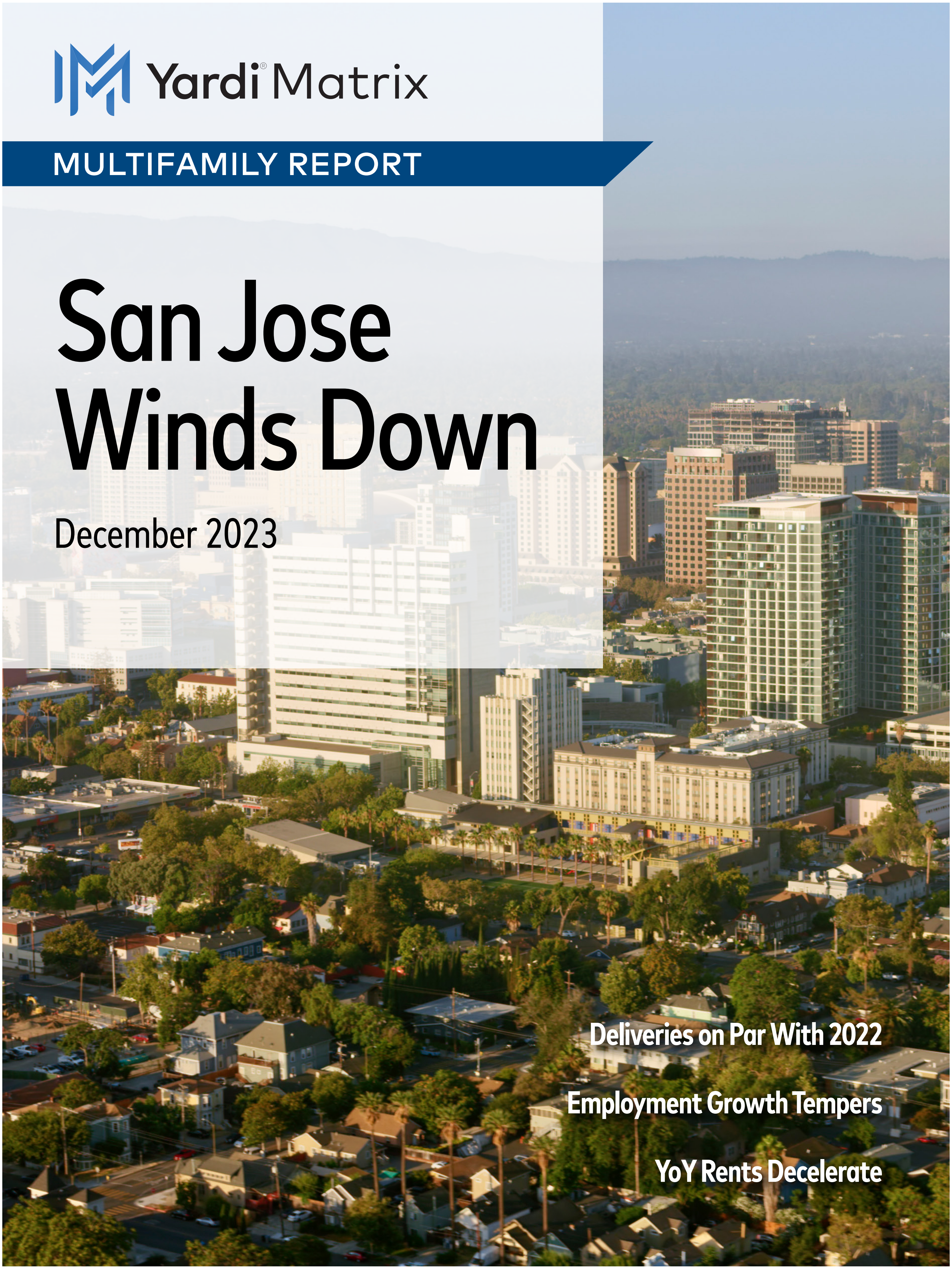
Yardi Matrix

MULTIFAMILY REPORT

San Jose Winds Down

December 2023



Deliveries on Par With 2022

Employment Growth Tempers

YoY Rents Decelerate

SAN JOSE MULTIFAMILY

Yardi Matrix

Rents Trend Downward, Development Up

San Jose's multifamily fundamentals stalled at the beginning of the last quarter, as high interest rates continued to leave their mark across the nation. Rent growth stood at -0.6% on a trailing three-month basis through October—50 basis points lower than the U.S. figure—to an overall average of $3,042. Demand for multifamily remained sturdy, however, as the occupancy rate in stabilized assets was up 10 basis points year-over-year, to 96.0% as of September, 100 basis points above the U.S. rate.

Continued tech layoffs and an overall slower economy contributed to San Jose's 2.6% employment growth on a trailing 12-month basis through August, just above the 2.5% national rate. According to preliminary data from the Bureau of Labor Statistics, unemployment stood at 3.3% as of September, up 90 basis points year-over-year. A total of 18,400 jobs were added in the 12 months ending in August, with education and health services accounting for more than half of that (10,300 positions). Losses were recorded by professional and business services (down 4,000 jobs) and manufacturing (down 2,800 jobs).

Construction activity remained the only fundamental metric on a positive note. San Jose developers delivered 2,361 units year-to-date through October—slightly above the 2022 total. The metro had 10,333 more units under construction, while an additional 42,700 were in the planning and permitting stages.

Market Analysis | December 2023

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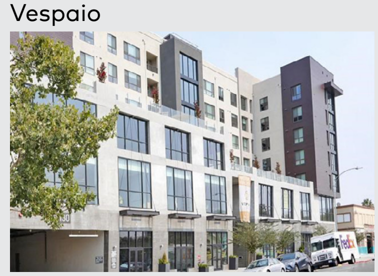
Recent San Jose Transactions

DUO

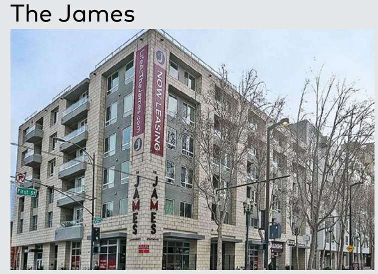
City: San Jose, Calif.
Buyer: Two Coast Living
Purchase Price: $94 MM
Price per Unit: $310,631

Vespaio



City: San Jose, Calif.
Buyer: Windy Hill Property Ventures
Purchase Price: $84 MM
Price per Unit: $515,432

The James

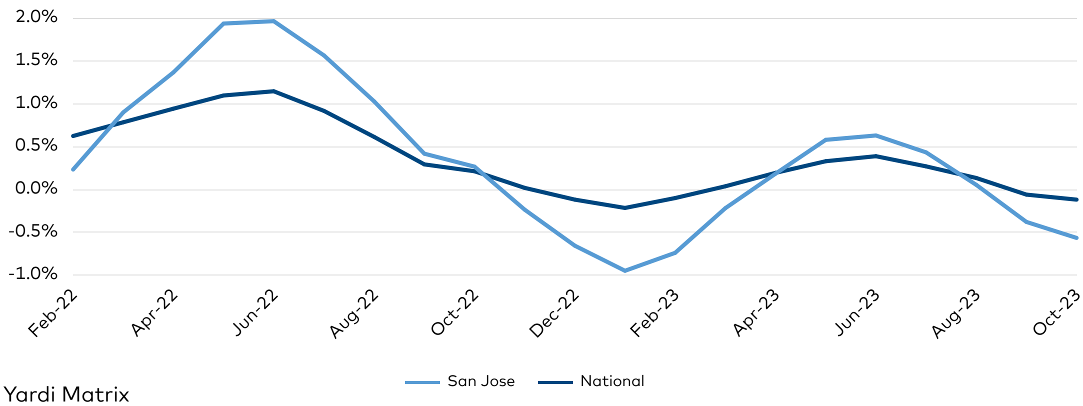


City: San Jose, Calif.
Buyer: Virtu Investments
Purchase Price: $74 MM
Price per Unit: $390,789

RENT TRENDS

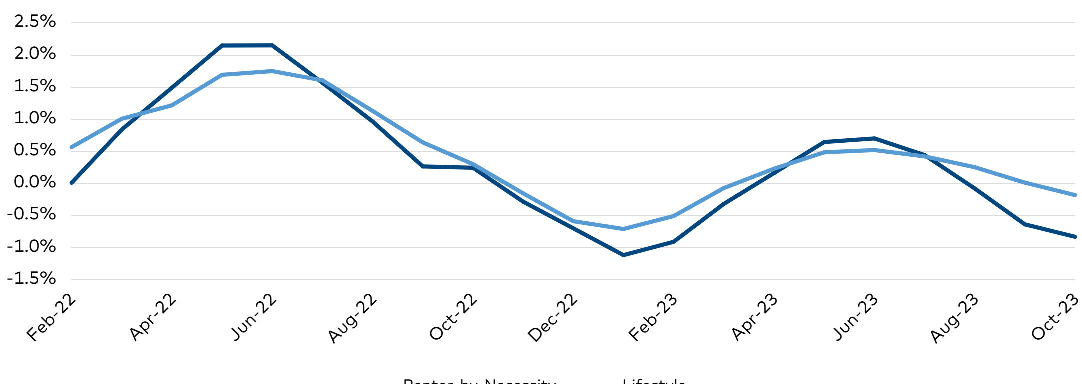
- The seasonal rent slump hit San Jose early—on a trailing three-month (T3) basis through October, rents were down 0.6%, while U.S. rates were down 0.1%. Between April and August, San Jose's T3 growth either matched or outpaced the national rate but lagged the U.S. for the rest of the year. On a year-over-year basis, rents were down 2.7% in the metro, while national rate development stood at a still positive 0.4%.
- The average rate reached $3,042 as of October, still significantly above the $1,718 U.S. figure. Both quality segments saw T3 rent contractions, but Lifestyle properties recorded a drastic 0.8% decrease, to $3,278. Meanwhile, RBN rates slid 0.2%, to $2,772.
- Overall occupancy in San Jose inched up 10 basis points year-over-year, to 96.0%, as of September. The rate was just above the national figure, which declined 40 basis points, to 95.0%. RBN occupancy decreased by 30 basis points, to 95.6%, while Lifestyle climbed 40 basis points, to 96.3%.
- Of the 20 San Jose submarkets tracked by Yardi Matrix, only six recorded positive year-over-year rent growth, led by Morgan Hill—which saw rents improve 5.5%, to $3,008—followed by East San Jose (up 2.6% to $2,568) and San Benito County (up 1.2% to $1,649). The largest decline was recorded in Mountain View-Los Altos, with rents down 5.9%, to $3,267, followed by Palo Alto-Stanford (down 3.6% to $3,419).

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 unemployment reached 3.3% as of September, according to preliminary BLS data, up 90 basis points year-over-year, but still below the national 3.8% rate. Throughout the first three quarters, unemployment in San Jose fluctuated between 3.1% in January and 3.9% in August. Meanwhile, California's jobless rate stood at 4.7% in September.

- San Jose's employment growth was 2.6% as of August, down 190 basis points since January, as the economic slowdown started hitting the tech-oriented Bay Area. Throughout the year, however, job gains remained consistently above the U.S. rate, which was 2.5% in August.

- Over the 12 months ending in August, San Jose added 18,400 jobs. Education and health services accounted for more than half of that, with 10,300 positions gained, or a 5.6% expansion. It was followed by leisure and hospitality, which recorded 9,000 new jobs, or a 9.0% gain. Professional and business services lost 4,000 positions, contracting by 1.6%.

- Google and Lendlease's cited poor market performance as one of the main reasons for their cancellation of $15 billion worth of projects in the South Bay. Office vacancies failed to improve across the market, forcing investors in the sector to drastically shift strategies.

San Jose Employment Share by Sector

		Current Employment	
Code	Employment Sector	(000)	% Share
65	Education and Health Services	195	16.5%
70	Leisure and Hospitality	109	9.2%
90	Government	98	8.3%
40	Trade, Transportation and Utilities	123	10.4%
15	Mining, Logging and Construction	56	4.7%
50	Information	105	8.9%
55	Financial Activities	37	3.1%
80	Other Services	25	2.1%
30	Manufacturing	179	15.1%
60	Professional and Business Services	254	21.5%

Sources: Yardi Matrix, Bureau of Labor Statistics

Population

- San Jose lost 42,920 residents from 2020 to 2021, a 2.2% decline. Affordability issues and pandemic shifts have led to a drop in population across most major cities. The metro's population was 4.5% larger 10 years earlier.

San Jose vs. National Population

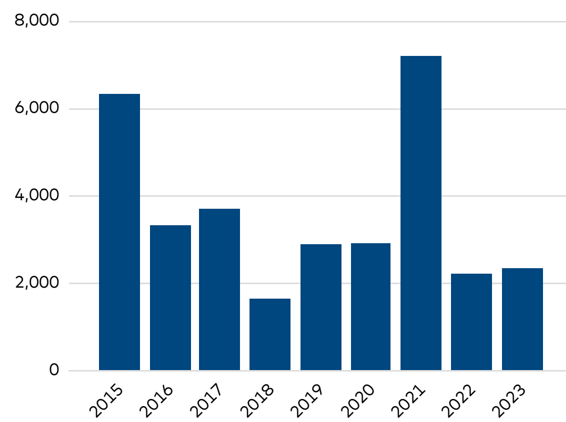
	2018	2019	2020	2021
National	326,838,199	328,329,953	331,501,080	331,893,745
San Jose	1,992,441	1,985,214	1,995,105	1,952,185

Source: U.S. Census

SUPPLY

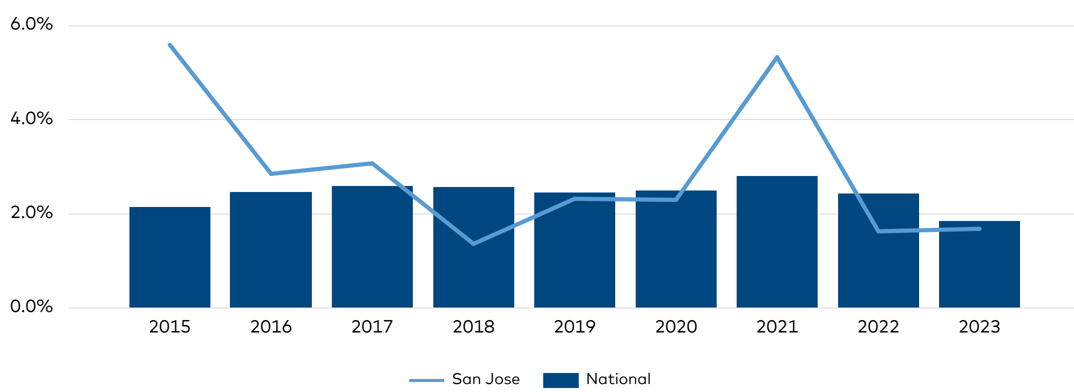
- As of October, San Jose had 10,333 units under construction. Developers stayed the course and continued to target high-earning renters, as 58.9% of the units were in Lifestyle properties. Units in fully affordable properties comprised 31.7% of the total. San Jose's future pipeline remained secure, with an additional 42,700 units in the planning and permitting stages.
- Developers brought 2,361 units online across metro San Jose on a year-over-year basis through October. These accounted for 1.7% of existing stock—20 basis points behind the national rate—but 115 units more than what was delivered in 2022. The pace of completions has remained somewhat steady—an average of 3,803 units were added to the market every year since 2015, while 2021 recorded a peak of 7,229 units.
- During the first 10 months of the year, 12 properties totaling 1,232 units broke ground, a significant decline from the 21 properties (5,745 units) that started development during the same interval last year.
- Development activity was concentrated in central submarkets, led by Santa Clara with 3,010 units underway. Sunnyvale (1,477 units), Central San Jose (1,358), Mountain View-Los Altos (1,305) and Central San Jose West (1,226) were the other submarkets that had more than 1,000 units under construction.
- The largest property completed this year was Greystar's 632-unit Landsby, located in the Mountain View-Los Altos submarket. It includes 20,000 square feet of ground-floor retail.

San Jose Completions (as of October 2023)



Source: Yardi Matrix

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

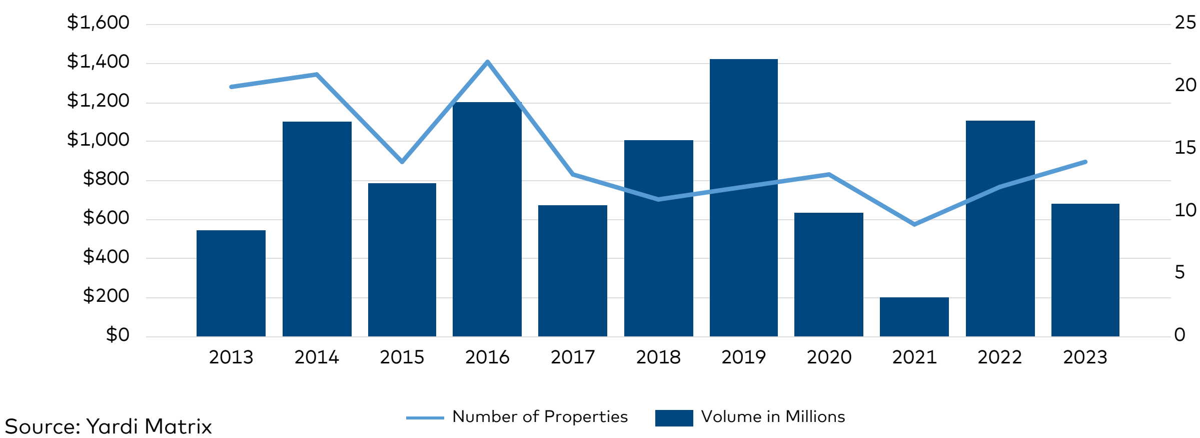


Source: Yardi Matrix

TRANSACTIONS

- Year-to-date through October, San Jose's multifamily investment volume totaled $680 million, down 38.4% compared to the same interval in 2022. A total of 14 sales involving properties of 50-plus units closed during this period—six Lifestyle and eight RBN assets. A slower overall economy and fewer lending possibilities made investors cautious coming off post-pandemic buying sprees. In 2022, a total of $1.1 billion was transacted, the highest amount since 2019's decade-high of $1.4 billion.
- The average per-unit price stood at $377,117 as of October, down 23.4% year-over-year and more than double the U.S. figure of $187,497. Lifestyle assets traded on average for $424,951 per unit, down 43.9% year-over-year, while the RBN price dropped 20.1%, to $351,467.
- The largest sale so far this year remained Griffis Residential's $153 million acquisition of the 373-unit Griffis South Bay in Milpitas. Fairfield Residential sold the asset at $411,528 per unit.

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



Source: Yardi Matrix

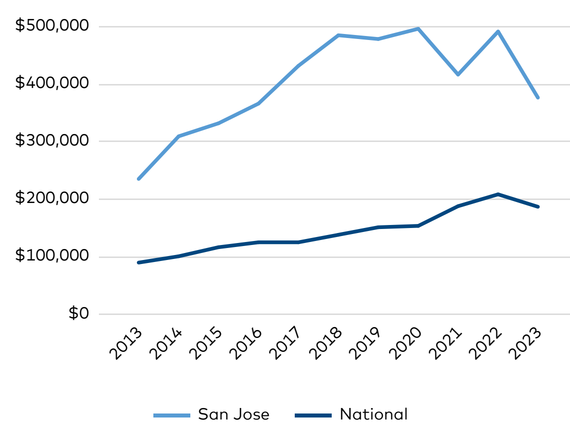
Top Submarkets for Transaction Volume[1]

Submarket	Volume ($MM)
North San Jose	$154
Sunnyvale	$106
Santa Clara	$94
Far South San Jose	$94
Central San Jose West	$84
Central San Jose	$74
South San Jose	$31

Source: Yardi Matrix

[1] From November 2022 to October 2023

San Jose vs. National Sales Price per Unit



Source: Yardi Matrix

It Will Get Worse Before It Gets Better, a California Property Manager Warns

By Diana Firtea

As California continues to battle high living costs, stubborn inflation and rising insurance expenses, providing sustainable and affordable housing solutions is proving very challenging. Kevin Grani, president of Sterling Asset Management Co., the property management arm of Community Housing Opportunities Corp. talks about the most pressing challenges he's facing today and the multifaceted dynamics of the affordable housing crisis in the state.

What are the top challenges California property managers have today?

The challenge today is simply the lack of attainable affordable housing, given how long it takes to build. We also often face challenges when trying to find people to manage sites—due to budget restrictions—which are all driven by the rents that are controlled by California state agencies.

What can be done to alleviate the crisis? Can affordable housing managers help in any way?

There are so many different components to resolving this crisis but what it comes down to is supply and demand, and simply building more. It's less of a management question and more about the development of housing and providing supportive services to residents, which is where management can help. Things like financial literacy, guidance with finding food and rental assistance. You start with basic needs and then move to financial literacy and, eventually, self-sufficiency.

How can organizations such as CHOC maintain affordable rental rates when all costs rise, particularly in a supply-constrained market like California?

Frankly, it's incredibly difficult. Many in our industry are of the mind that it's not possible to keep rental rates lower as costs rise. As a property manager, CHOC does not set rental rates. The rates are set by state and federal agencies. Despite that, our hope is that we can develop more affordable housing to counteract this issue and, ideally, house as many people as we possibly can.

What are your short- and medium-term goals at Sterling?

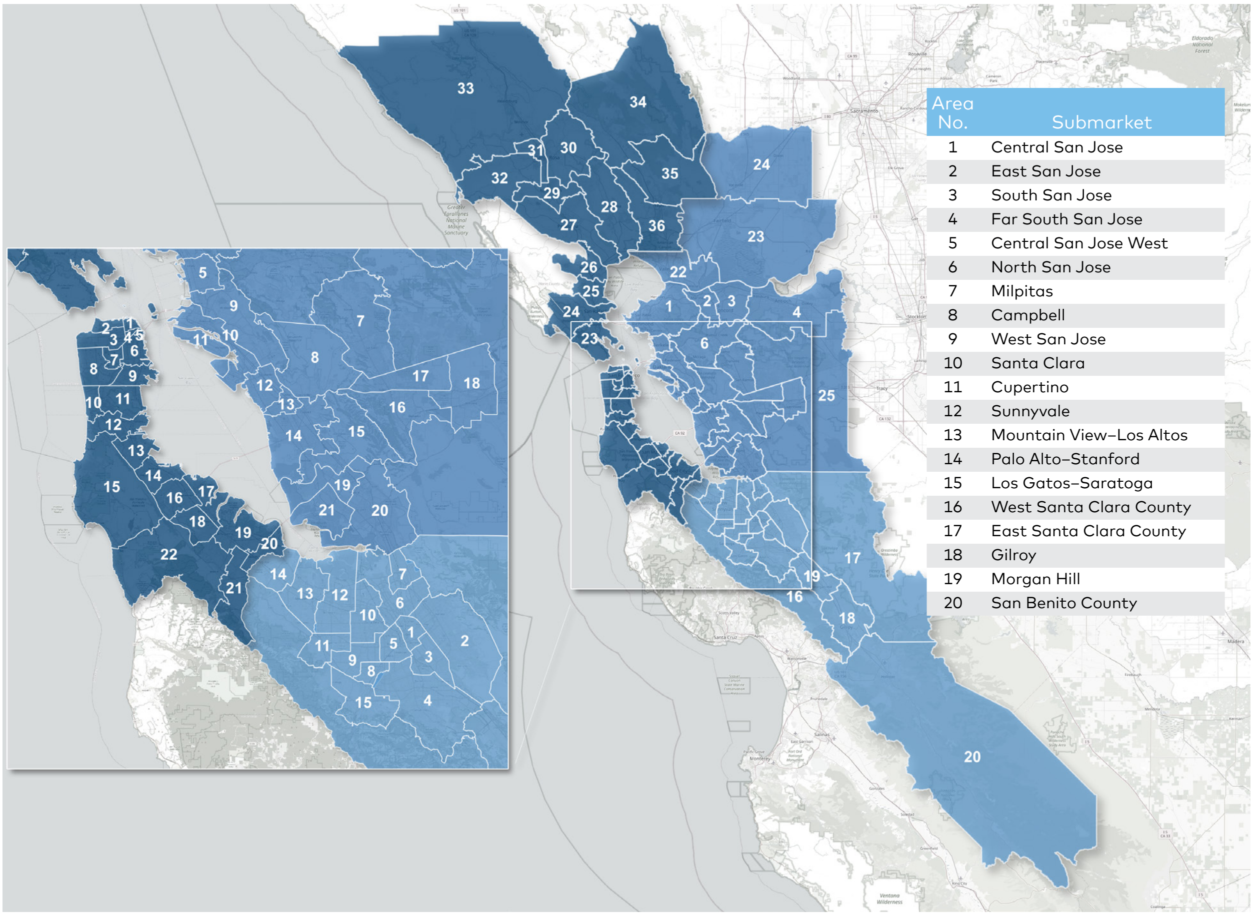
Our short-term goals include the ongoing development and investment in our property management team, across our portfolio, maximizing efficiencies wherever possible. However, that's only half the equation. Longer term, the resident experience is primary, so we'll be seeking opportunities to bring high-value resident services, energy services, construction and solar to our base property management offering.

How do you expect the state's affordable housing crisis to evolve?

Unfortunately, as things stand, it will get worse before it gets better. It's essential that the state develops permanent sources of funding, in order to help organizations like ours develop and sustain multifamily affordable housing for as many people as possible.

(Read the complete interview on multihousingnews.com.)

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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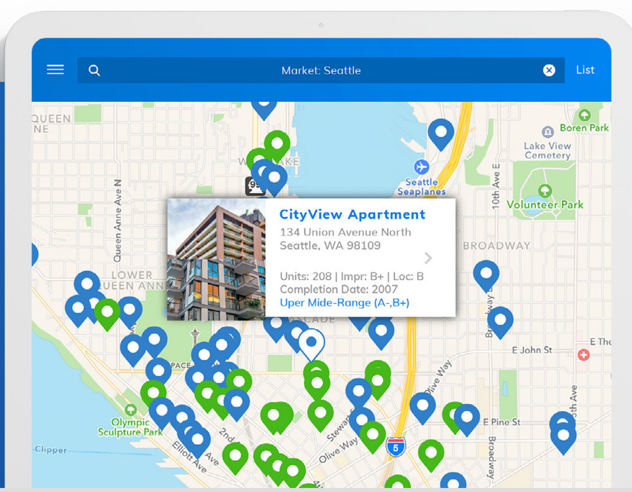
- Gain complete new supply pipeline information from concept to completion
- Find acquisition prospects based on in-place loans, maturity dates, lenders and originators
- Access aggregated and anonymized residential revenue and expense comps



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

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