities	124	11.0%
55	Financial Activities	37	3.3%
15	Mining, Logging and Construction	51	4.5%
90	Government	93	8.3%

Sources: Yardi Matrix, Bureau of Labor Statistics

Population

- ▶ San Jose's population continued to decline in 2020, down 1.0%, while the U.S. figure grew by 0.4%.
- ▶ The city has lost 19,500 residents since 2019, with wider migration trends and affordability among the major factors in the loss.

San Jose vs. National Population

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

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

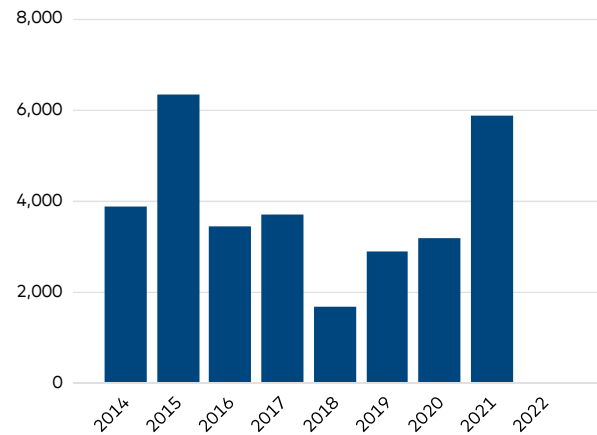
SUPPLY

- Multifamily construction picked up steam across Silicon Valley in 2021, with 8,288 units underway as of December. Roughly three-quarters of the pipeline is aimed at Lifestyle renters, while a little over 20.0% comprises fully affordable properties. More than 2,400 units broke ground in 2021, roughly on par with the 2020 figure.
- An additional 56,300 units were in the planning and permitting stages across Silicon Valley as of January, a sign that the market has room for growth, should fundamentals continue to improve.
- Deliveries increased by 83.8% year-over-year, as a total of 5,901 units came online in 2021. The amount represented 4.4% of total stock, slightly above the U.S. figure (2.5%). Completions reached the highest point since 2015—when 6,365 units were added—and exceeded the 1,995-unit five-year average by far. Developers continued to cater to high-income renters, as virtually all properties that came online in 2021 were in the Lifestyle segment.
- Development was mostly concentrated in Central San Jose, which had 2,003 units underway as of December. Other submarkets

with significant activity included Sunnyvale (1,767 units), Mountain View-Los Altos (1,475), Santa Clara (912) and Milpitas (829).

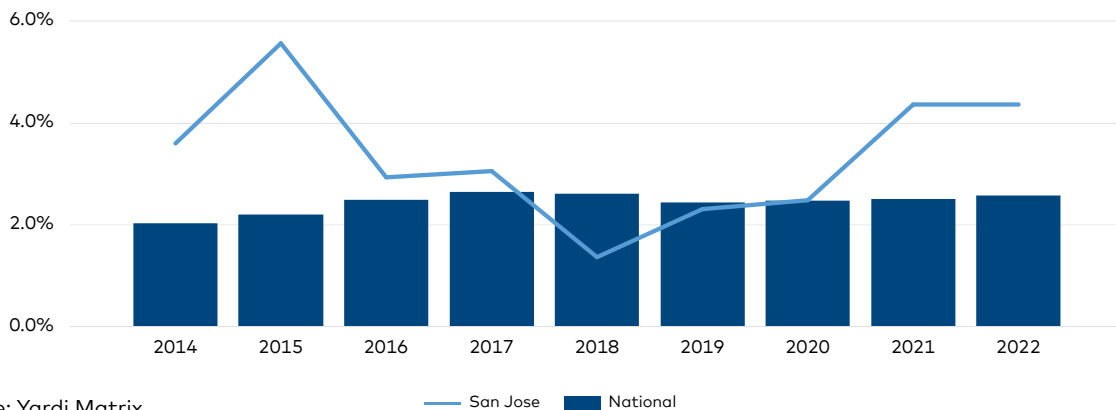
- In December of last year, the final phase of Irvine Co.'s Santa Clara Square was completed. The master-planned community, which had been in the works since 2015, offers 1,847 units. The 100-acre project also includes retail and office components.

San Jose Completions (as of January 2022)



Source: Yardi Matrix

San Jose vs. National Completions as a Percentage of Total Stock (as of January 2022)

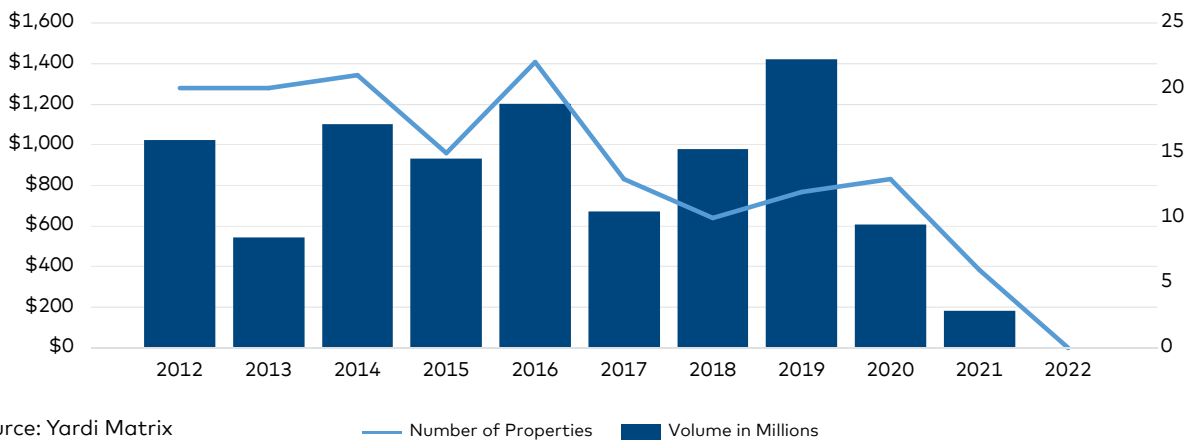


Source: Yardi Matrix

TRANSACTIONS

- ▶ Investment activity in San Jose declined, with only seven sales of more than 50 units recorded during the 12 months ending in January, totaling \$210 million. The sum decreased by 65.4% year-over-year and is 78.5% lower than the average recorded between 2016 and 2020 (\$977.3 million).
- ▶ The average price per unit in Silicon Valley dropped nearly 20.0% in 2021 when compared to \$417,281 in the previous year, but the reduced sample size must be taken into account. Despite the decrease, the figure was more than double the \$191,340 national average recorded last year.
- ▶ Sunnyvale recorded the strongest activity, with \$91 million in multifamily transactions during the 12 months ending in January, followed by Central San Jose (\$68 million), Santa Clara (\$29 million) and West San Jose (\$22.2 million).

San Jose Sales Volume and Number of Properties Sold (as of January 2022)



Source: Yardi Matrix

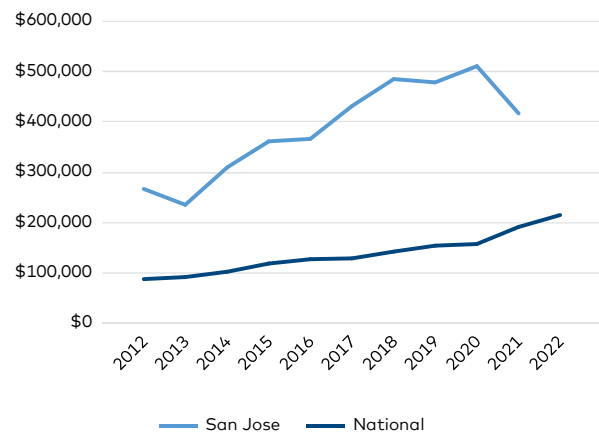
Top Submarkets for Transaction Volume¹

Submarket	Volume (\$MM)
Sunnyvale	\$91
Central San Jose	\$68
Santa Clara	\$29
West San Jose	\$22

Source: Yardi Matrix

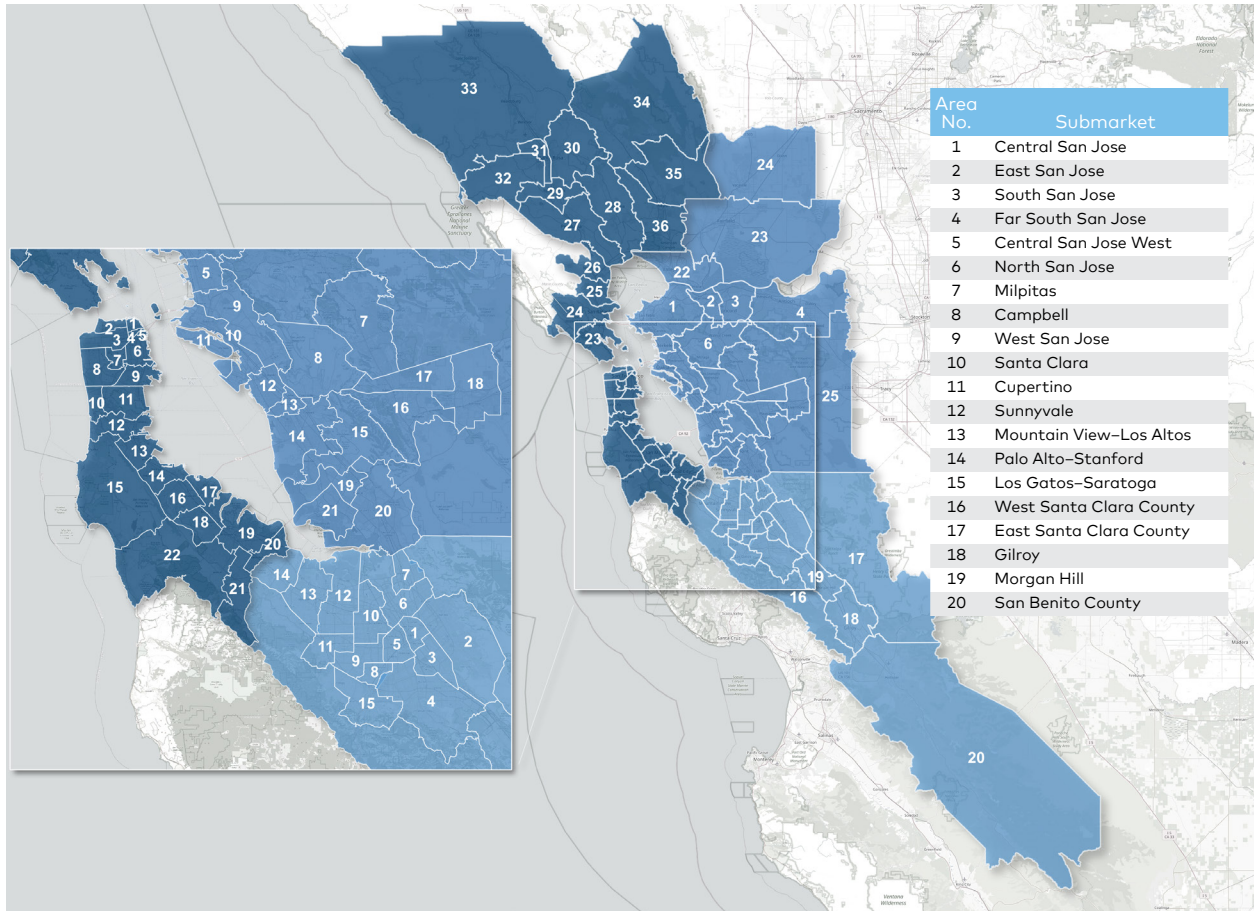
¹ From February 2021 to January 2022

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.

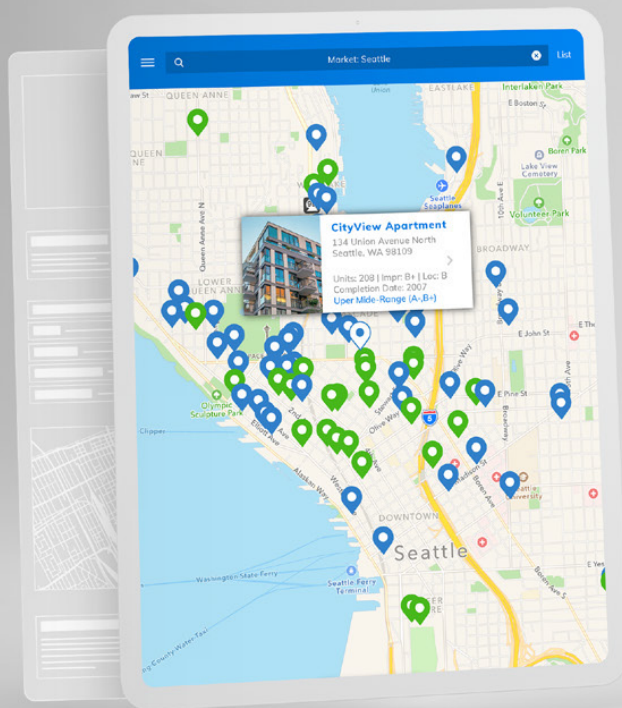
The Yardi® Matrix Context rating is not intended as a final word concerning a property's status—either improvements or location. Rather, the result provides reasonable consistency for comparing one property with another through reference to a consistently applied standard.

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