

Multifamily Metro Outlook:

San Jose - Q4 2023

Overview:

- After a period in which the metro was achieving above-average levels of growth, it appears that momentum in the San Jose job market has come back down to Earth. For the period ending Q4 2023, job growth in the metro was approximately 1.5% compared to the national average of 1.8% during the same period.
- Apartment fundamentals in the San Jose metro are following alongside the nationwide trend of cooling. For the period ending Q4 2023 vacancy rates in the metro were nearly 5% and rent growth is moving in the wrong direction coming in at approximately -0.75% during the same period.

Market Strengths:

- Despite an overall slowdown in the Tech/Information sector that began late last year, the local sector in the San Jose metro is still performing ahead of national trends. For the period ending Q4 2023, the local information sector contracted by -1.4% compared to -1.8% nationally.
- The slowdown in the Tech/Information sector in the metro has been able to mitigate the local impact of jobs lost according to Moody's Analytics. One of the main reasons that the tech slowdown hasn't been as bad as once thought is mainly due to the high concentration of remote and telework that exists in the metro.

Market Weaknesses:

- San Jose is an extremely expensive place to live, with costs of living and business costs, respectively, +75% and +67% higher than the national averages. The increased costs of living coupled with the remote working culture, have exacerbated some of the demographic trends in the metro. Furthermore, as of December 2023, the San Jose metro is still -52,000 people shy of the peak population in late 2019 according to CoStar.
- 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, the ongoing slowdown in the tech sector has only increased the desire to pivot away from Silicon Valley and lower costs. Many tech firms have recently been victims of hyper-valuation only to see their value drop significantly after their IPO occurs.

Development:

- Apartment development in San Jose has been moderate as just 20,000 rental units have been completed since 2017. Currently, 11,000 units are underway with an additional 41,000 in the planning stages.

Outlook:

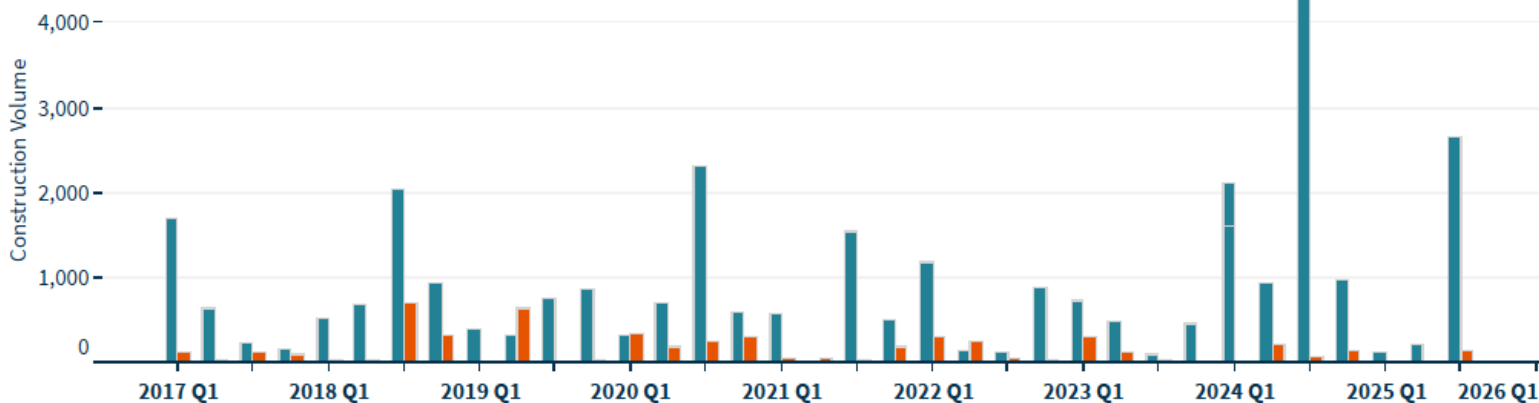
- After a brief period of growth, apartment fundamentals are now moving in the wrong direction as rent growth contracts and vacancies soften. The lack of single-family affordability in the metro will be a boon for the apartment market, however remote working has taken away many would-be renters away from the local apartment renting population.
- The volatile tech and information sector is experiencing a period of "correction." Despite a slowdown that has been occurring for more than a year, the effects are not as bad as initially feared. The pivot to remote and teleworking has mitigated the impacts of the local tech slowdown and overall job growth remains above the national level of performance. However, in addition to overall tech sector slowdowns, the metro remains extremely expensive place to conduct business and is in risk of losing jobs altogether because of increased adoption of remote working. Teleworking has a ripple effect on the local economy as other employment sectors such as Leisure and Hospitality suffer as they thrive from the performance of the tech sector. As long as the pillar of economic growth is experiencing a volatile period, San Jose will continue to underperform to the levels that the metro is used to seeing.



Multifamily Apartment Pipeline

Apartments & Condos/Townhomes: Units Completed and Underway

Apartments | Condos



Source: Dodge Data & Analytics SupplyTrack Pipeline

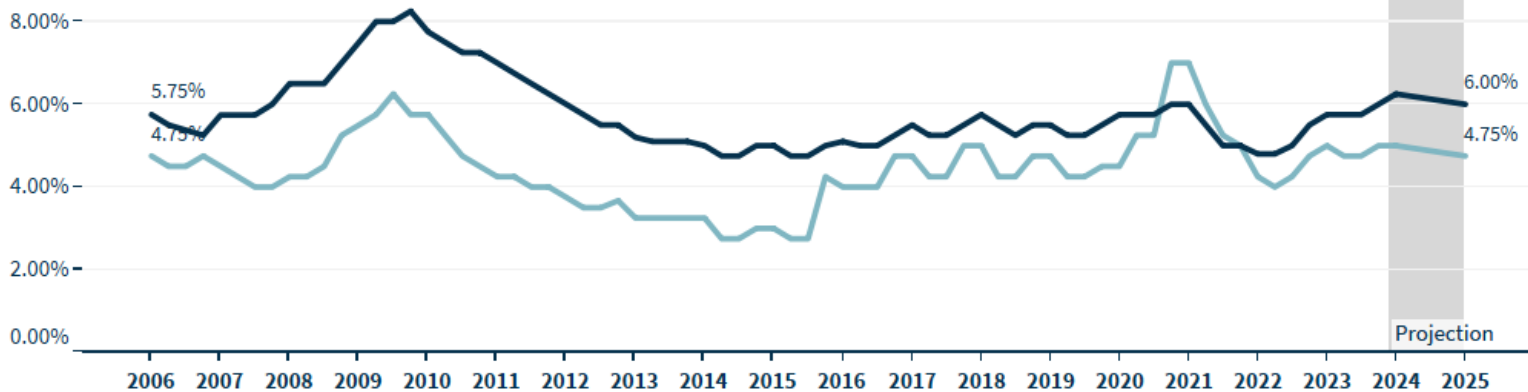
Multifamily Vacancy & Rent Estimates

Vacancy Rates

San Jose | National

Q4 2023 Vacancy Rate:

5.00%

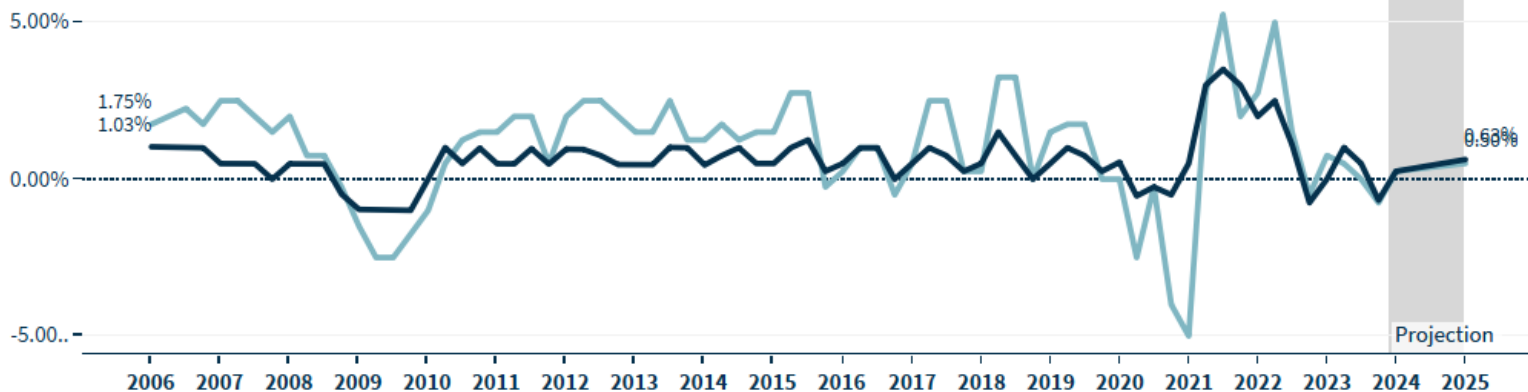


Asking Rent Growth

San Jose | National

Q4 2023 Asking Rent:

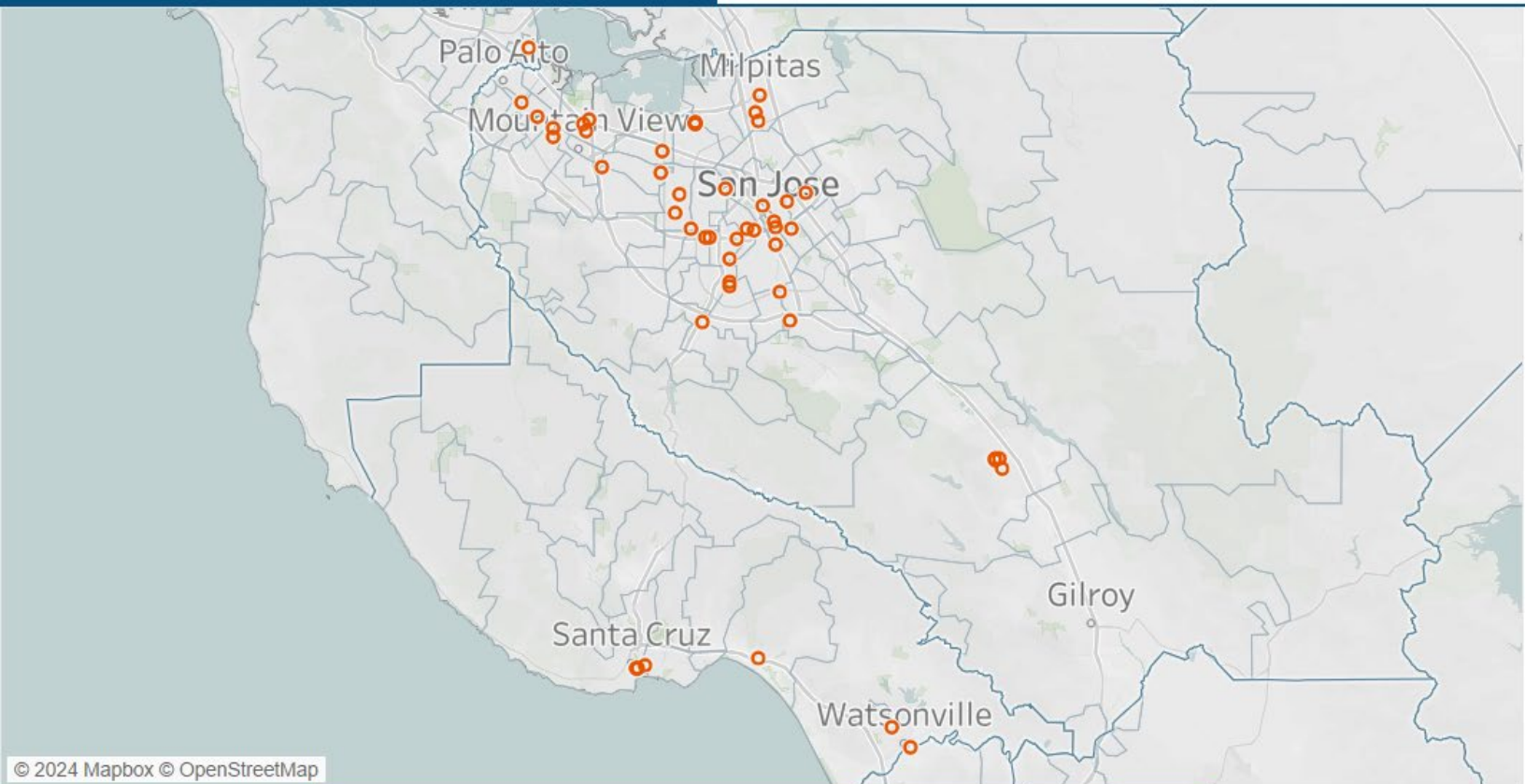
\$2,990



Source: Fannie Mae Multifamily Economics and Research



Multifamily Construction: Bidding & Underway



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<i>MultiHousingSubmarketName</i>	<i>Apartments</i>	<i>Units</i>
Central San Jose	7	1,495
East San Jose	2	130
Mountain View/Palo Alto/Los Altos	9	2,087
NA	7	691
North San Jose/Milpitas	3	262
North Sunnyvale	2	1,486
Santa Clara	8	2,511
South San Jose	9	1,219
West San Jose/Campbell	4	1,087
Grand Total	51	10,968

Source: Dodge Data & Analytics SupplyTrack Pipeline



Multifamily: ESR Team

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Multifamily Economics and Market Research Team

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Sources Used

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

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