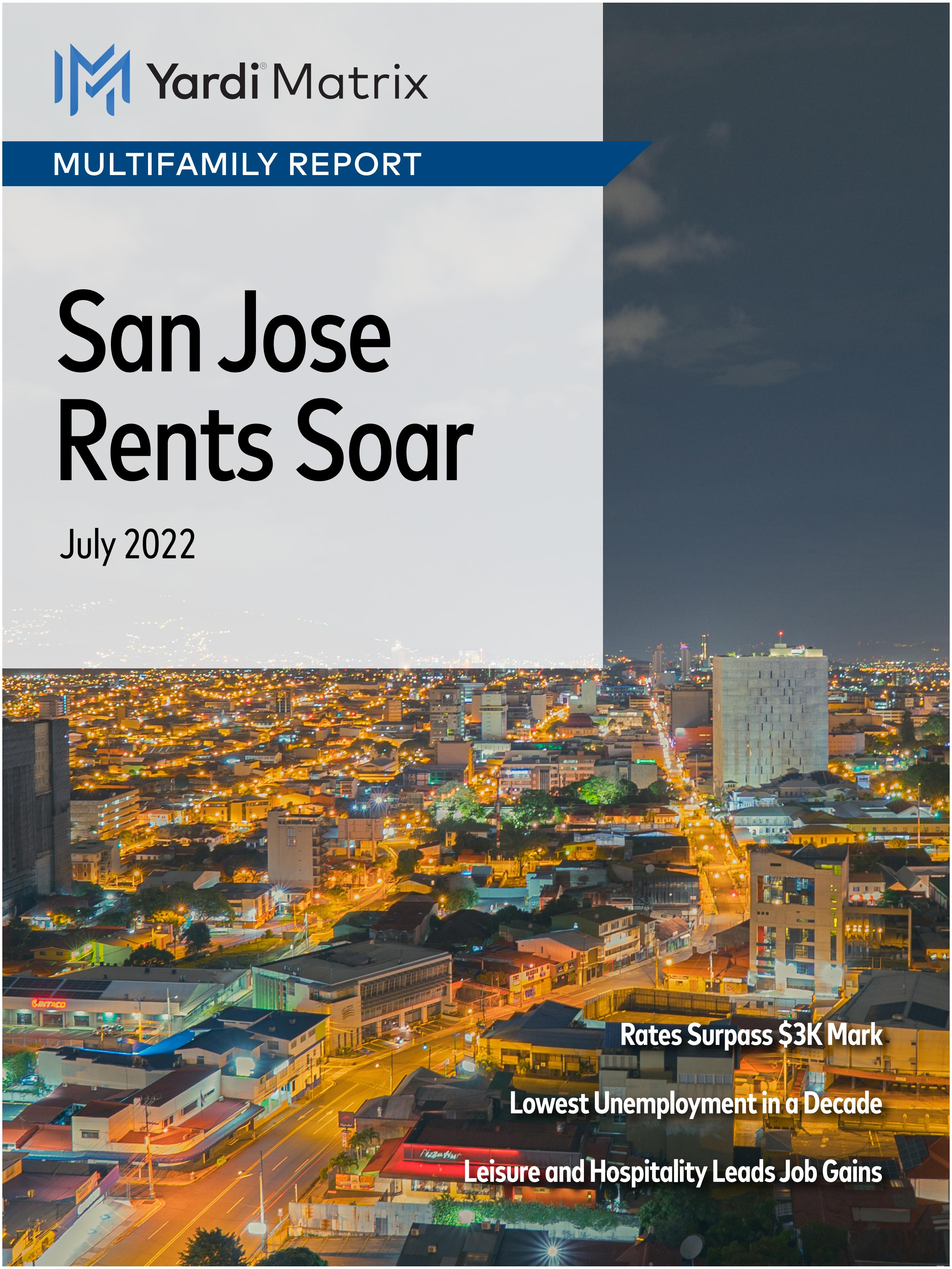
Yardi Matrix

MULTIFAMILY REPORT

San Jose Rents Soar

July 2022



Rates Surpass $3K Mark

Lowest Unemployment in a Decade

Leisure and Hospitality Leads Job Gains

Yardi Matrix

Rents Break Records, Outpace Nation

San Jose multifamily assets showed strong fundamentals approaching midyear 2022. The average rent reached a new high, up 1.8% on a trailing three-month (T3) basis through May, to $3,006. The average rate expanded 12.9% year-over-year, pushing figures well past the national figure, which, at $1,680, reached an all-time high. The metro's occupancy rate in stabilized properties was 95.4%, as of April.

The unemployment rate in the metro marked the lowest in more than a decade, clocking in at 2.2%, according to preliminary April data from the Bureau of Labor Statistics. This outpaces both the national (3.6%) and state averages (4.6%). In the 12 months ending in March, San Jose added 63,100 positions for a 5.8% expansion, 110 basis points above the national average. All sectors recorded gains, apart from financial activities, which lost 1,300 positions, for a 3.2% decrease. Google announced it was moving forward with its $156 million neighborhood project near Diridon Station. The downtown development will feature office buildings, homes, retail space, restaurants and entertainment centers.

After reaching an all-time high in 2021, construction activity in San Jose struggled to maintain momentum in the first five months of the year, with developers adding only 522 units to the inventory. Despite the severe lack of affordable housing, all properties targeted Lifestyle renters.

Market Analysis | July 2022

Contacts

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

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

Lucia Morosanu
Associate Editor

Recent San Jose Transactions

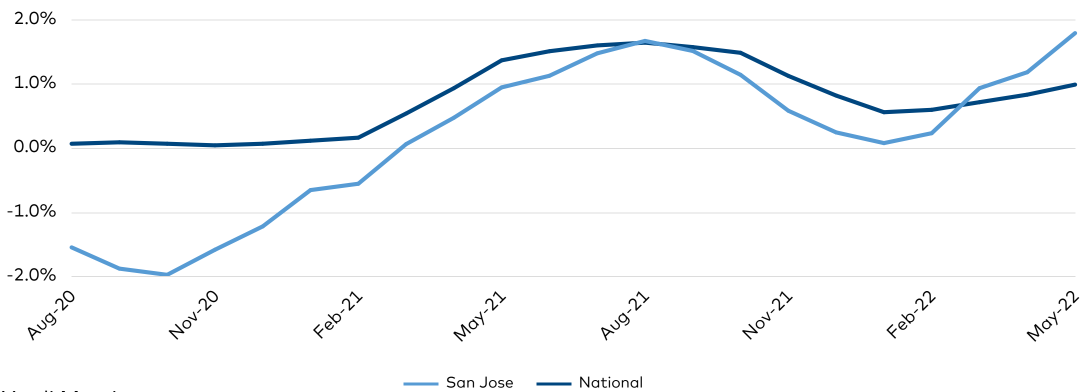
One38

City: San Jose, Calif.
Buyer: Carmel Partners
Purchase Price: $53 MM
Price per Unit: $529,207

RENT TRENDS

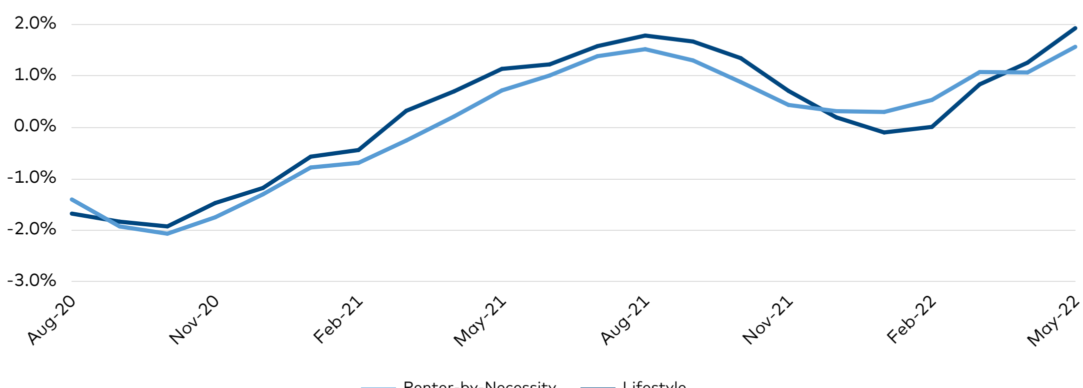
- Despite a seasonal slowdown, rent growth in San Jose reached a new high as it had been building momentum since the second half of 2021. The average climbed 1.8% on a T3 basis through May, 80 basis points above the U.S. average. Year-over-year, San Jose rates were up 13.6%.
- The overall average rent in the metro increased to $3,002 as of May, well above the national average, which reached a new all-time high, at $1,680. Rates in Lifestyle communities rose 1.9% on a T3 basis, to $3,283. At the other end of the quality spectrum, rents in Renter-by-Necessity communities rose 1.6%, to $2,702.
- Occupancy rates in stabilized properties bounced back following a tough go during the pandemic, when the average occupancy rate dipped below the 92.0% mark. The rate was 95.4%, as of April, up 210 basis points year-over-year. However, uncertainty surrounding return-to-office policies and growing demand for hybrid work from tech sector employees may still dent rates. Lifestyle assets saw occupancy rise 130 basis points year-over-year, to 95.7%, while RBN occupancy drove growth, with 320 basis points, to 95.1%.
- All San Jose submarkets recorded rent gains in the 12 months ending in May, while more than a third had rents above the $3,000 mark. Rents in the most expensive submarket, Palo Alto–Stanford, rose 9.5% year-over-year, to $3,683. Cupertino expanded 16.9%, to $3,372, and Mountain View-Los Altos grew 17.3%, to $3,320.

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 reached its lowest point in more than a decade, at 2.2%, according to preliminary BLS April data. The number stands well below both the 3.6% national average and 4.6% state average.
- Employment in the metro expanded 5.8% in the twelve months ending in March, adding 63,100 positions. This growth comes despite Santa Clara County losing 50,751 residents between July 2020 and July 2021. Financial activities was the only sector in San Jose to contract, losing 1,300 positions, down 3.2%. Leisure and hospitality led growth, as tourism and business travel returned to normal levels, adding 27,300 jobs for a 40.7% expansion. Professional and business services followed with 10,900 jobs added for a 4.6% increase, and education and health services, which added 8,500 positions, up 4.8%.
- Google announced it has made progress on its $156 million first-of-its-kind neighborhood near Diridon Station in downtown San Jose. Dubbed Downtown West, the mixed-used development will feature office buildings, homes, retail space, restaurants and entertainment centers. The tech giant is working with local authorities to secure the remaining land transfers for parcels dating back to the mid-19th century.

San Jose Employment Share by Sector

		Current Employment	
Code	Employment Sector	(000)	% Share
70	Leisure and Hospitality	94	8.3%
60	Professional and Business Services	250	21.9%
65	Education and Health Services	185	16.2%
30	Manufacturing	172	15.1%
50	Information	109	9.6%
80	Other Services	24	2.1%
90	Government	95	8.3%
40	Trade, Transportation and Utilities	120	10.5%
15	Mining, Logging and Construction	53	4.7%
55	Financial Activities	37	3.2%

Sources: Yardi Matrix, Bureau of Labor Statistics

Population

- After posting a 0.5% increase between 2019 and 2020, San Jose's population contracted almost 2.1% between 2018 and 2021.
- San Jose lost 42,920 residents between 2020 and 2021, pushed out by the lack of affordable housing options and remote-work policies.

San Jose vs. National Population

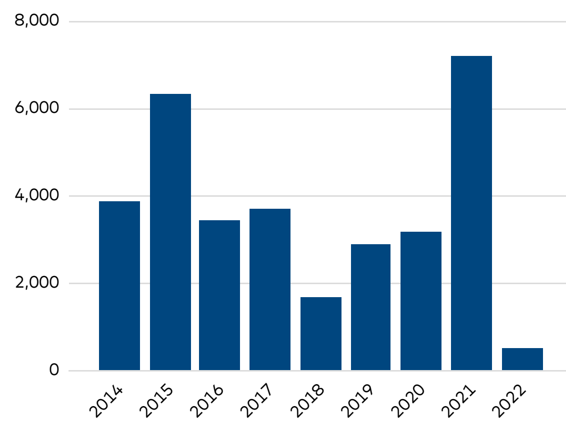
	2018	2019	2020	2021
National	326,838,199	328,329,953	331,501,080	331,893,745
San Jose Metro	1,993,400	1,985,214	1,995,105	1,952,185

Source: U.S. Census

SUPPLY

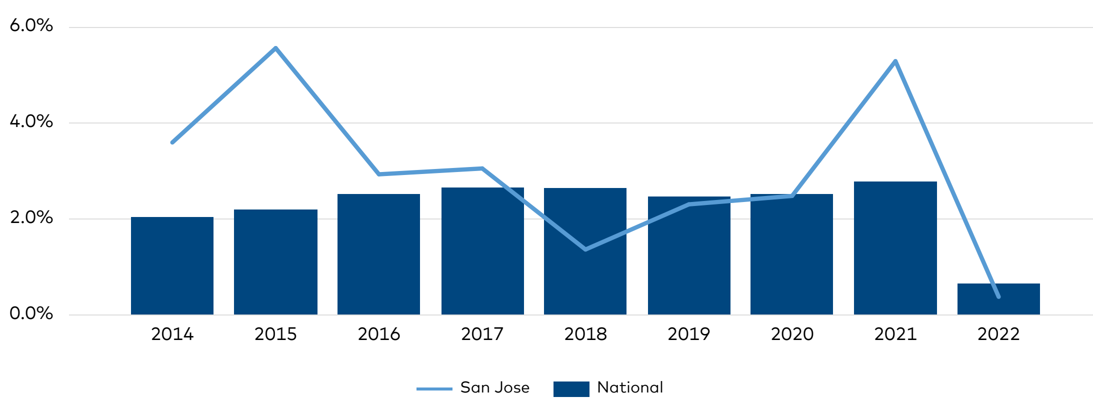
- San Jose's development pipeline had 6,668 units under construction across the metro as of May 2021, 1,321 of which were in fully affordable properties. Another roughly 57,000 units were in the planning and permitting stages.
- Completions in the metro reached a decade high in 2021, with 7,230 units. This represented 5.3% of total stock, more than double the national average of 2.8%, marking the first time since 2017 that it surpassed the U.S. figure. Developers focused on northern submarkets with direct access to Interstate 280 and those closest to the metro's downtown.
- Despite coming off a strong year, developers struggled to maintain momentum, and in the first five months of 2022 only four properties totaling 522 units came online. This represented 0.4% of total stock and just over half the national average of 0.7%. Despite the severe need for affordable housing, all properties completed targeted Lifestyle renters.
- Continuing delivery patterns, development activity was heavily concentrated around San Jose's downtown and northwestern submarkets. The top three submarkets accounted for more than 60% of total units underway as of May. Central San Jose (1,869 units) lead the way, followed by Mountain View-Los Altos (1,404 units) and Santa Clara (912 units).
- The largest project under construction was Greystar's 2580 California St. in the Mountain View-Los Altos submarket. Upon completion, set for year-end, the mixed-use development will feature 632 units and 20,000 square feet of commercial space.

San Jose Completions (as of May 2022)



Source: Yardi Matrix

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

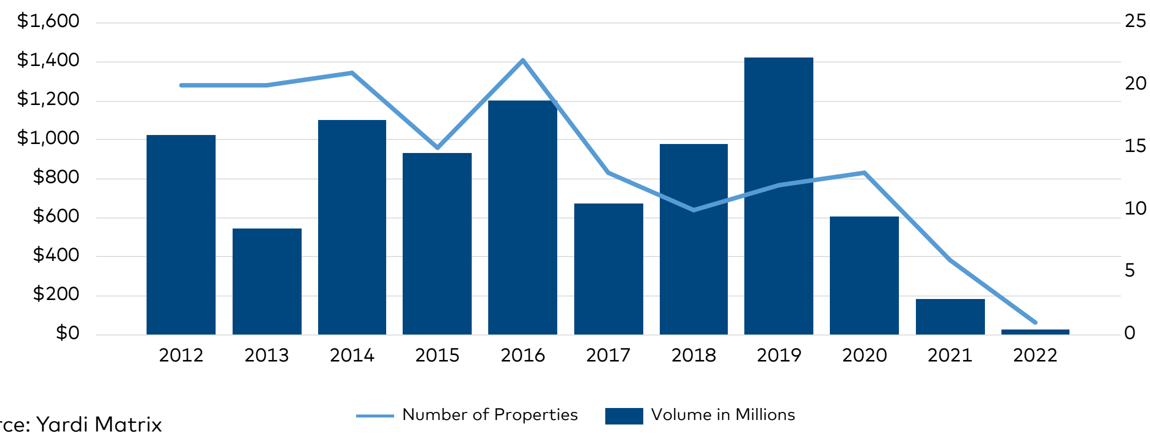


Source: Yardi Matrix

TRANSACTIONS

- Investment activity in San Jose is still struggling to recover, with only one property changing hands through the first five months of 2022. Sales in the metro reached a decade low in 2021, when only $181 in multifamily assets changed hands. That represented an 87% decrease from the all-time high of $1.4 billion recorded in 2019.
- After consistently growing since 2013, the average per-unit price in the metro reached $417,281 in 2021, the lowest level in five years and down nearly one-fifth compared to 2020. Investors overwhelmingly preferred RBN assets, with four of the five properties that traded in the twelve months ending in May being in the working class quality segment.
- Central San Jose ($54 million) was the busiest submarket in terms of transactions through the 12 months ending in May, followed by Sunnyvale ($49 million) and Santa Clara ($29 million).

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



Source: Yardi Matrix

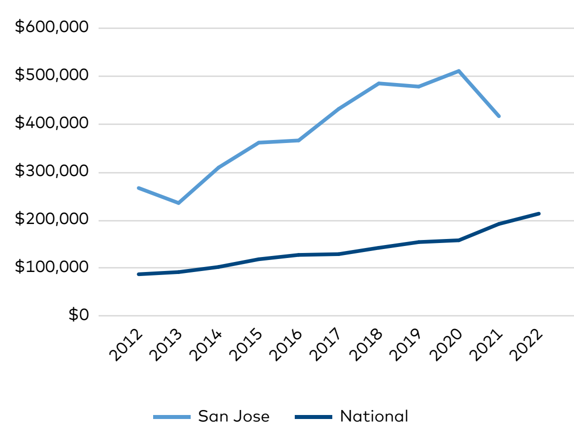
Top Submarkets for Transaction Volume[1]

Submarket	Volume ($MM)
Central San Jose	54
Sunnyvale	49
Santa Clara	29
West San Jose	22

Source: Yardi Matrix

[1] From June 2021 to May 2022

San Jose vs. National Sales Price per Unit



Source: Yardi Matrix

MULTI-HOUSING NEWS
data by Yardi Matrix

Top States for LEED-Certified Multifamily Properties in 2021

By Lucia Morosanu

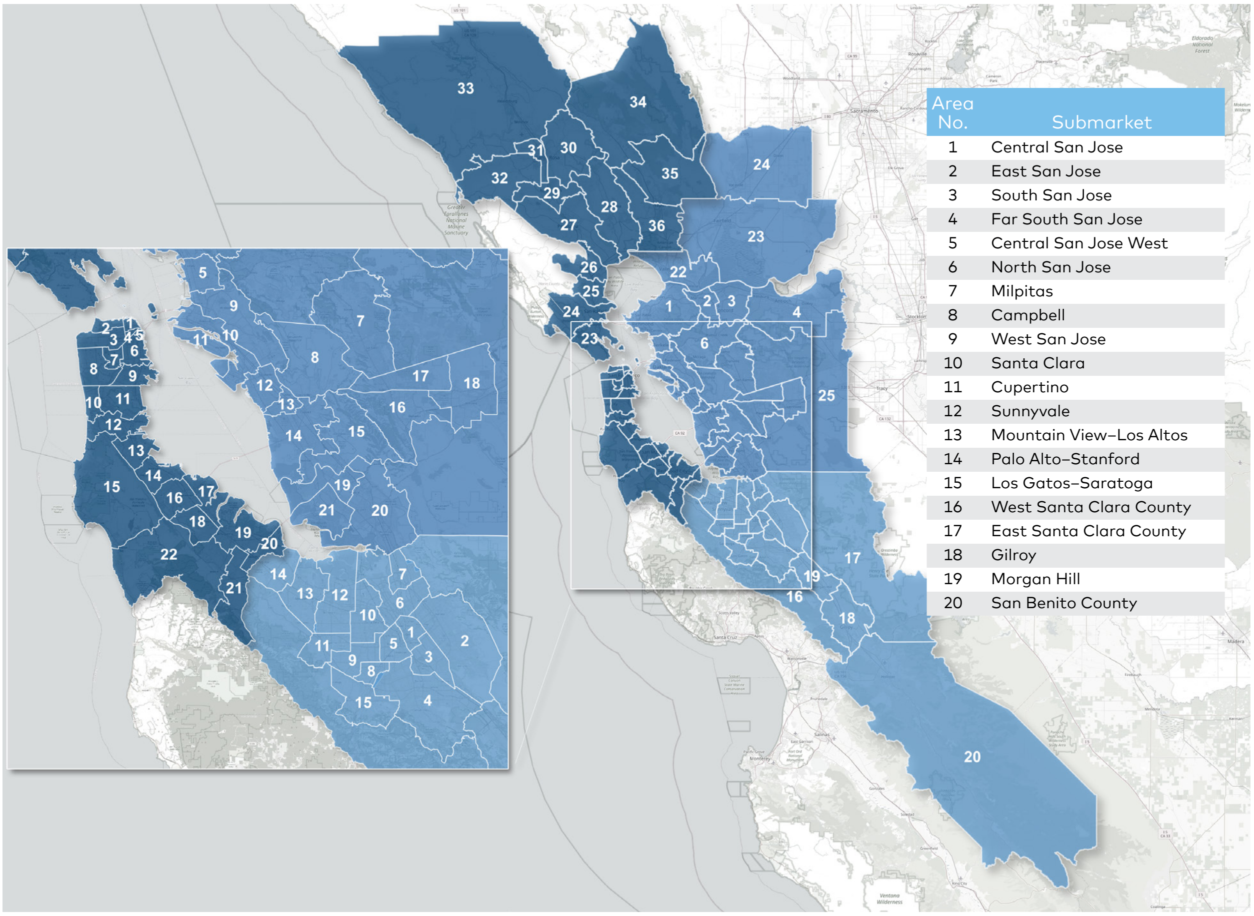
The multifamily sector has experienced significant growth in the past year, as constant demand for space pushed new supply. The health crisis reinforced the need for clean air in both apartments and communal areas within multifamily properties, while the prevalence of remote work made residents more mindful of their energy consumption. Sustainable multifamily communities are treated more and more as a requirement rather than an exception.

Rank	State	Number of Communities
1	California	47
2	Washington, D.C.	20
3	New York	18
4	Massachusetts	12
5	Maryland	10

California

The Golden State topped the list with twice as many certified communities than any other entry on the list. From the total 47 communities to be certified in 2021, one earned basic LEED certification, 11 communities became LEED-Silver certified, 20 became LEED-Gold certified and 15 received LEED Platinum certification.

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 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 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, 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.

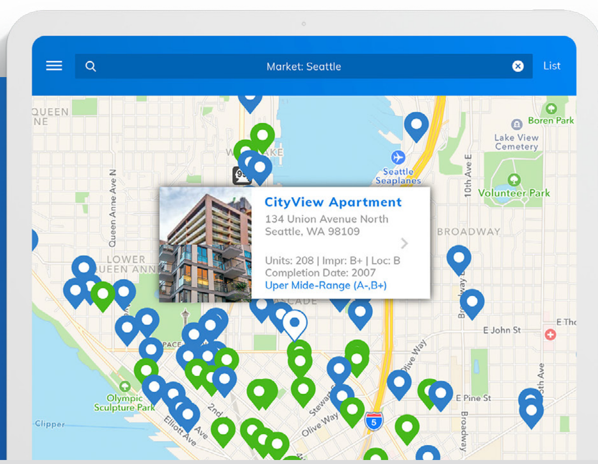
To learn more about Yardi® Matrix and subscribing, please visit www.yardimatrix.com or call Ron Brock, Jr., at 480-663-1149 x2404.

Yardi Matrix

Power your business with the industry's leading data provider

MULTIFAMILY KEY FEATURES

- Pierce the LLC every time with true ownership and contact details
- Leverage improvement and location ratings, unit mix, occupancy and manager info
- Gain complete new supply pipeline information from concept to completion
- Find acquisition prospects based on in-place loans, maturity dates, lenders and originators
- Access aggregated and anonymized residential revenue and expense comps



Yardi Matrix Multifamily provides accurate data on **19.7+ million units**, covering over **92% of the U.S. population.**

YARDI

(800) 866-1144

Learn more at yardimatrix.com/**multifamily**

Contact us