

# Multifamily Metro Outlook:

## San Jose - Q4 2020

### 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.
- San Jose's apartment market is losing the battle to the virus in a major way. As of Q4 2020 vacancies have sky-rocketed to 7 percent, a +2.5 percent increase year-over-year. Rent growth is not faring any better as it was -4 percent as of Q4 2020 (-4 decrease percent year-over-year).

### 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. 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 percent 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 tech employers such as Google, Apple, Facebook and Amazon have reported that employees will continue to work remotely throughout 2021.

### Market Weaknesses:

- San Jose is an extremely expensive place to live, with costs of living and business costs, respectively, +87 percent and +47 percent 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 sector 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.

### Development:

- Apartment development in San Jose has been moderate as just 15,700 rental units have been completed since 2014. Currently, 6,900 units are underway, and another 24,000 units are in the planning stages. Since 2006, just above 8,700 condos have been completed and there are not many units underway through the first half of 2022.

### Outlook:

- The apartment market is facing a losing battle to the virus that could have long-term ramifications. Vacancies are at levels not seen since the Great Recession and rent growth continues to move in the wrong direction. As long as employers continue to let employees work remotely coupled with the eradication of low wage retail/hospitality jobs, the apartment market will continue to suffer.
- 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 arrival of COVID could have long term ramifications as the tech industry has committed to remote working well into 2021. Depending on the success of remote working, it could emerge as a new normal for the industry which would have a ripple effect on other local employment sectors.

## Five Year Metro Area Growth Forecast

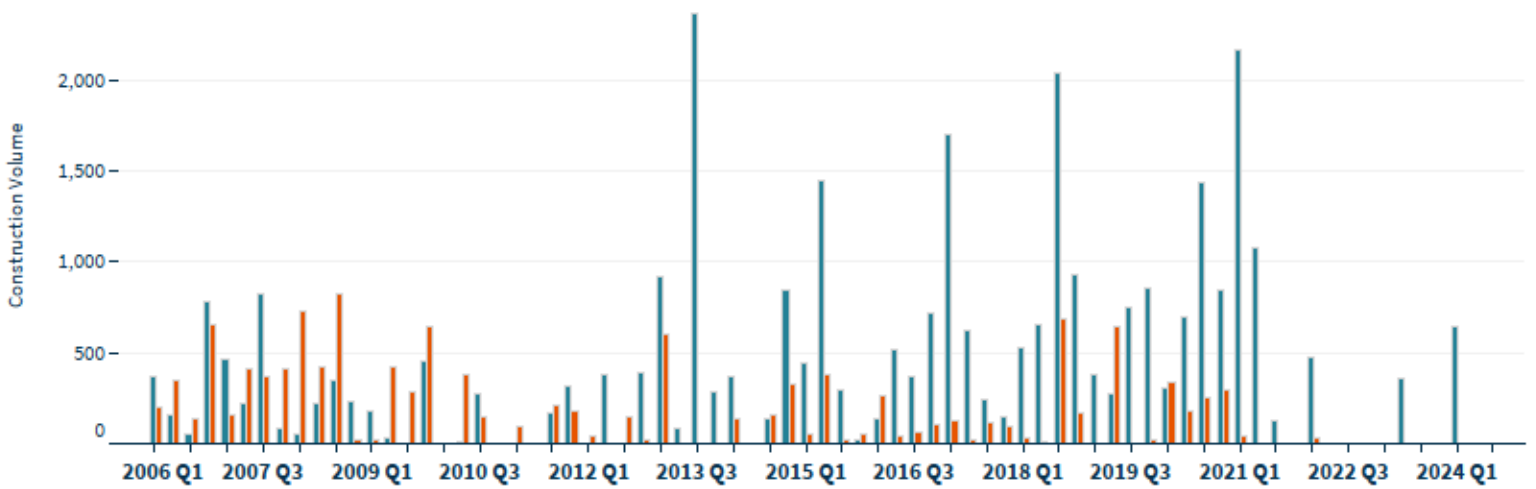
	Q4 2020	Q4 2025	San Jose (5-Year Annual Average Change)	National (5-Year Annual Average Change)
<b>Population</b>	2,007	2,067	0.58%	0.52%
<b>Households</b>	657	700	1.28%	1.41%
<b>Renting Cohort (Ages 20-34)</b>	445	436	-0.40%	-0.26%
<b>Total Employment</b>	1,078	1,197	2.12%	1.71%
<b>Median Household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

Source: Moody's

## SupplyTrack Pipeline

### Apartments & Condos/Townhomes: Units Completed and Underway

Apartments | Condos



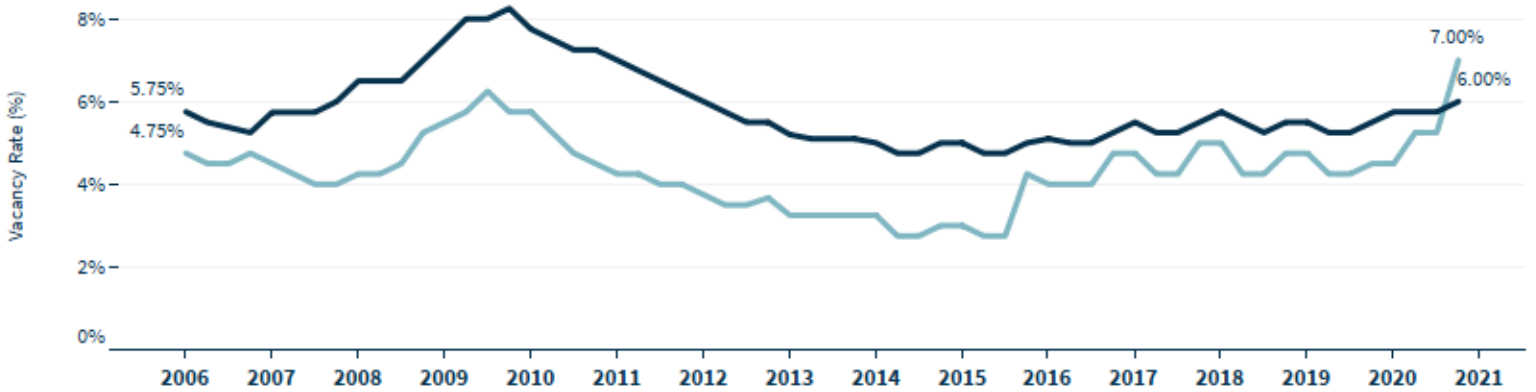
## Vacancy & Rent Composite Estimates

### Vacancy Rates

San Jose | National

Q4 2020 Vacancy Rate:

7.00%

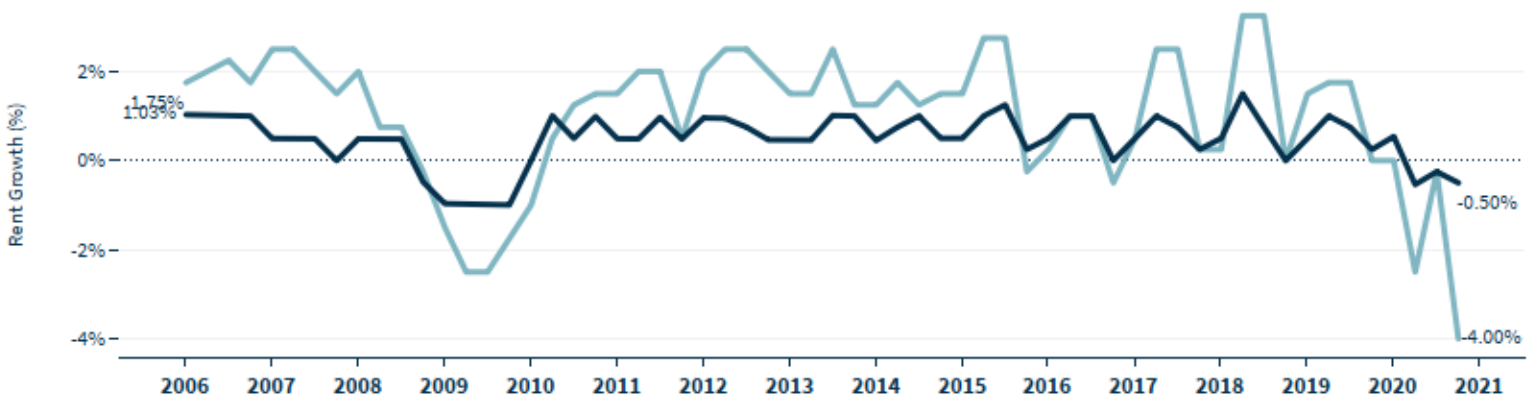


### Asking Rent Growth

San Jose | National

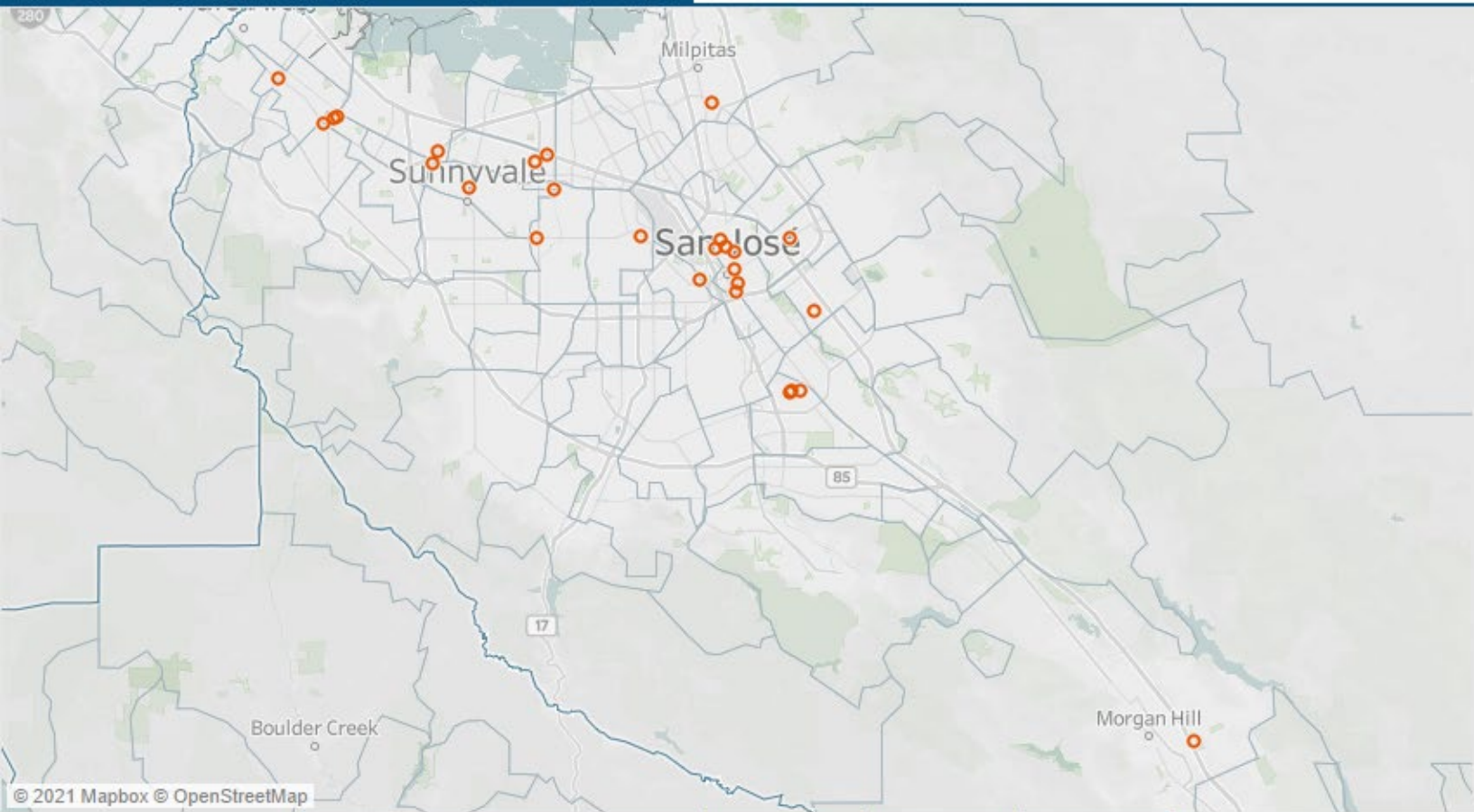
Q4 2020 Asking Rent:

\$2,500



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	8	1,755	1.83M
East San Jose	2	85	0.08M
Mountain View/Palo Alto/Los Altos	6	2,357	2.61M
North San Jose/Milpitas	1	77	0.15M
North Sunnyvale	3	1,399	1.54M
Santa Clara	3	976	0.99M
South San Jose	4	213	0.24M
<b>Grand Total</b>	<b>27</b>	<b>6,862</b>	<b>7.44M</b>

## Multifamily: ESR Team

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## Multifamily Economics and Market Research Team

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### 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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