

HUD PD&R Housing Market Profiles

San Jose-Sunnyvale-Santa Clara, California



Quick Facts About San Jose-Sunnyvale-Santa Clara

- Current sales market conditions: very tight.
- Current apartment market conditions: very tight.
- The \$1.2 billion Levi's® Stadium, the new home of the National Football League's San Francisco 49ers, is currently under construction in the city of Santa Clara and expected to be complete by August 2014. The stadium will have 68,500 regular seats, 8,500 club seats, and 165 suites and will host Super Bowl 50 in February 2016.



By Stephen G. Komadina | As of May 1, 2014

Overview

The San Jose-Sunnyvale-Santa Clara (hereafter, San Jose) metropolitan area consists of Santa Clara and San Benito Counties in the Bay Area, approximately 35 miles southeast of San Francisco, California. The San Jose metropolitan area is widely known as Silicon Valley because it contains some of the largest global technology company headquarters, including Cisco Systems, Inc.; Google; and Apple Inc. The metropolitan area has a reputation for being a center of innovation, which is supported by the presence of several major universities (including Stanford University, San Jose State University, and Santa Clara University) and a highly educated populace. In 2012, 46.4 percent of residents of the metropolitan area had a bachelor's degree or higher education compared with 30.9 percent of California residents and 29.1 percent of U.S. residents (2012 American Community Survey).

- The population of the metropolitan area has increased since April 2010 at an average of 22,900, or 1.2 percent, annually, reaching an estimated 1.93 million as of May 1, 2014.
- Population growth slowed to an average of 0.1 percent a year from July 2001 to July 2005 as a result of the collapse of the 1990s information technology boom and the national recession in 2001. Average annual population growth increased to

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1.1 percent from July 2005 to July 2008, slowed to 0.8 percent from July 2008 to July 2010 because of the effects of the national recession that began in December 2007 and the ensuing foreclosure crisis, and then recovered to 1.2 percent from July 2010 to the current date.

- The international nature of the larger companies in the metropolitan area enables the companies to attract skilled workers from around the globe. From July 2011 to July 2013, net foreign in-migration totaled 30,950 people and net domestic out-migration totaled 7,675 people (California Department of Finance).

Economic Conditions

Nonfarm payroll growth in the San Jose metropolitan area has outpaced growth in the Pacific region and the nation, averaging 4.0 percent annually since 2011. During the 3 months ending April 2014, nonfarm payrolls were up by 40,200 jobs, or 4.2 percent, from the previous year. Payrolls surpassed a previous peak of 925,500 in 2008 but have yet to regain the 2001 peak of 1.06 million.

During the 3 months ending April 2014—

- The unemployment rate declined from 7.3 percent during the 3 months ending April 2013 to 6.0 percent, and the labor force increased by 14,500 workers, or 1.5 percent.
- The mining, logging, and construction sector increased by 2,700 jobs, or 7.5 percent, from the previous year because of increased building activity that included approximately 29 apartment developments, Levi's® Stadium, and expansions by several major companies.
- In the northern portion of the city of San Jose, Samsung Semiconductor, Inc., is building a \$300 million, 1.1 million-square-foot

regional campus that will include two 10-story office towers with a research facility, data center, parking structure, and space for 2,000 employees. The project broke ground in July 2013 and is expected to be complete by mid-2015.

- The Stanford University Medical Center has begun its \$5 billion multisite Renewal Project, which includes a 150-bed Lucile Packard Children's Hospital expansion that will add surgical, diagnostic, and treatment rooms and a 368-bed Stanford Hospital expansion that will add 17 operating rooms and a large Level-1 trauma center. The expansions are expected to be complete in late 2016 and 2017 and to begin accepting patients in early 2017 and 2018, respectively.

Apple is preparing for construction at the 176-acre site of its future headquarters, Apple Campus 2, in the city of Cupertino. The most recent plans indicate that the campus will cost from \$3 to \$5 billion and include a main building with room for 12,000 employees and a second phase with room for 2,200 employees (City of Cupertino). Construction and occupancy of the main building are expected to

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High levels of multifamily construction activity and corporate expansion in the San Jose area made the mining, logging, and construction sector a leading growth sector.

	3 Months Ending		Year-Over-Year Change	
	April 2013 (thousands)	April 2014 (thousands)	Absolute (thousands)	Percent
Total nonfarm payrolls	946.8	987.0	40.2	4.2
Goods-producing sectors	189.3	198.6	9.3	4.9
Mining, logging, and construction	35.8	38.5	2.7	7.5
Manufacturing	153.5	160.1	6.6	4.3
Service-providing sectors	757.5	788.4	30.9	4.1
Wholesale and retail trade	119.0	122.2	3.2	2.7
Transportation and utilities	13.7	14.2	0.5	3.6
Information	56.9	62.1	5.2	9.1
Financial activities	33.3	33.6	0.3	0.9
Professional and business services	187.7	194.4	6.7	3.6
Education and health services	142.3	152.1	9.8	6.9
Leisure and hospitality	85.6	88.3	2.7	3.2
Other services	25.2	25.3	0.1	0.4
Government	93.8	96.2	2.4	2.6
	(percent)	(percent)		
Unemployment rate	7.3	6.0		

Note: Numbers may not add to totals because of rounding.

Source: U.S. Bureau of Labor Statistics



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be complete by late 2016. An economic impact study in May 2013 estimated that the construction project would create 9,200 direct and 3,400 indirect and induced jobs in Santa Clara County (Keyser Marston Associates Inc.).

Largest employers in the San Jose area

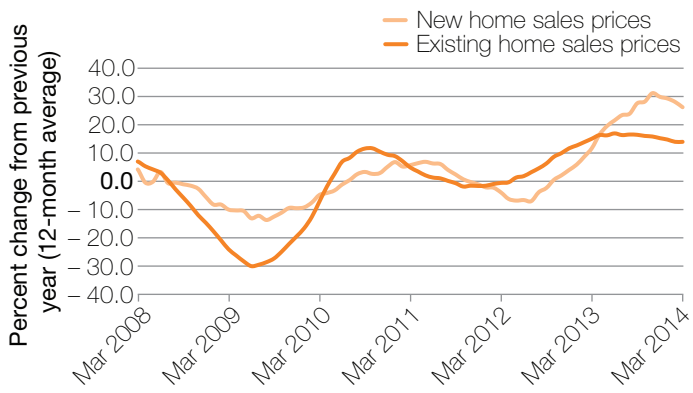
Name of Employer	Nonfarm Payroll Sector	Number of Employees
Cisco Systems, Inc.	Manufacturing	16,450
Kaiser Permanente®	Education and health services	13,500
Apple Inc.	Manufacturing	13,000

Note: Excludes state and local government agencies and local school districts.
Source: Silicon Valley Business Journal Book of Lists 2014

Sales Market Conditions

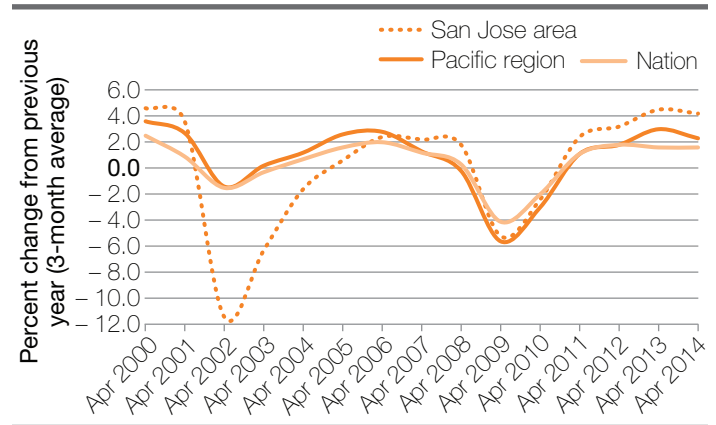
The sales housing market in the San Jose metropolitan area is very tight. The effects of the foreclosure crisis in the metropolitan area were relatively mild, and the sales market recovered more rapidly than in the rest of California. Single-family home sales prices in the metropolitan area during April 2014 were 7 percent higher than the previous peak in mid-2006; by comparison, California and national sales prices remained 17 and 14 percent below their peaks, respectively (CoreLogic, Inc. Home Price Index). The most active market areas during the 3 months ending April 2014 were the city of San Jose, with 1,225 single-family home sales at a median price of \$745,000; the city of Sunnyvale, with 110 sales at a median price of \$1.2 million; and the city of Santa Clara, with 110 sales at a median price of \$853,000 (MLSListings Inc.).

San Jose area home sales prices rose rapidly in 2013 and 2014 because of strong population growth and a declining inventory of homes available for sale.



Note: Includes single-family homes, townhomes, and condominiums.
Source: CoreLogic, Inc.

The 2007 recession had a milder effect than the 2001 recession on job growth in the San Jose area.

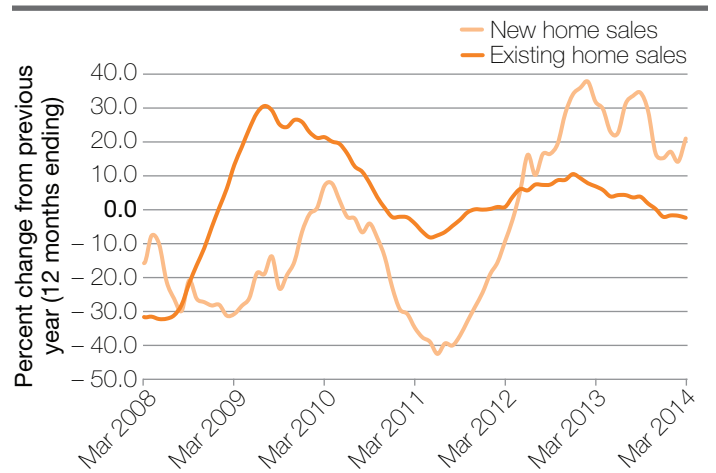


Note: Nonfarm payroll jobs.
Source: U.S. Bureau of Labor Statistics

- During the 12 months ending March 2014, 19,950 existing homes and 1,800 new homes sold, a decrease of 3 percent and an increase of 21 percent, respectively (CoreLogic, Inc.).
- The average prices of homes sold during the 12 months ending March 2014 were \$777,800 for an existing home and \$819,300 for a new home, up 14 and 26 percent from the previous year, respectively.
- The percentage of existing home sales in the metropolitan area that were short sales or REO (Real Estate Owned) transactions peaked at 44 percent during the 12 months ending March 2009 before steadily declining to 22 and 8 percent during the same periods in 2013 and 2014, respectively.

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Existing home sales in the San Jose area began to decline in early 2014, whereas new home sales continued to increase.



Note: Includes single-family homes, townhomes, and condominiums.
Source: CoreLogic, Inc.



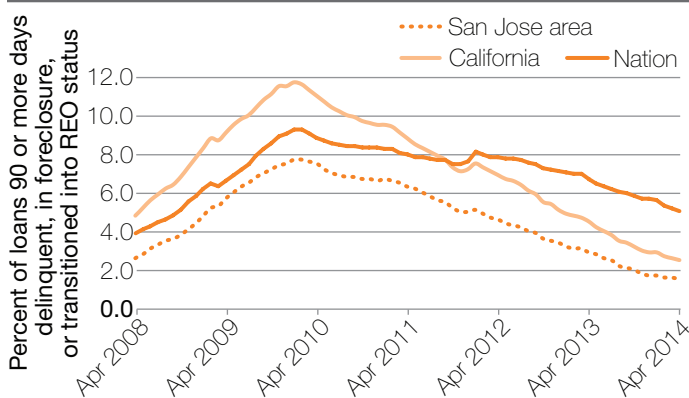
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- The inventory of single-family homes available for sale in Santa Clara County declined steadily from an average of 3,350 homes during the 12 months ending April 2012 to averages of 1,850 and 1,575 homes during the same periods in 2013 and 2014, respectively (MLSListings Inc.).

Large single-family developments became less common in the San Jose metropolitan area during the past decade because of limited available land for master-planned communities.

- Single-family home construction, as measured by the number of homes permitted, peaked in 2004 at 2,775 homes before declining to averages of 2,175 homes a year from 2005 through 2007 and 870 homes a year from 2008 through 2011.

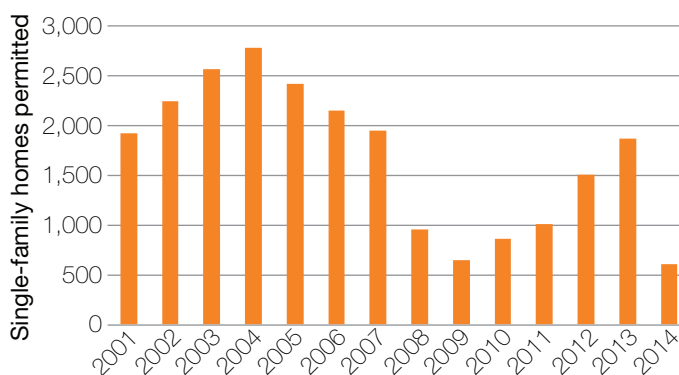
The San Jose area avoided the worst of the foreclosure crisis, with consistently lower rates of distressed mortgage loans than California and the nation.



REO = Real Estate Owned.
Source: Black Knight Financial Services, Inc.

- During the 12 months ending April 2014, 1,900 single-family homes were permitted, an increase of 7 percent from 1,775 during the previous 12 months (preliminary data).
- Classics at Townsend Estates, in the city of Sunnyvale, is one of the newest upscale developments in the metropolitan area. The site will include 18 homes with prices starting at \$1.71 million for a three-bedroom/two-bathroom home, \$1.80 million for a four-bedroom/two-and-a-half bathroom home, and \$2.05 million for a four-bedroom/three-bathroom home.

Single-family home permitting in the San Jose area has increased since reaching a decade low in 2009.



Note: Includes preliminary data from January 2014 through April 2014.
Sources: U.S. Census Bureau, Building Permits Survey; estimates by analyst

Apartment Market Conditions

The apartment market in the San Jose metropolitan area has been very tight since 2010 because of the combined effects of a 30-year low in multifamily construction during 2009, a high volume of households shifting from owning to renting, and increased net in-migration to the metropolitan area because of recovering local economic conditions.

- The apartment vacancy rate was 2.5 percent in the first quarter of 2014, relatively unchanged from 2.6 percent a year earlier (Reis, Inc.).
- Average asking rents increased 6.1 percent, from \$1,677 in the first quarter of 2013 to \$1,780 in the first quarter of 2014; asking rents averaged \$1,241 for a studio unit, \$1,581 for a one-bedroom unit, \$1,998 for a two-bedroom unit, and \$2,423 for a three-bedroom unit.
- Average rent levels are significantly higher in Reis-defined market areas close to major technology companies, particularly in the

western and northwestern portions of the San Jose metropolitan area. The Cupertino/Saratoga (includes Apple headquarters), Mountain View/Los Altos (includes Google headquarters), and Northeast San Jose (includes Cisco Systems headquarters) market areas had the highest average rents in the metropolitan area during the first quarter of 2014, at \$2,077, \$2,031, and \$1,991, respectively.

- Recently completed properties include the 569-unit, four-phase Epic apartments in the city of San Jose; an additional 202-unit phase is currently in the planning stage. Prices start at \$2,230 for a studio unit, \$2,423 for a one-bedroom/one-bathroom unit, and \$2,940 for a two-bedroom/two-bathroom unit.

Multifamily developers have responded to strong annual rent growth and low apartment vacancy rates since 2010 with high levels of construction activity, as measured by the number of multifamily units permitted.

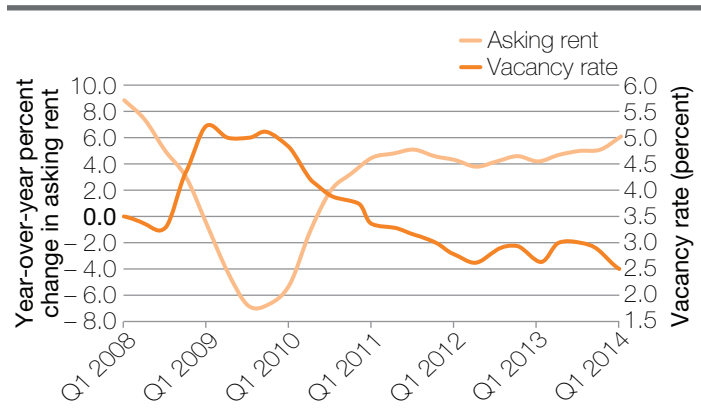
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- The number of multifamily units permitted averaged 3,025 from 2005 through 2008 before declining to 452 in 2009. The apartment market has tightened significantly since 2010, leading multifamily permitting to increase to an average of 4,000 units a year from 2011 through 2013.
- The resurgence in multifamily permitting continued during the 12 months ending April 2014, increasing 15 percent from the previous 12 months, to 5,800 units (preliminary data).
- As of the first quarter of 2014, approximately 29 apartment properties with 6,850 units were under construction in the San Jose metropolitan area; of these units, 5,375 were in the city of San Jose (Reis, Inc.).

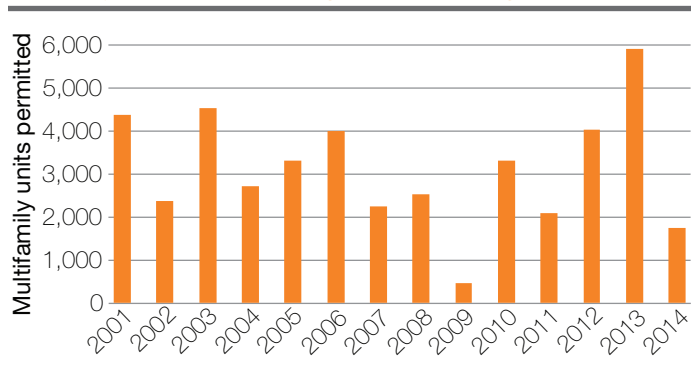
The apartment market in the San Jose area has tightened since 2010, with average annual rent growth of about 5 percent and vacancy rates of about 3 percent.



Source: Reis, Inc.

- New multifamily developments are along major transit corridors, particularly the Caltrain commuter rail line that connects San Francisco with the San Jose metropolitan area.
- Properties currently under construction in the city of San Jose include the 21-story, 347-unit Centerra in the downtown area, expected to be complete in 2015, and Ascent Apartments, a 650-unit luxury apartment complex in the southern portion of the city within a mile of the Kaiser Permanente® San Jose Medical Center that is expected to be complete by the spring of 2015. Proposed rent levels are not yet available for Centerra or Ascent.

Multifamily permitting in the San Jose area has increased sharply since 2010 in response to declining vacancy rates and strong annual rent growth.



Note: Includes preliminary data from January 2014 through April 2014.
Source: U.S. Census Bureau, Building Permits Survey

