

The background of the entire page is a photograph of a cityscape at sunset. The sky is a mix of orange, pink, and blue. In the foreground, there are several multi-story apartment buildings with red-tiled roofs and balconies. In the middle ground, there are several tall palm trees and some green trees. In the background, there are several modern high-rise buildings with glass facades, some of which are lit up. The overall scene is a mix of urban and residential architecture.

Yardi® Matrix

San Jose: It's Still The Tech

Multifamily Report Fall 2019

Rent Growth Moderates

Employment Gains Accelerate

Developers Target Core Submarkets

Market Analysis

Fall 2019

Contacts

Paul Fiorilla

Associate Director of Research
Paul.Fiorilla@Yardi.com
(800) 866-1124 x5764

Jack Kern

Director of Research and Publications
Jack.Kern@Yardi.com
(800) 866-1124 x2444

Author

Adina Marcut

Associate Editor

Strong Job Gains Sustain Demand

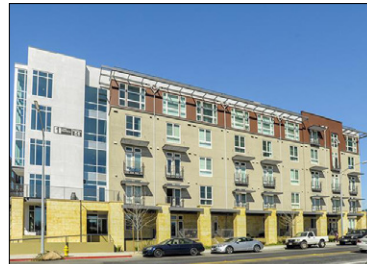
Even in the context of a job market stretched to full employment following a decade of massive growth, San Jose's tech sector is pushing Silicon Valley to be among the country's fastest-growing economies once again. This, in turn, is boosting rental demand in one of the least affordable U.S. multifamily markets, with rates up 2.6% year-over-year through August, to an average of nearly \$3,000.

Silicon Valley gained 27,400 jobs in the 12 months ending in June, a 2.5% increase, with information leading growth—9,000 new jobs for a 9.6% expansion, the metro's strongest performance by far. And since some of Silicon Valley's largest tech tenants are expanding, the sector is poised for further growth. With Google moving forward with its plans for a large campus near Diridon Station, where it could have as many as 20,000 employees once the project is complete, the city core is looking at continued expansion.

Developers continue to focus on upscale units in core submarkets. With nearly 2,300 apartments delivered in the first eight months of the year and an additional 11,472 units underway as of August, Silicon Valley is slated for a prolonged development run. And since high-paying job gains continue to boost upscale demand, we expect the average rent in the metro to rise 4.8% this year.

Recent San Jose Transactions

Domain



City: San Jose, Calif.
Buyer: Prime Group
Purchase Price: \$256 MM
Price per Unit: \$575,450

Lex



City: San Jose, Calif.
Buyer: Equity Residential
Purchase Price: \$181 MM
Price per Unit: \$466,408

Avana San Jose



City: San Jose, Calif.
Buyer: Greystar
Purchase Price: \$80 MM
Price per Unit: \$363,636

Lenzen Square

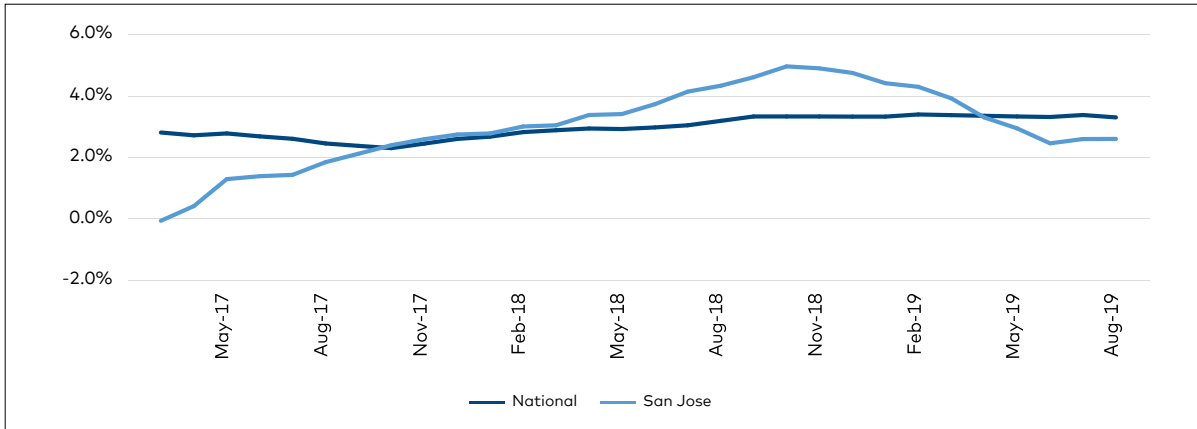


City: San Jose, Calif.
Buyer: WNC & Associates
Purchase Price: \$21 MM
Price per Unit: \$238,636

Rent Trends

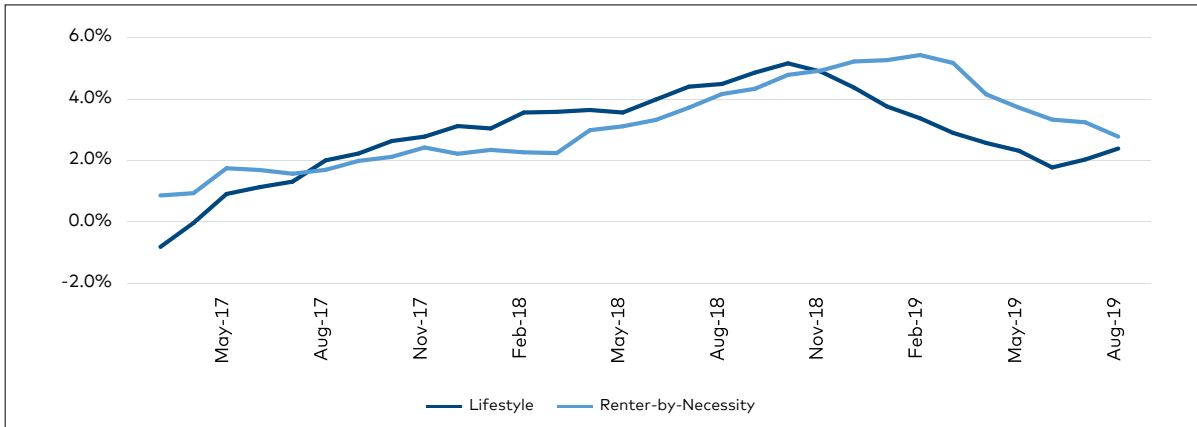
- This year's deliveries managed to tame rent growth in San Jose to a certain degree. The average rate was up 2.6% year-over-year through August, below the 3.3% national average. And at \$2,965, the average Silicon Valley rate remained roughly double the \$1,472 U.S. figure.
- The working-class Renter-by-Necessity segment led growth, with the average rate up 2.8% year-over-year through August, reaching \$2,705. Meanwhile, rents in the Lifestyle segment advanced 2.4%, to \$3,220.
- Core submarkets offering quick access to major tech employers continued to sport the highest average rates: Palo Alto–Stanford (\$3,885), Cupertino (\$3,394), Mountain View–Los Altos (\$3,372). Meanwhile, the list of submarkets leading year-over-year growth as of August included South San Jose (5.3%), Palo Alto–Stanford (4.8%) and Cupertino (3.8%).
- Following last year's failed Prop 10, which sought to repeal the Costa-Hawkins Rental Housing Act, California followed the footsteps of New York and Oregon, passing its own statewide rent control cap. The new regulations limit annual rent increases to 5.0%—after inflation—and offer additional tenant protections against evictions.

San Jose vs. National Rent Growth (Sequential 3 Month, Year-Over-Year)



Source: YardiMatrix

San Jose Rent Growth by Asset Class (Sequential 3 Month, Year-Over-Year)

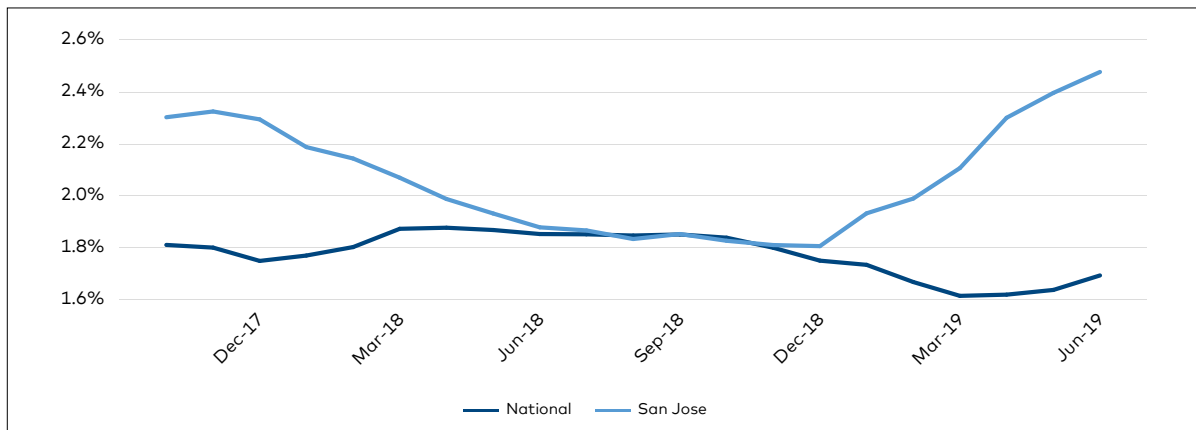


Source: YardiMatrix

Economic Snapshot

- Silicon Valley's employment growth is accelerating, with the metro gaining 27,400 jobs in the 12 months ending in June, a 2.5% year-over-year increase, 80 basis points above the national figure. The unemployment rate in San Jose–Sunnyvale–Santa Clara stood at 2.7% as of June, 1 full percent below the U.S. figure.
- The area's deep talent pool and a powerful entrepreneurial ecosystem continued to generate high-paying jobs, with a clear focus on the information sector. Year-over-year, the sector recorded the largest increase—9.6%. Overall, high-paying, office-using sectors—namely financial activities, information and professional and business services—gained a total of 11,500 positions, further boosting upscale housing demand in an area that is already tackling one of the country's most severe affordability crises.
- Meanwhile, the \$4.7 billion Phase II of the local transportation authority's Bay Area Rapid Transit extension, which is currently in its design and engineering phases, is slated to break ground in 2022. The BART project, set to connect north and downtown San Jose to Santa Clara, is anticipated to wrap up in 2026 and to carry 52,000 passengers across the Bay Area by 2035, with transit-oriented communities planned for all stations across the line.

San Jose vs. National Employment Growth (Year-Over-Year)



Sources: YardiMatrix, Bureau of Labor Statistics (not seasonally adjusted)

San Jose Employment Growth by Sector (Year-Over-Year)

Code	Employment Sector	Current Employment		Year Change	
		(000)	% Share	Employment	%
50	Information	102	8.8%	9,000	9.6%
30	Manufacturing	181	15.6%	7,200	4.2%
90	Government	102	8.8%	2,800	2.8%
60	Professional and Business Services	241	20.7%	2,700	1.1%
65	Education and Health Services	175	15.1%	2,500	1.4%
70	Leisure and Hospitality	109	9.4%	1,400	1.3%
55	Financial Activities	38	3.3%	1,200	3.2%
40	Trade, Transportation and Utilities	134	11.5%	500	0.4%
15	Mining, Logging and Construction	50	4.3%	100	0.2%
80	Other Services	29	2.5%	-	0.0%

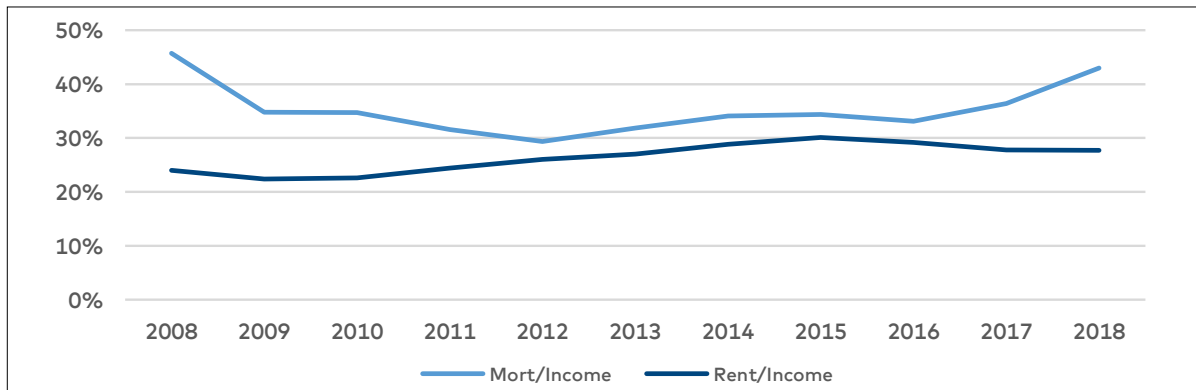
Sources: YardiMatrix, Bureau of Labor Statistics

Demographics

Affordability

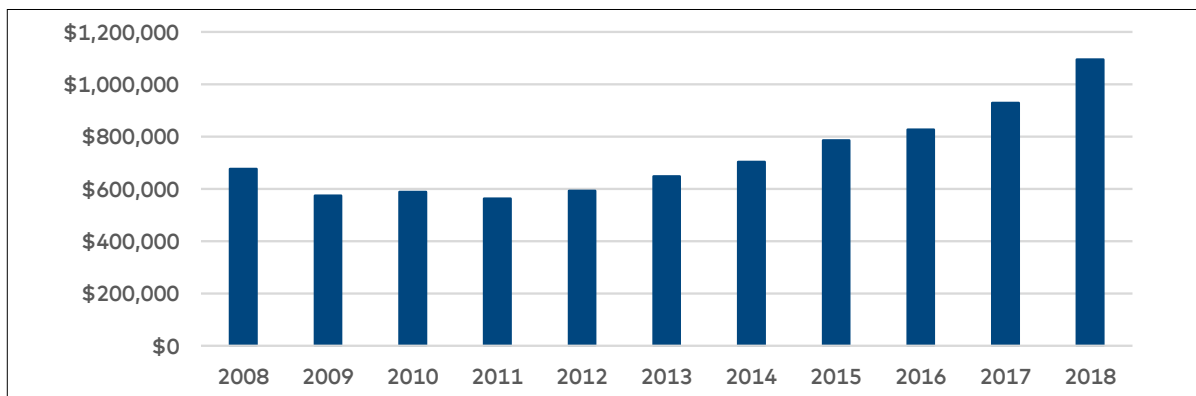
- Affordability remains one of Silicon Valley's top issues. The median home price crossed the \$1 million threshold last year, nearly doubling since 2011. Renting remained more affordable, with the average rate accounting for 28% of the median income, while the average mortgage payment equated to 43%.
- The area's economy slowed down to a certain extent due to its affordability issues—making way for smaller, rapidly growing tech hubs such as Austin or Phoenix—and Silicon Valley's housing crisis might start seeing some relief. While large tech companies are starting to step up and pledge to invest in affordable housing, the new statewide rent regulations could, to some extent, help as well.

San Jose Rent vs. Own Affordability as a Percentage of Income



Sources: YardiMatrix, Moody's Analytics

San Jose Median Home Price



Source: Moody's Analytics

Population

- In 2017, the metro gained 7,553 residents, a 0.4% increase, below the 0.7% national rate.
- Driven by its national tech hub status, San Jose's population is expected to continue inching up in the near term.

San Jose vs. National Population

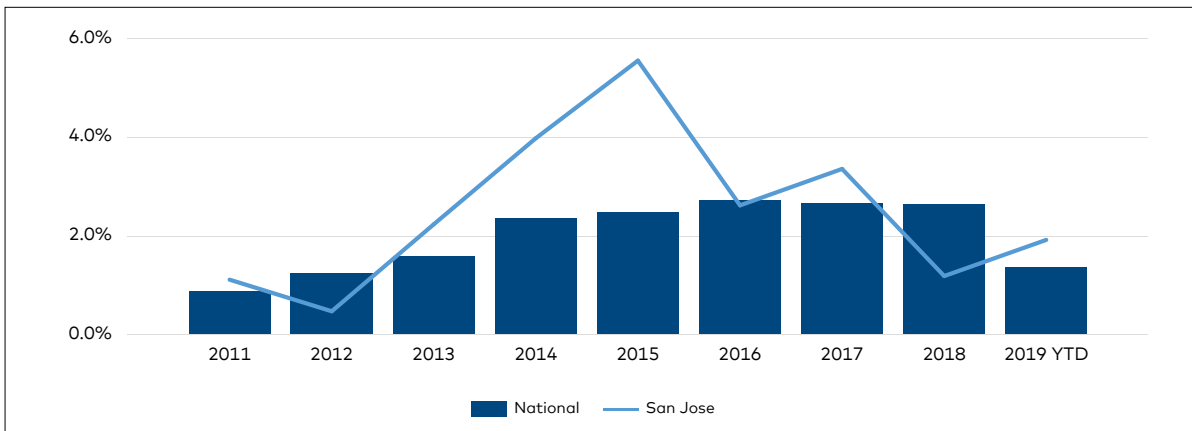
	2013	2014	2015	2016	2017
National	316,234,505	318,622,525	321,039,839	323,405,935	325,719,178
San Jose Metro	1,928,305	1,954,220	1,977,584	1,990,910	1,998,463

Sources: U.S. Census, Moody's Analytics

Supply

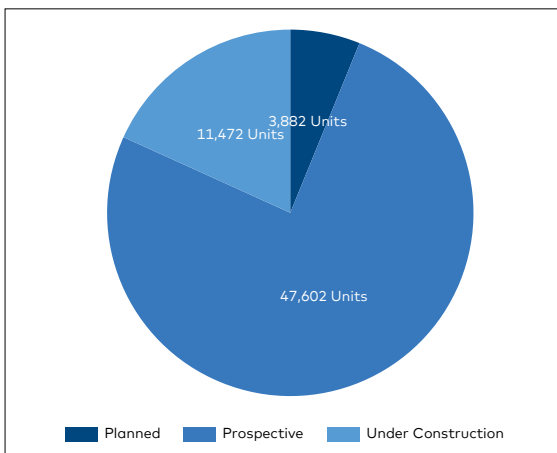
- Development accelerated in 2019 and metro San Jose had 11,472 units under construction as of August. Overall, this year's solid pipeline could even bring a new cycle peak for completions, slightly surpassing the annual supply level recorded in 2015, when 6,365 apartments were completed.
- A total of 2,292 units came online across the metro year-to-date through August, already exceeding last year's deliveries (1,460 units). Although absorption remained healthy overall, occupancy in stabilized properties took a small hit, dropping 30 basis points over 12 months, to 95.8% as of July.
- Development is mostly concentrated within core submarkets: Central San Jose (2,113 units under construction), Santa Clara (1,932), Mountain View–Los Altos (1,725) and Sunnyvale (1,641).
- The largest project slated for full completion in the last quarter of 2019 is Prometheus Real Estate Group's The Dean, a 583-unit community in Mountain View, located less than 3 miles from the Google headquarters. The project, which benefitted from a \$205 million loan originated by Northwestern Mutual Life Insurance Co., is set to include some 11,000 square feet of retail and 48 affordable units.

San Jose vs. National Completions as a Percentage of Total Stock (as of August 2019)



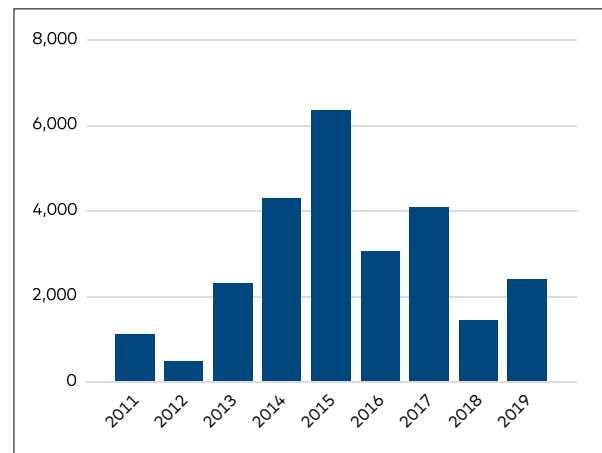
Source: YardiMatrix

Development Pipeline (as of August 2019)



Source: YardiMatrix

San Jose Completions (as of August 2019)

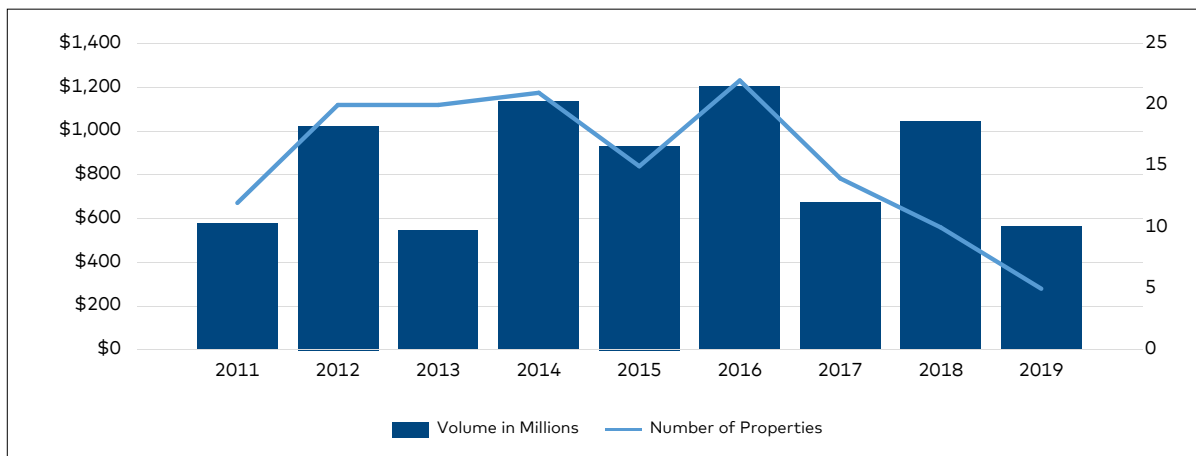


Source: YardiMatrix

Transactions

- More than \$560 million in multifamily assets of 50 or more units traded in the first eight months of the year, with investors targeting communities across the quality spectrum. The total sales volume got a strong boost from Prime Group's \$255 million acquisition of Domain, a 444-unit property in North San Jose. Equity Residential was the seller of the 2014-built property, which traded at \$575,450 per unit.
- Same as is the case with New York City, California's new statewide rent control measures could bring a temporary halt of large transactions and a drop in property values. While rent control laws in larger, highly expensive metros can bring relief for a significant segment of existing renters, such measures also dampen investor and developer appetite, which in turn can result into an aging stock and significantly smaller pipelines.

San Jose Sales Volume and Number of Properties Sold (as of August 2019)



Source: YardiMatrix

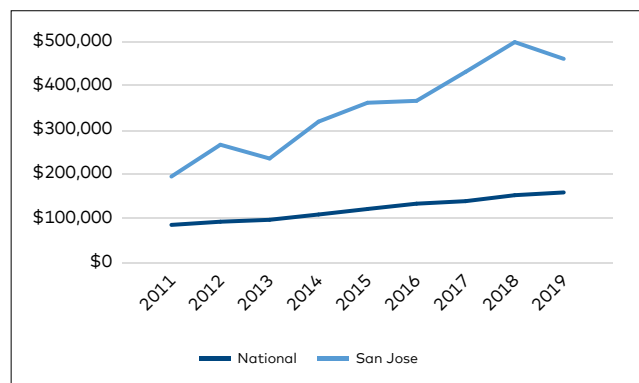
Top Submarkets for Transaction Volume¹

Submarket	Volume (\$MM)
North San Jose	251
Central San Jose West	210
Far South San Jose	181
Central San Jose	110
South San Jose	80
Gilroy	26

Source: YardiMatrix

¹ From September 2018 to August 2019

San Jose vs. National Sales Price per Unit



Source: YardiMatrix

News in the Metro

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Downtown San Jose Project Scores \$67M in Financing

Acquity Realty Inc. has received the joint venture equity and construction financing for The Firestone, a 130-unit apartment community with retail space in the downtown SoFA District.



Google Invests \$50M In Silicon Valley Fund

The investment is part of the company's previously announced \$1 billion commitment to help fund affordable housing in the Bay Area.



Google to Invest \$1B In Bay Area Housing

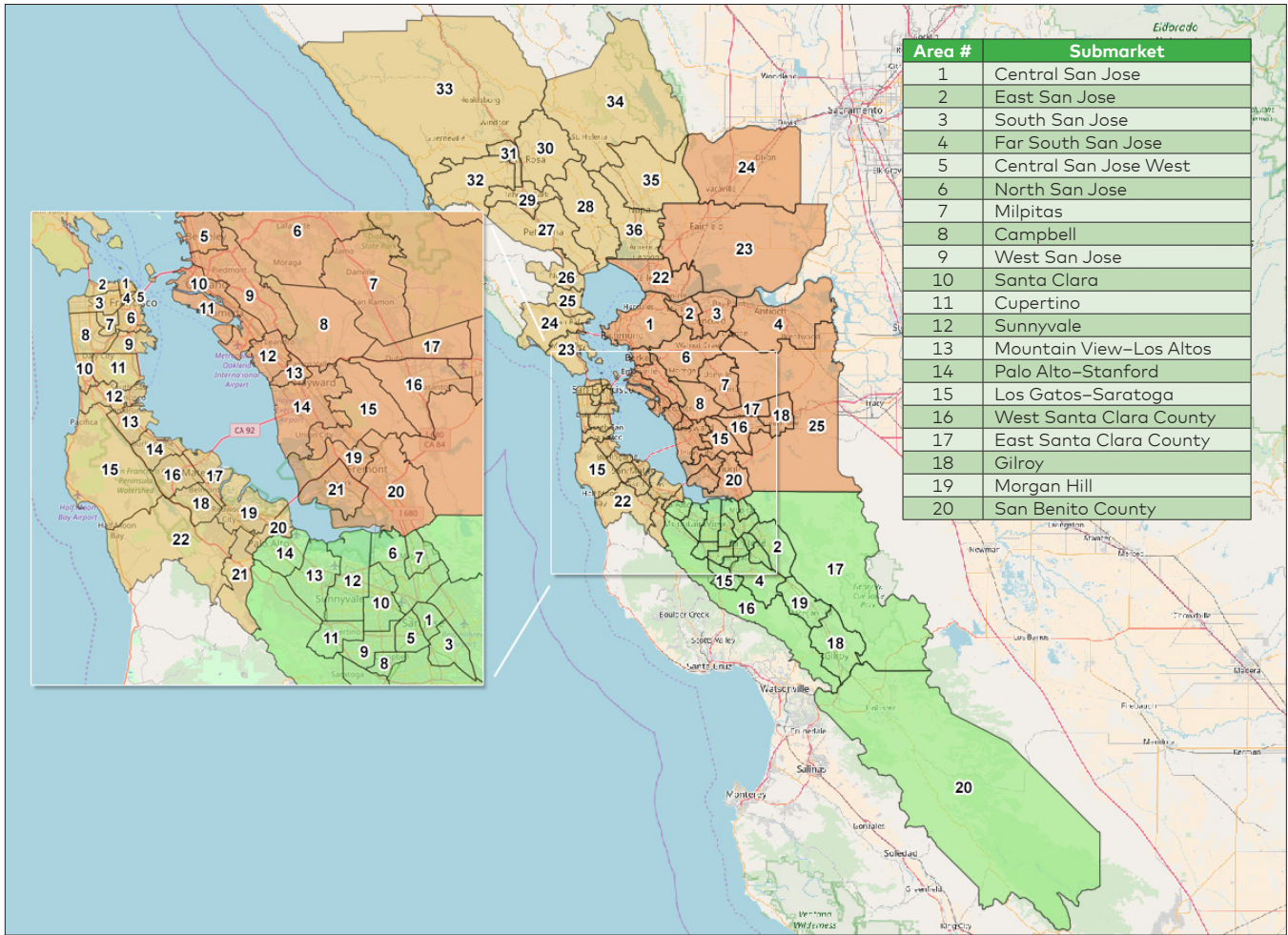
The company is the latest tech giant to pledge big bucks toward the housing crisis. The firm is planning to build 20,000 multifamily units, a quarter of which would be affordable.



Silicon Valley Project Scores \$41M Construction Loan

Lane Partners and Bay Development plan to break ground on the 75-unit luxury development in the second quarter of 2019.

San Jose Submarkets



Learn the latest about the state of these markets. Download our San Francisco Report.

Area #	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 #	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 #	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 #	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 may 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 may 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, may 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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