

Multifamily Metro Outlook:

San Jose - Q4 2022

Overview:

- After an initially tumultuous period dealing with the virus, the San Jose local job economy has been continuing to expand for few consecutive quarters now. During the year ending Q4 2022, the local job market in the metro expanded by approximately 4.6% compared to 2.4% nationally.
- San Jose's apartment market recovery continues its inconsistent trends. The vacancy rate which was returning to pre-pandemic levels is now starting to inch up again for a myriad of reasons including elevated inflation and high interest rates. For the period ending Q4 2022, the vacancy rate was hovering around 4.75%. Furthermore, rent growth, which is also being impacted by seasonality and the current economic environment, has contracted by -0.5% during the same period.

Market Strengths:

- Despite the onset of layoffs occurring throughout the Tech and Information sector, the sector, which is the economic crutch of the local metro is still besting national level performance. For the year ending Q4 2022, the Information sector expanded by approximately 6% compared to 4.8% nationally.
- Despite lower than recent performance, the Manufacturing sector is no longer a drag on the local economy as it once was. Even though production is down compared to 2021 levels due to the drastic change in consumer behavior, the local Manufacturing sector is still expected to outperform the national rate for the sector.
- 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 and adopt a hybrid schedule upon office return.

Market Weaknesses:

- San Jose is an extremely expensive place to live, with costs of living and business costs, respectively, +79% and +63% 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 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.
- 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.
- During the height of the virus, the Information/Tech industry was still performing very well as consumer trends changed in the industry's favor. During this period, many tech employers hired at an above-average pace. However due to accelerated growth and the current economic environment which includes high interest rates and elevated levels of inflation, many tech employers have had to reduce payrolls just as fast as they increased them during the height of the pandemic. According to Moody's Analytics, the current layoffs many tech employers are going through was thought as inevitable due to the accelerated growth many employers saw during this period. On the bright side, the current layoffs in the sector is not as disastrous as the dot-com era bust, but rather seen as a market correction.

Development:

- Apartment development in San Jose has been moderate as just 18,000 rental units have been completed since 2017. Currently, 8,000 units are underway. Since 2006, just above 8,700 condos have been completed and there are not many units underway through 2024.

Outlook:

- Despite a later recovery compared to other high-performing metros, the apartment market is falling victim to the current economic environment coupled with seasonality. Vacancies have inched back up after falling to near-full earlier in the year. 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.
- The volatile tech and information sector is experiencing a period tumult. After many years of high-growth the sector is now experiencing layoffs due to hyper-valuation, increased interest rates and elevated levels of inflation. Furthermore, 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 longest lasting impact of COVID in the metro could potentially impact the Manufacturing sector well into next year as supply chain disruptions and semiconductor shortages are improving tepidly. Additionally, continued remote/hybrid working, has emerged as a new normal for many employment sectors which could continue to have a (long-term) ripple effect on other local employment sectors.

Five Year Metro Area Growth Forecast

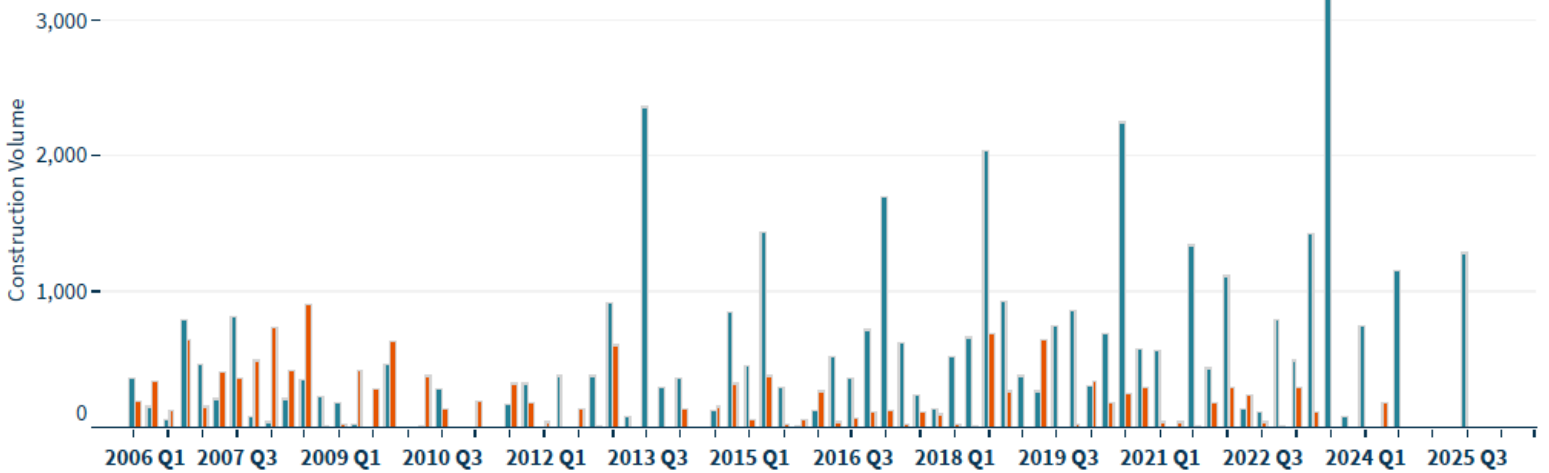
	Q4 2022	Q4 2027	San Jose (5-Year Annual Average Change)	National (5-Year Annual Average Change)
Population	2,008	2,057	0.49%	0.41%
Households	674	695	0.63%	0.75%
Renting Cohort (Ages 20-34)	439	423	-0.72%	-0.40%
Total Employment	1,179	1,226	0.78%	0.52%
Median Household Income	\$149,998	\$179,377	3.64%	3.45%
Median SF Home Price	\$1,710,740	\$1,896,700	2.09%	-0.04%
Net Migration	851	-936		

Source: Moody's

SupplyTrack Pipeline

Apartments & Condos/Townhomes: Units Completed and Underway

Apartments | Condos



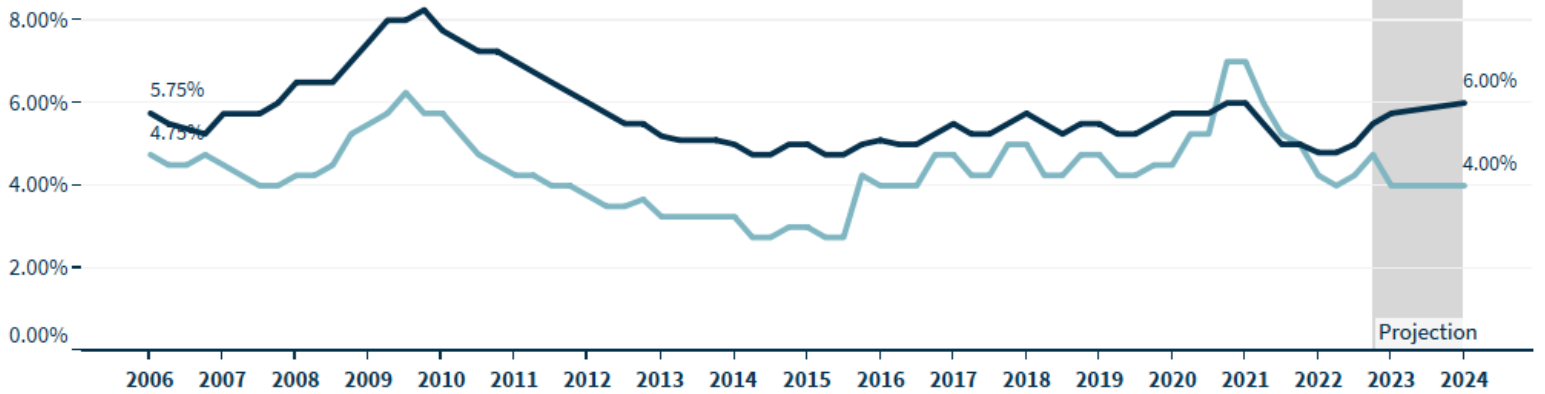
Vacancy & Rent Composite Estimates

Vacancy Rates

San Jose | National

Q4 2022 Vacancy Rate:

4.75%

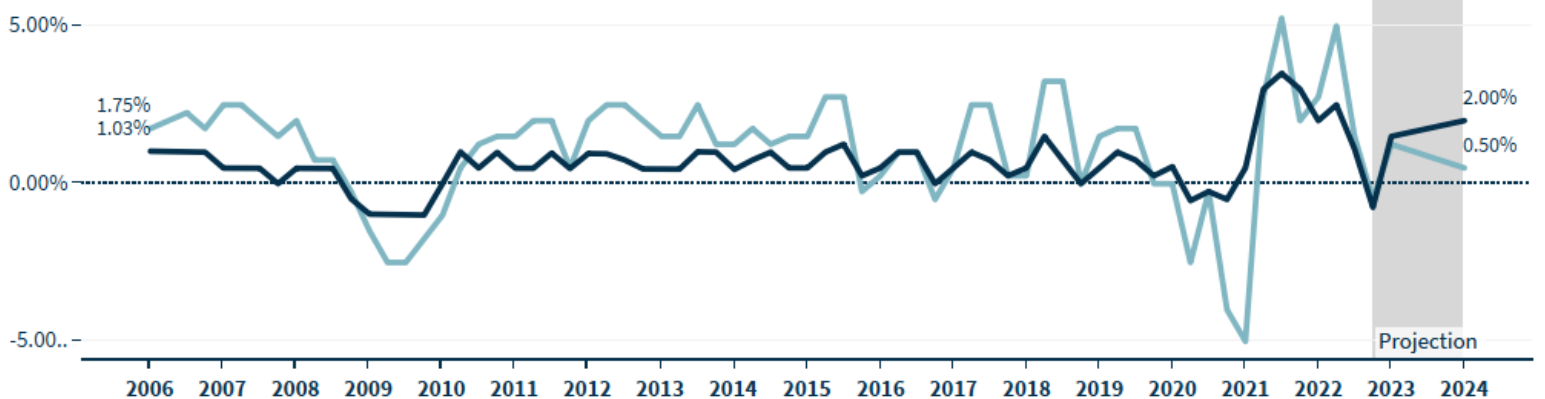


Asking Rent Growth

San Jose | National

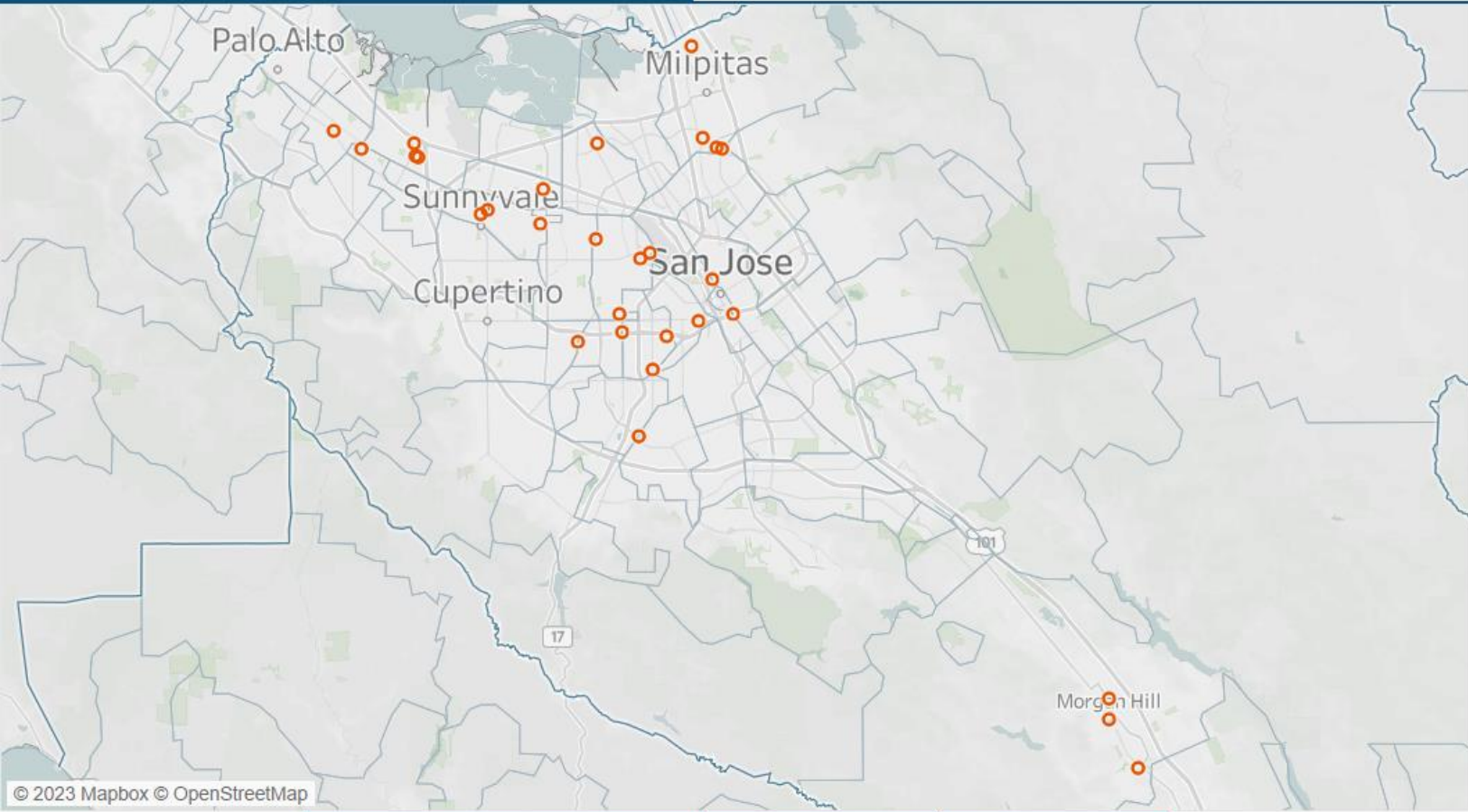
Q4 2022 Asking Rent:

\$2,980



Source: Multifamily Economics and Research

Construction: Bidding & Underway



<i>TWR Submarket Name</i>	<i>Apartments</i>	<i>Building Units</i>
Central San Jose	3	531
Mountain View/Palo Alto/Los Altos	5	1,737
North San Jose/Milpitas	4	170
North Sunnyvale	4	2,055
Santa Clara	5	1,881
South San Jose	6	558
West San Jose/Campbell	4	1,311
Grand Total	31	8,243

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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