

Housing Market Profile



Pacific • HUD Region IX

San Jose, California

Located at the southern end of the San Francisco Bay Area, the San Jose metropolitan area includes Santa Clara County and San Benito County. Widely known as “Silicon Valley,” the area is one of the leading high-technology research and manufacturing centers in the nation. Major employers include Cisco Systems, Inc.; Lockheed-Martin Corporation; Intel Corporation; Hewlett-Packard Development Company; and Google. The leading employer in the metropolitan area is Stanford University, which enrolls 15,000 students, and its affiliates, Stanford Hospital & Clinics and Lucile Packard Children’s Hospital at Stanford, which together employ more than 20,000 workers. As of October 1, 2009, the population of the San Jose metropolitan area is estimated at 1.93 million; this figure reflects a gain of 19,150, or 1.0 percent, in the past year, compared with an average annual increase of 29,000, or 1.6 percent, during the 3 previous years. The city of San Jose is the 3rd largest in California and the 10th largest in the country, with a population of approximately 1 million. Santa Clara County accounts for 97 percent of the current population of the metropolitan area.

Economic conditions have continued to weaken in the San Jose metropolitan area since mid-2008. During the 12 months ending August 2009, nonfarm employment declined by 26,900 jobs, or 2.9 percent, to an average of 890,600 jobs. In comparison, employment rose by 13,100 jobs or 1.5 percent, during the 12 months ending August 2008 and increased by an average of 16,400 jobs, or 1.9 percent, annually from 2005 through 2007. The decline in employment occurred in nearly all major sectors. In the past 12 months, the construction sector lost 6,000 jobs, a decrease of 13 percent, as a result of the decades-low level of residential building activity. The manufacturing sector lost 6,700 jobs, a decrease of 4 percent, because many electronics and semiconductor manufacturing firms laid off staff in response to decreased sales of computers and other electronic equipment. The professional and business services sector and the retail trade subsector declined by 6,300 and 4,500 jobs, respectively. The only major employment growth in the past year occurred in the education and health services sector, which added 1,900 positions, a gain of 1.8 percent, primarily in hospitals. The planned rebuilding and expansion of Stanford Hospital & Clinics and Lucile Packard Children’s Hospital at Stanford will support future growth in this sector. The \$2.5 billion project is expected to

be completed by 2015 and to provide 3,000 additional jobs. During the 12 months ending August 2009, reflecting the declining economy, the unemployment rate in the metropolitan area averaged 9.7 percent, significantly above the national average of 8.2 percent. In comparison, the unemployment rate in the area averaged 5.4 percent during the previous 12 months.

Sales housing market conditions are soft in the San Jose metropolitan area as a result of the slowing economy and tight mortgage credit standards, although sales volume has begun to increase as home sales prices have declined. According to DataQuick®, during the 12 months ending September 2009, nearly 17,000 existing homes were sold, a 20-percent increase compared with the number sold during the previous 12 months but a 50-percent decrease compared with the recent peak of 33,500 homes sold in 2004. Sales volume rose as buyers responded to the dramatic 45-percent decline in the median price from a peak of \$722,000 in the second quarter of 2007 to a recent low of \$398,650 in the first quarter of 2009. Since then, the median price rose 15 percent to \$457,000 in the third quarter of 2009. The inventory of unsold existing homes declined from 7,700 homes at the end of the third quarter of 2008 to 4,700 at the end of the third quarter of 2009. Increasing foreclosure activity has contributed to the decline in sales prices. During the 12 months ending June 2009, approximately 6,000 homes were foreclosed, twice the foreclosure volume recorded during the previous 12-month period. Despite the increase in the number of foreclosures, the foreclosure rate in the San Jose metropolitan area (1.9 percent of housing units) is significantly lower than that of California (2.9 percent of housing units).

During the 12-month period ending June 2009, according to The Gregory Group, new home sales in the San Jose metropolitan area totaled about 1,950, a decline of 28 percent compared with the number sold during the 12-month period ending June 2008. The median price of a new detached home in the area declined 19 percent to \$695,000 during the second quarter of 2009. From 2007 through the second quarter of 2009, condominiums accounted for approximately 80 percent of new home sales; in comparison, from 2004 through 2006, condominiums accounted for 63 percent of new home sales. During the 12 months ending June 2009, the median price of new condominiums fell 17 percent to \$445,000. Approximately 50 percent of the condominium units sold in the past 3 years were located in the city of San Jose. Due to the scarcity of vacant land available for subdivisions, most new sales



housing in the area is developed on higher density infill sites or through the redevelopment of older commercial or manufacturing properties. Major highrise condominium complexes built in downtown San Jose during the past 3 years include City Heights, Axis, The 88, and Three Sixty Residences, which include a total of 863 units.

In response to declining new home sales and tight credit for construction financing, single-family homebuilding in the San Jose metropolitan area, as measured by the number of building permits issued, fell by 39 percent to just 400 homes, according to preliminary data for the 12 months ending August 2009. In comparison, an annual average of 2,500 homes were permitted in the area from 2000 to 2006. According to preliminary data, the number of multifamily units permitted declined by 16 percent to 1,300 during the 12 months ending August 2009. Current multifamily construction activity is far below the level recorded from 2000 to 2006, when an annual average of 3,600 multifamily units were permitted. According to the McGraw-Hill Construction Pipeline database, about 70 percent of the multifamily units permitted during the past 12 months were apartments. In comparison, apartments accounted for 54 percent of the units permitted from 2003 and 2006. Santa Clara County accounted for all but 3 percent

of the total single-family and multifamily units permitted in the metropolitan area since 2000.

Conditions in the San Jose rental housing market moved from tight to balanced in the past year as a result of the declining economy and the increased number of apartment completions. According to Reis, Inc., the apartment vacancy rate remained below 4 percent in late 2007, reached a post-2000 low of 3.3 percent in the third quarter of 2008, and increased to 4.8 percent in the third quarter of 2009. Since the third quarter of 2008, the average rent has declined by 7 percent to a current rate of \$1,487 after increasing by 5 percent during the previous year. Average rents are estimated at \$1,375 for a one-bedroom unit, \$1,750 for a two-bedroom unit, and \$2,130 for a three-bedroom unit. Approximately two-thirds of apartment properties built since 2000 report concessions, ranging from 1/2 to 1 month's rent free on a 12-month lease. According to M/PF YieldStar, during the 12 months ending June 2009, approximately 1,200 apartment units were completed; 734 of these units were originally intended as for-sale condominiums. Fewer than 1,000 apartment units are currently under construction in the area. Despite the reduced supply pipeline, apartment vacancies are expected to increase moderately in the next year because of weak demand and slow absorption.