

Multifamily Metro Outlook:

San Jose - Q4 2024

Overview:

- The overall slowdown in the San Jose metro continues to roll on. For the period ending Q4 2024, the local job market in the metro has expanded by 0.7%, compared to 1.3% nationally. Much of the slowdown in the metro can be attributed to the continued malaise of the tech sector, which is still experiencing a period of correction after accelerated growth in 2020 and 2021.
- Apartment fundamentals in the San Jose metro are trending in the right direction. For the period ending Q4 2024, vacancies inched up by 25 basis points to 5%, and rent growth contracted 0.5% during the same period. After a slight improvement in apartment fundamental performance in the metro as residents returned to work, it appears that the positive momentum is over, and fundamentals are now moving in the wrong direction.

Market Strengths:

- Despite a period of continued contraction that is still taking place as of Q4 2024, the local manufacturing sector should be on solid footing in the long term. The metro is a big manufacturer of computer and electronic parts, but more specifically microchips, which are in most electronic devices. As society gets increasingly digital, the demand for chips will continue to be high, which will bode well for the local manufacturing sector.
- The metro has been able to mitigate the impact of the tech/information sector's slowdown on jobs lost, according to Moody's Analytics. One of the main reasons the tech slowdown hasn't been as bad as once expected is mainly due to the metro's high concentration of remote work and telework. Furthermore, according to CoStar, the new focus on artificial intelligence (AI) technology is expected to keep the metro as a top innovator in investment and development.

Market Weaknesses:

- San Jose is an extremely expensive place to live, with costs of living and business costs, respectively, 78% 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. However, outmigration from the metro has now slowed from its rapid pace to levels on par with 2019.
- As the cost of doing business increases with rising labor and land costs, more tech firms in the metro are relocating their expansion. According to Moody's Analytics, many firms have started to move to less expensive metros such as Los Angeles, Oakland, Utah, Washington, and Oregon. Furthermore, the ongoing slowdown in the tech sector has only increased the desire to pivot away from Silicon Valley and lower costs. Additionally, the new administration's proposals for increased tariffs could potentially impact the recovery of the tech and Information sectors as it will increase the price of goods and services.

New Development:

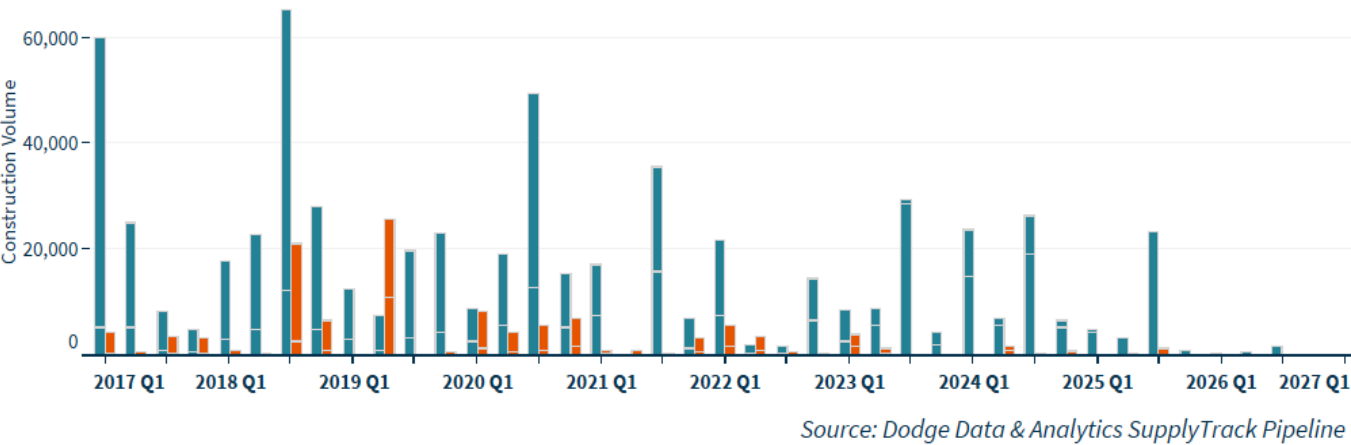
- Apartment development in San Jose has been moderate, as just 27,000 rental units have been completed since 2017. Currently, 7,000 units are underway with an additional 52,000 in the planning stages.

Outlook:

- Apartment fundamentals, after a period of recovery, have reverted to softening. However, the lack of single-family affordability and return-office mandates in the metro will be a boon for the apartment market. However, existing remote work policies have taken many would-be renters away from the local apartment-renting population.
- The volatile tech/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 work and teleworking has mitigated the impacts of the local tech slowdown, but overall job growth has slowed below the national level. Additionally, the metro remains an extremely expensive place to conduct business and risks 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 metro's pillar of economic growth is experiencing a volatile period, San Jose will continue to underperform the levels that the metro is used to seeing.

Multifamily Apartment Pipeline

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

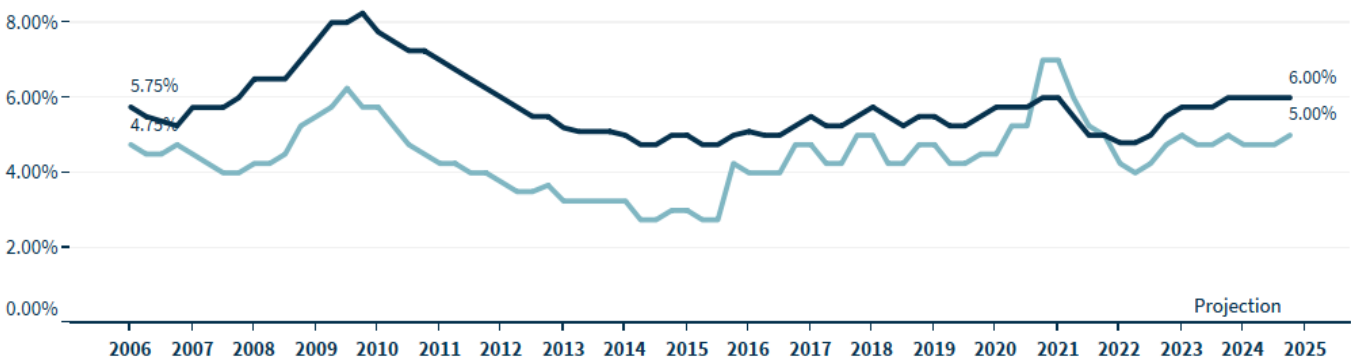


Source: Dodge Data & Analytics SupplyTrack Pipeline

Multifamily Vacancy & Rent Estimates

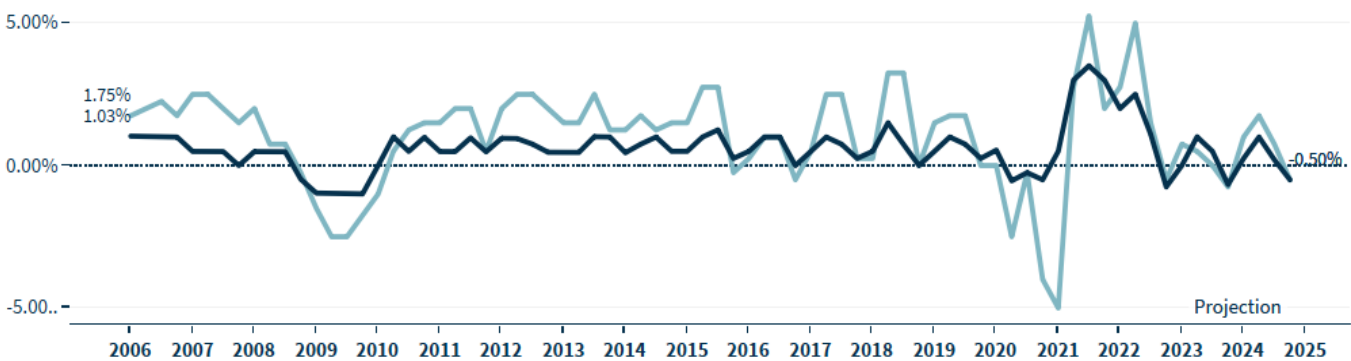
Vacancy Rates
San Jose | National

Q4 2024 Vacancy Rate:
5.00%



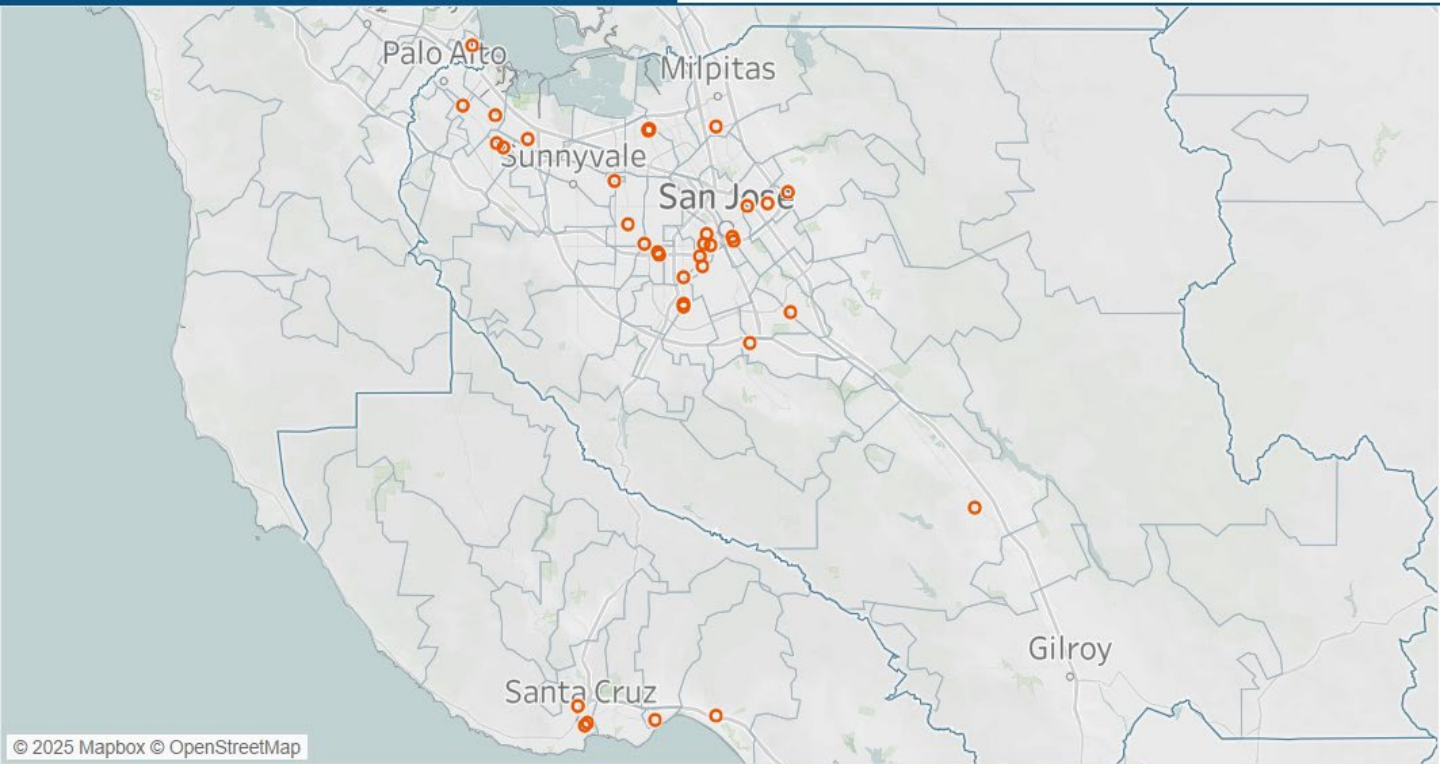
Asking Rent Growth
San Jose | National

Q4 2024 Asking Rent:
\$3,120



Source: Fannie Mae Multifamily Economics and Research

Multifamily Construction: Bidding & Underway



MultiHousingSubmarketName	Apartments	Units
Central San Jose	6	1,679
East San Jose	4	830
Mountain View/Palo Alto/Los Altos	6	629
NA	5	556
North San Jose/Milpitas	1	220
North Sunnyvale	1	176
Santa Clara	5	1,647
South San Jose	4	469
West San Jose/Campbell	4	783
Grand Total	36	6,989

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
- Dodge Data and Analytics Real Estate Analyzer
- CBRE-Econometric Advisors
- Yardi

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