

Multifamily Metro Outlook:

San Jose - Q2 2021

Overview:

- Prior to the onset of COVID-19, the San Jose metro area was one of the top performing local economies in the country. However, although not as widespread as other areas due to an overall dependency on Tech, the local metro area is feeling the impact of the virus, mainly in the Manufacturing sector. Even with the Manufacturing sector being impacted by supply chain disruptions, recovery in the metro continues to progress.
- San Jose's apartment market has been making headwinds in their recovery. After consecutive quarters of elevated vacancies, the vacancy rate has dropped to its lowest point in three quarters, coming in at 6% for Q2 2021. Rent growth has also returned with a vengeance after being negative in the previous quarter, rent growth for Q2 2021 came in at 2.75%, the first quarter of (positive) growth since Q3 2019.

Market Strengths:

- The very volatile Tech sector has achieved a sense of stability lately as all the major tech players in the industry now have a presence in the metro and all the jobs lost in 2020 have been recaptured. Apple, Google and Facebook all have major presences in the metro and are amid expansion. Furthermore, the tech employers allowing employees to work from home (remotely) indefinitely will keep employers and jobs in the San Jose metro.
- As the virus has shifted consumer behavior, it has been a bit of a boon for the software development industry in San Jose. According to CoStar, prior to the pandemic e-commerce was expanding by nearly 17% annually and that number has increased as the virus has increased the need for online shopping.
- Local economic dependency on the Tech and Information sectors has mitigated the impact of COVID-19 in the San Jose metro area. Many tech employers within the metro area were able to pivot to remote working and operations have gone as smooth as one could hope for. Large employers such as Google, Apple, Facebook and Amazon have reported that employees will continue to work remotely throughout 2021 and well into 2022.

Market Weaknesses:

- San Jose is an extremely expensive place to live, with costs of living and business costs, respectively, +87% and +53% higher than the national averages. San Jose has a negative rate of net-migration as a result of many residents being priced out of the metro. The arrival of the virus has only exacerbated the rate of negative net-migration as the ripple effect from remote working has led to many low wage paying jobs being eliminated or furloughed.
- As the cost of doing business via labor and land costs rises, more tech firms located in the metro are relocating their expansion. According to Moody's Analytics, many firms have begun to move to less expensive metros such as Los Angeles, Oakland, Utah, Washington and even Oregon. Furthermore, it appears as if the tech sector might have reached its peak and is now plateauing. Many tech firms have recently been victims of hyper-valuation only to see their value drop significantly after their IPO occurs.
- Even with the successful pivot to remote working for much of the Tech industry, other prominent employment sectors within the metro are still susceptible to many of the downsides of COVID-19. According to Moody's Analytics the metro area has twice the national average of employment concentration in the Manufacturing sector. Furthermore, the local Hospitality sector relies on the frequent travel of Tech employees, so a complete pivot to remote working could have long lasting ramifications for the San Jose Hospitality sector. The Manufacturing industry which was already impacted by the on-going trade war with China, will now have to deal with disruptions in supply chains as a result of the virus slowing efficiency within the sector. Even as the impact of COVID lessens, there is the potential that the semiconductor chip shortage will last well into 2022 and possibly 2023.

Development:

- Apartment development in San Jose has been moderate as just 14,600 rental units have been completed since 2016. Currently, 5,800 units are underway, and another 40,000 units are in the planning stages. Since 2006, just above 8,700 condos have been completed and there are not many units underway through 2022.

Outlook:

- Multifamily Outlook - Steady: The apartment market has finally recovered after an arduous battle that started a bit before the virus' arrival. Vacancies although still elevated are at their lowest point since Q4 2020 and rent growth has returned in a big way after a long period of negative or flat growth. The lack of single-family affordability in the metro will be a boon for the apartment market, however remote working has caused many (would be) renters to leave the area, at least temporarily.
- Economic Outlook - Less Stable: The well-educated work-force and San Jose's tech industry will continue to attract new employers. The high overall business and living costs, in addition to the cost of homeownership will continue to keep would-be homebuyers in the rental market for extended periods. The volatility of the tech sector is something to keep an eye on, tech employers have begun to look to other metro areas as a cost-effective measure. The longest lasting impact of COVID in the metro could potentially impact the Manufacturing sector well into next year and even in 2023 as supply chain disruptions and semiconductor shortages are not improving. Additionally, prolonged remote working, could emerge as a new normal for the tech industry which would have a (long-term) ripple effect on other local employment sectors.

Five Year Metro Area Growth Forecast

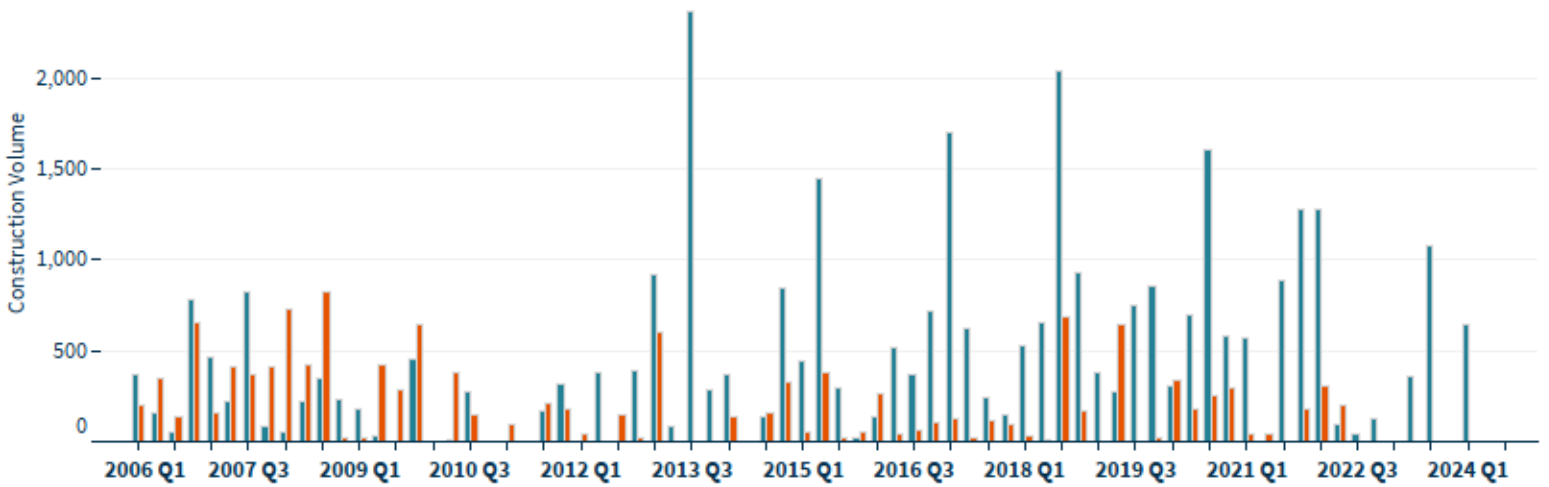
	Q4 2020	Q4 2025	San Jose (5-Year Annual Average Change)	National (5-Year Annual Average Change)
Population	2,007	2,067	0.58%	0.52%
Households	657	700	1.28%	1.41%
Renting Cohort (Ages 20-34)	445	436	-0.40%	-0.26%
Total Employment	1,078	1,197	2.12%	1.71%
Median Household Income	\$127,271	\$153,922	3.88%	2.83%
Median SF Home Price	\$1,506,442	\$2,485,460	10.53%	4.30%
Net Migration	1,929	500		

Source: Moody's

SupplyTrack Pipeline

Apartments & Condos/Townhomes: Units Completed and Underway

Apartments | Condos



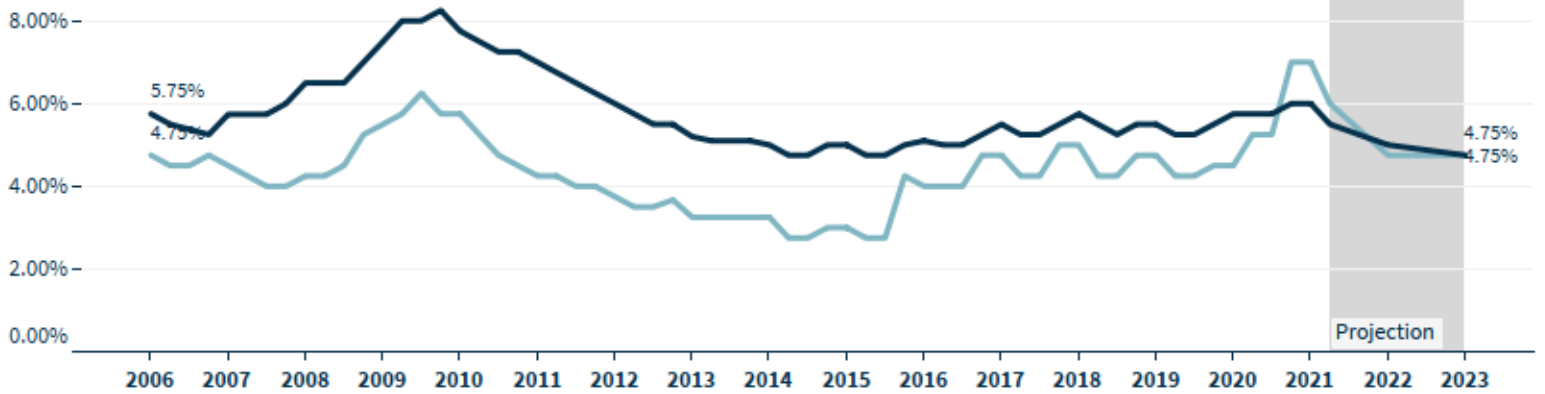
Vacancy & Rent Composite Estimates

Vacancy Rates

San Jose | National

Q2 2021 Vacancy Rate:

6.00%

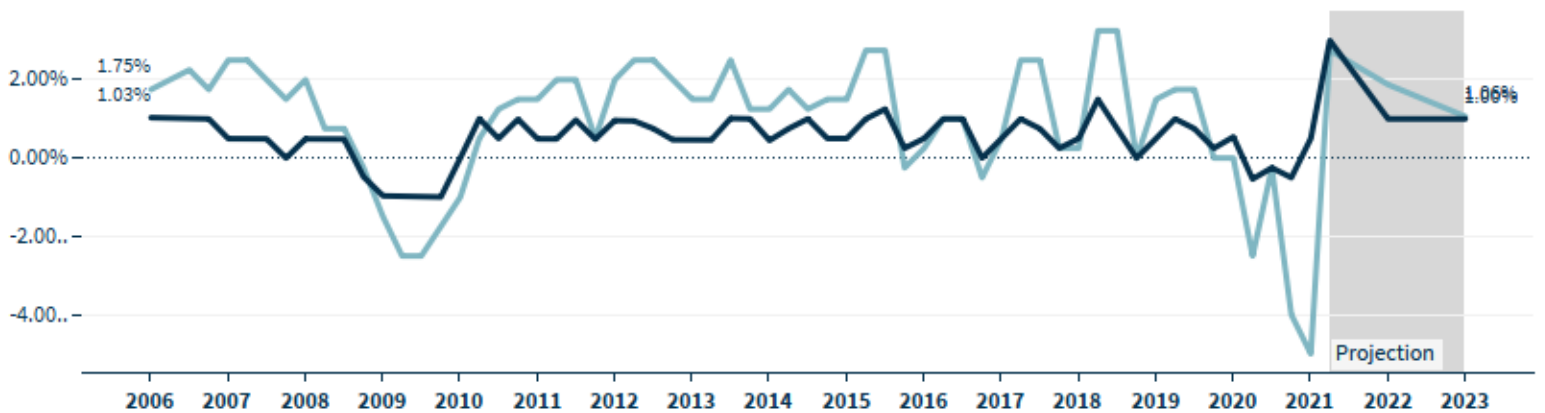


Asking Rent Growth

San Jose | National

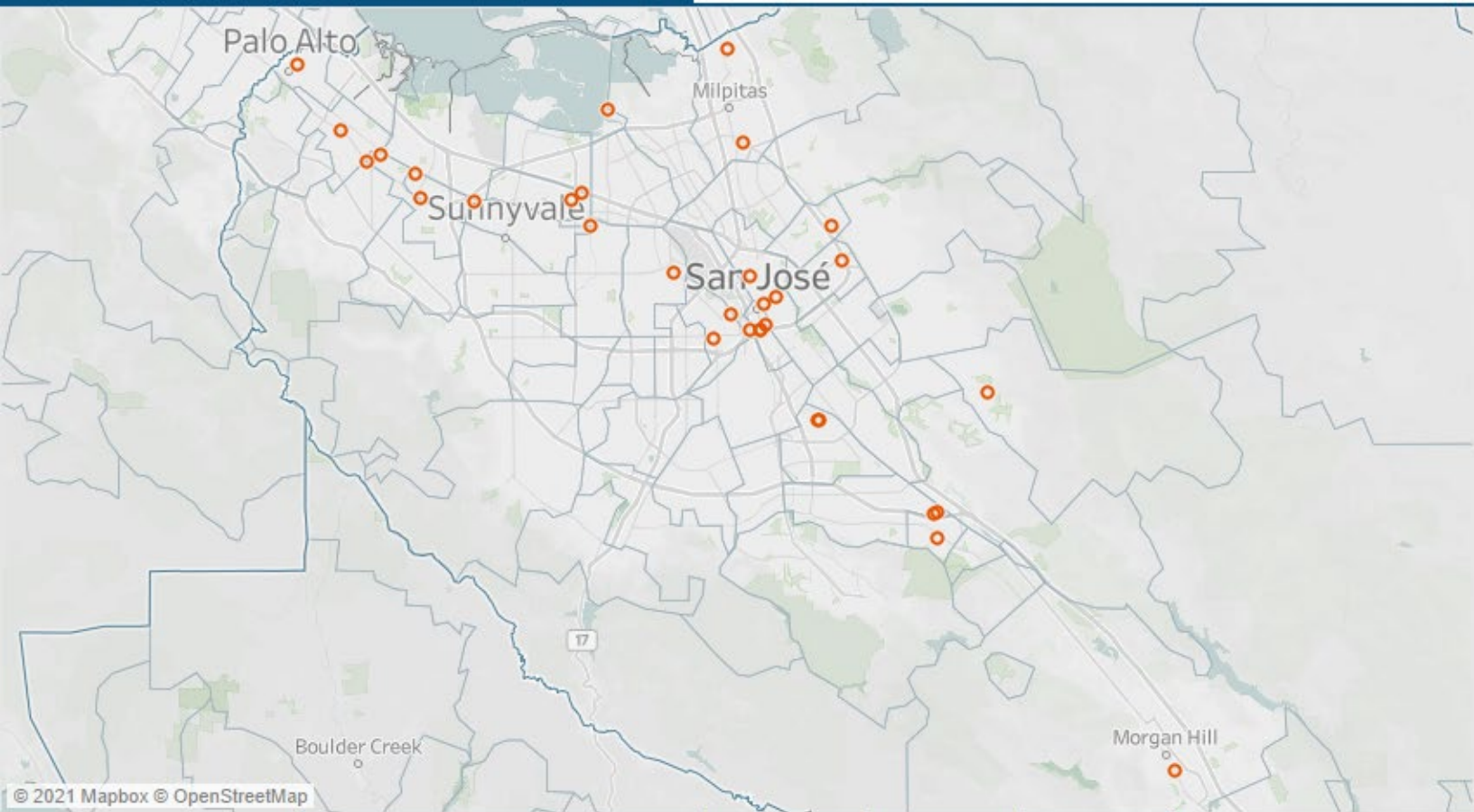
Q2 2021 Asking Rent:

\$2,570



Source: Multifamily Economics and Research

Construction: Bidding & Underway



<i>Sub-Market</i>	<i>Projects</i>	<i>Units</i>	<i>Sq. Ft. (M)</i>
Central San Jose	9	1,998	2.27M
East San Jose	3	109	0.14M
Mountain View/Palo Alto/Los Altos	7	1,698	1.89M
North San Jose/Milpitas	4	125	0.22M
North Sunnyvale	2	1,324	1.47M
Santa Clara	2	500	0.49M
South San Jose	6	33	0.09M
Grand Total	33	5,787	6.55M

Multifamily: ESR Team

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Multifamily Economics and Market Research Team

Francisco Nicco-Annan, Economic and Strategic Research - Economics – Lead Economist

Sources Used

- Moody's Economy.com
- REIS
- CoStar
- Real Capital Analytics
- RealPage
- Dodge Data and Analytics SupplyTrack Pipeline
- Axiometrics
- CBRE-Econometric Advisors
- Yardi

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