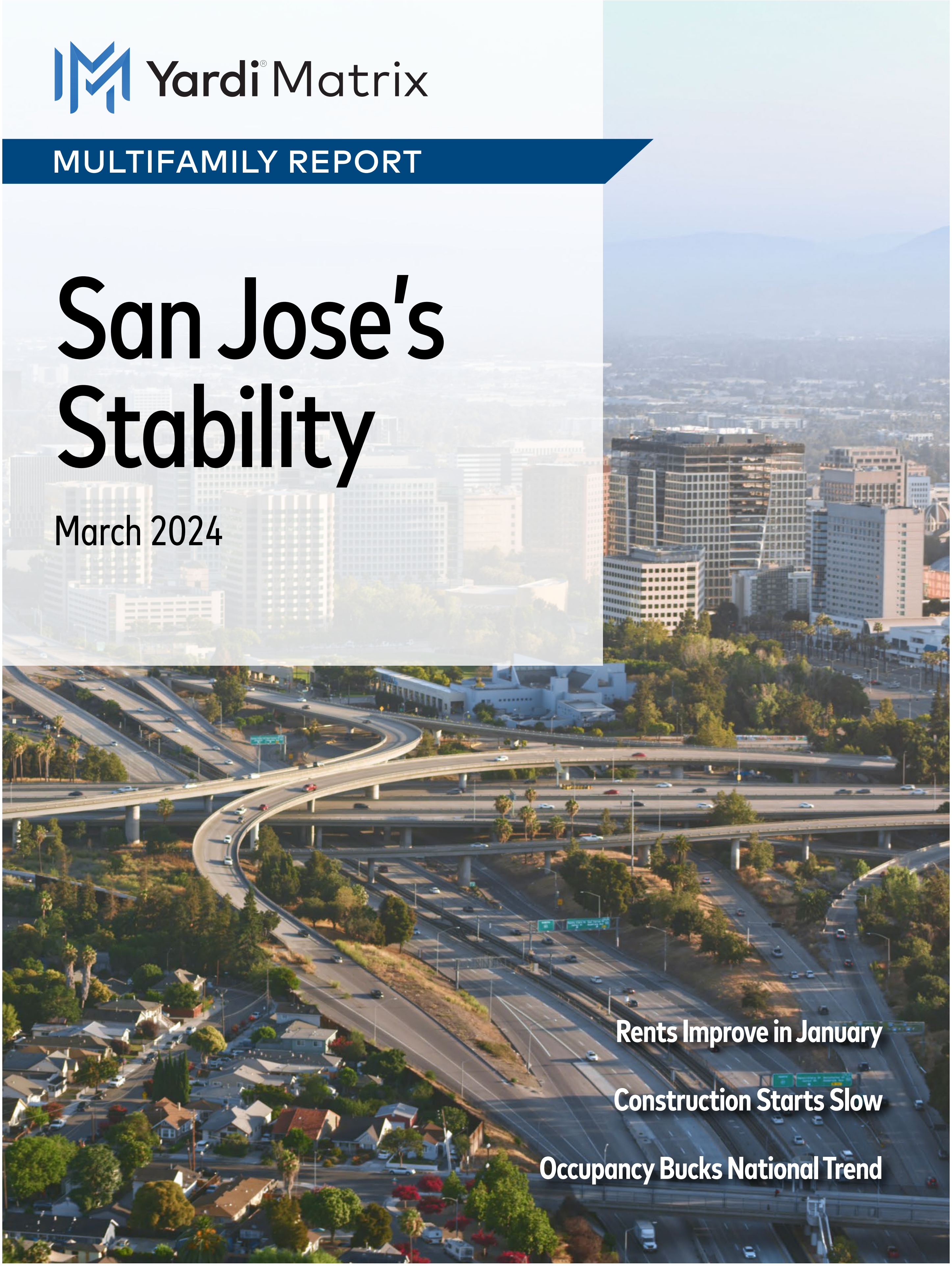
Yardi Matrix

MULTIFAMILY REPORT

San Jose's Stability

March 2024



Rents Improve in January

Construction Starts Slow

Occupancy Bucks National Trend

SAN JOSE MULTIFAMILY

Yardi Matrix

Fundamentals Steady Amid Sluggish Economy

While national multifamily rents started 2024 on a downswing as economic growth slowed, San Jose was one of the few metros that recorded positive movement. The metro's rents were up 0.1% on a trailing three-month basis through January, while the nation recorded a 0.2% decline. Demand in San Jose remained steady, as occupancy improved 20 basis points year-over-year, to 95.9% as of January, 130 basis points above the U.S. rate.

Unemployment climbed to 4.0% in December, the highest rate since October 2021, according to preliminary data from the Bureau of Labor Statistics. As the job market slowed, a total of 11,800 jobs were added over the 12-month period ending in November. That accounts for a growth rate of 1.7%—50 basis points behind the 2.2% U.S. figure. The rate exceeded the national figure for the first eight months of the year. Education and health services led growth with 11,100 jobs. A few sectors recorded losses, with manufacturing taking a big hit, down 4,100 jobs for a 2.2% slide.

Development activity reflected a clear downward trend. San Jose had 10,488 units under construction as of January. In 2023, a total of 2,738 units came online, up 10.1% year-over-year. However, construction starts declined by a hefty 69.6% when compared to 2022, signaling an upcoming decline in new supply.

Market Analysis | March 2024

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

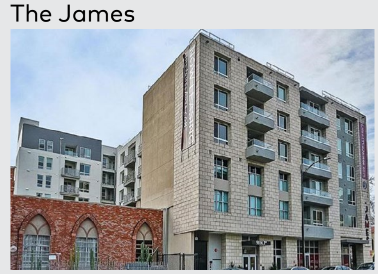
Diridon West

City: San Jose, Calif.
Buyer: Hines Interests
Purchase Price: $118 MM
Price per Unit: $471,887

The Grove

City: San Jose, Calif.
Buyer: Jonathan Rose Cos.
Purchase Price: $102 MM
Price per Unit: $308,157

The James



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

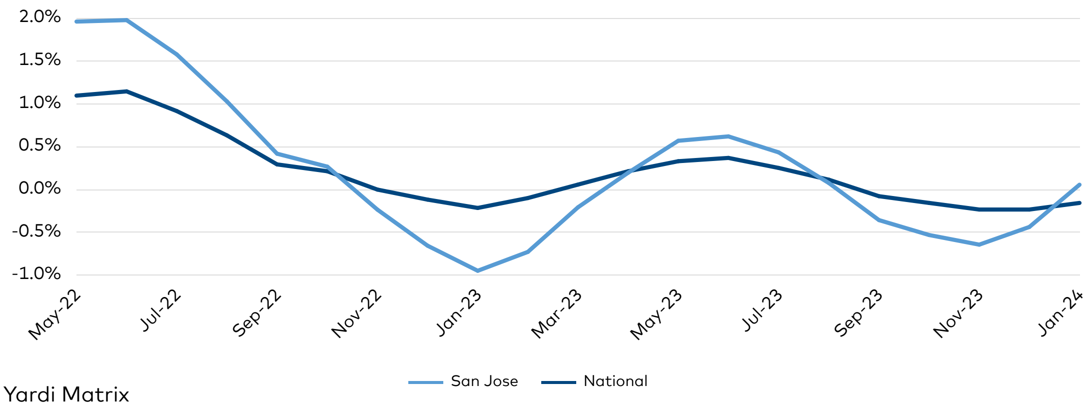
Villa Del Sol

City: Sunnyvale, Calif.
Buyer: Acacia Capital
Purchase Price: $62 MM
Price per Unit: $502,016

RENT TRENDS

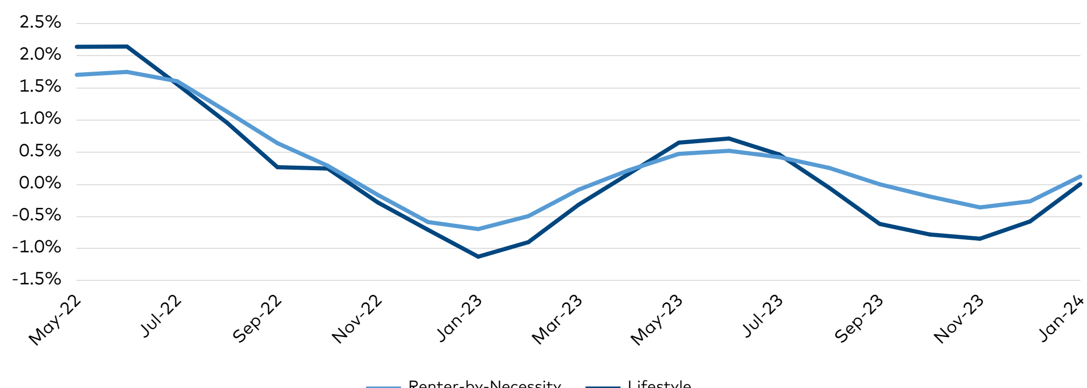
- San Jose rents were up 0.1% on a trailing three-month (T3) basis through January, ahead of the national rate by 30 basis points. This was preceded by four months of rent decreases for the metro, in line with U.S. trends. Rent gains in 2023 were recorded only from April to July, peaking at 0.6%. On a year-over-year basis, rents were up 0.5% through January, on par with the U.S. rate.
- The average rent in the South Bay was $3,050 in January, well above the $1,710 U.S. figure. T3 growth for the Lifestyle segment recorded the highest loss, at 0.0% in January, down to an average of $3,282. The previous four months recorded contractions ranging from 0.6% to 0.8%. Meanwhile, RBN rents were up 0.1% in January, to $2,783, Before that, rates were down, between 0.2% and 0.4%.
- Overall occupancy in the metro was up 20 basis points year-over-year, to 95.9% in January. Meanwhile, the national rate declined 50 basis points, to 94.6%. Demand across metro San Jose was felt mostly in the Lifestyle segment, where occupancy increased 60 basis points, to 96.3%, despite the number of new units coming online. Occupancy for RBN assets was down 30 basis points, to 95.4%.
- A few submarkets adjacent to downtown San Jose recorded the highest year-over-year rent gains—Campbell rents were up 3.6%, to $2,918, followed by West San Jose (up 2.5% to $2,884), East San Jose (2.5% to $2,578) and Far South San Jose (2.0% to $2,838).

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 inched up to 4.0% as of December, according to preliminary data from the BLS, 30 basis points above the U.S. but 110 basis points below California's rate. Unemployment steadily climbed in 2023 from the 3.1% figure recorded in January and at the end of the year reached its highest point since October 2021.

- Over the 12-month period ending in November, San Jose added 11,800 jobs, representing a 1.7% expansion of the labor pool. The metro's growth rate had been ahead of the U.S. for the first eight months of the year, but it fell behind starting in September. In November, the national rate stood at 2.2%.

- Education and health services led gains with 11,100 jobs added, or a 5.8% expansion. It was followed by leisure and hospitality, which gained 7,400 positions, up 7.2%. A few sectors recorded losses, with manufacturing taking the largest hit, down 4,100 jobs, or 2.2%.

- Google has halted its massive Downtown West project, citing current market conditions as the main reason. The tech giant did not cancel the project, though, while an updated timeline is yet to be revealed. Meanwhile, the VTA is moving forward with leveraging multiple land parcels for new housing along its transport routes, with roughly 1,600 rental units or homes in the pipeline across multiple projects.

San Jose Employment Share by Sector

		Current Employment	
Code	Employment Sector	(000)	% Share
65	Education and Health Services	204	17.0%
70	Leisure and Hospitality	110	9.2%
80	Other Services	27	2.3%
40	Trade, Transportation and Utilities	126	10.5%
90	Government	100	8.3%
15	Mining, Logging and Construction	56	4.7%
50	Information	105	8.8%
55	Financial Activities	37	3.1%
60	Professional and Business Services	257	21.4%
30	Manufacturing	179	14.9%

Sources: Yardi Matrix, Bureau of Labor Statistics

Population

- Outmigration patterns continued to affect San Jose in 2022. The metro lost 13,767 residents from the previous year. This downward trend started with the pandemic, with 2018-2019 being the last period in the last decade when San Jose recorded population growth.

San Jose vs. National Population

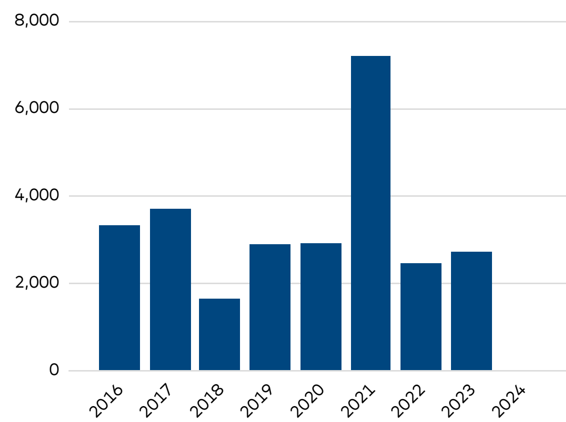
	2019	2020	2021	2022
National	328,329,953	331,501,080	331,893,745	331,097,593
San Jose	1,987,846	1,985,926	1,995,351	1,981,584

Source: U.S. Census

SUPPLY

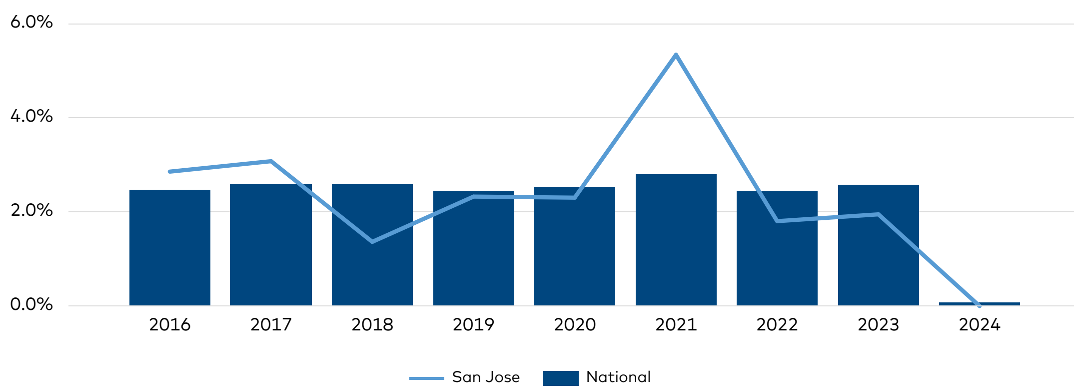
- As of January, San Jose had 10,488 units under construction. Unsurprisingly, developers remained focused on the upscale segment, with 68.0% of units in Lifestyle properties. Units in fully affordable assets comprised 25.2% of the pipeline, while the remaining 6.8% were RBN assets. An additional 45,000 units were in the planning and permitting stages.
- A total of 2,738 units came online in 2023. This represented a nearly 2.0% expansion of stock, 60 basis points behind the national figure. Completions increased 10.1% year-over-year, as the large number of starts from previous years came online. However, current inflation levels will likely see new supply dwindling for a while. Yardi Matrix expects San Jose to add another 1.8% of existing stock, or 2,400 units, in 2024 should market conditions hold. This is below the 3,663-unit average recorded over the past five years. This number was significantly inflated by the decade peak of 7,229 units that came online in 2021.
- The low availability of debt and developers expecting more equity have resulted in construction starts falling 69.6% year-over-year, as only 2,091 units broke ground in 2023. No new starts were recorded in the first month of 2024.
- Three submarkets accounted for more than half of the construction pipeline—Santa Clara (2,819 units under construction), Sunnyvale (2,421 units) and Central San Jose (1,264 units).
- The largest property underway was Irvine Co.'s 944-unit second phase of Redwood Place, taking shape in Sunnyvale, Calif. The developer took out a $102.4 million CMBS loan from Fannie Mae for the project's construction, with completion expected in March.

San Jose Completions (as of January 2024)



Source: Yardi Matrix

San Jose vs. National Completions as a Percentage of Total Stock (as of January 2024)

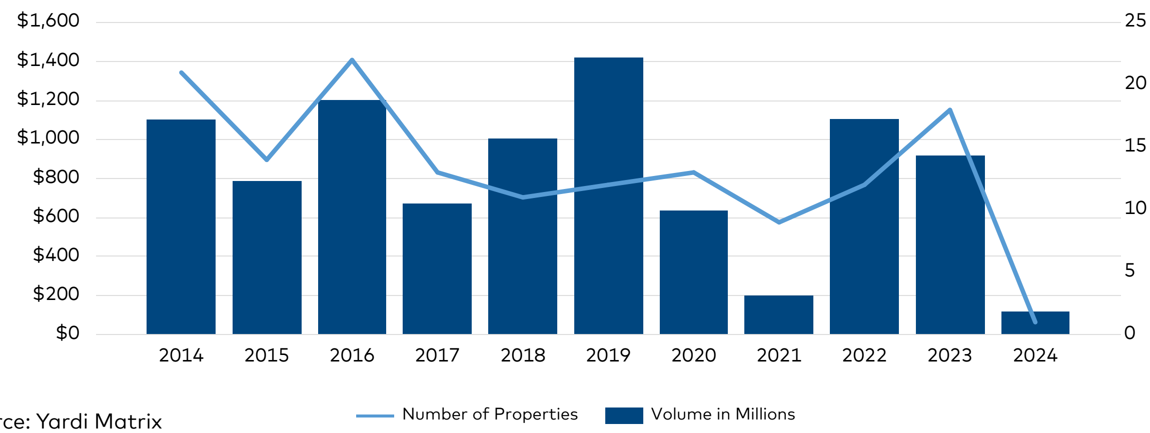


Source: Yardi Matrix

TRANSACTIONS

- In 2023, investors closed 18 multifamily transactions for a total of $917 million in the San Jose metro. Investments were on a major downward trend nationwide, with many metros recording a 50% or higher decline, but San Jose's volume only slid by 16.9% year-over-year. However, it's worth noting that transaction activity in the metro has been historically temperamental, with the last decade recording a peak of $1.4 billion in 2019 and a low of $199 million in 2021.
- The average per-unit price in 2023 was $366,062, nearly double the $185,562 national figure and down 25.5% year-over-year. Eight Lifestyle assets changed hands in 2023, for an average of $433,260 per unit, while the remaining 10 were RBN properties, which traded at the per-unit price of $329,876.
- A single asset traded in January this year—Hines Interests acquired the 249-unit Diridon West for $117.5 million. The Central San Jose property traded at roughly $471,887 per unit.

San Jose Sales Volume and Number of Properties Sold (as of January 2024)



Source: Yardi Matrix

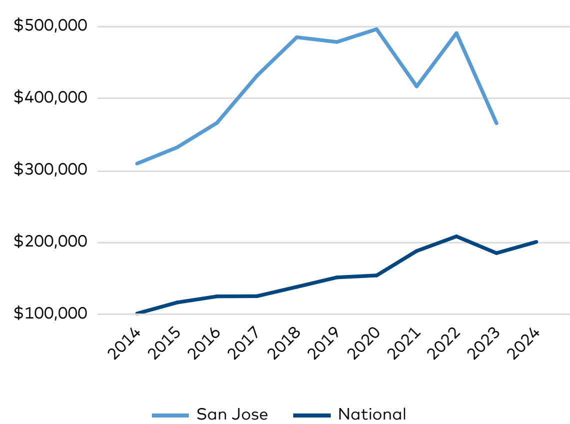
Top Submarkets for Transaction Volume[1]

Submarket	Volume ($MM)
Central San Jose West	303
North San Jose	227
Santa Clara	144
Far South San Jose	94
Central San Jose	74
Sunnyvale	62
South San Jose	31

Source: Yardi Matrix

[1] From January 2023 to December 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 overcoming difficulties in one of the most supply-constrained affordable housing markets in the country.

What are the top challenges for affordable housing property managers in California?

The challenge today is simply the lack of attainable affordable housing, given how long it takes to build. The common challenges we've seen for years have been people losing their jobs, not having an income that stacks up against housing costs and, of course, the lack of subsidies for the properties. We also often face the challenge 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 housing crisis?

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 and property managers maintain affordable rental rates when costs rise, particularly in a 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.

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

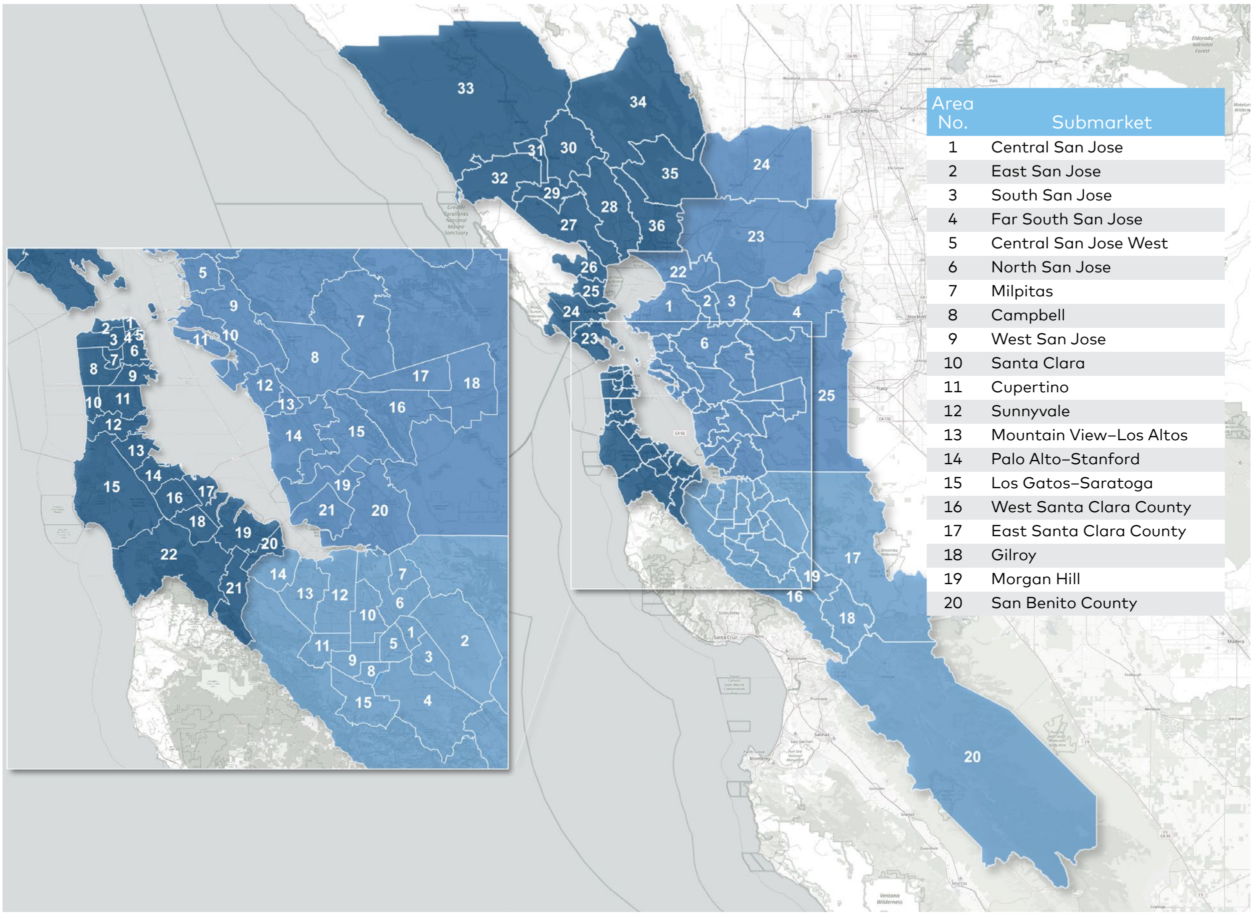
Unfortunately, as things stand, it will get worse before it gets better. It's essential that the state develops permanent sources of funding, in order to help organizations like ours develop and sustain multifamily affordable housing for as many people as possible.

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. Longer term, the resident experience is primary.

(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	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

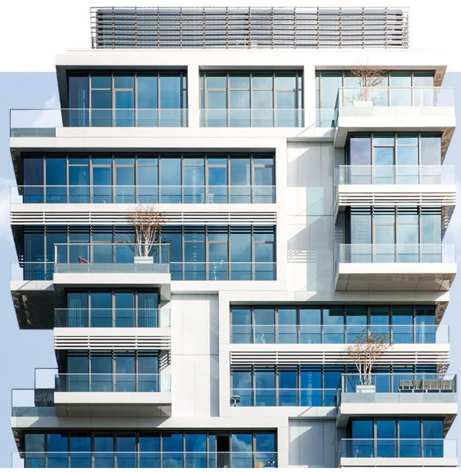
The value in application of the Yardi® Matrix Context rating is that standardized data provides consistency; information is more meaningful because there is less uncertainty. The user can move faster and more efficiently, with more accurate end results.

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.

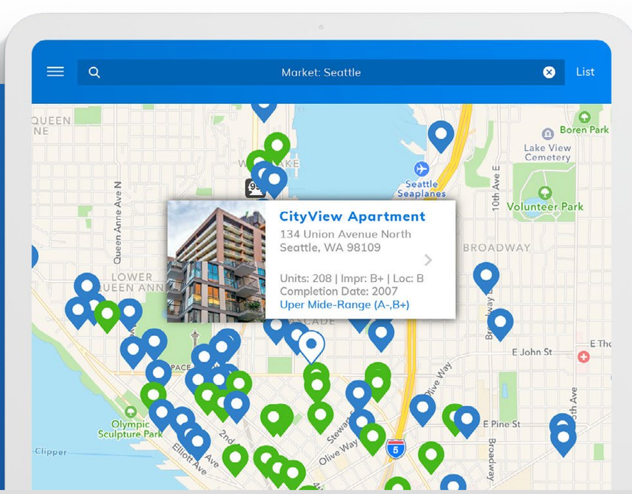
Yardi Matrix

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.**

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