



MULTIFAMILY REPORT

San Jose Stays Strong

March 2023

Yearly Rent Gains Among Nation's Highest

Investment Increases Fivefold

Delivery Volume Expands

SAN JOSE MULTIFAMILY



Fundamentals Temper, Remain Healthy

After a year of strong gains, San Jose rents followed the nationwide deceleration trend, with overall rates decreasing by 0.6% on a trailing three-month basis through January, to an average of \$3,067. Rents in the market contracted 30 basis points faster than the national average during the period, with the U.S. figure now at \$1,701. On a year-over-year basis, San Jose had one of the highest rent expansion rates in the nation, at 8.1%.

Despite a growing wave of tech layoffs, San Jose maintained strong employment growth, with the labor pool expanding by 5.1% during the 12-month period through November—120 basis points higher than the U.S. rate. According to preliminary data from the Bureau of Labor Statistics, the unemployment rate was a tight 2.1% as of December, lower than both the U.S. (3.5%) and California (4.1%) figures. The Silicon Valley BART extension project entered its second phase, which will add an additional four stations from Berryessa through downtown San Jose and to Santa Clara. The expansion is estimated to cost \$9.3 billion, with the testing phase scheduled for 2028-30.

San Jose recorded a 1.1% expansion of stock in 2022, equivalent to 1,470 units. The metro had 9,697 units under construction, with Yardi Matrix expecting roughly 4,000 units to be completed this year. The metro's investment volume in 2022 increased five times more than the previous year, with \$1.1 billion in sales recorded.

Market Analysis | March 2023

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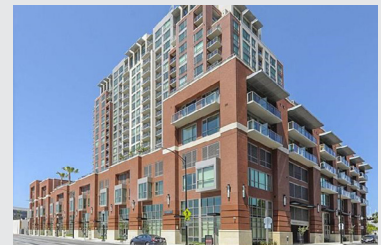
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Recent San Jose Transactions

Centerra



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

ReNew Berryessa



City: San Jose, Calif.
Buyer: FPA Multifamily
Purchase Price: \$74 MM
Price per Unit: \$337,045

Santana Terrace



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

Montecito

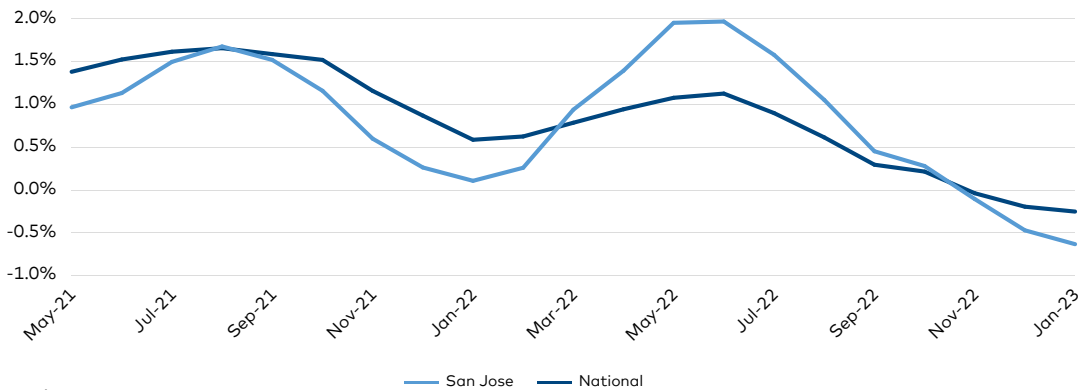


City: Santa Clara, Calif.
Buyer: Pacific Urban Investors
Purchase Price: \$51 MM
Price per Unit: \$460,909

RENT TRENDS

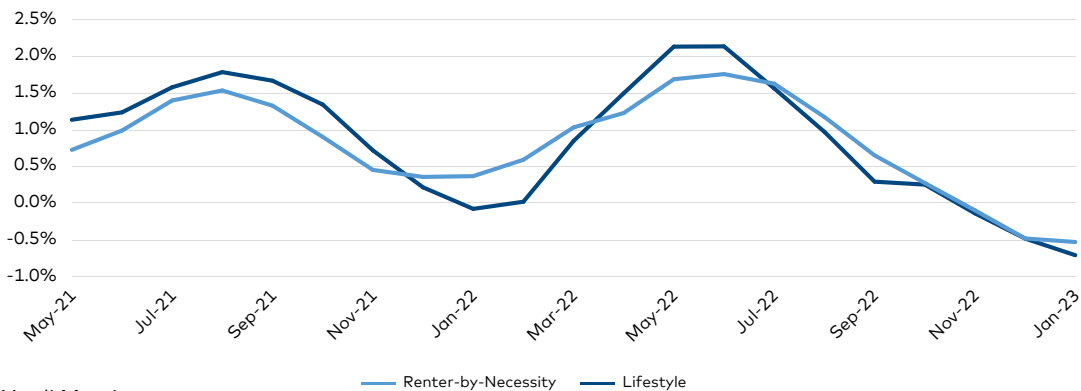
- ▶ San Jose rents were down 0.6% on a trailing three-month (T3) basis through January, declining twice as fast as the national rate. After more than a year of strong expansion, U.S. markets are seeing tempering growth. In San Jose, T3 rent gains peaked in June at 2.0% and started to wind down in the second half of 2022. Year-over-year, rents were up 8.1% as of January, 260 basis points above the U.S. figure and ranking second among larger markets, after Indianapolis (10.5%). Yardi Matrix expects San Jose rates to grow by 3.7% this year.
- ▶ The average Silicon Valley rent was \$3,067, 80.2% above the U.S. figure. Lifestyle rates contracted faster on a T3 basis, down 0.7%, to \$3,346, while working-class Renter-by-Necessity figures were down 0.5%, to \$2,749.
- ▶ Occupancy in stabilized assets increased 30 basis points in 2022, to 95.7%, still above the national average by 40 basis points. RBN demand remained stronger, with occupancy rising 90 basis points, to 95.8%, while Lifestyle properties recorded a 10-basis-point contraction, to 95.6%.
- ▶ Rent growth was highest in western and transit-adjacent submarkets. The highest gains were recorded in Los Gatos-Saratoga, increasing 12.2% year-over-year, to \$3,304 as of January. It was followed by West San Jose (up 11.6%, to \$2,849) and Gilroy (up 11.2%, to \$2,533). The metro's most expensive submarket, Palo Alto-Stanford, recorded a 4.3% increase, to \$3,473.

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 dropped to 2.1% in December 2022—down 130 basis points from January—according to preliminary data from the Bureau of Labor Statistics. The metro fared better than the U.S. (3.5%) and California (4.1%), as of December.
- ▶ Over a 12-month period ending in November, San Jose employment expanded by 5.1%, gaining 54,000 jobs. The metro's job growth rate was 120 basis points higher than the national figure. Although the wave of tech layoffs continued to grow, San Jose's job market remained on an overall good track.
- ▶ Gains were led by professional and business services, which added 13,300 jobs, for a 5.3% expansion. Other strong sectors were leisure and hospitality (up 11,400 jobs, 12.7%), education and health services (10,600 jobs, 5.8%) and information (6,700, 6.2%). The financial activities sector was the only one that recorded negative movement, losing 1,100 positions, for a 2.9% contraction.
- ▶ After a decades-long legal dispute, San Jose approved a settlement with Santa Clara County regarding new housing. An additional 24,000 homes can be built in an area that has not seen new development in roughly a decade. About 20% of these units are slated to be affordable.

San Jose Employment Share by Sector

Code	Employment Sector	Current Employment	
		(000)	% Share
60	Professional and Business Services	266	22.3%
70	Leisure and Hospitality	102	8.6%
65	Education and Health Services	193	16.2%
50	Information	115	9.7%
15	Mining, Logging and Construction	58	4.9%
30	Manufacturing	176	14.8%
40	Trade, Transportation and Utilities	125	10.5%
80	Other Services	24	2.0%
90	Government	96	8.1%
55	Financial Activities	37	3.1%

Sources: Yardi Matrix, Bureau of Labor Statistics

Population

- ▶ San Jose's population declined by 2.2% in 2021, losing 42,920 residents in a year. On a 10-year basis however, the metro's population grew 4.5%. The onset of remote work and rising rents continued to drive people toward nearby areas or more affordable cities.

San Jose vs. National Population

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

Source: U.S. Census

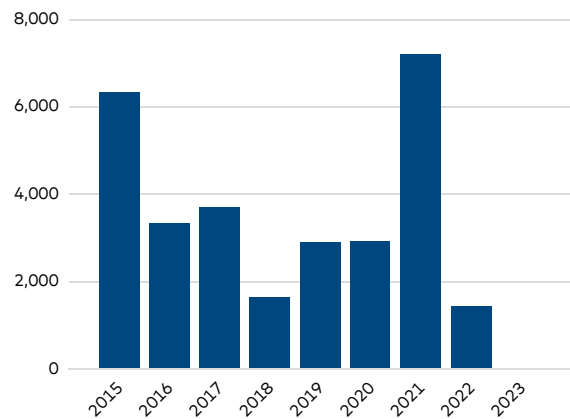
SUPPLY

- ▶ In 2022, a total of 1,470 units were completed, down some 80% year-over-year. The market cooled off after the 2021 decade peak. Last year's deliveries represented a 1.1% expansion of existing stock, half the national rate. On average, the market added 3,246 units per year during the past five years.
- ▶ As of January, San Jose had 9,697 units under construction. The Lifestyle segment continued to be favored by developers, comprising 77.7% of the pipeline, while 21.8% of the units were in fully affordable projects. The remaining 0.5% of units were in the Renter-by-Necessity segment. The metro also had an additional 47,000 units in the planning and permitting stages.
- ▶ While deliveries tempered, construction starts more than doubled in 2022 when compared to the previous year—a total of 4,930 units broke ground across 18 properties. Yardi Matrix expects a total of 4,067 apartments to come on-line in 2022, which would be far from the decade high but above the area's five-year average.
- ▶ Four submarkets accounted for more than half the supply pipeline. Mountain View-Los Altos leads activity with 2,680 units under construc-

tion, followed by Central San Jose (1,707 units), Santa Clara (1,413) and Sunnyvale (1,405).

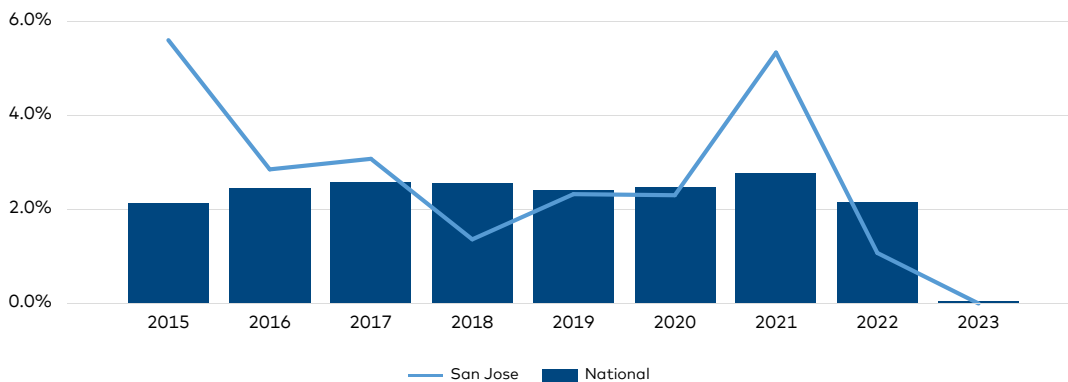
- ▶ The largest project under construction as of January was Holland Partner Group's Gateway Crossings in the Santa Clara submarket. The partially affordable property will comprise 725 units and is scheduled for completion in 2024. The project benefited from a \$128 million construction loan originated in March 2022 by private lender North America Sekisui House.

San Jose Completions (as of January 2023)



Source: Yardi Matrix

San Jose vs. National Completions as a Percentage of Total Stock (as of January 2023)



Source: Yardi Matrix

TRANSACTIONS

- ▶ In 2022, the transaction volume in San Jose was \$1.1 billion, five times more than the previous year. Out of 12 confirmed sales, eight were RBN assets and four were Lifestyle. After hitting a peak in 2019 (\$1.4 billion), sales activity wound down. Over the past five years, San Jose multifamily transactions amounted to an average of \$873.2 million annually.
- ▶ Per-unit prices increased 18.2% year-over-year, to \$493,225 at the end of 2022, also remaining

significantly more expensive than the U.S. average of \$211,873. Lifestyle assets saw a 43.4% jump, to \$758,659 per unit, while RBN properties recorded an uptick of 1.1%, to \$442,250.

- ▶ The largest sale occurred in October—3D Investments acquired the 347-unit Centerra in the Central San Jose submarket, for \$185 million. The property traded for \$533,141 per unit and was subject to a \$103 million loan.

San Jose Sales Volume and Number of Properties Sold (as of January 2023)



Source: Yardi Matrix

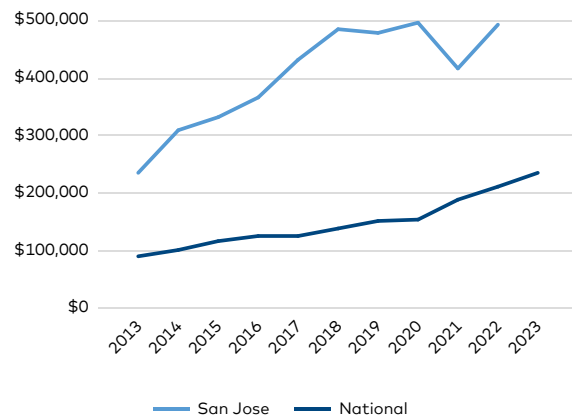
Top Submarkets for Transaction Volume¹

Submarket	Volume (\$MM)
North San Jose	\$394
Milpitas	\$193
Central San Jose	\$185
West San Jose	\$77
Sunnyvale	\$76
Santa Clara	\$53
Cupertino	\$52

Source: Yardi Matrix

¹ From February 2022 to January 2023

San Jose vs. National Sales Price per Unit



Source: Yardi Matrix

Top California Markets for Multifamily Construction Activity

By Anda Rosu

While metros such as Dallas, Austin and Phoenix have seen increased performance since the onset of the health crisis, most California markets are still in a housing crisis. California recovers at a slower pace, with developers struggling to meet the demand for housing, especially in the affordable segment. In the list below we're highlighting the top multifamily markets in California using Yardi Matrix data as of the end of October 2022.

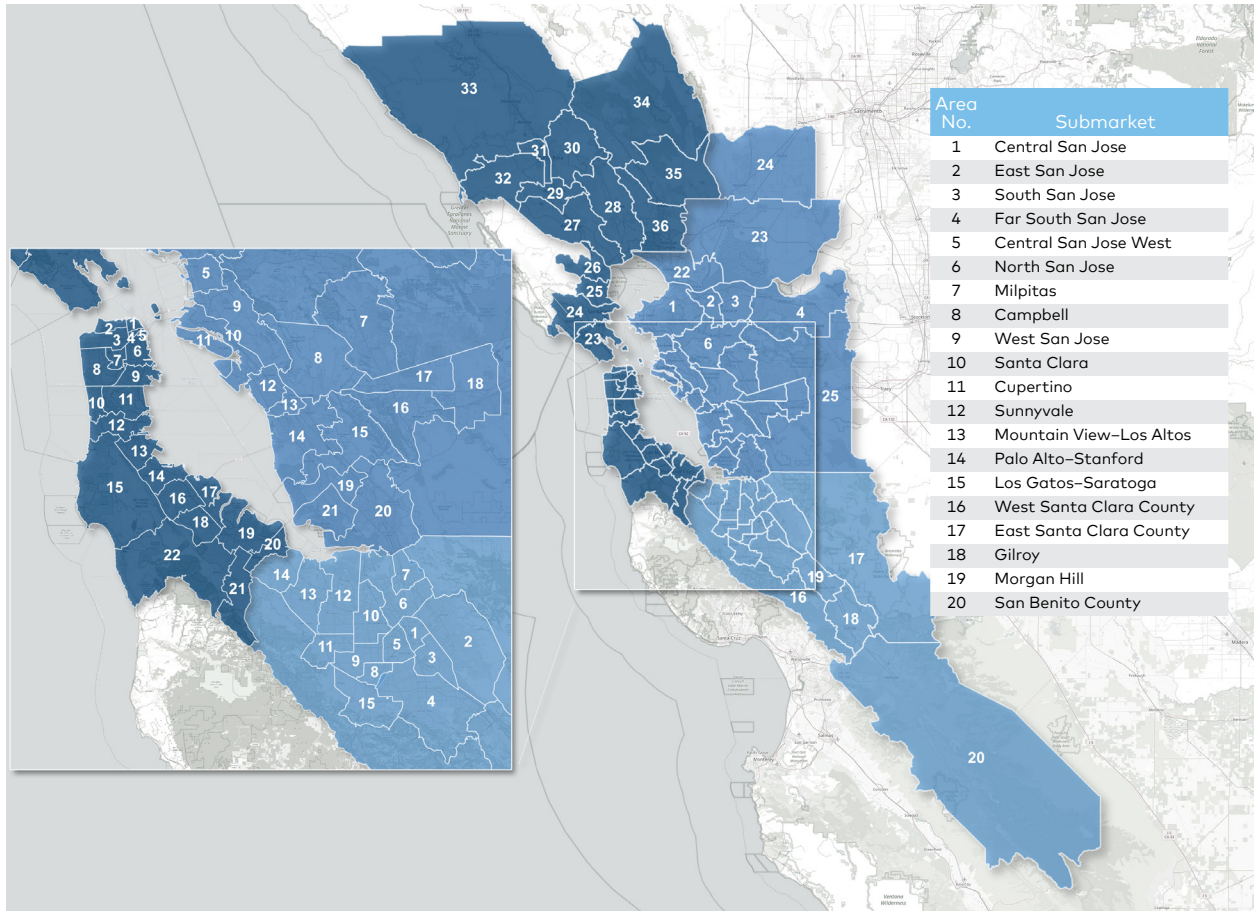
Rank	Property Name	City	Submarket	Units
1	Las Positas	Camarillo	Camarillo	213
2	Mira	Canoga Park	Canoga Park	174
3	4252 Crenshaw	Los Angeles	Adams-Normandie-Hoover	111
4	Westmore Linden	Los Angeles	Koreatown	93
5	Imagine Village	Lancaster	Lancaster	75

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, this year in 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	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 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.



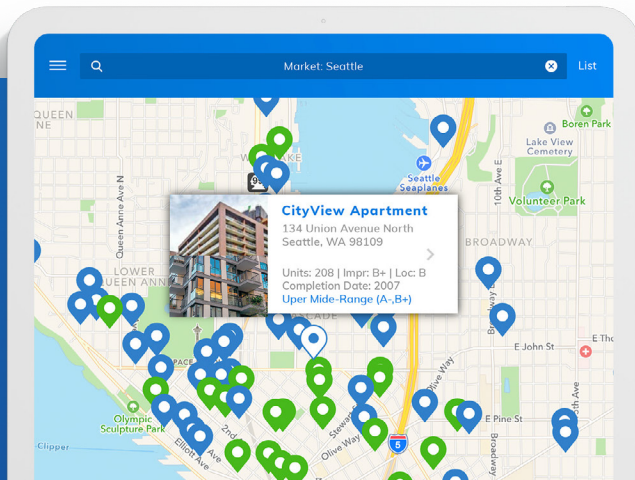
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MULTIFAMILY KEY FEATURES

- 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
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