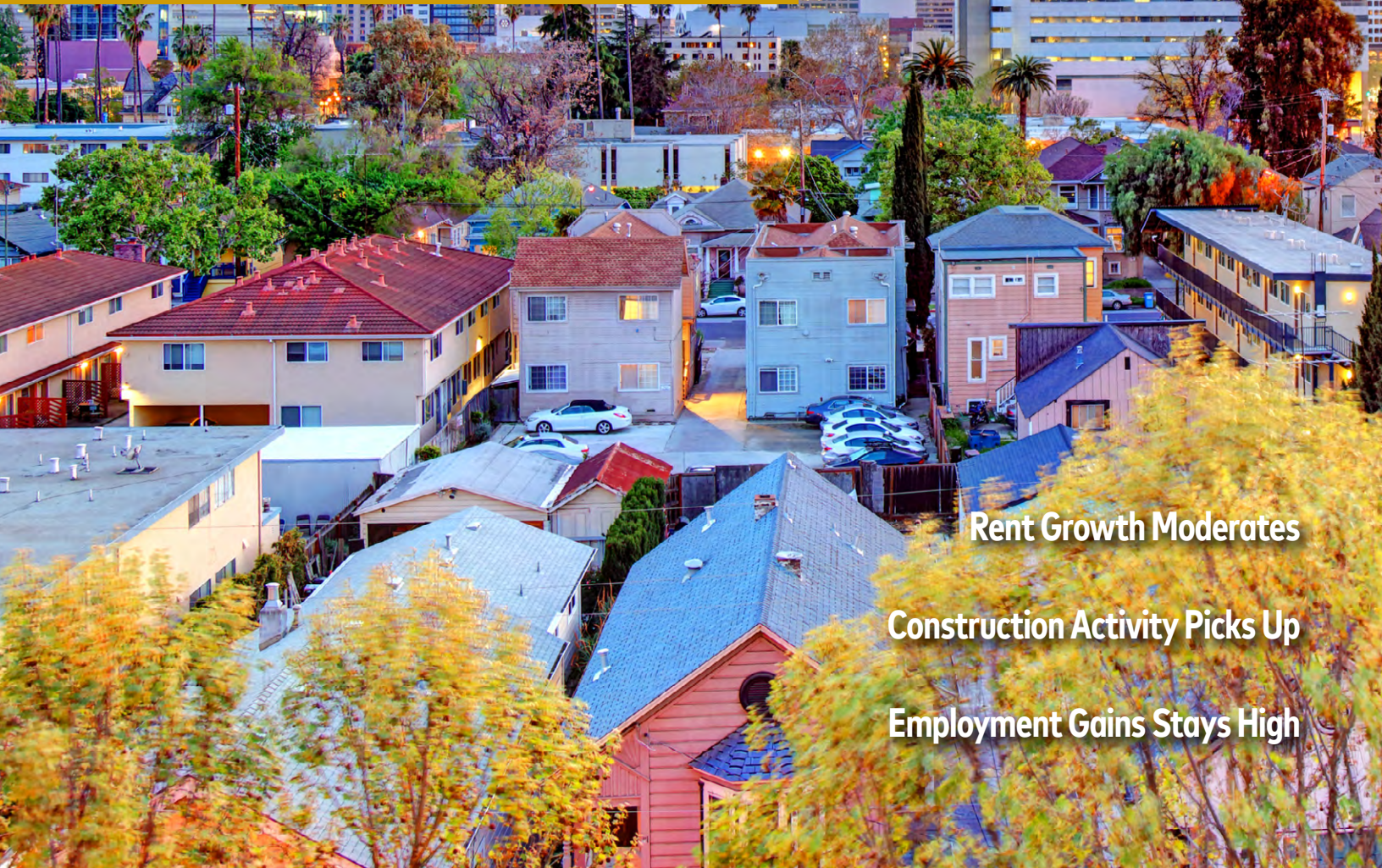


# Yardi® Matrix

MULTIFAMILY REPORT

# Garden City: Still In Full Bloom

Winter 2020



**Rent Growth Moderates**

**Construction Activity Picks Up**

**Employment Gains Stays High**

# SAN JOSE MULTIFAMILY

## Yardi® Matrix

# Job Increases Support Demand

San Jose's multifamily market is sustained by one of the country's strongest economies. Rent growth stagnated in the second part of 2019, advancing 0.1% year-over-year through November to \$2,876. Despite the elevated rents in the metro, the occupancy rate in stabilized properties inched up another 10 basis points year-over-year to 95.7% in October.

After hovering below the 2.0% mark for most of 2018, job growth picked up in 2019, rising 2.6% year-over-year through September—80 basis points above the national rate. San Jose gained 33,600 jobs in the 12 months ending in September, with the professional and business services sector leading job growth (9,500 jobs), followed by the information sector (7,800 positions). Manufacturing—San Jose's second-largest employment sector—rounded out the top three, expanding by 6,300 jobs. This growth is poised to continue with support from top companies including Tesla, Apple and Splunk, among others.

Apartment deliveries picked up again in 2019 with 2,393 units, or 2.0% of total stock, coming online year-to-date through November. The transaction volume crossed the \$1 billion mark in the first 10 months of the year, for an average price per unit of \$497,574, more than three times the \$162,751 national average per-unit price.

## Market Analysis | Winter 2020

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On the cover: Photo by Denis Tangney Jr/iStockphoto.com

### Recent San Jose Transactions

#### The Village Residences



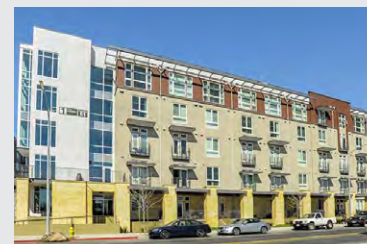
City: Mountain View, Calif.  
Buyer: Brookfield Properties  
Purchase Price: \$292 MM  
Price per Unit: \$884,848

#### Lex



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

#### Domain



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

#### Sofi Riverview Park

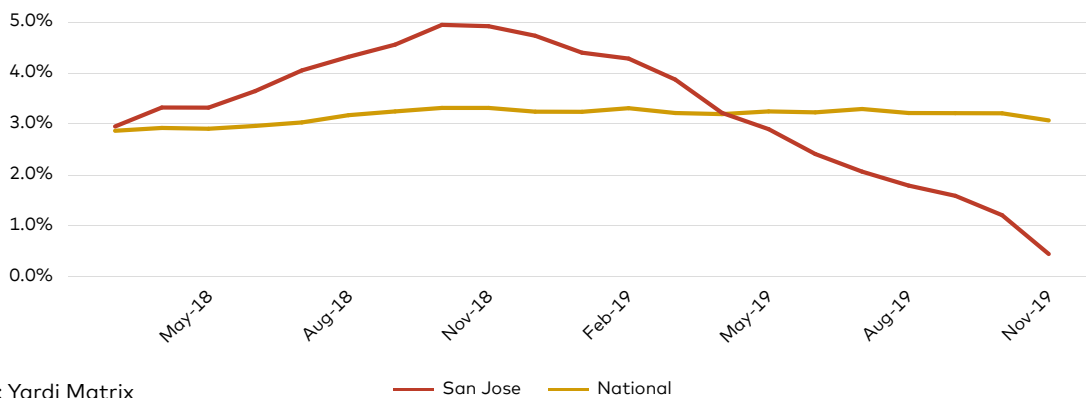


City: San Jose, Calif.  
Buyer: Pacific Urban Residential  
Purchase Price: \$61 MM  
Price per Unit: \$226,576

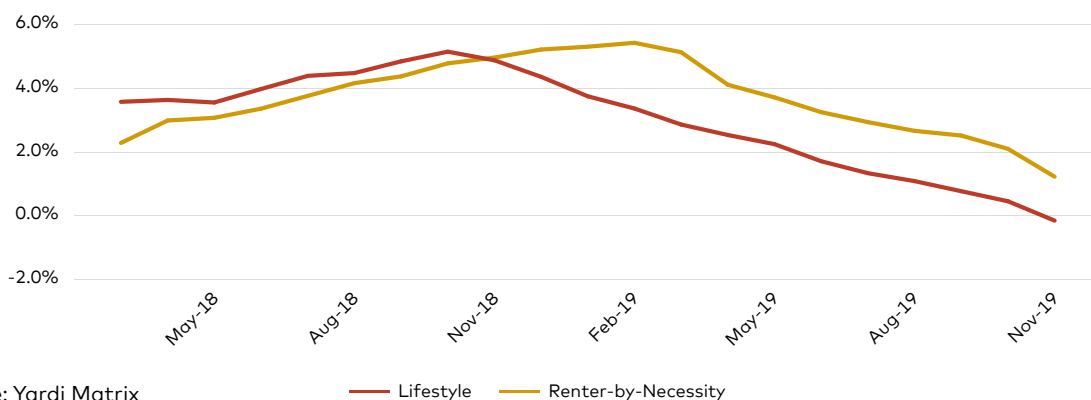
## RENT TRENDS

- Rent growth in San Jose plateaued, up only 0.1% year-over-year through November to \$2,876 and nearly double the \$1,473 national average. Nationally, the average rent rose 3.1%. Despite the almost stagnant rent growth, the metro's rental sector was in good shape, with the average occupancy rate in stabilized properties rising 10 basis points year-over-year through October to 95.7%. While the occupancy rate for Renter-by-Necessity units rose 20 basis points during the same period—to 96.1%—the rate in Lifestyle units remained flat. The segment saw sustained demand, as recent inventory expansion was almost entirely geared toward upscale properties.
- The average rent in the working-class Renter-by-Necessity segment rose 1.0% year-over-year through November to \$2,649. Meanwhile, rents in the Lifestyle segment contracted 0.5% to \$3,098.
- Rents increased in submarkets where technology employers have created a strong presence. The three submarkets that saw the most significant rent increases—Cupertino (up 1.9% year-over-year), Palo Alto-Stanford (1.9%) and Sunnyvale (1.2%)—had some of the largest average rents, as all three had rates of at least \$2,950. In Central San Jose, rents slid 2.8% to \$2,874, while in Far South San Jose the average rent contracted 2.4% to \$2,458.

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



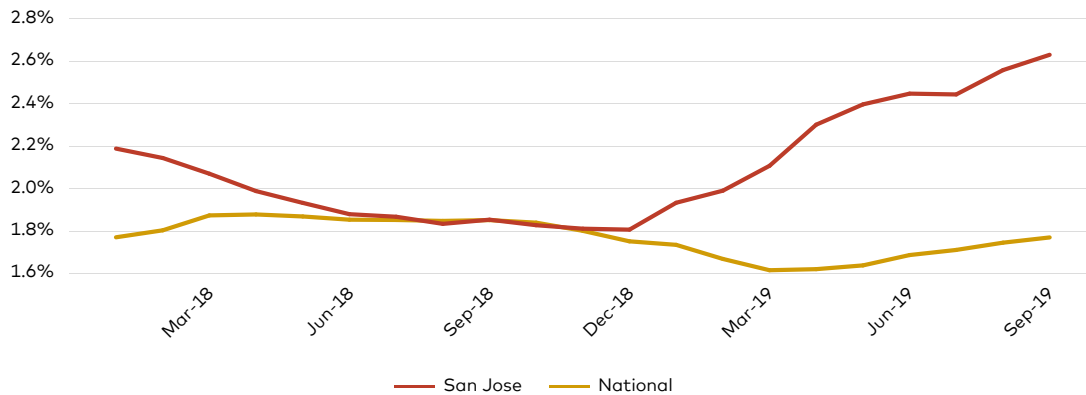
**San Jose Rent Growth by Asset Class** (Sequential 3 Month, Year-Over-Year)



## ECONOMIC SNAPSHOT

- ▶ San Jose gained 33,600 jobs in the 12 months ending in September for a 2.6% year-over-year increase, 80 basis points above the national rate. After hovering below the 2.0% threshold for most of 2018, growth surged in 2019 and maintained a constant upward trend throughout the year. This led to an extremely tight labor market, with the unemployment rate dropping to 2.2% as of September, well below the 3.5% national rate and 80 basis points below the figure registered in January 2019.
- ▶ The metro's profile, primarily determined by giant tech employers like Apple and Alphabet, as well as a plethora of tech startups, continues to expand. Office-using jobs accounted for more than half of all employment, with the professional and business services sector leading growth, gaining 9,500 jobs. Aside from technology being a workhorse for the area's economy, the information sector—one of the least dynamic segments at a national level—is also thriving in San Jose, having gained 7,800 positions as of September.
- ▶ Manufacturing rounded out the top three (6,300 jobs gained) as the metro's second-largest employment sector. Besides Tesla—a solid source of exports—tech employers Apple and Splunk have invested in expanding their manufacturing and development operations in San Jose.

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



Sources: Yardi Matrix, 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	%
60	Professional and Business Services	247	21.3%	9,500	4.0%
50	Information	101	8.7%	7,800	8.3%
30	Manufacturing	180	15.5%	6,300	3.6%
90	Government	101	8.7%	5,900	6.2%
65	Education and Health Services	172	14.8%	2,200	1.3%
70	Leisure and Hospitality	108	9.3%	1,000	0.9%
55	Financial Activities	38	3.3%	900	2.4%
80	Other Services	29	2.5%	200	0.7%
40	Trade, Transportation and Utilities	133	11.5%	200	0.2%
15	Mining, Logging and Construction	50	4.3%	-400	-0.8%

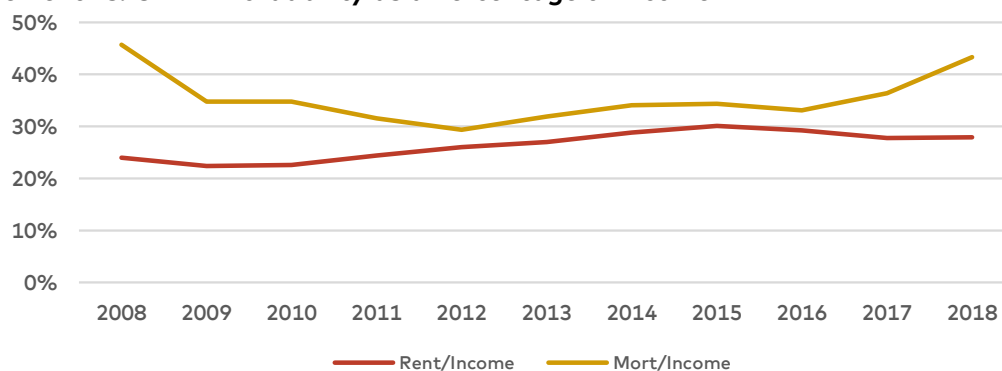
Sources: Yardi Matrix, Bureau of Labor Statistics

## DEMOGRAPHICS

### Affordability

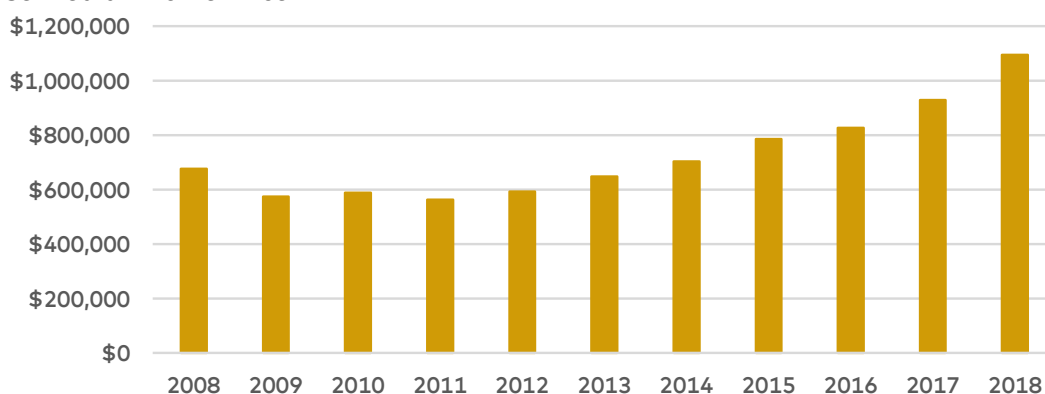
- ▶ San Jose's median home value rose 17.8% year-over-year in 2018 to an all-time high of \$1,095,012. The average mortgage payment accounted for 43% of the area median income, a 7% year-over-year increase. However, that's lower than the figure for 2008—46%. Renting was more affordable in 2018—the average rent encompassed 28%.
- ▶ Mayor Sam Liccardo created a plan in 2017 to build 10,000 affordable apartments by 2022; between 2017 and 2019 only 792 units in seven fully affordable properties were delivered, and 564 units in five fully affordable communities were underway as of November.

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



Sources: Yardi Matrix, Moody's Analytics

### San Jose Median Home Price



Source: Moody's Analytics

### Population

- ▶ San Jose gained 5,525 residents in 2018, driven by high incomes. This marked a 0.3% uptick, half of the 0.6% national rate.
- ▶ The metro's high cost of living is restrictive to many residents, who opt to relocate to neighboring cities and states.

### San Jose vs. National Population

	2015	2016	2017	2018
National	320,742,673	323,071,342	325,147,121	327,167,434
San Jose Metro	1,975,724	1,988,816	1,993,582	1,999,107

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

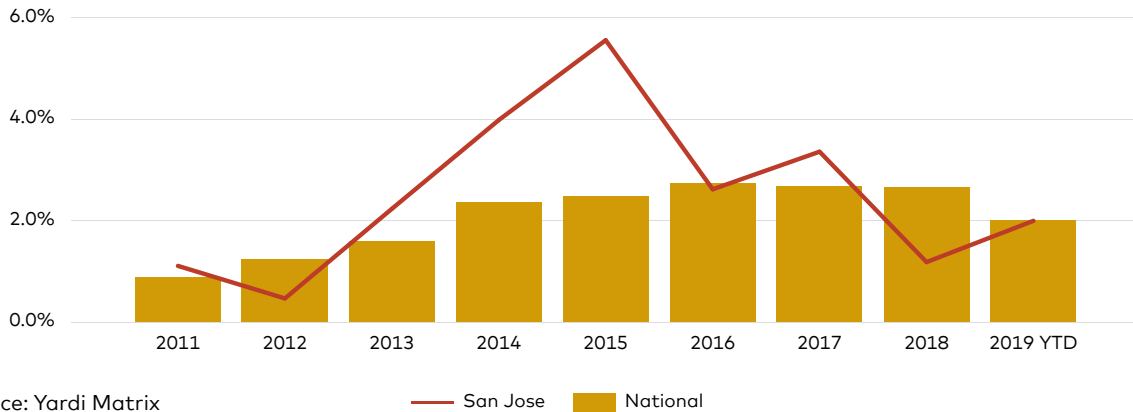
## SUPPLY

- Deliveries picked up in San Jose in 2019. Year-to-date through November, 2,393 units in 10 Lifestyle properties—or 2.0% of total stock—came online across the metro, on par with the national rate. This follows 2018's tepid inventory growth when 1,460 units came online.
- About 94% of the city is zoned for single-family homes, which calls for increased density around urban corridors. Despite limited land availability, San Jose had 12,500 units underway as of November, some 1,600 of which were slated for completion by the end of 2019. With the construction sector slightly contracting last year,

developers weren't expected to meet their original completion timelines. Another 50,000 units were in the planning and permitting stages.

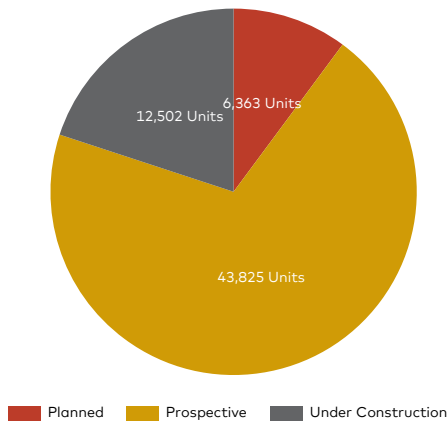
- Construction activity was highest in Central San Jose, where 2,690 units in 11 properties were underway — six of these properties are in Opportunity Zones. Developers also targeted Santa Clara (1,932 units), Sunnyvale (1,891 units) and Mountain View-Los Altos (1,787 units). Greystar and SummerHill Apartments were the most active developers in the metro, with a combined 2,241 units under construction between them, all slated for completion in the second half of 2020.

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



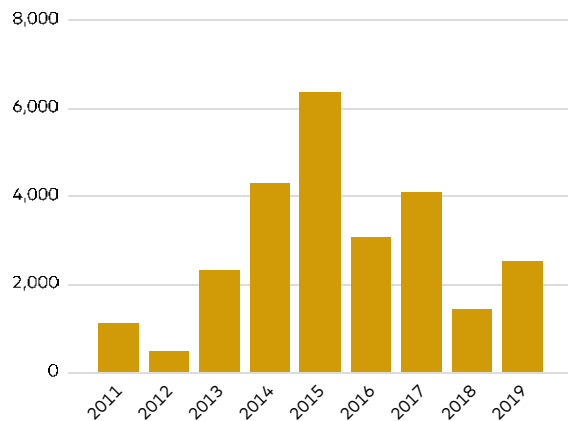
Source: Yardi Matrix

### Development Pipeline (as of November 2019)



Source: Yardi Matrix

### San Jose Completions (as of November 2019)



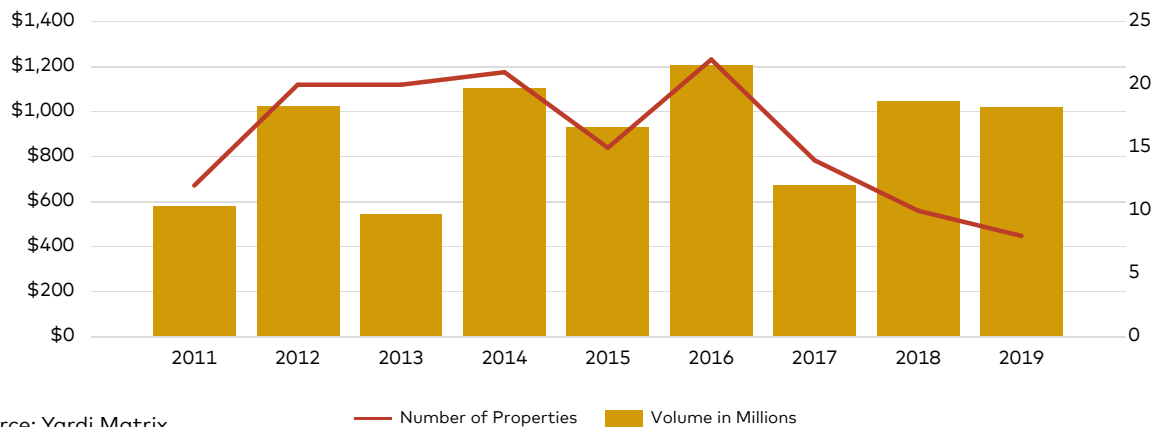
Source: Yardi Matrix

## TRANSACTIONS

- ▶ More than \$1 billion in multifamily properties traded in San Jose year-to-date through October. The metro is still a seller's market, although the overall price per unit stagnated at \$497,573 last year. This is more than three times the \$162,751 national average per-unit price.
- ▶ The most active submarkets in the 12 months ending in October were North San Jose (\$316 million), Mountain View-Los Altos (\$292 mil-

lion) and Far South San Jose (\$180 million). The largest transaction in the metro was Brookfield Properties' acquisition of The Village Residences, a mixed-use development completed in 2013. The three-building, 330-unit community was the only asset to change hands in the Mountain View-Los Altos submarket in the first 10 months of 2019.

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



Source: Yardi Matrix

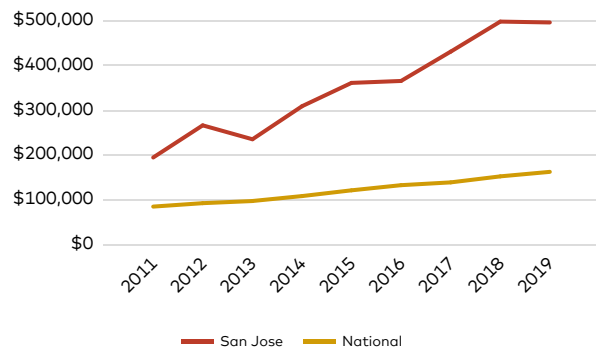
**Top Submarkets for Transaction Volume<sup>1</sup>**

Submarket	Volume (\$MM)
North San Jose	317
Mountain View-Los Altos	292
Far South San Jose	181
Central San Jose	110
Central San Jose West	106
East San Jose	104
South San Jose	80
Gilroy	26

Source: Yardi Matrix

<sup>1</sup> From November 2018 to October 2019

**San Jose vs. National Sales Price per Unit**



Source: Yardi Matrix



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The Village  
Commands \$292M

A joint venture of Carmel Partners and Merlone Geier Partners sold the 330-unit community.



Luxury Condo Lands  
\$330M Loan

Z&L Properties Inc. is developing the 640-unit residence in the downtown area.



Townhomes  
Get New Owner

Levin Johnston of Marcus & Millichap advised the private buyer to offer \$40.5 million for the acquisition.



Community Scores  
\$58M Refi

JLL arranged the 10-year financing on behalf of Pacifica Enterprises for the 172-unit luxury property.

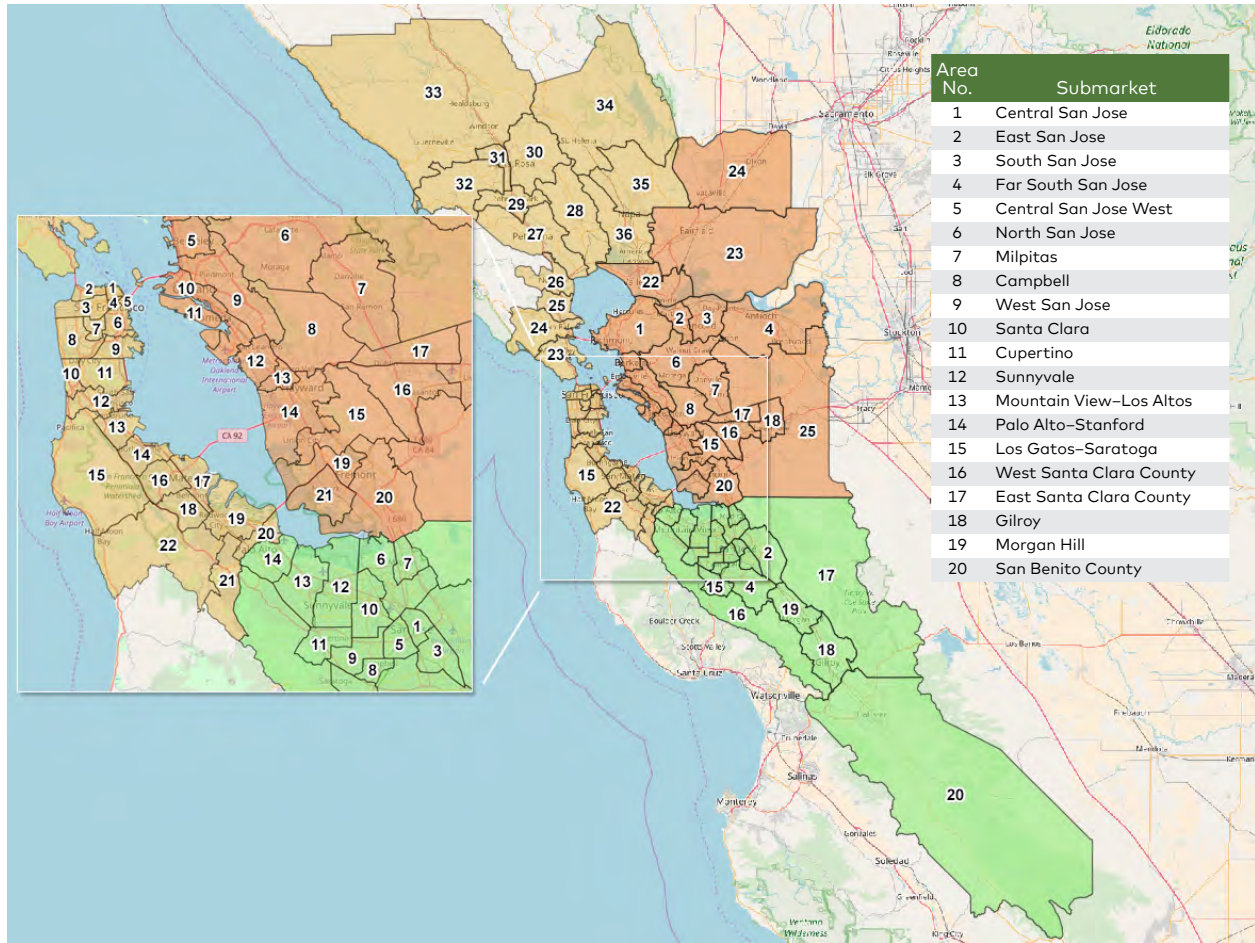


Stockbridge Buys  
\$104M Property

The luxury residential property is located within walking distance from a future BART train station.



# SAN JOSE SUBMARKETS



Area No.	Submarket	Area No.	Submarket	Area No.	Submarket	Area No.	Submarket
1	Northeast San Francisco	19	Redwood City	1	Richmond	16	Pleasanton
2	Northwest San Francisco	20	Menlo Park/East Palo Alto	2	Pleasant Hill/Martinez	17	Dublin
3	Golden Gate Park	21	Atherton/Portola	3	Concord	18	Livermore
4	Market Street	22	Woodside	4	Antioch/Oakley	19	West Fremont
5	China Basin	23	Tiburon/Sausalito	5	Berkeley	20	East Fremont
6	Eastern San Francisco	24	San Rafael	6	Walnut Creek/Lafayette	21	Newark
7	Central San Francisco	25	Lucas Valley	7	San Ramon-West/Danville	22	Vallejo/Benicia
8	Southwest San Francisco	26	Novato	8	Castro Valley	23	Fairfield
9	Southeast San Francisco	27	Petaluma	9	Oakland East/Oakland Hills	24	Vacaville
10	Broadmoor/Daly City	28	Sonoma	10	Downtown Oakland	25	San Ramon-East
11	Colma/Brisbane	29	Rohnert Park	11	Alameda		
12	South San Francisco	30	Santa Rosa	12	San Leandro		
13	Millbrae/Airport	31	Roseland	13	San Lorenzo		
14	Burlingame	32	Sebastapol	14	Hayward		
15	Moss Beach	33	Northern Sonoma County	15	Union City		
16	San Mateo	34	Deer Park/St. Helena				
17	Foster City	35	Napa North				
18	Belmont/San Carlos	36	Napa South				

## 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.

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