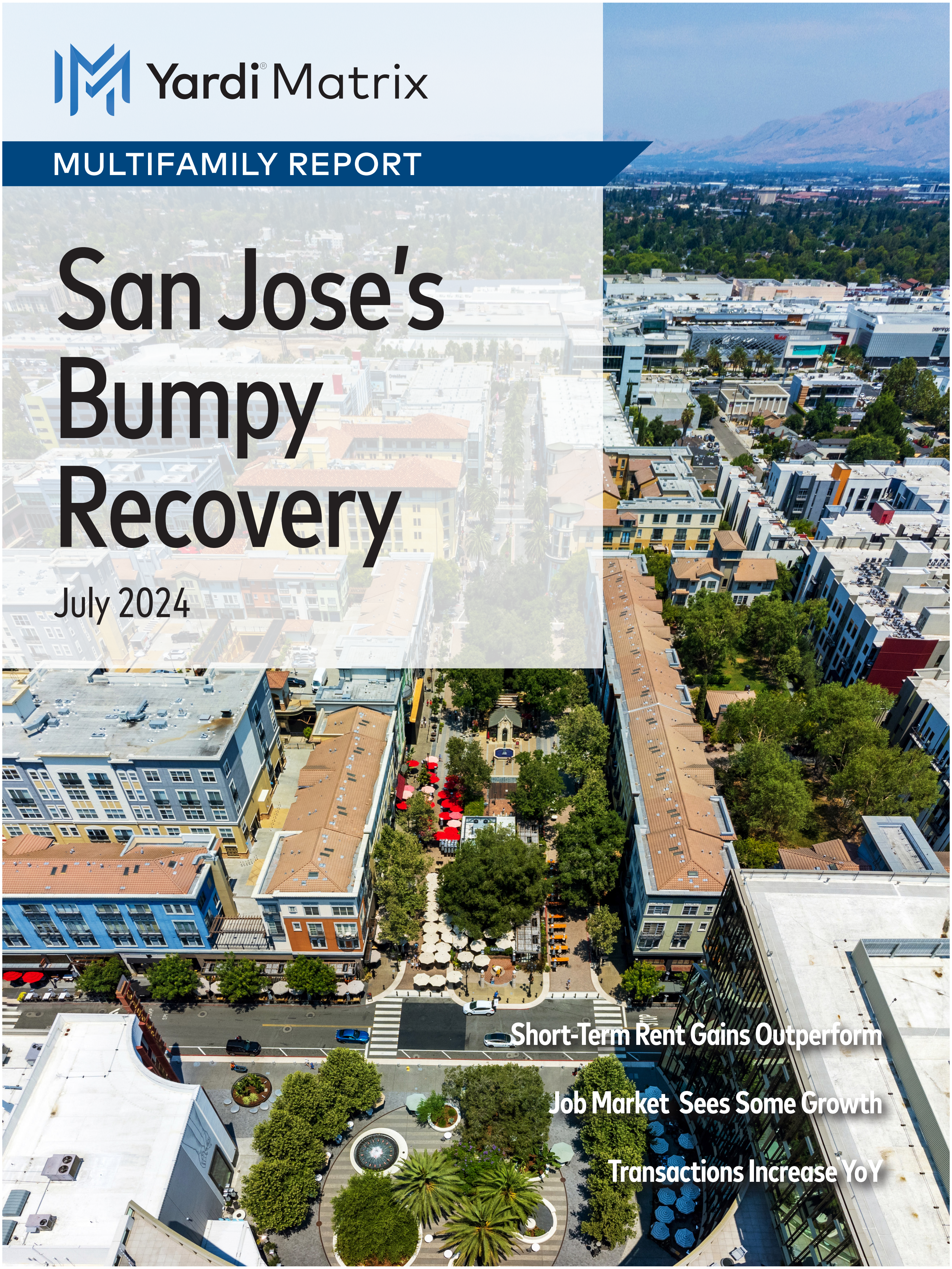
Yardi Matrix

MULTIFAMILY REPORT

San Jose's Bumpy Recovery

July 2024



Short-Term Rent Gains Outperform

Job Market Sees Some Growth

Transactions Increase YoY

SAN JOSE MULTIFAMILY

Yardi Matrix

Pipeline Slows, Advertised Rents Solid

San Jose's multifamily fundamentals showed signs of recovery, with advertised asking rents up a strong 0.8% on a trailing three-month basis through May, to $3,114. This outpaced the 0.3% national rate on a T3 basis and marked the fourth consecutive month of positive movement. Despite steady deliveries over the past two years, occupancy was 96.0% as of April. The rate had been flat for the previous 12 months.

The jobless rate reached 3.9% as of April, according to data from the Bureau of Labor Statistics. This was on par with the nation but marked a 100-basis-point hike over 12 months. The area's job market hasn't fully recovered from post-pandemic tech layoffs, with employment down 0.4% in the 12 months ending in May. However, education and health services (up 11,900 jobs) recorded steady growth. Meanwhile, Sunnyvale updated plans to add 20,000 new homes and 10 million square feet of office space in the next 20 years, seeking to revitalize the downtown area.

San Jose had virtually no multifamily completions in the first five months of the year, signifying a correction after a short-term oversupply wave that crested in 2021. Developers are focused on finishing current projects, which amount to 10,862 units under construction. Meanwhile, the metro's multifamily sales volume was up almost 20% year-over-year, to $453 million year-to-date through May.

Market Analysis | July 2024

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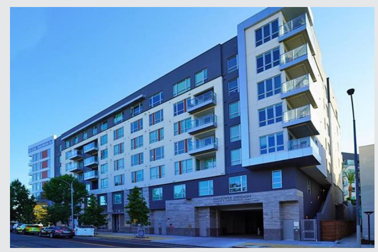
Recent San Jose Transactions

Prado

City: Santa Clara, Calif.
Buyer: Alliance Residential Co.
Purchase Price: $125 MM
Price per Unit: $498,008

Diridon West

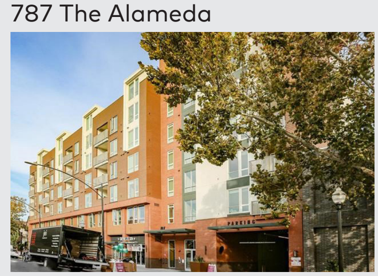


City: San Jose, Calif.
Buyer: Hines
Purchase Price: $118 MM
Price per Unit: $471,887

ARLO Mountain View

City: Mountain View, Calif.
Buyer: Essex Property Trust
Purchase Price: $101 MM
Price per Unit: $616,463

787 The Alameda

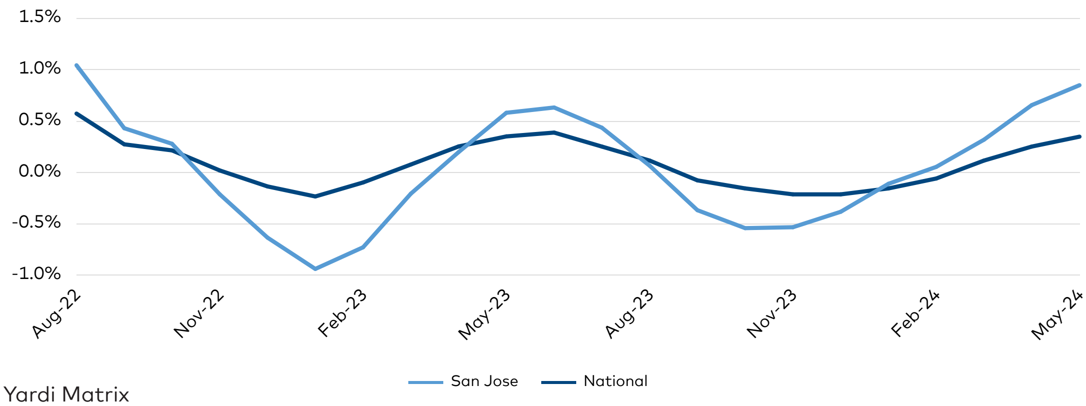


City: San Jose, Calif.
Buyer: Catalyst Housing Group
Purchase Price: $78 MM
Price per Unit: $465,476

RENT TRENDS

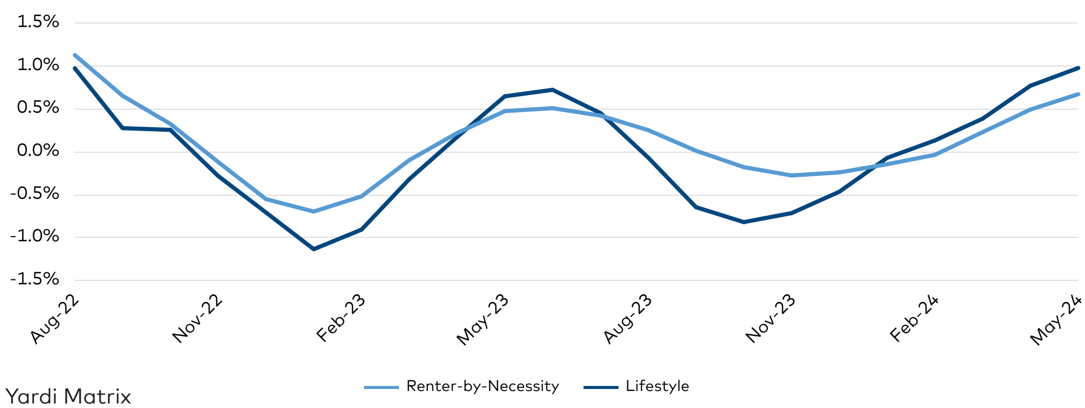
- San Jose's advertised asking rents were up 0.8% on a trailing three-month (T3) basis through May, outpacing the 0.3% U.S. figure and marking the fourth consecutive month of positive movement. In line with national trends, advertised asking rates in Silicon Valley contracted from September to January. Year-over-year, rates were up 1.3% in the metro, more than double the 0.6% national figure.
- Metro San Jose's average advertised asking rent was $3,114 as of May, nearly double the $1,733 U.S. figure. Rates in the Lifestyle segment were up 1.0%, to $3,373, while those for working-class Renter-by-Necessity units rose 0.7%, to $2,818.
- The average occupancy rate in the metro was just under 96.0% as of April, unchanged from a year ago, while the U.S. figure declined 60 basis points, to 94.5%. Average occupancy for the RBN segment was 95.7%, down 30 basis points year-over-year, while the Lifestyle figure increased 30 basis points, to 96.4%, Yardi Matrix data shows.
- Of the 20 submarkets in the South Bay, only six had above-average growth for advertised rents over 12 months. These were led by West San Jose (up 5.1% to $2,990), Campbell (up 4.4% to $2,956) and Palo Alto – Stanford (up 3.1% to $3,619).

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 was 3.9% as of April, on par with the national figure, according to data from the BLS. Although it was 100 basis points higher year-over-year, the rate saw some positive movement from the start of the year when it stood at 4.4%. Meanwhile, California's jobless figure was 5.3%.
- The metro continued to record net job losses at the beginning of the year, with employment down 0.4% during the 12 months ending in May. Meanwhile, U.S. job growth stood at 1.4%.
- Only three employment sectors grew, with education and health services gaining the most jobs (11,900 or a 6.1% expansion). The other two were government (3,600) and leisure and hospitality (1,900). Following accelerated hiring during the pandemic, tech companies laid off a significant number of workers. During this 12-month period, the information sector lost 7,400 net jobs across the metro.
- Last year, Google paused $15 billion in projects in the Bay Area and modified plans for others. In Moffett Park, the company plans to bring two office buildings encompassing 1 million square feet online. In the same area, local officials updated plans to add 20,000 new homes and 10 million square feet of office space over the next 20 years.

San Jose Employment Share by Sector

		Current Employment	
Code	Employment Sector	(000)	% Share
65	Education and Health Services	206	17.8%
90	Government	102	8.8%
70	Leisure and Hospitality	101	8.7%
80	Other Services	26	2.2%
55	Financial Activities	37	3.2%
60	Professional and Business Services	246	21.3%
15	Mining, Logging and Construction	52	4.5%
40	Trade, Transportation and Utilities	119	10.3%
30	Manufacturing	175	15.1%
50	Information	92	8.0%

Sources: Yardi Matrix, Bureau of Labor Statistics

Population

- San Jose's population slid by 0.7% in 2022, as affordability issues and hybrid work incentivized many to seek alternatives. Meanwhile, the U.S. population grew by 0.4%.
- Silicon Valley has gained more than 180,000 residents since 2010.

San Jose vs. National Population

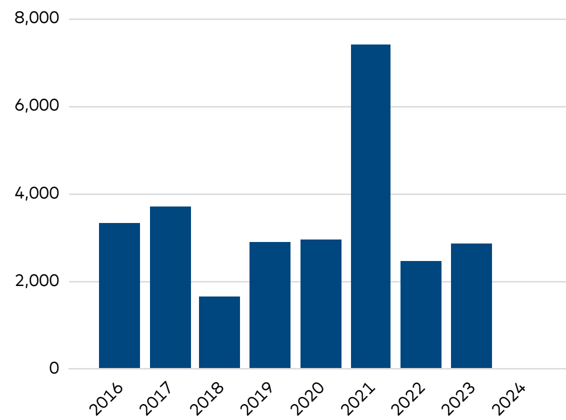
	2019	2020	2021	2022
National	324,697,795	326,569,308	329,725,481	331,097,593
San Jose	1,987,846	1,985,926	1,995,351	1,981,584

Source: U.S. Census

SUPPLY

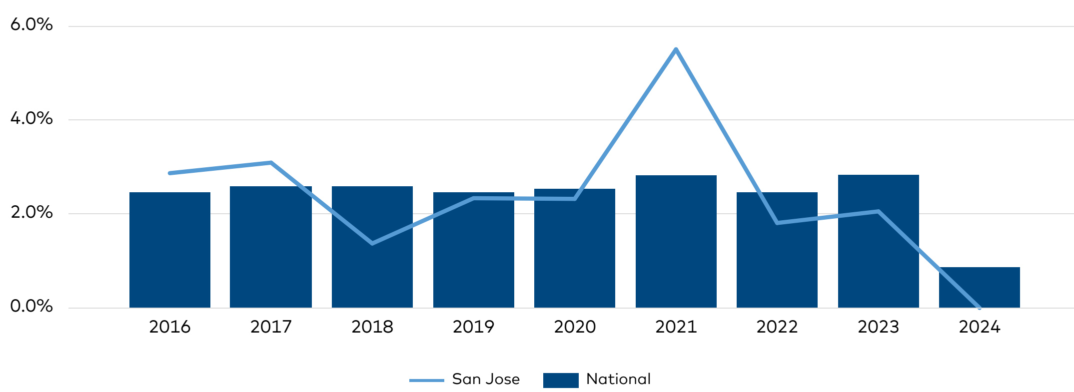
- San Jose had 10,862 units under construction as of May. Despite the pipeline being heavily tilted toward the Lifestyle segment, with about two-thirds of total units, the development of fully affordable properties continued at a healthier pace, comrprising a quarter of the units underway. An additional 48,000 apartments were in the planning and permitting stages as of May.
- No properties of more than 50 units came online in the first five months of 2024. One reason could be the short-term risk of oversupply after the construction surge that peaked in 2021. This, combined with a decline in residents, has led to an overall slowdown in construction. As momentum cooled off, last year's completions totaled 2,885 units, or 2.1% of existing stock, 70 basis points behind the U.S. total. On average, San Jose added 3,425 units annually from 2016 to 2023.
- Construction starts tell a similar story, as only three properties, encompassing 359 units, broke ground year-to-date through May. This was a significant decline from the nine properties totaling 1,317 units that broke ground in the same period last year.
- Three submarkets accounted for more than half of the under-construction pipeline. Santa Clara led activity with 2,819 units underway, followed by Sunnyvale (2,421 units) and Central San Jose (1,513 units).
- Orlo, a 725-unit project in Santa Clara, Calif., is one of Silicon Valley's largest developments. Holland Partner Group broke ground on the project in 2022 and started preleasing in May. Plans call for 32 affordable units and a retail component.

San Jose Completions (as of May 2024)



Source: Yardi Matrix

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

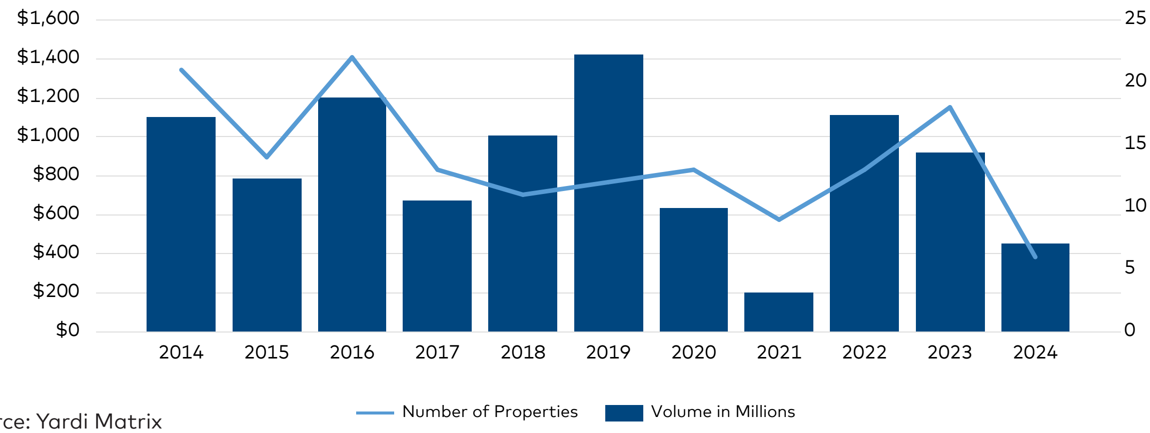


Source: Yardi Matrix

TRANSACTIONS

- Year-to-date through May, investors traded $453 million across single-asset multifamily transactions. Unlike most major markets, the transaction volume increased in San Jose, up 18.6%, year-over-year. Investment in the market fluctuated significantly over the past five years, with the peak at $1.4 billion in 2019 and the lowest point at $199 million in 2021.
- The average price per unit reached $519,814 as of May, nearly triple the $176,968 U.S. figure. Last year, the price was $366,062, down 24% year-over-year. Average unit prices for Lifestyle assets dropped 43% in 2023, to $433,260, while RBN properties traded for an average of $329,876 per unit, down 16%.
- Alliance Residential Co. closed on the market's largest multifamily sale this year through May. The company acquired the 251-unit Prado in Sunnyvale for $125 million, or $498,007 per unit, with help from a $74 million loan provided by Apollo Global Management.

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



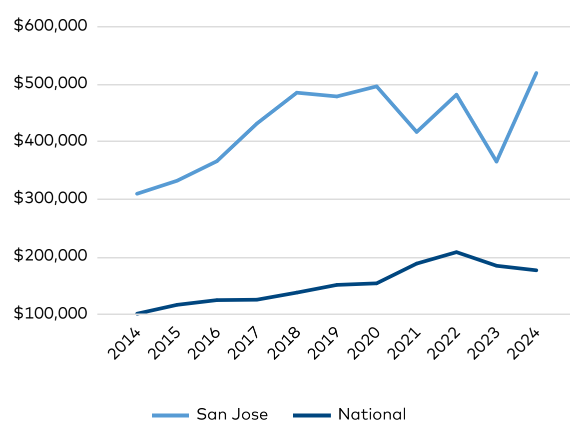
Source: Yardi Matrix

Top Submarkets for Transaction Volume[1]

Submarket	Volume ($MM)
Central San Jose West	381
Sunnyvale	187
Mountain View–Los Altos	101
Far South San Jose	94
Central San Jose	74
North San Jose	73
Santa Clara	68

Source: Yardi Matrix
[1] From June 2023 to May 2024

San Jose vs. National Sales Price per Unit



Source: Yardi Matrix

Serving the Underserved: An Affordable Housing Provider's Take

By Diana Firtea

Despite being one of the most supply-constrained markets in the country, California presents significant opportunities to both build and preserve affordable housing. Housing on Merit has been a co-developer in numerous bond-financed and government-supported multifamily housing projects across the state. CEO Jaymie Beckett talks about challenges and investment opportunities, as well as policies and advocacy efforts meant to ease the notorious crisis.

In today's economic environment, how difficult is it for affordable housing developers in California to stay active?

While California can be a challenging affordable housing market due to the state's particular regulatory burdens and high costs, it remains one of the largest areas of growth for the company.

Recently, we have seen an influx of new and experienced developers navigating the affordable housing development process for the first time, incentivized by new state density bonuses and approval streamlining measures at the state and local level

How do projects get off the ground?

Federal incentives, particularly the LIHTC program, serve as the cornerstone of our efforts. Additionally, we tap into HUD programs such as the HOME Investment Partnerships Program and the Community Development Block Grant to further bolster affordable housing projects and community development endeavors.

State incentives play an equally crucial role in our strategy. California's specific tax credits and housing trust funds, sourced from real estate transaction fees, offer additional financial support.

What would work best in alleviating California's notorious affordable housing crisis, besides simply building more?

The scale of building and preservation of affordable housing needed requires us to not only scale our efforts with our current development partners, but also to continue thinking outside the box on welcoming more development partners into the affordable housing space. Policy can have a big and immediate impact on the development pipeline.

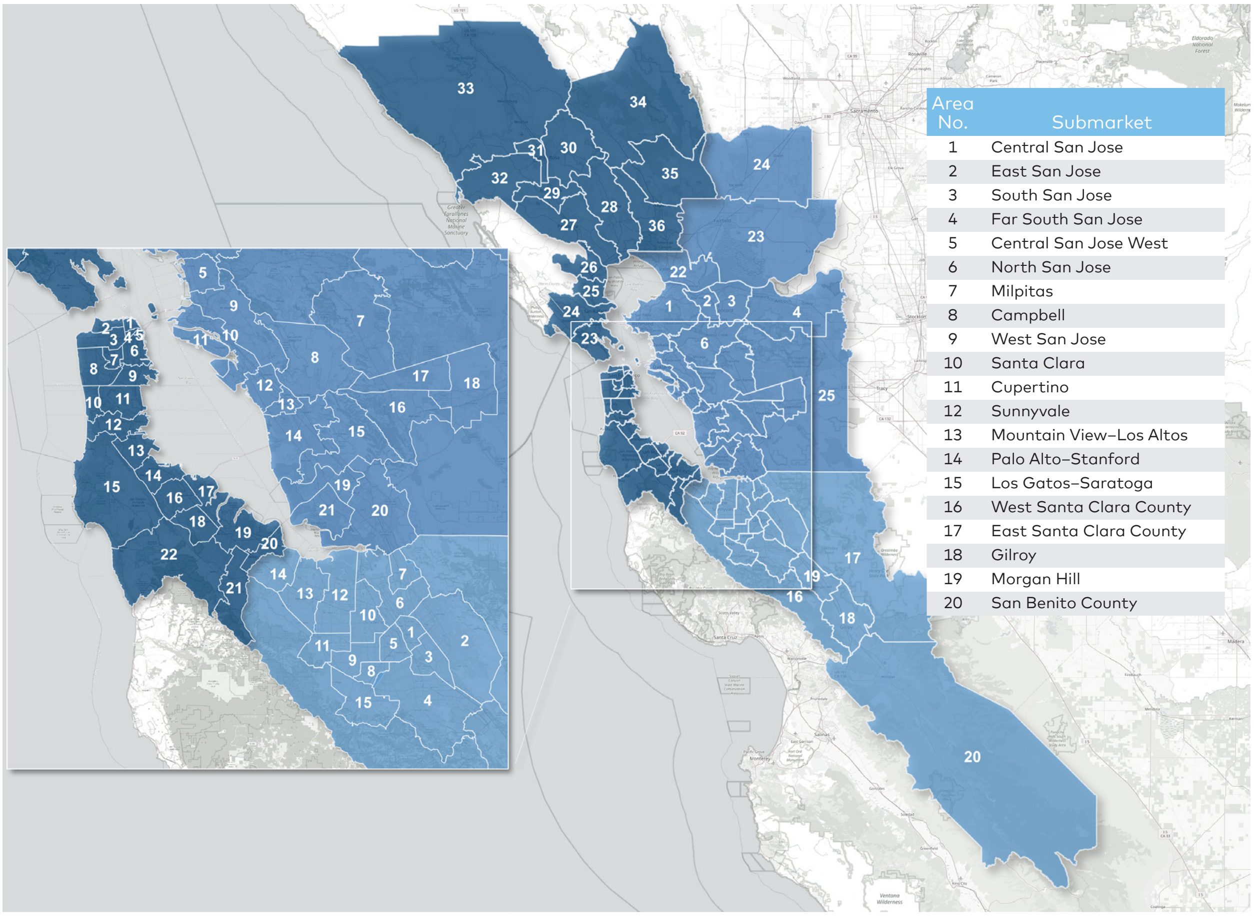
Are there any signs of improvement in the immediate future?

The affordable housing crisis in California and nationwide is a significant challenge, but there's reason for optimism. We're seeing more recognition of the problem and a real push from policymakers to address it.

We see California adding innovative programs to help alleviate the affordable housing crisis. Homekey is a state program that represents a proactive approach to tackling the need for more housing by repurposing existing properties to provide stable housing and support services for those in need. However, obstacles such as high land and construction costs remain, underscoring the ongoing need for collective action.

(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.

Yardi Matrix

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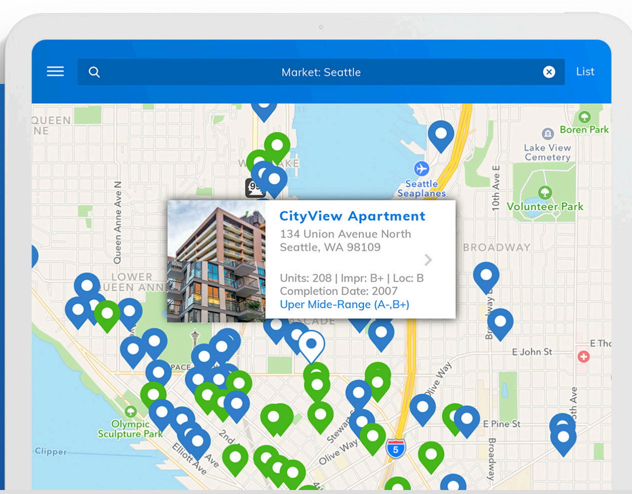
- Gain complete new supply pipeline information from concept to completion
- Find acquisition prospects based on in-place loans, maturity dates, lenders and originators
- Access aggregated and anonymized residential revenue and expense comps



Yardi Matrix Multifamily provides accurate data on **22.3+ million units**, covering over **92% of the U.S. population.**

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