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Multifamily Metro Outlook: San Jose Winter 2018

Overview

San Jose continues to be one of the strongest performing metros in the nation. Employment levels in the metro are now approximately 15 percent higher than pre-recession peaks. However, overall job growth in the metro is starting to slow. As of September 2017, job growth in the metro expanded by 1.5 percent, slightly above the national average of 1.4 percent. The information sector continues to be the metro's labor catalyst. During Q3 2017, the sector expanded by 4.7 percent (adding over 3,600 jobs), which significantly eclipsed the national rate of negative 2.4 percent.

Overall, San Jose's apartment market appears to be in great shape. Vacancies as of Q3 2017 are near full capacity at 4.5 percent and rent growth was approximately 1.25 percent. Concessions are also non-existent at 0.3 percent.

The volatile tech sector in the area is experiencing a renaissance. According to Moody's Analytics, former tech heavyweights, such as Hewlett Packard, eBay, PayPal, and Cisco are facing stiff competition from new entrants as they reduce their workforces. Some of the new tech sector players include Box, Square, iPay, and Good Technology.

The resurgence of the local information and technology sectors and San Jose's overall job growth have translated to high wages in the metro. Year over year, as of August 2017, wage growth expanded 5.5 percent, nearly double the national rate of 2.8 percent. According to Moody's Analytics, high wage jobs in San Jose are expanding at more than four times the national rate.

However, San Jose is an extremely expensive place to live, with costs of living and business costs, respectively, 67 percent and 35 percent higher than the national averages. San Jose also has a negative net-migration rate as a result of many residents being priced out of the metro.

As the cost of doing business via labor and land costs rises, more tech firms located in the metro are relocating their expansions. According to Moody's Analytics, many firms have begun to move to less expensive metros, such as Los Angeles, Oakland, Utah, Washington, and Oregon. Established firms such as Hewlett Packard, Cisco, Ericsson, and Symantec have already started to cut personnel in the metro – a total of 2,200 jobs have been cut as of early 2017.

Development

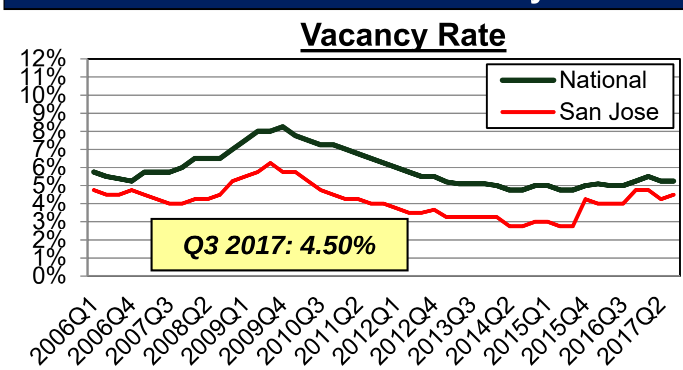
Apartment development in San Jose has been light as only 12,100 rental units have been completed since 2012. Currently, 5,700 units are underway and another 18,000 units are in the planning stages. Since 2006, just above 9,600 condos have been completed, with an additional 1,500 units underway through 2018.

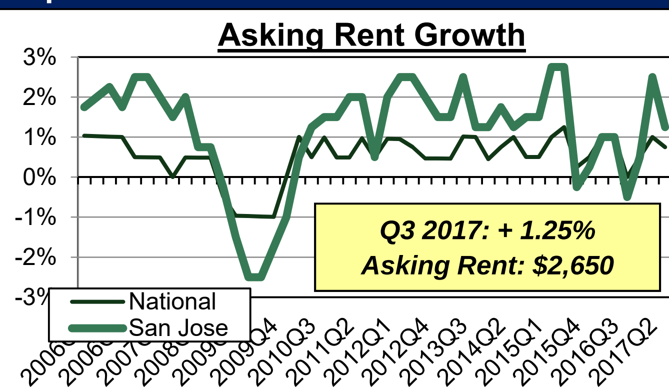
Outlook

San Jose will continue to be one of the nation's strongest markets. Even though job growth has recently slowed, vacancies continue to tighten and new supply should continue to be limited throughout 2017 and 2018, allowing landlords to continue to raise rents.

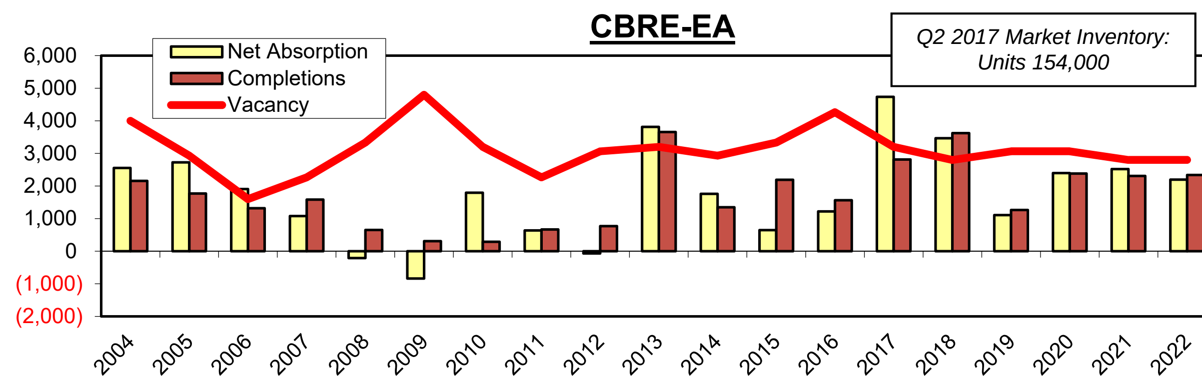
The well-educated workforce and San Jose's tech industry should continue to attract new employers. There has also been little new supply added to the metro. The high overall business and living costs, in addition to the cost of homeownership will continue to keep would-be homebuyers in the rental market for extended periods. The recent slowdown of the tech sector is something to keep an eye on, especially as former tech heavyweights are forced to find ways to compete with newer, more relevant tech market entrants.

Vacancy and Rent Composite Estimates





Source: Fannie Mae Multifamily and Economics Research


CBRE-EA
Q2 2017 Market Inventory: Units 154,000
Net Absorption
Completions
Vacancy
6,000
5,000
4,000
3,000
2,000
1,000
0
(1,000)
(2,000)
6.0%
5.0%
4.0%
3.0%
2.0%
1.0%
0.0%
2004
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2006
2007
2008
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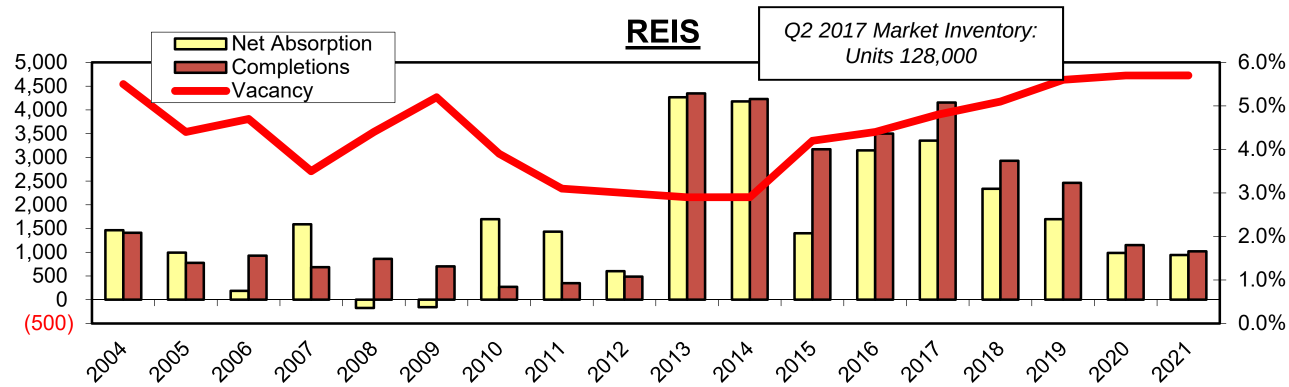
2016
2017
2018
2019
2020
2021
2022


REIS
Q2 2017 Market Inventory: Units 128,000
Net Absorption
Completions
Vacancy
5,000
4,500
4,000
3,500
3,000
2,500
2,000
1,500
1,000
500
0
(500)
6.0%
5.0%
4.0%
3.0%
2.0%
1.0%
0.0%
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2006
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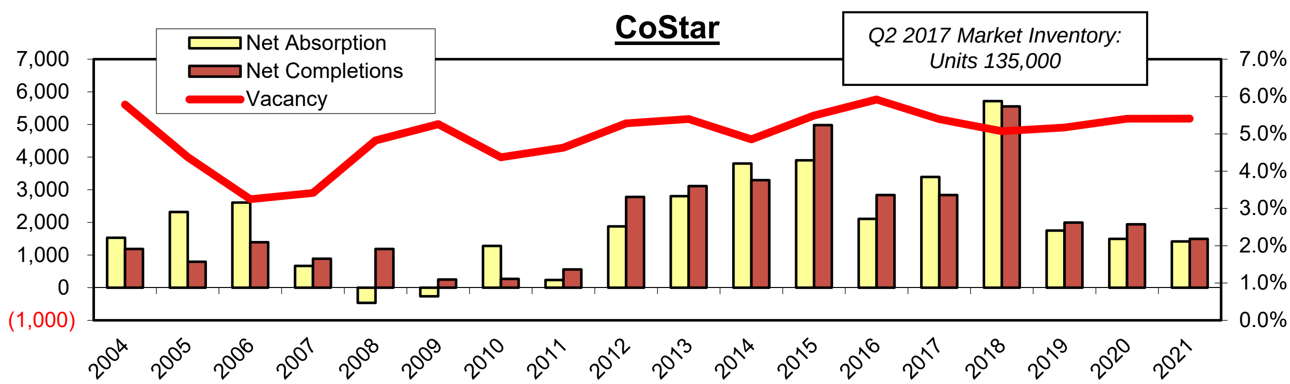
CoStar
Q2 2017 Market Inventory: Units 135,000
Net Absorption
Net Completions
Vacancy
7,000
6,000
5,000
4,000
3,000
2,000
1,000
0
(1,000)
7.0%
6.0%
5.0%
4.0%
3.0%
2.0%
1.0%
0.0%
2004
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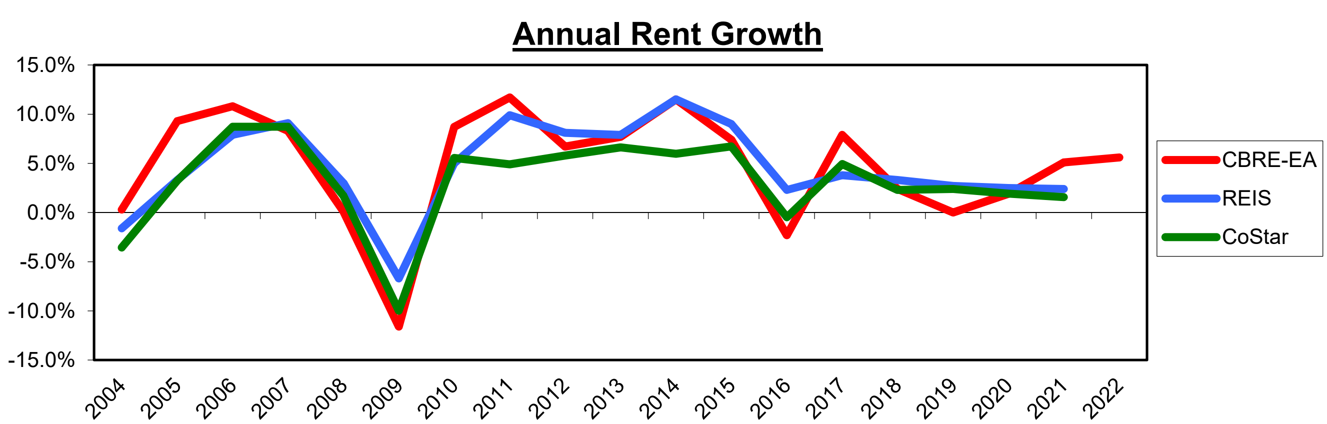
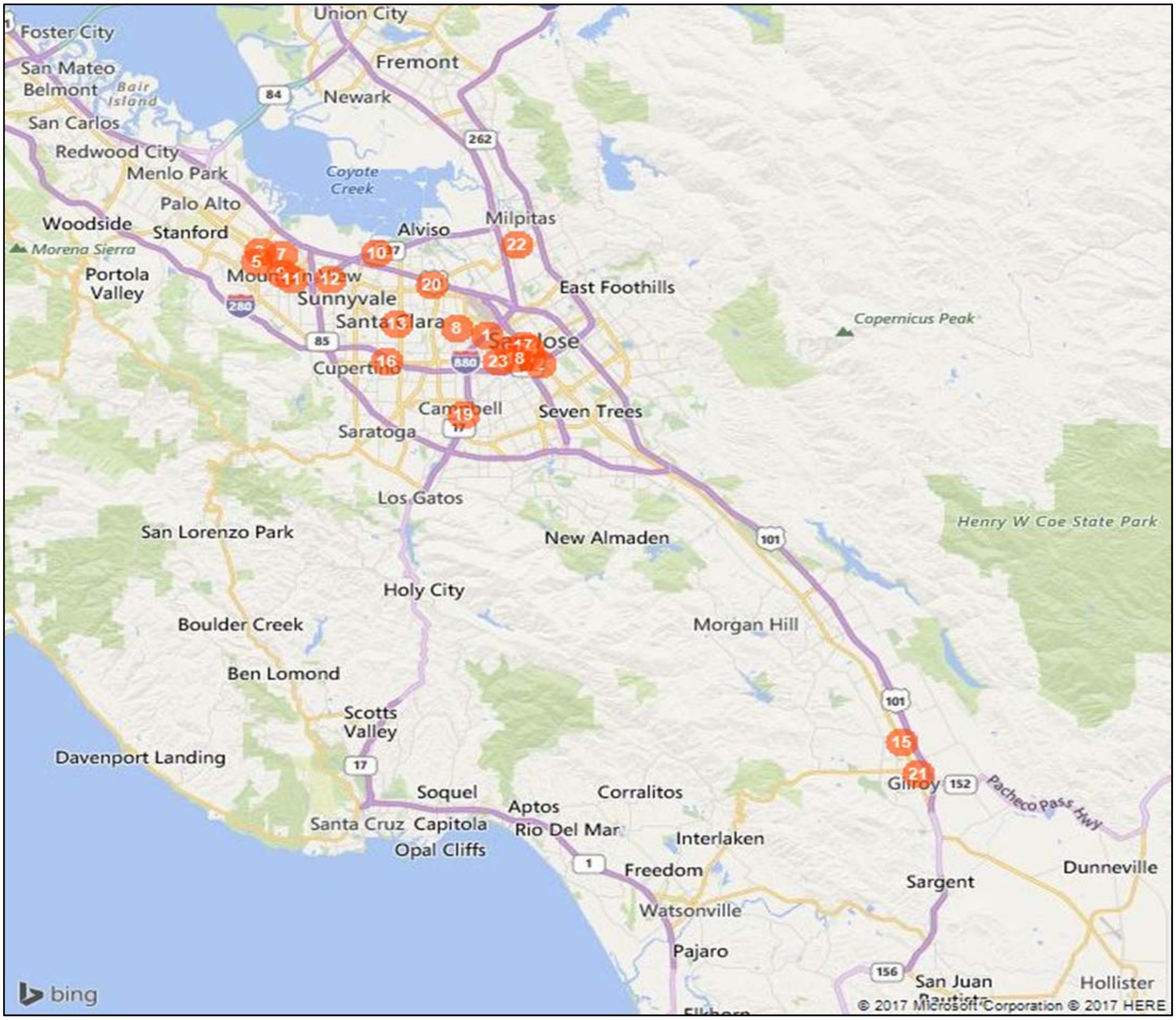

Annual Rent Growth
15.0%
10.0%
5.0%
0.0%
-5.0%
-10.0%
-15.0%
CBRE-EA
REIS
CoStar
2004
2005
2006
2007
2008
2009
2010
2011
2012
2013
2014
2015
2016
2017
2018
2019
2020
2021
2022

Construction Bidding/Underway
(23 projects/5,800 Units/6.3 M Sq. Feet)



CBRE-EA Submarket	Number of Projects	Total Sq Ft (000's)	Total Units
Campbell/Los Gatos	1	400	157
Central San Jose	1	400	800
Cupertino/Saratoga	1	118	120
East San Jose	1	101	50
Mountain View /Los Altos	6	797	959
Northeast San Jose	7	1103	1092
Santa Clara	3	3135	2320
Santa Clara County/Other	2	178	202
Sunnyvale	1	105	66

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Fannie Mae Multifamily Economics and Market Research

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Sources Used

- AxioMetrics
- CBRE-Econometric Advisors
- Bureau of Labor Statistics
- Census Bureau
- CoStar
- Dodge Data & Analytics
- Moody's Analytics
- Real Capital Analytics
- Reis, Inc.

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