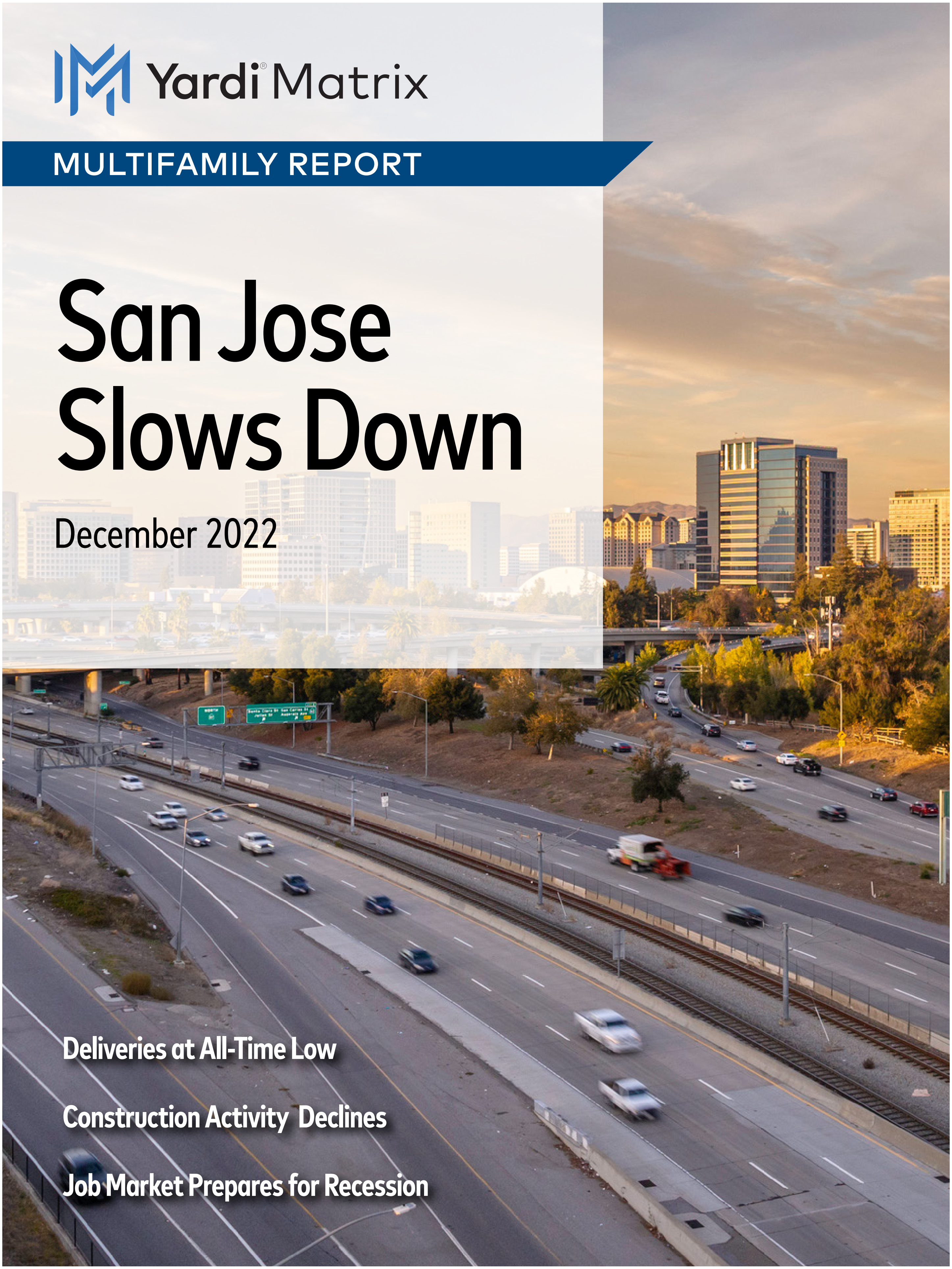
Yardi Matrix

MULTIFAMILY REPORT

San Jose Slows Down

December 2022



Deliveries at All-Time Low

Construction Activity Declines

Job Market Prepares for Recession

SAN JOSE MULTIFAMILY

Yardi Matrix

San Jose Prepares for a Difficult Winter

San Jose's multifamily market kept a strong pace throughout the year, but signs of a slowdown are starting to appear. After a June peak of 2.0% rent growth on a trailing three-month basis through October was at 0.3%—just 10 basis points above the U.S. rate—to $3,124. Both quality segments kept a similar pace, while occupancy rates rose 100 basis points to pre-pandemic levels, at 96.0%.

Job expansion was stronger than in similar markets, with San Jose adding 51,800 positions over a 12-month period through August. The 5.4% growth rate was well above the national average, but it had started to slow down from its June peak at 5.8%. Professional and business services (up 14,200 jobs) and leisure and hospitality (up 14,000 jobs) led gains. More and more tech companies in the Bay Area are announcing layoffs and strategic restructurings, highlighting the impending recession. Thousands of jobs were expected to be cut by a handful of large technology companies. The impact of these cuts on the local multifamily market remains to be seen.

Construction activity declined from last year, with developers bringing online 1,124 units as of October. This represented 0.8% of existing stock, 90 basis points below the national average. The metro had 8,908 units under construction and an additional 48,800 in the planning and permitting stages.

Market Analysis | December 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

Tudor Scolca-Seușan
Associate Editor

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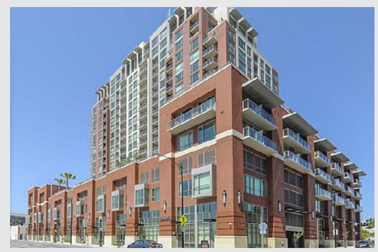
Recent San Jose Transactions

The Platform Urban

City: San Jose
Buyer: MG Properties Group
Purchase Price: $320 MM
Price per Unit: $580,894

Centerra



City: San Jose
Buyer: 3D Investments
Purchase Price: $185 MM
Price per Unit: $533,141

Santana Terrace

City: Santa Clara
Buyer: Zurich Alternative Asset Management
Purchase Price: $53 MM
Price per Unit: $576,087

Montecito

City: Santa Clara
Buyer: Pacific Urban Investors
Purchase Price: $51 MM
Price per Unit: $460,909

RENT TRENDS

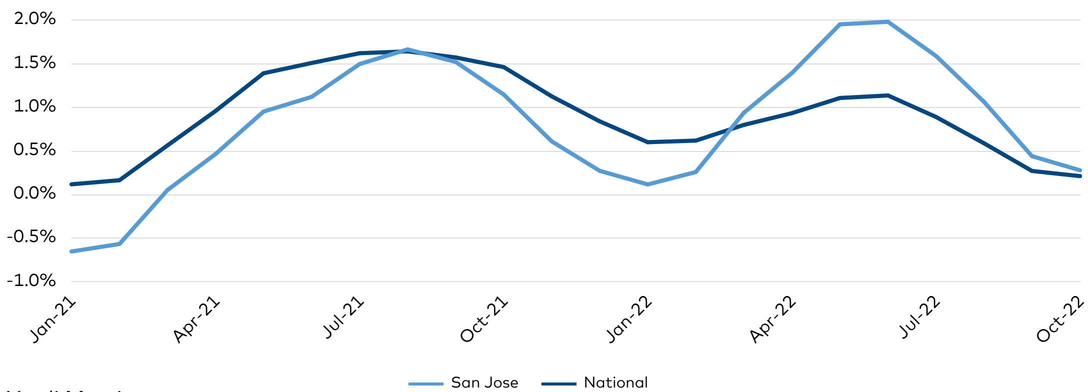
- On a trailing three-month (T3) basis through October, San Jose rents were up 0.3%, 10 basis points above the U.S. rate. The metro's rent growth cooled off after strong gains throughout the year, with a peak rate of 2.0%, on a T3 basis, recorded in June. On a year-over-year basis, rents in San Jose were up 10.6%.

- As of October, San Jose's average rent was $3,124, 81% higher than the U.S. average of $1,727. Rents for both Lifestyle and RBN quality segments were up 0.3% on a T3 basis through October, having kept a similar pace of growth throughout the year. Lifestyle rates reached $3,420 on average, while RBN figures were at $2,793.

- Demand stayed strong in the market, with overall occupancy for stabilized assets increasing by 100 basis points year-over-year, to 96.0% as of September. Both quality segments saw occupancy rise to pre-pandemic levels. Occupancy for Lifestyle assets reached 96.2%, up 70 basis points year-over-year, while RBN occupancy was up 150 basis points, to 95.9%.

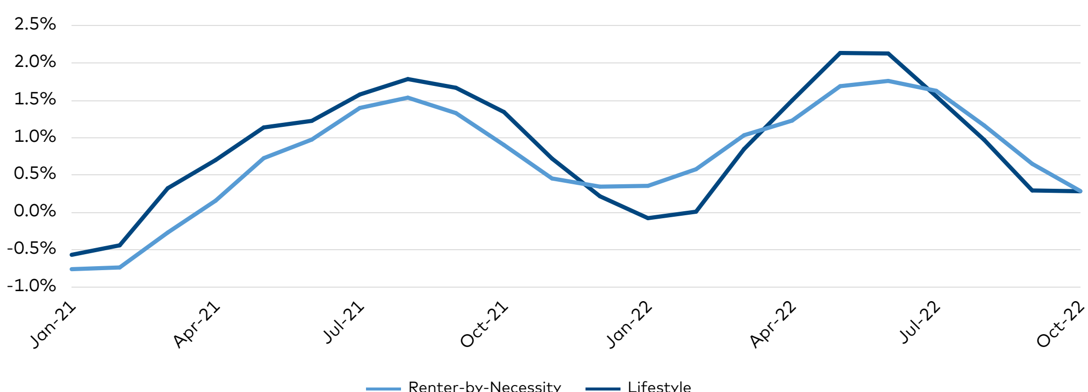
- Rent growth was highest in urban core submarkets and tech centers, along with areas in proximity to major transit routes. Gains were led by West San Jose (up 14.8% year-over-year through October, to $2,884), Morgan Hill (up 13.0%, to $2,851), Cupertino (up 13.0%, to $3,507), Mountain View-Los Altos (up 12.9%, to $3,447) and the Far South San Jose (up 12.6%, to $2,870).

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 continued to decline, reaching 2.2% in September, according to preliminary data from the Bureau of Labor Statistics. Unemployment was 130 basis points below the U.S. average and 170 basis points below California's rate.

- Over the 12 months ending in August, San Jose regained 51,800 jobs, a 5.4% expansion and 110 basis points higher than the U.S. rate. Job growth continued to outperform the national average for most of the year—having peaked in June at 5.8% on a 12-month basis—but current expectations of a recessionary period will likely temper this growth in the coming months.

- Job gains were led by professional and business services, which added 14,200 positions, or a 5.8% expansion, followed by leisure and hospitality (up 14,000 jobs, or 15.9%), information (8,100, or 7.5%) and education and health services (7,800, or 4.4%). The government sector lost 2,600 jobs, or 2.8%, followed by financial activities, which lost 2,400 jobs, or 6.2%.

- Google started work on its neighborhood-sized project in Downtown San Jose, estimated to cost up to $19 billion to build. The 80-acre project will include 7.3 million square feet of office space, 4,000 residential units, 500,000 square feet of retail, 300 hotel rooms and 15 acres of open space.

San Jose Employment Share by Sector

		Current Employment	
Code	Employment Sector	(000)	% Share
60	Professional and Business Services	261	22.3%
70	Leisure and Hospitality	102	8.7%
50	Information	116	9.9%
65	Education and Health Services	185	15.8%
30	Manufacturing	177	15.1%
40	Trade, Transportation and Utilities	122	10.4%
15	Mining, Logging and Construction	56	4.8%
80	Other Services	25	2.1%
55	Financial Activities	36	3.1%
90	Government	91	7.8%

Sources: Yardi Matrix, Bureau of Labor Statistics

Population

- San Jose's population declined by 2.2% in 2021 (42,920 residents), with residents seeking more affordable options in smaller metros. However, a recession might temper migration trends, as moving expenses are also impacted by rising costs.

San Jose vs. National Population

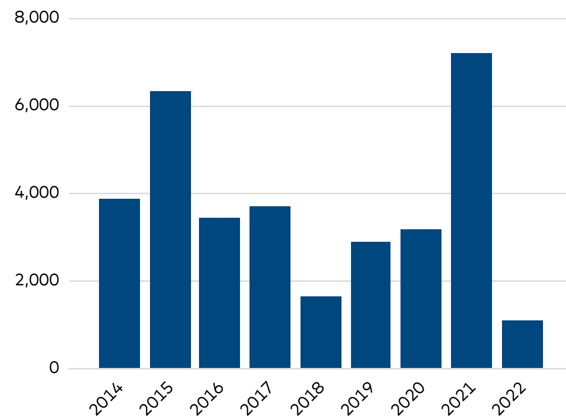
	2018	2019	2020	2021
National	326,838,199	328,329,953	331,501,080	331,893,745
San Jose Metro	1,993,400	1,985,214	1,995,105	1,952,185

Source: U.S. Census

SUPPLY

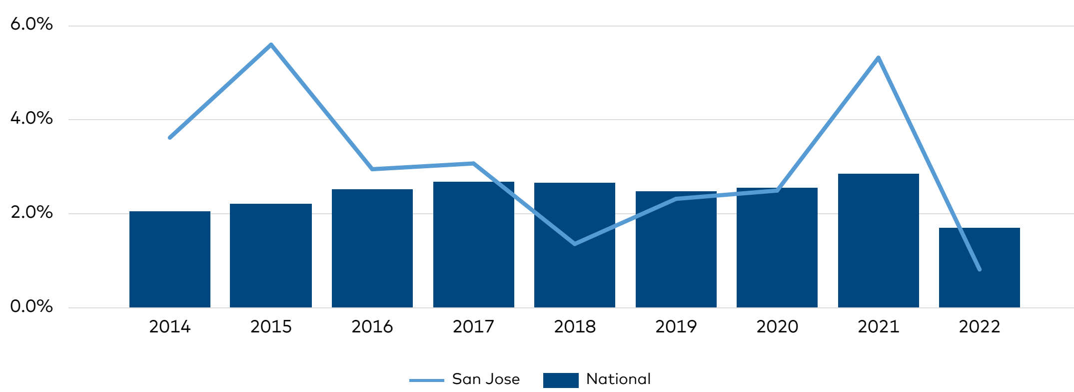
- Year-to-date through October, developers brought 1,124 units online in San Jose. This amount represented 0.8% of existing stock, 90 basis points below the U.S. rate of deliveries. Completions declined since last year, which saw the addition of 7,230 units, or 5.3% of stock. However, it is worth noting that 2021 saw deliveries grow across all markets, due to delays incurred during the global health crisis. Completions might be at an all-time low this year, as the amount is significantly below the previous five-year average—3,747 units.
- San Jose had 8,908 units under construction as of October. Development activity remained focused on the Lifestyle segment, which comprised 79.1% of the pipeline, while the remaining 20.9% of units were fully affordable. An additional 48,836 units were in the planning and permitting stages.
- Developers increased the pace of new construction. Year-to-date through October, 13 properties broke ground, comprising 3,776 units—more than double the units that broke ground over the same period last year (1,584).
- Four submarkets accounted for 73.4% of the pipeline. Construction activity was highest in Mountain View-Los Altos (1,964 units underway), Central San Jose (1,757 units), Santa Clara (1,413) and Sunnyvale (1,405).
- The Benton, a 355-unit multifamily property in Santa Clara, was the largest development to be completed this year. Prometheus Real Estate group developed it with the help of a $130 million construction loan funded by MUFG Bank. The property features 38 affordable units.

San Jose Completions (as of October2022)



Source: Yardi Matrix

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

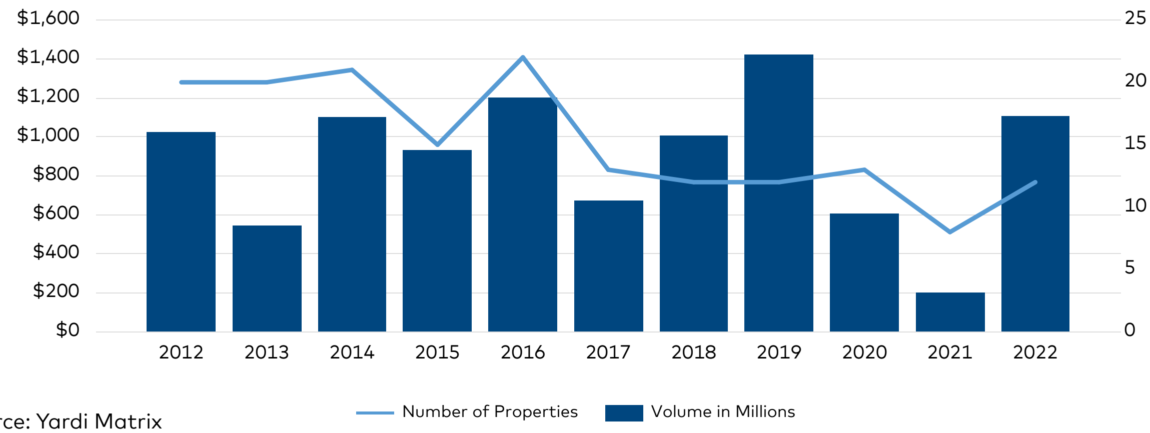


Source: Yardi Matrix

TRANSACTIONS

- Year-to-date through October, the investment volume in San Jose reached $1.1 billion, more than the value recorded in 2021 and 2020 combined—$807 million. After sluggish sales through the past two years, the market bounced back, with sales recorded this year coming relatively close to 2019's record figure of $1.4 billion. On average, the annual sales volume in San Jose was $782 million for the previous five-year period.
- Of the 12 sales recorded through October, eight involved RBN properties, and four were Lifestyle assets. The overall average price per unit grew 18.2% since last year, to $493,225. The price for Lifestyle assets jumped 43.4%, to $758,659, while RBN assets saw an uptick of 1.1%, to $442,250 per unit.
- The largest sale this year was the $320 million transaction of The Platform Urban property, in North San Jose. MG Properties acquired the asset, while benefiting from a $245 million loan.

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



Source: Yardi Matrix

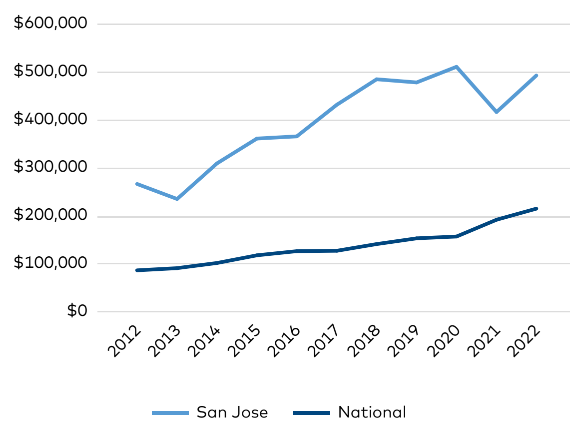
Top Submarkets for Transaction Volume[1]

Submarket	Volume ($MM)
North San Jose	$394
Milpitas	$193
Central San Jose	$185
Santa Clara	$82
West San Jose	$77
Sunnyvale	$76
Cupertino	$52

Source: Yardi Matrix

[1] From November 2021 to October 2022

San Jose vs. National Sales Price per Unit



Source: Yardi Matrix

LISTICLE

Top California Markets for Multifamily Construction Activity

By Anda Rosu

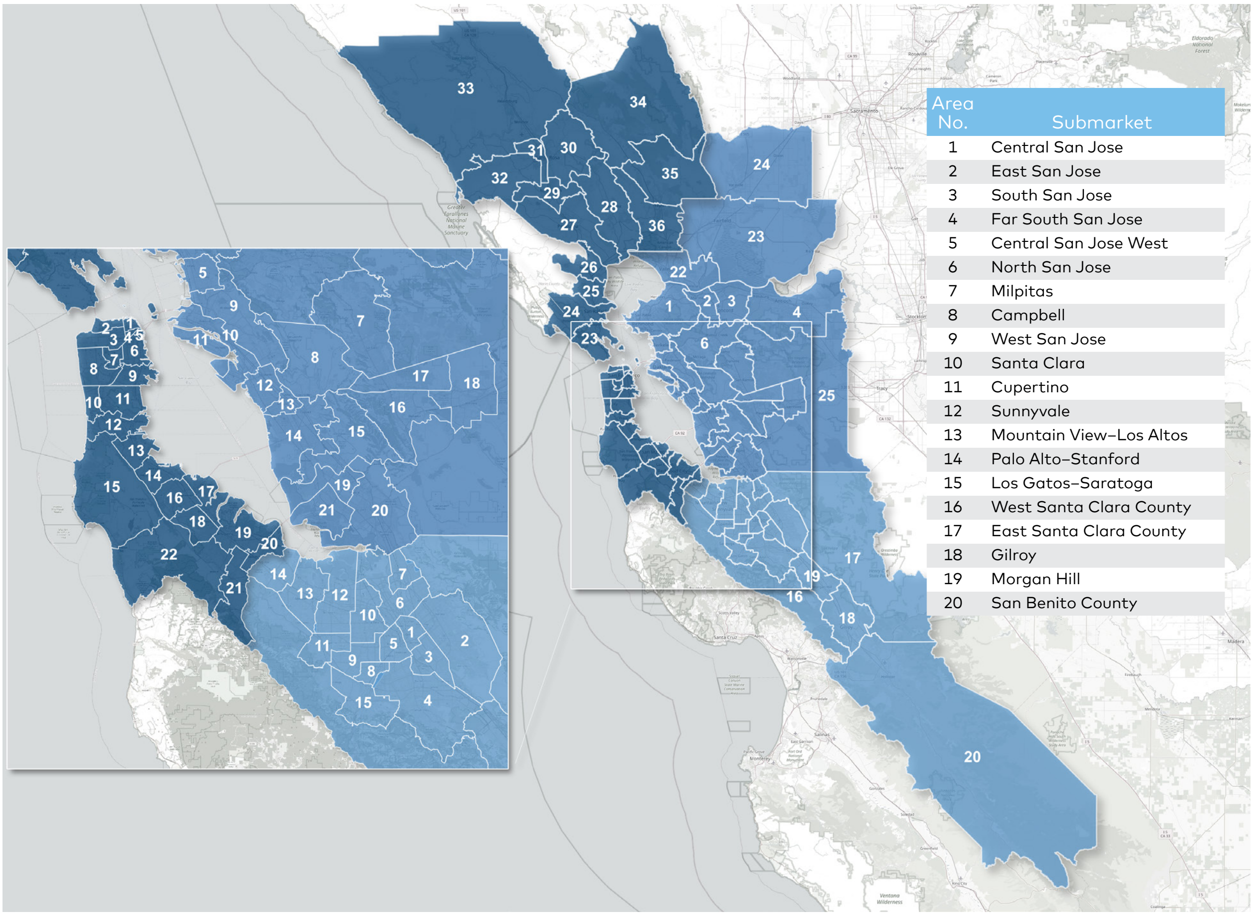
While metros such as Dallas, Austin and Phoenix have seen rental market performance increase since the onset of the health crisis, most California markets are still in a housing crisis. California has recovered at a slower pace, with developers struggling to meet the demand for housing, especially in the affordable segment.

Rank	Metro	Units Under Construction	Units Delivered 2022 YTD	Units Delivered 2022 YTD	Projects Under Construction 2022 YTD
1	Los Angeles	33,114	6,487	13,037	236
2	San Francisco	20,244	5,740	10,820	108
3	Bay Area–South Bay	8,908	1,124	7,230	34
4	Orange County	8,407	1,497	2,616	24
5	San Diego	7,138	2,862	3,417	29
6	Sacramento	7,104	1,588	2,120	30
7	Inland Empire	4,737	404	2,136	23
8	Central Valley	3,851	1,071	2,780	31
9	Central Coast	1,467	254	728	14

Bay Area–South Bay

Even though the Bay Area's multifamily market was one of the hardest hit by the pandemic-induced downturn of 2020, its construction sector has recently bounced back and is making strides. Additionally, in 2022 through April, the unemployment rate in the metro marked the lowest rate in more than a decade, at 2.2 percent, according to the Bureau of Labor Statistics.

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.

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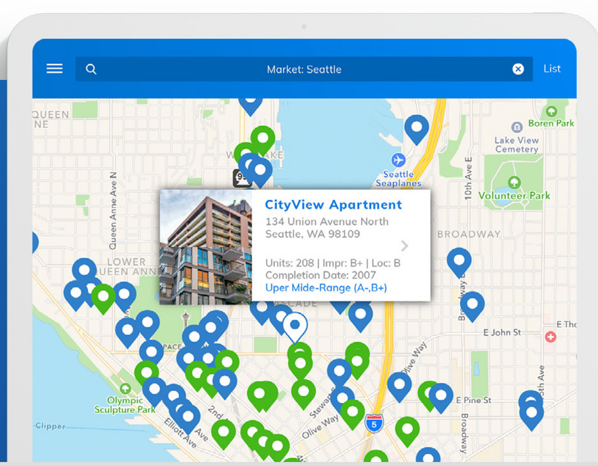
- Gain complete new supply pipeline information from concept to completion
- Find acquisition prospects based on in-place loans, maturity dates, lenders and originators
- Access aggregated and anonymized residential revenue and expense comps



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

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