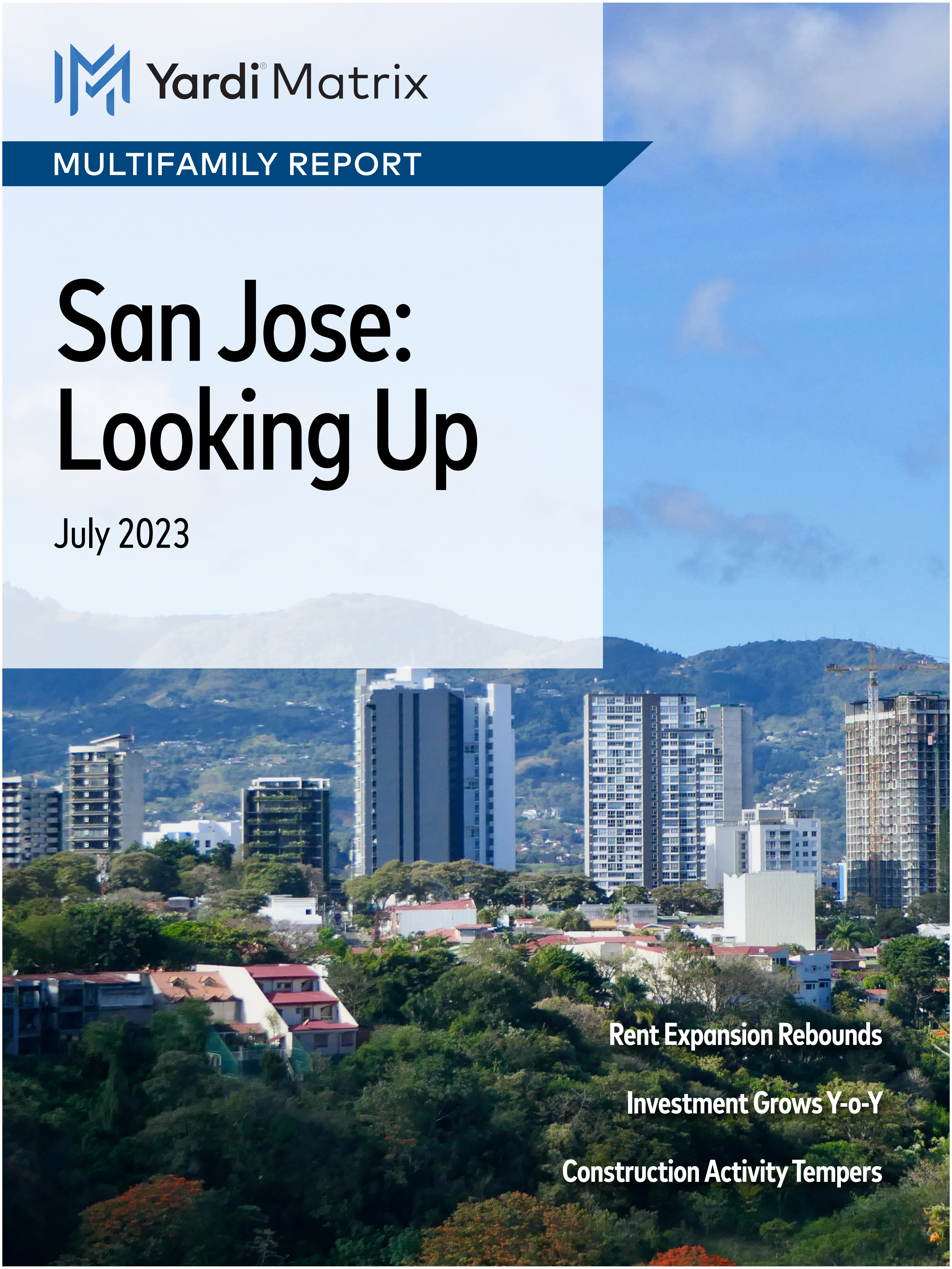
Yardi® Matrix

MULTIFAMILY REPORT

San Jose: Looking Up

July 2023



Rent Expansion Rebounds

Investment Grows Y-o-Y

Construction Activity Tempers

SAN JOSE MULTIFAMILY

Yardi Matrix

Some Fundamentals Slow, Demand Endures

The San Jose multifamily market slowed down amid economic headwinds, but demand remained positive. Year-over-year, rents were up 1.4% as of May, with the average at $3,059. After fluctuating for several months, rates were up on a trailing three-month basis as of May, rising 40 basis points. And while occupancy rates dropped across most metros in the past 12 months, San Jose figures remained flat, at 95.9% as of April.

San Jose added 37,900 jobs in the 12 months ending in March, for a 4.0% expansion rate, 90 basis points above the U.S. figure. Amid tech layoffs and the overall economic landscape, job growth in the metro also slowed after a year of stronger gains. Unemployment clocked in at 3.1% as of April, 30 basis points lower than the U.S. rate and 140 basis points below the state figure, according to data from the Bureau of Labor Statistics. Leisure and hospitality led growth, with 12,000 jobs added, or a 13.2% expansion. Meanwhile, the area's main staple, information, lost 3,200 positions, contracting by 3.0%.

Year-to-date through May, developers completed 687 units, or 0.5% of existing stock, which was on par with the number recorded last year during the same period. The metro had 9,353 units underway, most of which were in Lifestyle assets. Notably, investment totaled $306 million, growing nearly sixfold over the first five months of last year, when the metro's recovery was still in its early stages.

Market Analysis | July 2023

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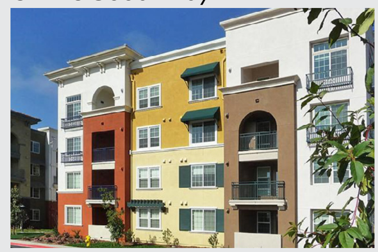
Recent San Jose Transactions

Griffis South Bay



City: Milpitas, Calif.
Buyer: Griffis Residential
Purchase Price: $154 MM
Price per Unit: $411,528

Cherryhill

City: Sunnyvale, Calif.
Buyer: Spieker Cos.
Purchase Price: $106 MM
Price per Unit: $434,434

Ranchero Palms

City: San Jose, Calif.
Buyer: Spieker Cos.
Purchase Price: $15 MM
Price per Unit: $252,131

RENT TRENDS

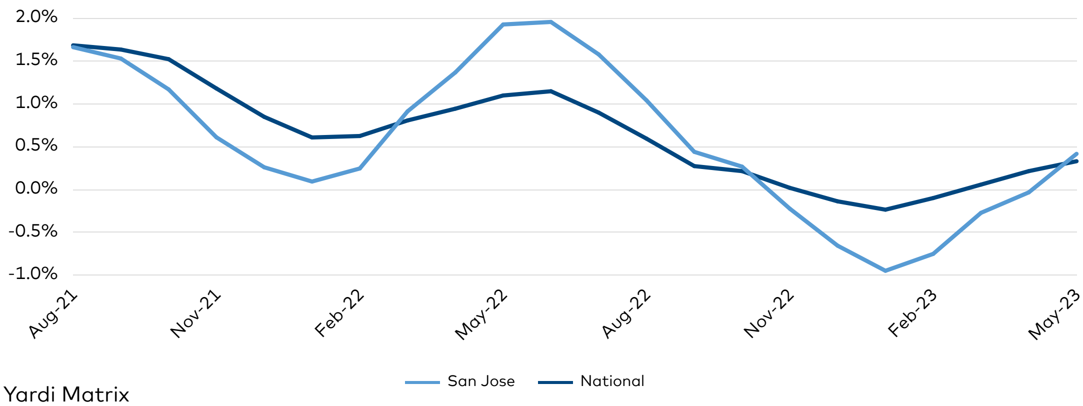
- San Jose rent expansion picked up after fluctuating for several months. Rates were up 0.4% on a trailing three-month (T3) basis through May, ahead of the national rate by 10 basis points. Through most of 2022, T3 rent growth in the metro stood above the U.S. average and recorded a peak of 2.0% in June. Year-over-year, the average Silicon Valley rate was up 1.4%. Yardi Matrix expects San Jose rent gains to reach 2.9% for 2023.

- The average rent in San Jose was $3,059 as of May, significantly above the national figure, at $1,716. After a six-month contraction period, May was the first month of positive gains for both quality segments on a T3 basis. Lifestyle rates were up 0.5%, to $3,324, while the working-class Renter-by-Necessity segment recorded a gain of 0.3%, to $2,756.

- Occupancy in stabilized assets clocked in at 95.9% as of April, 90 basis points higher than the U.S. figure. While occupancy dropped across almost all U.S. markets, Silicon Valley stood out, with the overall rate flat over 12 months. Occupancy in Lifestyle properties inched up 10 basis points, to 96.1%, while for RBN assets, it was down 30 basis points, to 95.5%.

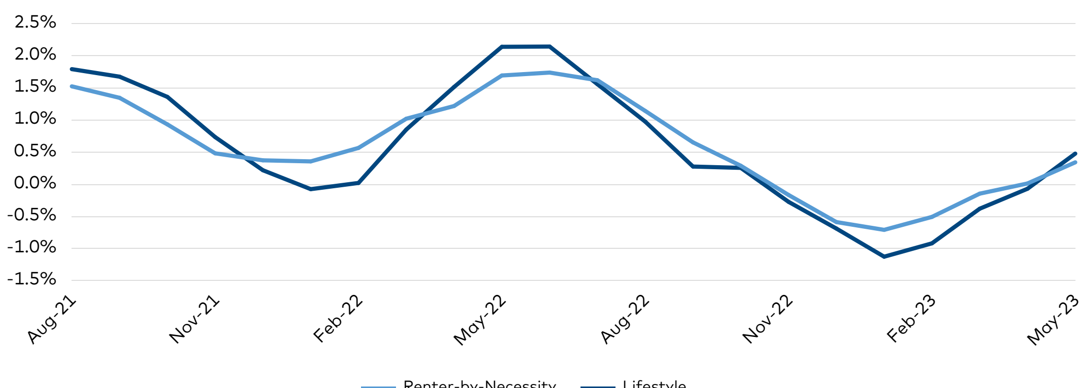
- Two submarkets stood out in year-over-year rent growth. Gilroy led gains, with rates up 7.5%, to $2,525, followed by Los Gatos-Saratoga, where figures increased 7.1%, to $3,353. Other submarkets showcasing significant gains included South San Jose (4.5%, to $2,805) and Milpitas (4.2%, to $3,059).

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

- The unemployment rate in San Jose stood at 3.1% as of April, 30 basis points lower than the U.S. figure, according to data from the BLS. The rate increased 60 basis points from 12 months prior, as tech layoffs took their toll on the country's information technology capital. Meanwhile, California's rate stood at 4.5% in April.
- Over a 12-month period through March, San Jose added 37,900 jobs. This represented a 4.0% employment expansion, reaching 90 basis points above the U.S. average, as the Bay Area is still playing catch-up. Throughout 2022, San Jose's job growth was significantly higher than the nation's expansion rate, but the gap started closing again this year.
- Job gains were led by the leisure and hospitality sector, which grew by 13.2% during the same period, with 12,000 positions added. It was followed by education and health services (up 5.2%, or 9,600 jobs) and professional and business services (up 3.5%, or 8,500 jobs). Meanwhile, the information sector lost 3,200 jobs, for a 3.0% contraction.
- Google is moving forward with its real estate projects in the metro. In Mountain View, the company received final approvals to build 3 million square feet of office space and 7,000 residential units. Its ongoing San Jose project, Downtown West, is slated to include 7.3 million square feet of office, 500,000 square feet of retail and 4,000 residential units.

San Jose Employment Share by Sector

		Current Employment	
Code	Employment Sector	(000)	% Share
70	Leisure and Hospitality	103	8.8%
65	Education and Health Services	196	16.7%
60	Professional and Business Services	255	21.7%
30	Manufacturing	181	15.4%
40	Trade, Transportation and Utilities	122	10.4%
15	Mining, Logging and Construction	54	4.6%
90	Government	98	8.3%
80	Other Services	25	2.1%
55	Financial Activities	38	3.2%
50	Information	105	8.9%

Sources: Yardi Matrix, Bureau of Labor Statistics

Population

- Metro San Jose lost 42,920 net residents in 2021, marking a 2.2% drop. Growth hit a peak in 2018 and had been on a downward trend since, as affordability coupled with the health crisis spurred migration. Still, the metro's population was 4.5% higher in 2021 than a decade prior.

San Jose vs. National Population

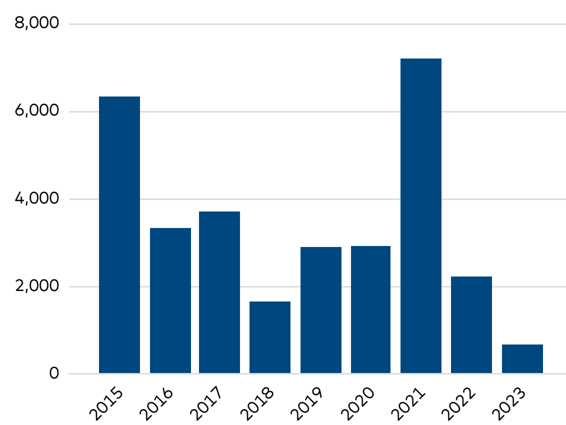
	2018	2019	2020	2021
National	326,838,199	328,329,953	331,501,080	331,893,745
San Jose	1,992,441	1,985,214	1,995,105	1,952,185

Source: U.S. Census

SUPPLY

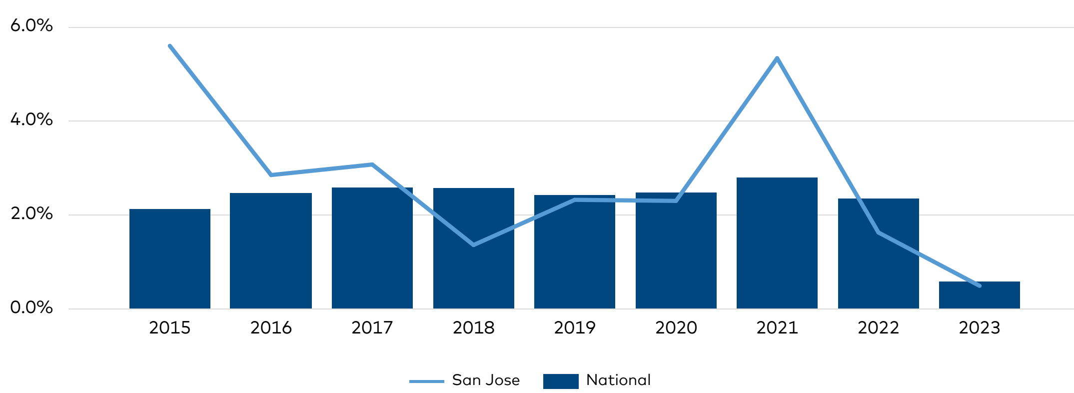
- As of May, San Jose had 9,353 units under construction. Lifestyle units represented 74.2% of the pipeline, while 25.3% were in fully affordable projects. The market also had nearly 50,000 units in the planning and permitting stages.
- Developers added 687 units across two properties during the first five months of the year, a 15.1% year-over-year improvement. Both properties were in the Lifestyle segment. Completions represented a 0.5% expansion of existing stock—10 basis points behind the national rate. After 2021's decade peak of 7,229 units, completions returned to historic averages, clocking in at 2,246 units last year. Considering current market conditions, Yardi Matrix expects San Jose completions to reach roughly 3,500 units in 2023, which would put the metro in line with the average maintained over the past six years.
- Three properties, totaling 480 units, broke ground year-to-date through May, not far from the 337 apartments recorded during the same period last year.
- Three submarkets accounted for more than half of all development activity in the market. Mountain View-Los Altos had 2,209 units under construction, followed by Santa Clara (1,819 units) and Sunnyvale (1,397).
- The largest project underway was Gateway Crossings, a 725-unit partially affordable property taking shape in Santa Clara, Calif. Developer Holland Partner Group started work in mid-2022 and obtained a $128 million construction loan from a private lender.

San Jose Completions (as of May 2023)



Source: Yardi Matrix

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

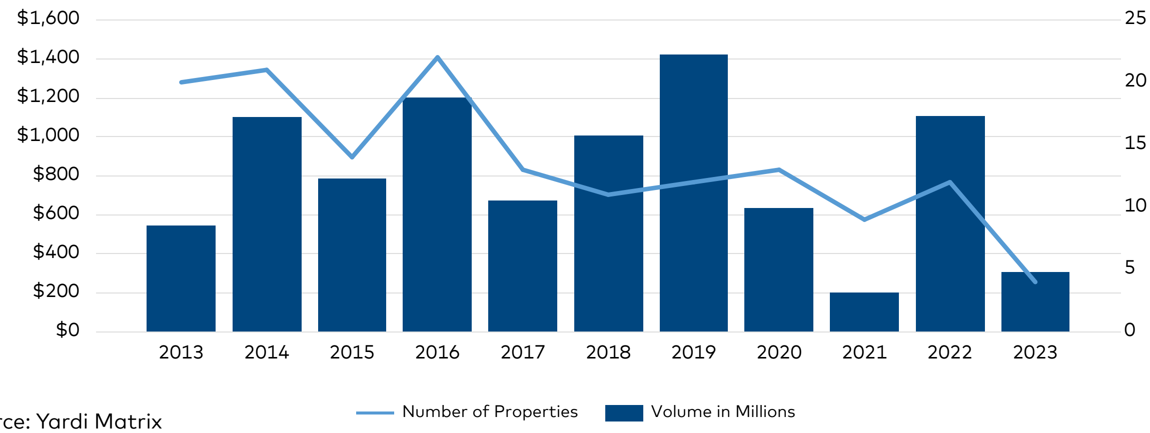


Source: Yardi Matrix

TRANSACTIONS

- Year-to-date through May, the investment volume in San Jose hit $306 million, a significant increase from the $53 million recorded during the same period last year. However, 2022 itself was a strong year for sales, with $1.1 billion recorded—more than 2021 and 2020 combined. The decade peak was registered in 2019, when $1.4 billion in multifamily assets traded.
- Although only four properties of more than 50 units changed hands during the first five months of 2022, the average price per unit remained somewhat consistent with previous years, at $405,431, more than double the national average of $179,358.
- Two Lifestyle assets traded for a total of $185 million, while the other two sales—amounting to $121 million—were for RBN properties. One sale accounted for half of all the volume—Griffis Residential acquired the 373-unit Griffis South Bay for $154 million from Fairfield Residential.

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



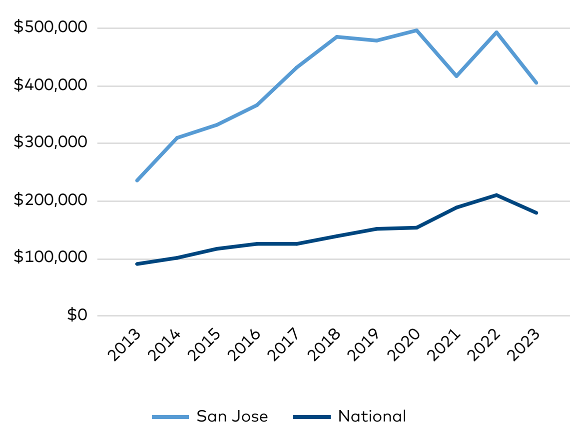
Source: Yardi Matrix

Top Submarkets for Transaction Volume[1]

Submarket	Volume ($MM)
North San Jose	$548
Milpitas	$193
Central San Jose	$185
Sunnyvale	$182
West San Jose	$69
Santa Clara	$53
Cupertino	$52

Source: Yardi Matrix
[1] From June 2022 to May 2023

San Jose vs. National Sales Price per Unit



Source: Yardi Matrix

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EXECUTIVE INSIGHTS

Building Affordable in California, Hawaii: High Demand, High Hurdles

By Anda Rosu

The cost of housing in Hawaii is among the highest in the U.S. and California is also among the most expensive housing markets in the country, with a high concentration of cost-burdened renters. EAH Housing Chief Real Estate Development Officer Welton Jordan talks about the nonprofit's plans to cater to the ever-growing need for low-income housing in both California and Hawaii, highlighting the differences and similarities in these states' housing markets.

What do you see as the top challenges in developing affordable housing communities across California?

The key challenges revolve around highly competitive funding, competing political priorities, and the rising costs of labor and materials. With numerous organizations and projects vying for limited financial resources, securing funding for affordable housing initiatives becomes an increasingly competitive and challenging task.

In what ways are Hawaii and California's markets similar, and what sets them apart?

Both states face significant challenges in meeting the demand for affordable housing, and this shortage is particularly concerning in the low- and very low-income sectors. Lastly, both states experience difficulties and complexities in the process of building new housing, due to regional regulations and permit procedures.

There are also notable differences between the two states.

In California, there is currently a firm commitment from the government to address the housing crisis by taking steps to fund housing and holding localities responsible for the lack of housing in their areas. In Hawaii, with a new governor in place, there is an emerging focus on housing.

How do you plan to develop more affordable properties over the next five years than you did over the past 25?

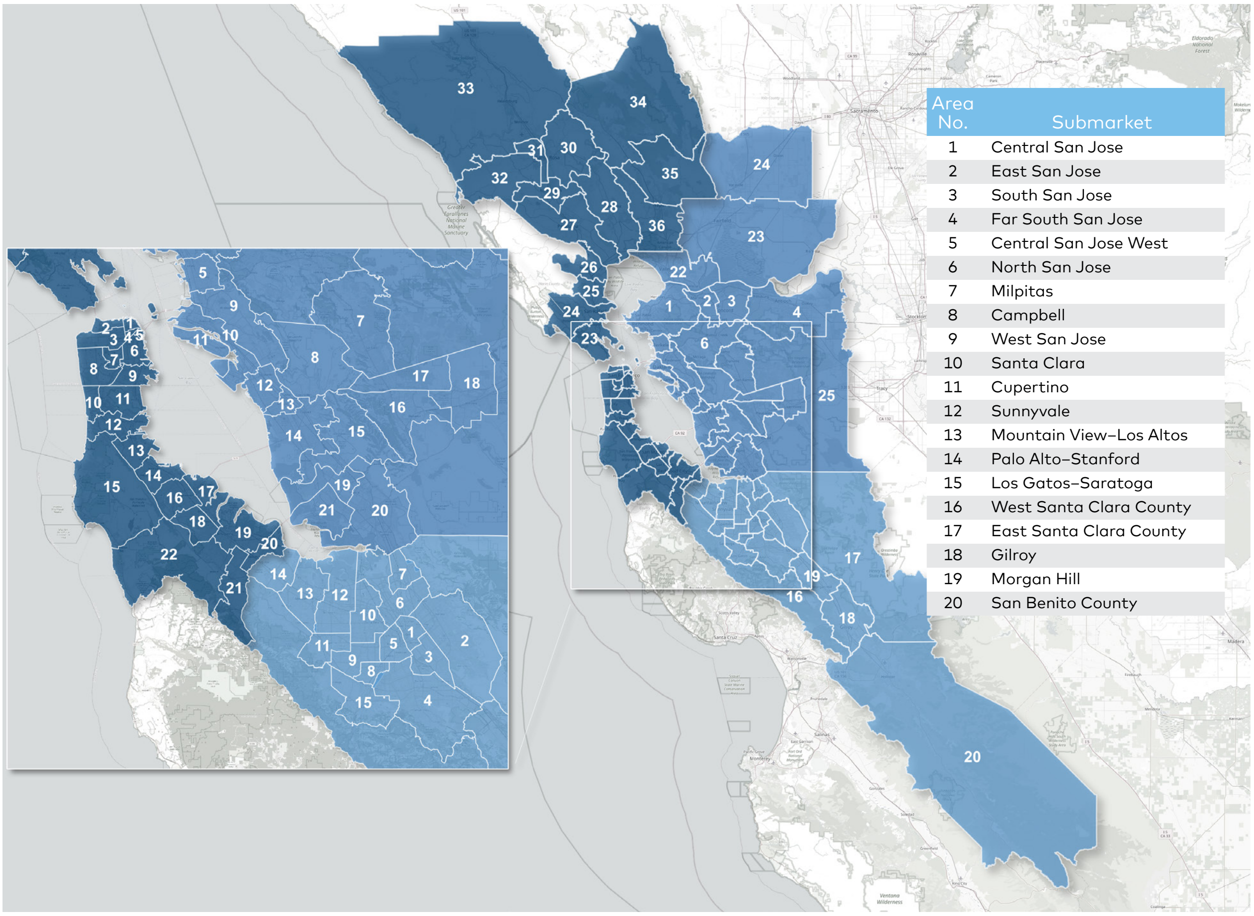
We prioritized building a strong team of professionals with both expertise and a shared commitment to our mission. We also had to make the hard decision of doubling down on new development. While we recognize the importance of preserving existing properties, we've found we can drive greater impact when focused on new construction, as we can create greater density, at a much faster pace.

The affordable housing crisis on the West Coast has only worsened. How do you expect it to evolve?

This is definitely a concerning trend. However, I remain optimistic, especially as more communities display increased openness and empathy toward the needs of lower-income families and individuals. Take for instance Los Altos, Calif. For years, this community had no dedicated affordable housing. However, in September of last year, we celebrated the design approval and a conditional use permit for 330 Distel Circle—the city's first-ever 100 percent affordable housing community.

(Read the complete interview on multihousingnews.com.)

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	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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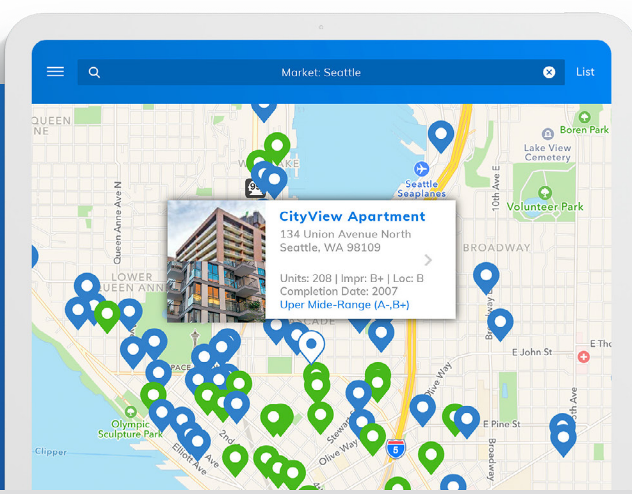

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