C O M P R E H E N S I V E   H O U S I N G   M A R K E T   A N A L Y S I S

San Jose-Sunnyvale-Santa Clara, California

U.S. Department of Housing and Urban Development | Office of Policy Development and Research | As of August 1, 2017

Housing Market Area

The San Jose-Sunnyvale-Santa Clara Housing Market Area (hereafter, San Jose HMA) consists of Santa Clara and San Benito Counties in the San Francisco Bay Area and is coterminous with the San Jose-Sunnyvale-Santa Clara, CA Metropolitan Statistical Area, approximately 35 miles southeast of San Francisco. The HMA is known as Silicon Valley, because of its reputation as a hub of technology research, innovation, and entrepreneurship, and is home to the headquarters of Google Inc., Apple Inc., and Facebook, Inc.

Market Details

Summary

Economy

Nonfarm payrolls in the San Jose HMA increased during the 12 months ending July 2017 by 22,600 jobs, or 2.1 percent, reaching 1.1 million jobs. The average unemployment rate was 3.6 percent, down from 4.0 percent during the previous year. Top employers include Apple Inc., Alphabet, Inc. (the parent company of Google Inc. and its subsidiary companies), and the county of Santa Clara with 25,000, 20,000, and 18,244 employees, respectively. Nonfarm payrolls are expected to grow at an average annual rate of 2.2 percent during the 3-year forecast period.

Sales Market

The sales housing market in the HMA is very tight, with an overall estimated vacancy rate of 0.3 percent, down from 1.5 percent in 2010. During the 12 months ending May 2017, new and existing home sales declined 3 percent from a year ago but were 15 percent higher than the low near the start of the national recession in 2008. Demand is expected for 4,800 new homes during the forecast period (Table 1). The 1,800 homes under construction and some of the 10,000 other vacant units that may return to the market will satisfy a portion of the demand.

Rental Market

Rental housing market conditions in the HMA are also very tight, with an estimated overall rental vacancy rate of 3.1 percent, down from 4.3 percent in April 2010. The apartment vacancy rate was 2.8 percent during the second quarter of 2017, and the average apartment rent rose almost 3 percent to $2,598 (MPF Research, Inc.). During the forecast period, demand is expected for 11,100 new market-rate rental units (Table 1). The 3,475 units under construction will meet a portion of that demand.

Table 1. Housing Demand in the San Jose HMA* During the Forecast Period

	San Jose HMA*	
	Sales Units	Rental Units
Total demand	4,800	11,100
Under construction	1,800	3,475

** San Jose-Sunnyvale-Santa Clara HMA.*
Notes: Total demand represents estimated production necessary to achieve a balanced market at the end of the forecast period. Units under construction as of August 1, 2017. A portion of the estimated 10,000 other vacant units in the HMA will likely satisfy some of the forecast demand. The forecast period is August 1, 2017, to August 1, 2020.
Source: Estimates by analyst

Economic Conditions

Current economic conditions in the San Jose HMA are very strong. During the 12 months ending July 2017, nonfarm payrolls increased by 22,600 jobs, or 2.1 percent (Table 2). By comparison, payrolls increased by 36,100 jobs, or 3.5 percent, during the previous 12 months. During the current 12-month period, the average unemployment rate declined from 4.0 to 3.6 percent. Figure 1 shows trends in the labor force, employment, and the unemployment rate from 2000 through 2016. The local economy in the HMA has historically depended on a cluster of technology companies that earned the region its nickname, Silicon Valley. Technology company payrolls primarily fall within three sectors (manufacturing, information, and professional and business services), which represented a combined 43 percent of nonfarm payrolls during the 12 months ending July 2017 and 6 of the top 10 largest employers (Table 3). A fourth sector, education and health services, represents 15 percent of nonfarm payrolls and includes 3 top employers (Figure 2). The three largest universities in the HMA are San Jose State University (SJSU), Santa Clara University, and Stanford University. In fiscal year 2016–2017, these universities had a combined enrollment of 53,900 students, employed 4,800 faculty, and had annual operating budgets totaling $2.4 billion. Higher education has a mutually beneficial relationship with the technology companies in the HMA, providing a well-trained workforce of new hires and foundational research that leads to new startup companies and products. A study in 2012 estimated that Stanford University alumni from the 1930s to 2011 created 39,900 for-profit companies and more than 30,000 nonprofit organizations, accounting for 5.4 million jobs and $2.7 trillion in annual revenue worldwide (Impact: Stanford University's Economic Impact via Innovation and Entrepreneurship). Some of the companies that Stanford graduates founded, built, or led include Google Inc., Nike, Inc., Cisco Systems, Inc., and Tesla, Inc. Additionally, both SJSU and Stanford University were among the top 10 universities from which technology companies in the HMA recruited alumni in 2017 (HiringSolved).

Table 2. 12-Month Average Nonfarm Payroll Jobs in the San Jose HMA,* by Sector

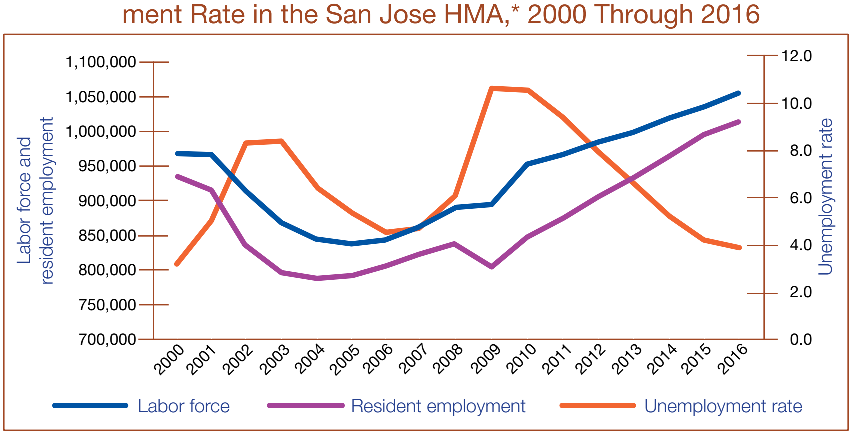
	12 Months Ending		Absolute Change	Percent Change
	July 2016	July 2017		
Total nonfarm payroll jobs	1,059,200	1,081,800	22,600	2.1
Goods-producing sectors	210,600	213,300	2,700	1.3
Mining, logging, & construction	47,000	49,300	2,300	4.9
Manufacturing	163,600	164,000	400	0.2
Service-providing sectors	848,600	868,400	19,800	2.3
Wholesale & retail trade	125,300	124,400	– 900	– 0.7
Transportation & utilities	15,000	15,600	600	4.0
Information	72,700	76,600	3,900	5.4
Financial activities	35,300	35,300	0	0.0
Professional & business services	222,400	227,400	5,000	2.2
Education & health services	160,000	164,200	4,200	2.6
Leisure & hospitality	97,300	102,600	5,300	5.4
Other services	27,200	27,600	400	1.5
Government	93,400	94,900	1,500	1.6

** San Jose-Sunnyvale-Santa Clara HMA.*

Notes: Numbers may not add to totals because of rounding. Based on 12-month averages through July 2016 and July 2017.

Source: U.S. Bureau of Labor Statistics

Figure 1. Trends in Labor Force, Resident Employment, and Unemployment Rate in the San Jose HMA,* 2000 Through 2016



** San Jose-Sunnyvale-Santa Clara HMA.*

Source: U.S. Bureau of Labor Statistics

Table 3. Major Employers in the San Jose HMA*

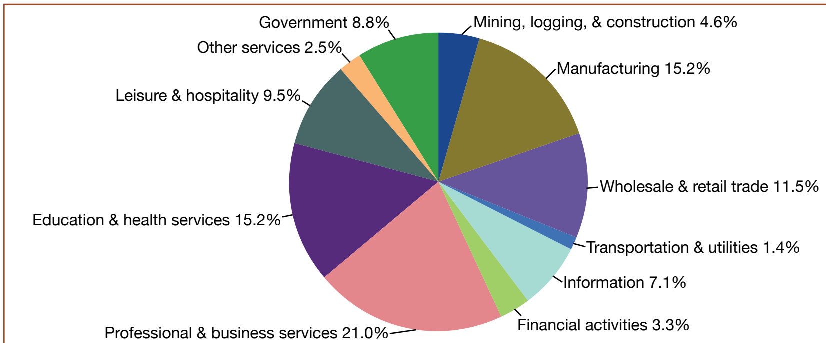
Name of Employer	Nonfarm Payroll Sector	Number of Employees
Apple, Inc.	Manufacturing	25,000
Alphabet, Inc. (Parent Company of Google and Google Subsidiaries)	Information	20,000
County of Santa Clara	Government	18,244
Stanford University	Education & health services	16,919
Cisco Systems, Inc.	Manufacturing	15,700
Kaiser Permanente Northern California	Education & health services	12,500
Stanford Hospital and Clinics	Education & health services	10,034
Tesla, Inc.	Manufacturing	10,000
Facebook, Inc.	Information	9,385
Intel Corporation	Manufacturing	5,800

** San Jose-Sunnyvale-Santa Clara HMA.*

Notes: Excludes local school districts. Data include military personnel who are generally not included in nonfarm payroll survey data.

Source: Silicon Valley Business Journal, Book of Lists *2017*

Figure 2. Current Nonfarm Payroll Jobs in the San Jose HMA,* by Sector



** San Jose-Sunnyvale-Santa Clara HMA.*

Note: Based on 12-month averages through July 2017.

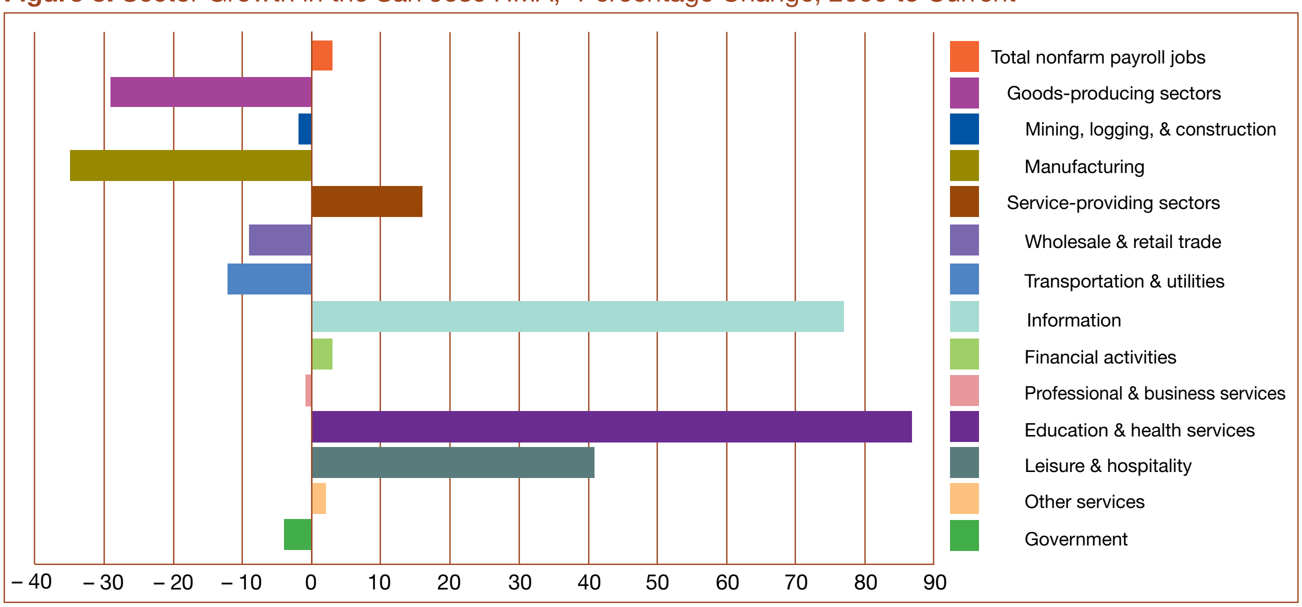
Source: U.S. Bureau of Labor Statistics

The collapse of the 1990s information technology boom and the subsequent recession, which began in 2001, had a disproportionately large impact on the HMA because of the importance of technology companies to the local economy. Nonfarm payrolls peaked at 1.05 million jobs in 2000 before declining by an average of 57,600 jobs, or 5.8 percent, annually from 2001 through 2003. By comparison, national payrolls were relatively unchanged in 2001 and declined 1.1 percent in 2002 and 0.2 percent in 2003. Job losses in the HMA were particularly concentrated in the manufacturing and professional and business services sectors, which declined by average annual rates of 11.4 and 9.8 percent, respectively, during the same period. As the enthusiasm for startup technology companies subsided, venture capital investments in the Silicon Valley declined sharply from a peak of $33.4 billion in 2000 to a low of $6.8 billion in 2003 (PricewaterhouseCoopers MoneyTree™).

The local economy in the HMA was bolstered by increased homebuilding activity that spurred growth in other sectors after the 2001 recession caused by the dot-com bust. Nonfarm payroll growth resumed in 2004, increasing at an average annual rate of 1.2 percent from 2004 through 2008. During this period, the mining, logging, and construction sector added an average of 600 jobs, or 1.3 percent, annually, compared with an average loss of 2,700 jobs, or 5.7 percent, annually, from 2001 through 2003. The impact of the national recession in 2007 and ensuing foreclosure crisis led to relatively mild job losses in the HMA compared with the 2001 dot-com recession. Nonfarm payrolls declined by an average of 12,700 jobs, or 1.4 percent, annually from 2009 through 2011. The mining, logging, and construction and the manufacturing sectors were particularly impacted by falling levels of new home construction, declining by averages of 4,300 and 3,800 jobs, or 10.6 and 2.3 percent, respectively. Significant job losses averaging 3,900 jobs, or 2.2 percent, annually also occurred in the professional and business services sector during this period. However, these losses represented one-fifth of the annual losses that occurred in the sector during the dot-com bust. The economic recovery began in 2012 with the technology boom that affected the entire San Francisco Bay Area, of which the HMA is a part. From 2012 through 2016, an average of 36,200 nonfarm payrolls were added annually in the HMA, a 3.8-percent increase. As gains concentrated in the technology industry, nonfarm payroll additions were among the greatest in the professional and business services and the information sectors, which added respective averages of 11,700 and 4,700 jobs, or 6.2 and 7.8 percent, annually during this period. Figure 3 shows sector growth from 2000 to the current date.

During the 12 months ending July 2017, the information sector tied the leisure and hospitality sector for the fastest rate of growth, increasing by 3,900 jobs, or 5.4 percent. One of the largest employers in the sector, Google Inc., has steadily expanded its presence in the HMA since late 2016. The company bought parcels of land in downtown San Jose near the Caltrain Diridon station, where it plans to locate its transit village and technology campus. The village

Figure 3. Sector Growth in the San Jose HMA,* Percentage Change, 2000 to Current



** San Jose-Sunnyvale-Santa Clara HMA.*
Note: Current is based on 12-month averages through July 2017.
Source: U.S. Bureau of Labor Statistics

is estimated to have capacity for an additional 3,000 housing units and 20,000 new Google Inc. jobs. An estimated completion time has not been determined. The plans have generated increased investment in the revitalization of the downtown San Jose neighborhood, including the TMG Partners and Valley Oak Partners, LLC proposal to build a 1-million-square foot technology campus a short distance from the Google Village. The two projects together could add 30,000 office workers to the downtown area, a 77-percent increase. Similarly, Facebook intends to build 1.75 million square feet of office space, 1,500 housing units (200 to be sold below market rates), and 125,000 square feet of retail space in a village open to the community as part of its Willow Campus expansion. Construction is expected to begin in 2019, with the first buildings ready for occupancy by 2021.

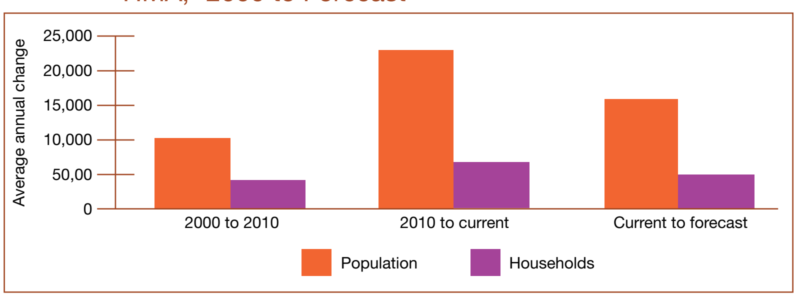
Mining, logging, and construction sector payrolls also grew significantly during the 12 months ending July 2017, increasing by 2,300 jobs, or 4.9 percent. Recently, strong growth in residential building activity since 2010 and major ongoing construction projects in the HMA have boosted sector employment, nearly returning to the peak level of jobs in 2001. Bay Area Rapid Transit (BART) stations are being built in the city of Milpitas and the Berryessa area in the city of San Jose as part of the $2.3 billion BART Berryessa Extension project, the first phase of a 16-mile extension that will eventually connect passengers from other parts of the Bay Area to the Caltrain Diridon station in downtown San Jose. Construction of the two stations created an estimated 5,500 construction jobs. Both stations are scheduled to be open and running by the end of 2017 and expected to add 162 new full-time positions to service the stations. By 2030, the stations will each serve an estimated additional 20,000 to 25,000 daily passengers (Santa Clara Valley Transportation Authority). Once the extension is complete, traveling to San Francisco on BART will take less than 1 hour. Office towers, retail shops, up to 2 million square feet of office space, and 3,500 housing units are currently in the planning stages near the BART Berryessa station as part of the Market Park San Jose transit village. Estimated completion times for these planned projects are not yet available.

Long-term conditions in the manufacturing sector were mixed. Employment in the sector has declined 35 percent since 2000 but grew by 400 jobs, or 0.2 percent, during the 12 months ending July 2017, compared with a 2,400-job increase, or 1.5 percent, during the previous 12-month period. Despite the overall downward trend in sector employment, the manufacturing sector remains an important part of the local economy, with 4 of the top 10 largest employers, including Apple and Cisco Systems, Inc. Apple recently completed construction on the $5 billion, 176-acre site of its headquarters, Apple Campus 2, in the city of Cupertino. The 2.8-million-square foot main building has space for 12,000 employees, and a second phase, with space for 2,200 employees, is currently under way (City of Cupertino). Initial occupancy of the main building began in April 2017. An economic impact study in May 2013 estimated that the project will create 9,200 direct and 3,400 indirect and induced jobs in Santa Clara County (Keyser Marston Associates, Inc.). Meanwhile, Cisco Systems, Inc. announced layoffs of 1,100 employees worldwide after releasing a lower than forecasted earnings report for the third quarter of 2017. About one-quarter of the cuts, or 250 positions, is expected in the San Jose office alone. The cuts come after 5,500 layoffs worldwide, 940 of which were in the HMA, were announced in August 2016, when the company underwent a restructuring plan to focus on security and cloud technologies. Similarly, in June 2017, Yahoo, Inc. announced 263 layoffs in its Sunnyvale headquarters location, as part of the $4.5 billion purchase of the company by Verizon Wireless. The layoffs come after 107 cuts were made in 2016 due to restructuring plans.

Nonfarm payrolls in the HMA are expected to grow at an average annual rate of 2.2 percent during the 3-year forecast period, slightly lower than the strong growth recorded during the 2012-to-2016 period, following a trend of moderating job gains. Ongoing expansions and hiring by major technology companies are expected to boost payroll growth in the information, the professional and business services, and the manufacturing sectors.

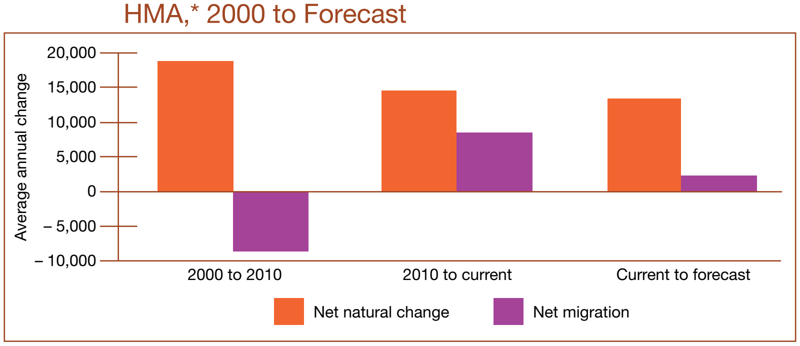
Population and Households

Figure 4. Population and Household Growth in the San Jose HMA,* 2000 to Forecast



** San Jose-Sunnyvale-Santa Clara HMA.*
Notes: The current date is August 1, 2017. The forecast date is August 1, 2020.
Sources: 2000 and 2010—2000 Census and 2010 Census; current and forecast—estimates by analyst

Figure 5. Components of Population Change in the San Jose HMA,* 2000 to Forecast



** San Jose-Sunnyvale-Santa Clara HMA.*
Notes: The current date is August 1, 2017. The forecast date is August 1, 2020.
Sources: 2000 and 2010—2000 Census and 2010 Census; current and forecast—estimates by analyst

As of August 1, 2017, the population of the San Jose HMA is estimated at 2.0 million. Since April 2010, the population of the HMA grew at an average annual rate of 22,900, or 1.2 percent (Figure 4). Population growth in the HMA averaged 0.2 percent a year from 2000 to 2005 because of the collapse of the 1990s information technology boom that affected hiring by technology companies (intercensal population estimates for the State of California Department of Finance). During this period, net out-migration occurred at an average annual rate of 15,350 people that was offset by net natural change (resident births minus resident deaths), which averaged 18,950 people a year. Figure 5 shows components of population change from 2000 to the forecast date in the HMA. Average annual population growth increased to 19,950 people, or 1.1 percent, from 2005 to 2008 during the housing boom but slowed to 14,150 people, or 0.8 percent, from 2008 to 2010 because of the national recession, which began in December 2007, and the ensuing foreclosure crisis. Average annual net in-migration of 1,150 people and average annual net out-migration of 2,750 people occurred during these two periods, respectively.

Since 2010, net in-migration increased to an average annual rate of 8,500 people, or 37 percent of the total population change. International technology companies with operations in the HMA recruit skilled workers from around the world. From July 2011 to July 2016, net foreign in-migration averaged 14,800 people, and net domestic out-migration averaged 2,775 people, annually (California Department of Finance). Approximately 38 percent of the population in the HMA in 2015 was born outside the United States compared with a national figure of 13 percent. Of those who migrated to the HMA, their most common regions of origin were Asia at 64 percent, Latin America at 25 percent, and Europe at 7 percent (2015 American Community Survey [ACS] 1-year estimates). Rising housing costs since 2010 have led to households doubling up or commuting into the HMA by car, the Caltrain commuter rail line, or private shuttle services offered for employees of local technology companies, including Google and Apple. During 2014, workers who lived outside the HMA held 32 percent of jobs in the HMA, including 7 percent in Alameda County, 6 percent in San Mateo County, and 4 percent in San Francisco County (U.S. Census Bureau, 2014; OnTheMap Application, Longitudinal-Employer Household Dynamics Program).

An estimated 670,300 households currently reside in the HMA, representing an average annual increase of 6,725 households, or 1.0 percent, since 2010 compared with an average annual increase of 3,925 households, or 0.7 percent, from 2000 to 2010. Of the two counties in the HMA, Santa Clara County accounts for more than 97 percent of the total population and households. San Benito County primarily consists of land that is reserved for agricultural uses. From 2010 to the current date, the number of owner households in the HMA increased at an average annual rate of 0.6 percent, or 2,050 households, compared with an average annual increase of 0.3 percent, or 970 owner households, from 2000 to 2010. Renter households increased at a much faster rate during both time periods, but the trend was particularly pronounced from 2010 to the current date because of the foreclosure crisis and the increased preference toward renting. From 2000 to 2010, renter households increased at an average annual rate of 1.2 percent, or 2,950 households. By comparison, renter households have increased at an average annual rate of 1.7 percent, or 4,675 households, from 2010 to the current date. The current homeownership rate is estimated at 55.8 percent, down from 57.8 percent in 2010. Figure 6 shows the number of households by tenure for 2000, 2010, and the current date.

Population and household growth are expected to slow during the 3-year forecast period due to moderating economic conditions in the HMA. The population and number of households in the HMA are expected to grow at an average annual rate of 0.8 and 0.7 percent, respectively, reaching 2.05 million people and 684,900 households

Figure 6. Number of Households by Tenure in the San Jose HMA,*
2000 to Current

* San Jose-Sunnyvale-Santa Clara HMA.
Note: The current date is August 1, 2017.
Sources: 2000 and 2010—2000 Census and 2010 Census; current—estimates by analyst

by the end of the forecast period. Net in-migration is expected to represent approximately 16 percent of total population growth, down from 37 percent from 2010 to the current date, as affordability pressures in the HMA discourage potential in-migrants. Table DP-1 at the end of this report provides additional household and demographic data.

Housing Market Trends

Sales Market

Sales housing market conditions in the San Jose HMA are currently very tight, with an overall estimated vacancy rate of 0.3 percent, down from 1.5 percent in April 2010. The decline in the vacancy rate is a result of multiple factors, including increased demand from high-paid technology workers in Silicon Valley; limited, albeit growing, new home construction since 2008; and the absorption of much of the excess inventory from the foreclosure crisis that was relatively affordable. The initial effect of the foreclosure crisis on the HMA was less severe than in other parts of the country, and the recovery from it was relatively rapid. The percentage of mortgage loans that were 90 or more days delinquent, were in foreclosure, or transitioned into REO (real estate owned) status peaked in January 2010 at 7.2 percent. By July 2017, that rate had dropped to 0.5 percent, down from the 0.7-percent rate in July 2016 (CoreLogic, Inc.). By comparison, the average rates in California during those months were significantly higher at 11.4 percent in January 2010, 1.5 percent in May 2016, and 1.1 percent in May 2017. As of July 2017, a 1.5-month supply of homes was available for sale in Santa Clara County, the predominant county in the HMA, down from a 2.5–month supply a year earlier (California Association of Realtors®).

During the 12 months ending July 2017, new and existing home sales (including single-family homes, townhomes, and condominiums) totaled 20,700, up 3 percent from a year earlier and 20 percent higher than the low of 17,300 home sales near the start of the national recession in 2008. Although the 2001 dot-com bust was more harmful to the HMA than the 2007 national recession in terms of jobs lost, the sales housing market was less affected during the period following the dot-com bust. Sales of new and existing homes increased an average of 15 percent annually from 2001 through 2003, while the average sales price rose 5 percent annually to $595,400 (CoreLogic, Inc. with adjustments by the analyst). Home sales declined an average of 14 percent annually from 2003 through 2008, and the average home sales price continued to increase 3 percent, annually. The sales market began to recover in 2009, when 21,075 homes sold, a 22-percent increase from the previous year. However, except for 2 years of sales growth in 2012 and 2015, homes sales growth remained relatively flat, declining by an average of 1 percent annually from 2010 through 2016. Sales were dampened by increasingly unaffordable housing prices, and during the same period, the average sales price increased 9 percent annually, from $544,900 in 2010 to $972,100 in 2016.

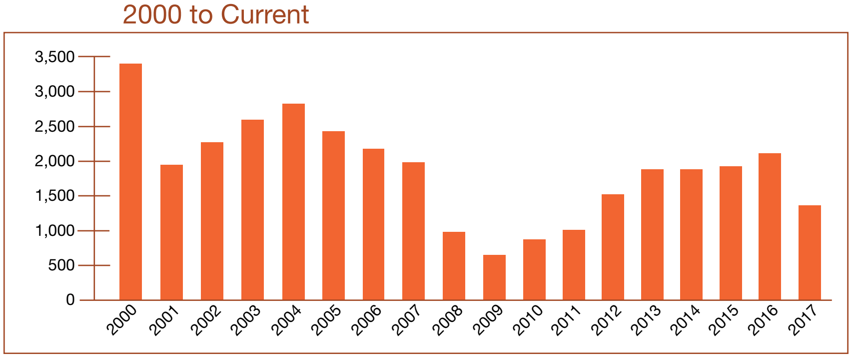
During the 12 months ending July 2017, the average sales price for new and existing homes, including REO and short sales, increased to $1,015,300, 5 percent higher than the average sales price during the previous year and 31 percent higher than the previous peak of $774,200 in 2007. The average sales price for existing homes (excluding short sales) was $1.04 million during the past 12 months, 24 percent higher than the average sales price for a new home at $891,500, because recent new construction tends to be in more affordable areas such as Gilroy, Morgan Hill, and parts of San Jose, where land availability is greater and the cost of development is relatively lower. Home prices in the cities near major technology companies are among the highest in the HMA. Average prices for new and existing home sales during the 12 months ending July 2017 were $1.46 million in the city of Mountain View, $1.75 million in the city of Cupertino, and $2.78 million in the city of Palo Alto (Metrostudy, Inc., A Hanley Wood Company). Meanwhile, the most affordable markets were also the most active in terms of both new and existing sales volumes. During the 12 months ending July 2017, 9,500 single-family homes sold in the city of San Jose at an average sales price of $881,800, 1,075 homes sold in the city of Santa Clara at an average sales price of $1,010,900, and 960 homes sold in the city of Gilroy at an average sales price of $740,400.

The closing of redevelopment agencies (RDAs) across California in February 2012, as part of the state of California's efforts to address the state budget deficit, affected affordable housing construction. One role of RDAs was to provide funding for developing affordable housing. In 1976, Assembly Bill 3674 required that at least 20 percent of tax-increment funds that increased property taxes generated in redevelopment areas be placed in a Low and Moderate Income Housing Fund. The city of San Jose's RDA had 1,096 affordable housing units planned that would have used RDA funds for construction in 2013 and 2014 before its closure in 2012 (Redevelopment Agencies in California: History, Benefits, Excesses, and Closure; http://www.huduser.org/portal//Publications/pdf/Redevelopment_WhitePaper.pdf).

Beginning in 2012, builders began responding to tightening sales market conditions by expanding single-family home construction activity, as measured by the number of single-family homes permitted (Figure 7). During the 12 months ending July 2017, 2,200 single-family homes were permitted, up 8 percent from a year earlier (preliminary data). Single-family homebuilding is below the peak levels from 2000 through 2007, when an average of 2,425 homes were permitted, annually. Because of the housing collapse, the number of single-family homes permitted declined 43 percent during 2008 and 2009. From 2009 through 2011, construction activity remained low at an average of 840 homes permitted, annually. As economic conditions continued to improve in 2012 with the technology boom, the sales market began to tighten significantly. From 2012 through 2016, single-family permitting expanded by an average of 1,700 homes, or 16 percent, annually.

Homebuilding activity from 2000 through 2016 was particularly focused in the cities of San Jose, Gilroy, and Morgan Hill, which, respectively, accounted for 27, 13, and 10 percent of total single-family homes permitted in the HMA. Both Gilroy and Morgan Hill are in southern Santa Clara County along U.S. Highway 101, approximately 20 to 30 miles southeast of the city of San Jose. Single-family homes are significantly less expensive in these cities, because they are farther out from the urban core of the HMA. The median price of a new home during the 12 months ending July 2017 was $815,000 in Gilroy and $919,800 in Morgan Hill compared with $1,032,100 for all of Santa Clara County (Metrostudy, Inc., A Hanley Wood Company).

Figure 7. Single-Family Homes Permitted in the San Jose HMA,* 2000 to Current



** San Jose-Sunnyvale-Santa Clara HMA.*
Notes: Includes townhomes. Current includes data through July 2017.
Sources: U.S. Census Bureau, Building Permits Survey; estimates by analyst

Given increasing construction and labor costs and tightened financing requirements, most of the new sales construction in the HMA is condos and townhomes. Condos and townhomes represented 17 percent of all housing in 2015 but 27 percent of new sales during the 12 months ending July 2017 (2015 ACS 1-year data; Metrostudy, A Hanley Wood Company, with adjustments by the analyst). The largest development currently under way is the 643-unit Silvery Towers condominium in downtown San Jose that will consist of a 20- and a 22-story residential high-rise tower, with amenities such as rooftop terraces, a basement bar, and private garage parking. Construction is expected to be complete by mid-2018. Pricing for the luxury units have not yet been determined. In Morgan Hill, where land availability is greater, the Brighton Oaks townhome development recently completed construction of 110 units, ranging in size from 1,176 to 2,440 square feet. Home prices started in the low $500,000s, and the development is currently sold out.

During the 3-year forecast period, demand is expected for 4,800 sales units (Table 1). Approximately 65

Table 4. Estimated Demand for New Market-Rate Sales Housing in the San Jose HMA* During the Forecast Period

Price Range ($) From	Price Range ($) To	Units of Demand	Percent of Total
350,000	499,999	240	5.0
500,000	649,999	720	15.0
650,000	799,999	1,200	25.0
800,000	949,999	960	20.0
950,000	1,099,999	480	10.0
1,100,000	1,499,999	480	10.0
1,500,000	and higher	720	15.0

** San Jose-Sunnyvale-Santa Clara HMA.*
Notes: The 1,800 homes currently under construction and a portion of the estimated 10,000 other vacant units in the submarket will likely satisfy some of the forecast demand. The forecast period is August 1, 2017, to August 1, 2020.
Source: Estimates by analyst

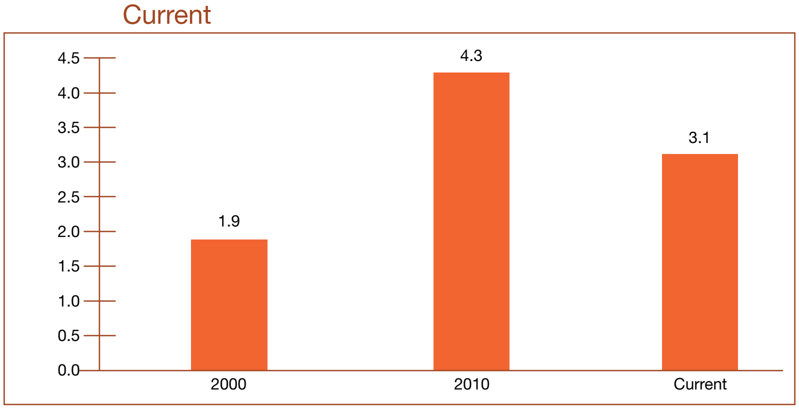
percent of the demand is expected to be for homes that cost less than $949,000 (Table 4). The 1,800 units currently under construction and a portion of the 10,000 other vacant units that may reenter the market will satisfy some of this demand.

Rental Market

Rental housing market conditions in the San Jose HMA are very tight, with an estimated overall rental vacancy rate of 3.1 percent, down from the 4.3-percent rate in April 2010 (Figure 8). Vacancy rates have declined since 2010 because of increased population growth, strong household preferences in renting, and a sustained economic recovery supported by the technology sector.

The apartment vacancy rate during the second quarter of 2017 was 2.8 percent, down from 3.1 percent during the same period a year earlier (MPF Research, Inc.). Average rent by unit type during the second quarter of 2017 was $1,769 for studio units, $2,359 for one-bedroom units, $2,850 for two-bedroom units, and $3,101 for three-bedroom units. Apartment rents are particularly high in the western and northwestern potions of the HMA that are close to major technology companies. The MPF Research-defined market areas (hereafter, market areas) of Mountain View (site of Google headquarters) and South Sunnyvale/Cupertino (site of Apple headquarters) had the highest average rents in the HMA during the second quarter of 2017 at $3,233 and $3,027, reflecting rent increases of 6 and 2 percent, respectively. The apartment vacancy rates in these two market areas were 2.9 and 2.2 percent, respectively, during the second quarter of 2017. As of January 2017, San Jose was the fourth most expensive city in the country in which to rent a one-bedroom unit (Zumper). In the East San Jose market area, where the average rent was the most affordable at $1,683, the apartment vacancy rate was also the lowest at 0.8 percent. All market areas of the HMA recorded rent increases during the second quarter of 2017 with the

Figure 8. Rental Vacancy Rates in the San Jose HMA,* 2000 to Current



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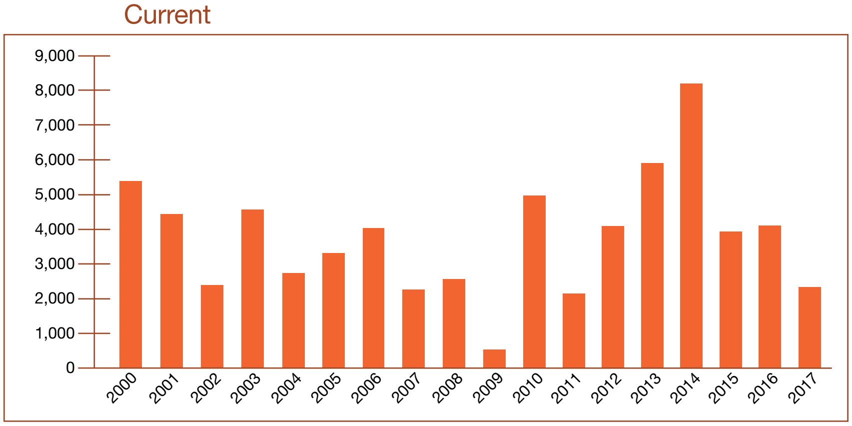
Note: The current date is August 1, 2017.
Sources: 2000 and 2010—2000 Census and 2010 Census; current—estimates by analyst

exception of the North Sunnyvale market area (site of Yahoo headquarters, which has downsized in the past several years), where the average rent declined less than 1 percent to $2,749. Rent increases ranged from 2 percent in the South Sunnyvale/Cupertino and South San Jose market areas to 6 percent in the Mountain View/Palo Alto/Los Altos and Central San Jose market areas.

Despite very tight rental market conditions, builders scaled back the magnitude of multifamily construction, as measured by the number of units permitted, in the HMA in recent years, after building activity peaked in 2013 and 2014, averaging 7,025 units permitted annually. During the 12 months ending July 2017, approximately 5,950 multifamily units were permitted, a 72-percent increase from the 3,450 units permitted during the previous 12-month period (preliminary data). By comparison, an average of 3,500 units was permitted, annually from 2000 through 2008 (Figure 9). New multifamily construction reached a low of 450 units in 2009 in response to the housing market collapse but began to steadily expand from 2011 through 2014 at an average annual rate of 57 percent per year, until reaching its peak in 2013 and 2014. Condo construction made up a significant portion of multifamily construction during the housing boom, averaging 28 percent of all multifamily construction, annually, from 2003 through 2007. During the recession, condominium construction declined to an average of 3 percent of all multifamily construction from 2008 through 2012. Although condominium construction increased recently to an average of 11 percent of multifamily construction from 2013 through 2016, it remains below peak levels.

Figure 9. Multifamily Units Permitted in the San Jose HMA,* 2000 to Current



** San Jose-Sunnyvale-Santa Clara HMA.*
Notes: Excludes townhomes. Current includes data through July 2017.
Sources: U.S. Census Bureau, Building Permits Survey; estimates by analyst

A significant portion of the apartments currently under way is in the city of San Jose, particularly in the downtown area, where demand is bolstered by revitalization efforts currently in progress. Recently completed developments include the 21-story, 347-unit Centerra luxury apartments in downtown San Jose near the San Pedro Square Market. Average rents for the one- and two-bedroom units, which include some townhome apartment units, range from $2,500 to $3,780 per month. Similar luxury and amenity-rich apartment projects are currently under way. The 403-unit Hanover Cannery Park apartments in the Japantown neighborhood of San Jose is expected to be complete by early 2018. Monthly rents have not yet been determined.

Stanford University and SJSU are large universities within the HMA, with 16,300 and 32,800 students, respectively. Combined, they account for an estimated 8,450 renter households, or less than 3 percent, of all renter occupied units. Enrollment at both universities is steady, and one of the new multifamily construction projects is targeted toward students.

During the 3-year forecast period, demand is expected for 11,100 new market-rate rental units (Table 1). Demand is expected to be strongest in the first 2 years of the forecast period, because economic growth is expected to moderate. The 3,475 units under construction will meet a portion of that demand. Table 5 includes expected demand by unit type and rent ranges.

Table 5. Estimated Demand for New Market-Rate Rental Housing in the San Jose HMA* During the Forecast Period

Zero Bedrooms		One Bedroom		Two Bedrooms		Three or More Bedrooms	
Monthly Gross Rent ($)	Units of Demand	Monthly Gross Rent ($)	Units of Demand	Monthly Gross Rent ($)	Units of Demand	Monthly Gross Rent ($)	Units of Demand
2,050 to 2,249	330	2,400 to 2,599	2,000	3,050 to 3,249	3,500	3,500 to 3,699	330
2,250 or more	220	2,600 to 2,799	2,000	3,250 to 3,449	1,000	3,700 to 3,899	110
		2,800 or more	1,000	3,450 or more	500	3,900 or more	110
Total	560	Total	5,000	Total	5,000	Total	560

** San Jose-Sunnyvale-Santa Clara HMA.*

Notes: Numbers may not add to totals because of rounding. Monthly rent does not include utilities or concessions. The 3,475 units currently under construction will likely satisfy some of the estimated demand. The forecast period is August 1, 2017, to August 1, 2020.

Source: Estimates by analyst

Data Profile

Table DP-1. San Jose HMA* Data Profile, 2000 to Current

				Average Annual Change (%)	
	2000	2010	Current	2000 to 2010	2010 to Current
Total resident employment	938,040	853,805	933,300	– 0.9	1.4
Unemployment rate	3.2%	10.5%	3.6%		
Nonfarm payroll jobs	1,048,500	869,400	1,082,000	– 1.9	3.4
Total population	1,735,819	1,836,911	2,005,000	0.6	1.2
Total households	581,748	621,009	670,300	0.7	1.0
Owner households	349,491	359,225	374,200	0.3	0.6
Percent owner	60.1%	57.8%	55.8%		
Renter households	232,257	261,784	296,100	1.2	1.7
Percent renter	39.9%	42.2%	44.2%		
Total housing units	595,828	649,790	691,000	0.9	0.8
Owner vacancy rate	0.5%	1.5%	0.3%		
Rental vacancy rate	1.9%	4.3%	3.1%		
Median Family Income	$82,600	$102,500	$106,300	2.2	0.6

** San Jose-Sunnyvale-Santa Clara HMA.*

Notes: Numbers may not add to totals because of rounding. Employment data represent annual averages for 2000, 2010, and the 12 months through July 2017. Median Family Incomes are for 1999, 2009, and 2015. The current date is August 1, 2017.

Sources: U.S. Census Bureau; U.S. Department of Housing and Urban Development; estimates by analyst

Data Definitions and Sources

2000: 4/1/2000—U.S. Decennial Census
2010: 4/1/2010—U.S. Decennial Census
Current date: 8/1/2017—Estimates by the analyst
Forecast period: 8/1/2017–8/1/2020—Estimates by the analyst

The metropolitan statistical area definition in this report is based on the delineations established by the Office of Management and Budget (OMB) in the OMB Bulletin dated February 28, 2013.

Demand: The demand estimates in the analysis are not a forecast of building activity. They are the estimates of the total housing production needed to achieve a balanced market at the end of the 3-year forecast period given conditions on the as-of date of the analysis, growth, losses, and excess vacancies. The estimates do not account for units currently under construction or units in the development pipeline.

Other Vacant Units: In this analysis conducted by the U.S. Department of Housing and Urban Development (HUD), other vacant units include all vacant units that are not available for sale or for rent. The term therefore includes units rented or sold but not occupied; held for seasonal, recreational, or occasional use; used by migrant workers; and the category specified as "other" vacant by the Census Bureau.

Building Permits: Building permits do not necessarily reflect all residential building activity that occurs in an HMA. Some units are constructed or created without a building permit or are issued a different type of building permit. For example, some units classified as commercial structures are not reflected in the residential building permits. As a result, the analyst, through diligent fieldwork, makes an estimate of this additional construction activity. Some of these estimates are included in the discussions of single-family and multifamily building permits.

For additional data pertaining to the housing market for this HMA, go to huduser.gov/publications/pdf/CMARtables_SanJose_Sunnyvale_SantaClaraCA_17.pdf.

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This analysis has been prepared for the assistance and guidance of HUD in its operations. The factual information, findings, and conclusions may also be useful to builders, mortgagees, and others concerned with local housing market conditions and trends. The analysis does not purport to make determinations regarding the acceptability of any mortgage insurance proposals that may be under consideration by the Department.

The factual framework for this analysis follows the guidelines and methods developed by the Economic and Market Analysis Division within HUD. The analysis and findings are as thorough and current as possible based on information available on the as-of date from local and national sources. As such, findings or conclusions may be modified by subsequent developments. HUD expresses its appreciation to those industry sources and state and local government officials who provided data and information on local economic and housing market conditions.

For additional reports on other market areas, please go to huduser.gov/portal/ushmc/chma_archive.html.