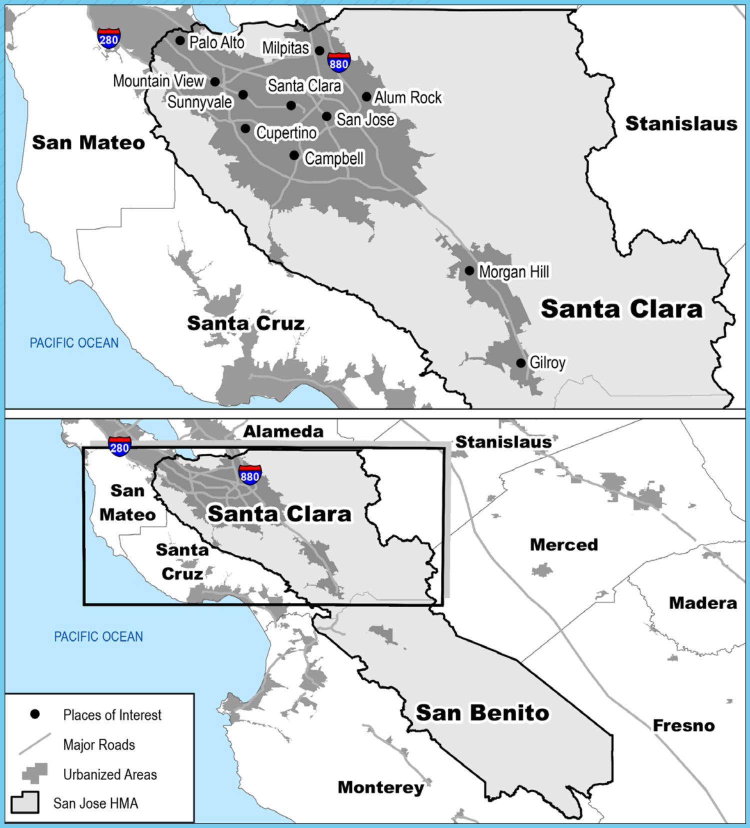
The analysis presented in this report was completed prior to the COVID-19 outbreak in the United States and therefore the forecast estimates do not take into account the economic and housing market impacts of the actions taken to limit contagion of the virus. At this time, the duration and depth of the economic disruption are unclear, as are the extent and effectiveness of countermeasures. HUD will continue to monitor market conditions in the HMA and provide an updated report/addendum in the future.

COMPREHENSIVE HOUSING MARKET ANALYSIS

San Jose-Sunnyvale-Santa Clara, California

U.S. Department of Housing and Urban Development,
Office of Policy Development and Research

As of January 1, 2020



Executive Summary

Housing Market Area Description

The San Jose-Sunnyvale-Santa Clara Housing Market Area (hereafter, San Jose HMA) is coterminous with the metropolitan statistical area of the same name and consists of Santa Clara and San Benito Counties. The HMA is approximately 35 miles southeast of San Francisco.

The current HMA population is estimated at 2.03 million.

The presence of three large universities, including Stanford University; a highly educated workforce; and a strong venture capital network has gained the HMA the moniker Silicon Valley—a hub of technology research, innovation, and entrepreneurship. Several of the largest technology firms in the country are in the HMA, including Alphabet Inc. (the parent company of Google); Apple Inc.; and Facebook, Inc.

Tools and Resources

Find interim updates for this metropolitan area, and select geographies nationally, at PD&R's Market-at-a-Glance tool.
Additional data for the HMA can be found in this report's supplemental tables.
For information on HUD-supported activity in this area, see the Community Assessment Reporting Tool.

Market Qualifiers

Economy

Strong: Nonfarm payroll growth has averaged nearly 31,200 jobs, or 3.1 percent a year, since the end of the Great Recession.

The economy has expanded strongly since 2011, although the rate of job growth began to slow in 2014. From 2011 through 2018, nonfarm payrolls increased by an average of 3.2 percent a year, and payrolls during 2019 were up 2.6 percent from a year earlier. The information, manufacturing, and professional and business services sectors led job gains during the past 12 months, with emerging technologies supporting a variety of jobs. During the next 3 years, nonfarm payrolls are expected to increase an average of 1.7 percent a year.

Sales Market

Very Tight: The inventory of for-sale housing in the San Jose HMA remains very low, with less than 1 month of inventory as of December 2019.

Home sales during the past year decreased as a result of limited for-sale inventory and slowing population growth. The number of homes sold during 2019 decreased 9 percent from 2018 to 17,800 homes sold, and the average home sales price decreased 2 percent to $1.20 million. The sales market is extremely expensive, particularly for younger households, for which the income needed to afford a modestly priced home exceeds the median income. Demand is estimated for 4,225 homes during the next 3 years; the 1,275 homes underway will satisfy a portion of the demand.

Rental Market

Tight: The apartment vacancy rate in the fourth quarter of 2019 was 4.4 percent—virtually unchanged since the fourth quarter of 2016.

The overall rental market is tight, with a current rental vacancy rate estimated at 4.0 percent, down from 4.3 percent in 2010. The apartment market is currently tight, as demand has generally exceeded supply since the late 2000s. Increased apartment construction during the mid-2010s has eased market conditions, however, which were very tight as recently as 2017. During the next 3 years, demand is expected for 8,325 new rental units; the 5,200 units currently under construction will meet a portion of the demand during the first 2 years of the forecast period.

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3-Year Housing Demand Forecast

		Sales Units	Rental Units
San Jose HMA	Total Demand	4,225	8,325
	Under Construction	1,275	5,200

Notes: Total demand represents estimated production necessary to achieve a balanced market at the end of the forecast period. Units under construction as of January 1, 2020. The forecast period is January 1, 2020, to January 1, 2023.
Source: Estimates by the analyst

Economic Conditions

Largest Sector: Professional and Business Services

Although the information sector contributed to only 9 percent of total nonfarm jobs, it has been the fastest growing sector in percentage terms since 2011.

Primary Local Economic Factors—Big Tech and Startups

The local economy in the San Jose HMA has historically depended on a cluster of technology companies that earned the region its nickname, Silicon Valley. Technology company payrolls mainly fall within three sectors (manufacturing, information, and professional and business services), which represented a combined 45 percent of nonfarm payrolls during 2019 and 7 of the 10 largest employers. The rapid expansion of large tech firms with global headquarters in the HMA has been a catalyst for local economic growth. According to a nationwide analysis of job growth in the high-technology industry, the current set of technology leaders are following the same rapid upward employment growth path as General Motors Company and Bethlehem Steel Corporation did during the peak of manufacturing employment in the late 1970s (Progressive Policy Institute). Since 2010, employment in the HMA has more than doubled at Apple Inc., Alphabet Inc. (the parent company for Google and hereafter, Google LLC), and Intel Corporation, with the addition of 15,000, 14,000, and 5,700 jobs, respectively (Moody's Economy.com). In addition, Tesla, Inc. moved into its current office in the city of Palo Alto in 2009 with 350 initial employees and has since expanded to its current employee count of 10,000 (Table 1).

In addition to big tech employment, entrepreneurship in startup endeavors has been an important source of economic growth in the HMA because of the strong network of venture capital firms nearby. The amount of venture capital (funding provided to startup companies in exchange for equity) invested in the HMA increased by an average of 32 percent annually from 2010 through 2017 to $8.5 billion, and the San Jose HMA ranked as the metropolitan area with the third most venture capital funding (PitchBook). Recent startups have been clustered in the cities of San Jose, Sunnyvale, Mountain View, Palo Alto, and Santa Clara, where other established firms are also located. More than 2,000 startup firms are located in these cities, with an average founded date of 2012 and total funding of more than $41.5 billion (Crunchbase).

Table 1. 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	18,800
Stanford University	Education & Health Services	16,919
Cisco Systems, Inc.	Manufacturing	15,700
Kaiser Permanente	Education & Health Services	12,500
Intel Corporation	Manufacturing	10,801
Tesla, Inc.	Manufacturing	10,000
Facebook, Inc.	Information	9,385
Oracle Corporation	Professional & Business Services	6,750

Note: Excludes local school districts.
Source: Silicon Valley Business Journal

Current Conditions—Nonfarm Payrolls

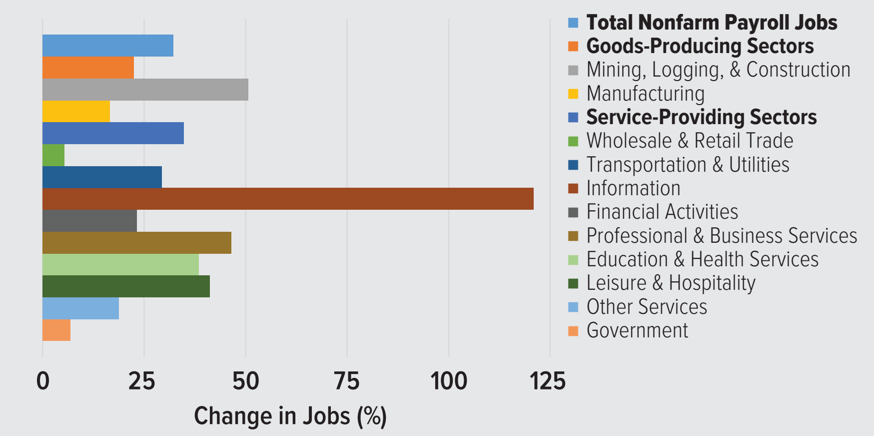
Economic conditions in the San Jose HMA are currently strong, and although the rate of job growth slowed every year from 2014 through 2018, nonfarm job growth accelerated during the past 12 months. Nonfarm payrolls increased by 29,700 jobs, or 2.6 percent, to 1.15 million during 2019 (Table 2). By comparison, during 2018, payrolls increased by 20,300 jobs, or 1.8 percent.

Table 2. 12-Month Average Nonfarm Payroll Jobs (1,000s) in the San Jose HMA, by Sector

	12 Months Ending December 2018	12 Months Ending December 2019	Absolute Change	Percentage Change
Total Nonfarm Payroll Jobs	**1,125.2**	**1,154.9**	**29.7**	**2.6**
Goods-Producing Sectors	221.9	228.1	6.2	2.8
Mining, Logging, & Construction	49.6	49.1	-0.5	-1.0
Manufacturing	172.3	179.0	6.7	3.9
Service-Providing Sectors	903.3	926.8	23.5	2.6
Wholesale & Retail Trade	118.0	118.5	0.5	0.4
Transportation & Utilities	16.0	15.5	-0.5	-3.1
Information	91.7	99.9	8.2	8.9
Financial Activities	37.1	38.2	1.1	3.0
Professional & Business Services	237.3	242.7	5.4	2.3
Education & Health Services	172.7	176.1	3.4	2.0
Leisure & Hospitality	105.0	106.2	1.2	1.1
Other Services	28.8	28.9	0.1	0.3
Government	96.8	100.9	4.1	4.2

Notes: Based on 12-month averages through December 2018 and December 2019. Numbers may not add to totals due to rounding. Data are in thousands.
Source: U.S. Bureau of Labor Statistics

Figure 1. Sector Growth in the San Jose HMA, 2011 to Current



Note: The current date is January 1, 2020.
Source: U.S. Bureau of Labor Statistics

Information Sector

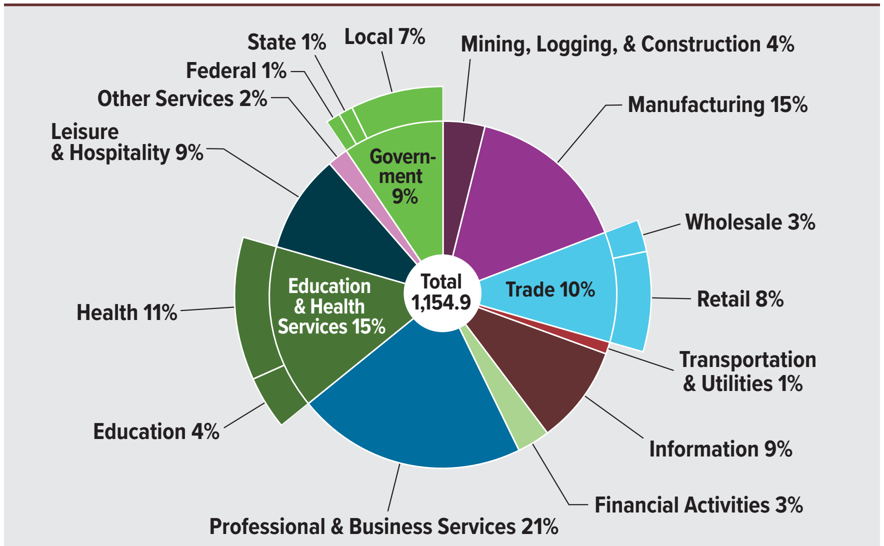
Increased hiring in high-tech industries has primarily benefited the information sector—the fastest growing sector since 2011, when the economic recovery began (Figure 1). During 2019, sector payrolls increased by 8,200 jobs, or 8.9 percent, compared with 2018. Part of the job growth since 2011 has been attributable to Google LLC, which has continually expanded its presence in the HMA since the company moved its headquarters from adjacent San Mateo County to the city of Mountain View in 2003. Since 2016, the company has purchased more than $300 million of land in downtown San Jose, near the Caltrain Diridon station, where it plans to locate its transit village and technology campus. The village, currently titled Downtown West, is estimated to have capacity for an additional 3,000 to 5,000 housing units, 6.5 million square feet of office space, and up to 25,000 new Google LLC jobs. Although an estimated completion time has not been determined, the plans have generated increased investment in the revitalization of the downtown San Jose neighborhood; five additional large office projects are expected to bring more than 45,000 office workers to the downtown area. Those projects include Platform 16—a new tech campus with 1.1 million square feet of office space that borders the Downtown West project and is expected to break ground in March 2020—and the expanded downtown headquarters campus for Adobe Inc., which is currently under construction.

In addition, although the headquarters of Facebook, Inc. is in adjacent San Mateo County, the social media company has a significant presence in the San Jose HMA and has recently begun to expand. In September 2019, the company began moving some existing employees from other Bay Area offices into one of three large office buildings that will make up their Sunnyvale campus, called Moffett Towers 2, in the HMA. The 1.05-million-square-foot campus will have enough space for an additional 5,300 employees when the second and third buildings have completed construction in late 2020 and early 2021, respectively.

Education and Health Services Sector

The education and health services sector represents 15 percent of nonfarm payrolls in the HMA (Figure 2). The three largest universities in the HMA are California State University, San Jose (CSUSJ) and the privately funded Santa Clara University and Stanford University. During the 2019-to-2020 fiscal year, those universities had a combined enrollment of 53,100 students, employed 5,550 faculty, and had annual operating budgets totaling $7.7 billion. Higher education has a beneficial relationship with technology companies in the HMA, providing a well-trained workforce 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 (Stanford University). Some of the companies that Stanford graduates founded, built, or led include Google LLC, Nike, Inc., Cisco Systems, Inc., and Tesla, Inc. In addition, both CSUSJ and Stanford University were among the top 10 universities from which technology companies in the HMA recruited alumni in 2017 (HiringSolved).

Figure 2. Share of Nonfarm Payroll Jobs in the San Jose HMA, by Sector



Notes: Total nonfarm payroll is in thousands. Percentages may not add to 100 percent due to rounding. Based on 12-month averages through December 2019.
Source: U.S. Bureau of Labor Statistics

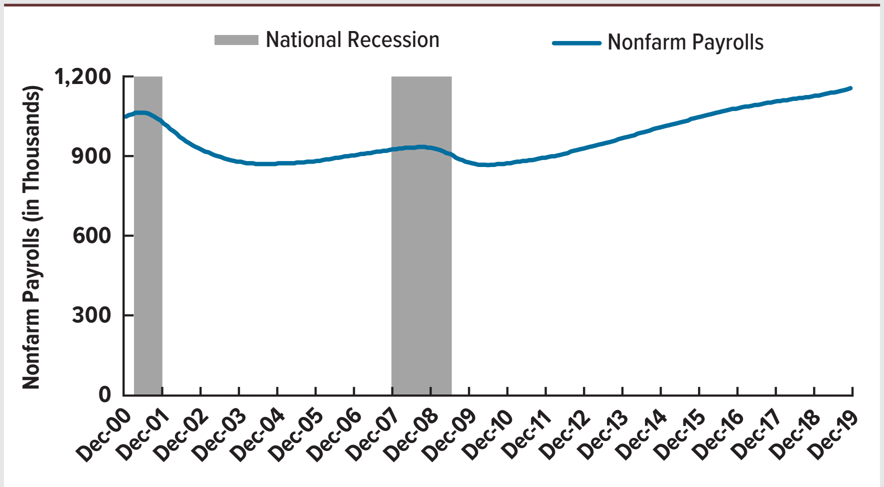
Manufacturing Sector

Long-term conditions in the manufacturing sector have been mixed. Job losses in the sector averaged 9,900, or 4.8 percent, annually from 2001 through 2010, a period which includes both the dot-com bust and Great Recession. Employment grew by an average of 2,800 jobs, or 1.7 percent, from 2011 through 2019, as manufacturing that supported high tech accelerated. The manufacturing sector is an important part of the local economy, with 4 of the 10 largest employers, including Apple Inc. and Tesla, Inc. In 2018, Apple completed construction of the $5 billion, 176-acre site of its headquarters, Apple Park, in the city of Cupertino. The 2.8-million-square-foot main building has capacity for 12,000 employees. An economic impact study conducted in May 2014 estimated that the project would create 9,200 direct and 3,400 indirect and induced jobs in Santa Clara County (Keyser Marston Associates, Inc.). Several Silicon Valley hardware producers have recently announced layoffs, however, including Intel Corporation, which plans to lay off 129 workers at four company locations in and around its Santa Clara headquarters by March 2020. In addition, Xilinx, Inc. a semiconductor manufacturer, announced in January 2020 that it will lay off 300 employees at its San Jose headquarters and other offices in the United States and abroad.

Historical Trends: 2001 through 2008

The collapse of the 1990s' information technology boom and the subsequent national recession, which occurred 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 44,400 jobs, or 4.5 percent, annually from 2001 through 2004 (Figure 3). 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 during the 2001-through-2004 period were concentrated in the manufacturing and the professional and business services sectors, which lost an average of 21,200 and 15,500 jobs annually, or 9.7 and 7.5 percent, respectively. As enthusiasm for startup technology companies subsided, venture capital investments in Silicon Valley declined sharply from a peak of $33.4 billion in 2000 to a low of $6.8 billion in 2003 (PricewaterhouseCoopers MoneyTree™).

Figure 3. 12-Month Average Nonfarm Payrolls in the San Jose HMA



Note: 12-month moving average.
Sources: U.S. Bureau of Labor Statistics; National Bureau of Economic Research

After the 2001 recession, increased homebuilding activity during the housing boom bolstered the local economy in the HMA, which spurred growth in other sectors. Nonfarm payroll growth resumed in 2005, increasing at an average annual rate of 1.7 percent, or 14,900 jobs, from 2005 through 2008. During that period, the mining, logging, and construction sector added an average of 400 jobs, or 0.8 percent, annually, compared with an average loss of 1,700 jobs, or 3.5 percent, from 2001 through 2004. Significant job gains also occurred in the education and health services, the professional and business services, the information, the leisure and hospitality, and the wholesale and retail trade sectors, which added an average of 4,900, 3,500, 2,300, 1,800, and 1,800 jobs, or 4.4, 2.0, 6.2, 2.4, and 1.5 percent, respectively.

Historical Trends: 2009 through 2010

The impact of the national recession that began in 2007 and the ensuing foreclosure crisis led to fewer layoffs and a shorter duration of job losses in the HMA compared with the 2001 dot-com recession. Nonfarm payrolls declined by an average of 29,300 jobs, or 3.2 percent, annually from 2009 through 2010. The manufacturing and the mining, logging, and construction sectors were particularly affected by reduced demand and falling levels of new home construction, declining by averages of 7,400 and 6,100 jobs, or 4.5 and 14.7 percent, respectively. Significant job losses averaging 8,300 jobs, or 4.7 percent, annually, also occurred in the professional and business services sector during this period. Those losses represented a little more than one-half of the annual losses that occurred in the sector during the dot-com bust, however. The only two sectors to add jobs during this period were the education and health services and the information sectors, which added 2,800 and 1,300 jobs, or 2.3 and 3.0 percent, respectively.

Historical Trends: 2011 through Current

The local economic recovery began in 2011 with the technology boom that affected the greater San Francisco Bay Area, of which the HMA is a part. From

2011 through 2014, an average of 33,400 nonfarm payrolls, or 3.6 percent, were added annually in the HMA. Gains were concentrated in the technology industry during the period, and nonfarm payroll additions were particularly significant in the professional and business services, the education and health services, and the information sectors, which added respective averages of 11,000, 5,700, and 4,500 jobs, or 6.1, 4.2, and 8.8 percent, annually. The leisure and hospitality sector also benefited from increased tourism and business travel into the HMA, adding an average of 4,400 jobs, or 5.4 percent, annually. Strong economic growth during this period also resulted in increased residential construction activity and office development, benefiting the mining, logging, and construction sector, which added an average of 1,900 jobs, or 5.2 percent, annually from 2011 through 2014.

Although job growth in the HMA has continued, it has slowed since 2015 due to tight labor market constraints and an expensive residential and office market that has at least partially shifted company expansions to other areas of the state and nation. From 2015 through 2019, nonfarm payroll growth in the HMA averaged 29,500 jobs, or 2.8 percent. The same industries led growth during this period, but gains in the information sector surpassed those in professional and business services, making it the leading growth sector. During the 2015-through-2019 period, the information, the professional and business services, and the education and health services sector added an average of 7,300, 6,500, and 5,200 jobs, or 9.5, 2.9, and 3.3 percent, respectively. Growth in the leisure and hospitality sector slowed, however, by almost 40 percent, as high lodging costs likely shifted business travel to other parts of the country; the sector added an average of 2,700 jobs, or 2.7 percent, annually.

By comparison, nonfarm payroll growth nationwide averaged 1.6 percent annually during the 2011-through-2014 period and 1.7 percent annually during the 2015-through-2019 period.

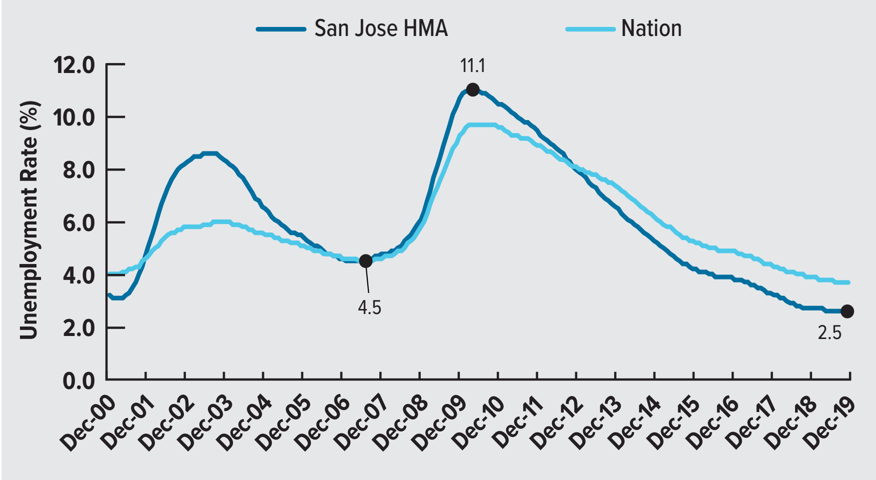
Unemployment Trends

During the Great Recession, the unemployment rate in the HMA peaked at 11.1 percent during the 12 months ending May 2009, up from a low of 4.5 percent during the 12 months ending July 2006 (Figure 4). Unemployment has declined to historically low levels during the current expansion, however, and labor market conditions are currently very tight. During 2019, the unemployment rate averaged 2.5 percent, down from the 2.7-percent rate a year earlier and the lowest rate in the past 30 years. By comparison, the unemployment rate was 3.2 percent in 1999 during the dot-com boom. During 2019, resident employment increased by 15,900, or 1.5 percent, and the labor force grew by 14,900, or 1.4 percent.

Employment Forecast

During the 3-year forecast period, nonfarm payrolls in the HMA are expected to increase by an average of 19,825 jobs, or 1.7 percent, annually, following the recent trend of moderating job gains since 2014. Ongoing expansions and hiring by major technology companies are expected to continue to boost payroll growth in the information, the professional and business services, and the manufacturing sectors.

Figure 4. 12-Month Average Unemployment Rate in the San Jose HMA and the Nation



Note: Based on the 12-month moving average.
Source: U.S. Bureau of Labor Statistics

Population and Households

Current Population: 2.03 million

Population growth was strong during the early part of the 2010 decade but has slowed since 2015 as domestic net out-migration outpaced international net in-migration.

Population and Migration Trends

As of January 1, 2020, the population of the San Jose HMA is estimated at 2.03 million (Table 3). Population growth since the 2000s has been responsive to economic conditions and housing affordability in the HMA. From 2010 to 2015, population growth averaged 26,950 people, or 1.4 percent, annually; net in-migration accounted for the addition of 12,150 people a year, or approximately 45 percent of the increase, partly reflecting the strong job growth in the HMA compared with other areas in the nation. During this period, domestic net out-migration averaged 1,650, although international net in-migration of 13,800 (primarily of residents from Asia and Latin America) more than offset the number of domestic out-migrants. Average net natural change of 14,800 people a year accounted for the remaining 55 percent of total population growth during this period. Figure 5 shows the components of population change for periods of significance between 2000 and the forecast date.

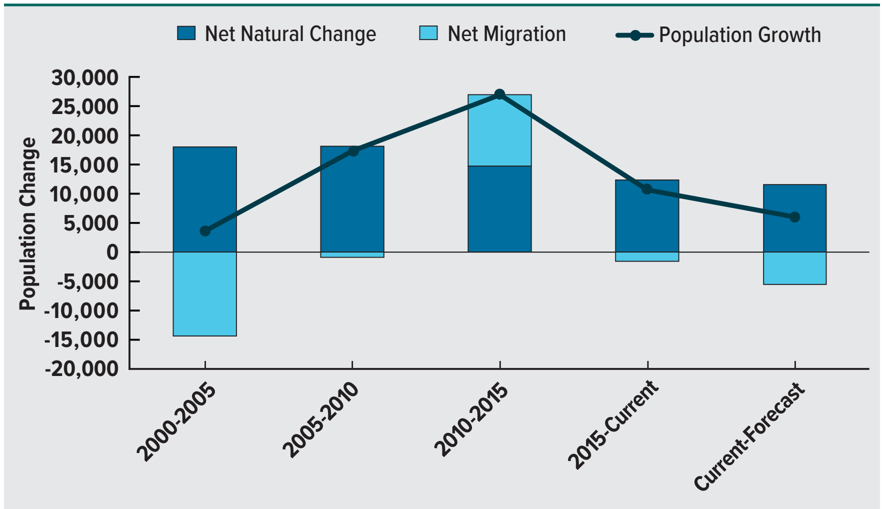
Table 3. San Jose HMA Population and Household Quick Facts

Population Quick Facts		2010	Current	Forecast
	Population	1,836,911	2,027,000	2,045,000
	Average Annual Change	10,100	19,450	5,975
	Percentage Change	0.6	1.0	0.3

Household Quick Facts		2010	Current	Forecast
	Households	621,009	677,400	683,800
	Average Annual Change	3,925	5,775	2,125
	Percentage Change	0.7	0.9	0.3

Notes: Average annual changes and percentage changes are based on averages from 2000 to 2010, 2010 to current, and current to forecast. The forecast period is from the current date (January 1, 2020) to January 1, 2023.
Sources: 2000 and 2010—State of California Department of Finance Population Estimates; current and forecast—estimates by the analyst

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

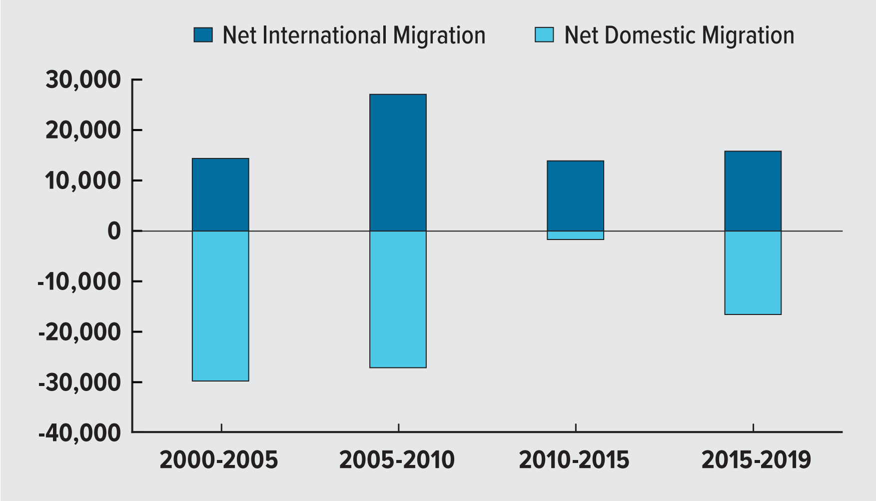


Notes: Net natural change and net migration totals are average annual totals over the time period. The forecast period is from the current date (January 1, 2020) to January 1, 2023.
Sources: State of California Department of Finance Population Estimates; current to forecast—estimates by the analyst

Despite strong economic conditions, population growth has slowed significantly since the mid-2010s as rising housing costs have resulted in increased numbers of domestic residents relocating to relatively affordable housing markets near the HMA. From 2015 to 2019, the population of the HMA grew by an average of 11,350 people annually, or 0.6 percent, as average domestic net out-migration rose to 16,750 and average international net in-migration averaged 15,700 a year, resulting in overall average net out-migration of 1,050 (Figure 6). The rate of net natural change also declined from the 2010-to-2015 period to an average of 12,400 people a year, suggesting that out-migration has tended to be concentrated among young families.

From 2000 to 2010, the population of the HMA increased by an average of 10,100, or 0.6 percent, annually, with significant growth during the latter part of the decade offsetting slow growth in the first part of the decade. During the

Figure 6. Components of Net Migration in the San Jose HMA



Source: State of California Department of Finance Population Estimates

recession in the early 2000s, net out-migration averaged about 14,400 people a year during 2000 to 2005, mainly due to job losses following the bursting of the dot-com bubble. Domestic net out-migration during this period was significant, averaging 29,750, whereas international net in-migration averaged 15,350. During the period, population growth averaged 3,600 people, or 0.2 percent, annually. Population growth increased significantly to an average of 17,300 people, or 1.0 percent, annually during the 2005-to-2010 period, which included both the height of the housing bubble and the Great Recession that followed. Although job losses during this period resulted in domestic net out-migration of 18,700, the foreclosure crisis created a significant inventory of housing units to be sold at a discount that at least partially incentivized international net in-migration of 17,850.

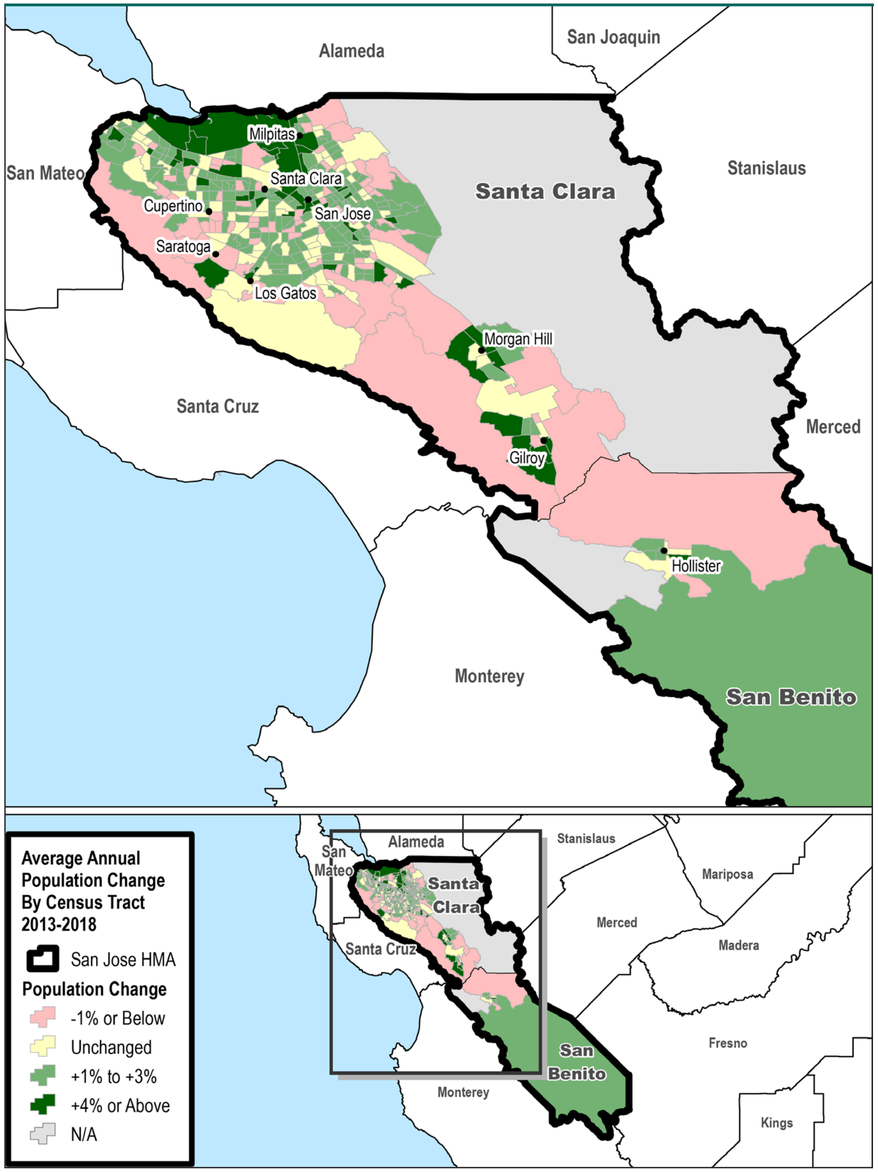
Population by Geography

Trends in population growth and decline within the HMA have generally followed trends in housing availability and affordability, with census tracts in the northeastern part of the HMA and other pockets where greater housing construction activity occurred having the fastest population growth (Map 1). In particular, the city of San Jose has historically been an affordable bedroom community for other employment centers in the HMA. From 2013 to 2018, the number of residential units permitted in the city accounted for 39 percent of total housing construction activity in the HMA. During the same period, population growth in the city accounted for 51 percent of total population growth in the HMA (2013 and 2018 American Community Survey [ACS] 5-year data). During 2019, the average sales housing price in the city was 16 percent lower than the average price in the overall HMA (Metrostudy, A Hanley Wood Company). Similarly, a combined 28 percent of the total HMA population growth from 2013 to 2018 occurred in the cities of Hollister, Gilroy, Milpitas, Morgan Hill, and Santa Clara. Average home sales prices in the five cities currently range from approximately 1 percent lower (Santa Clara) to approximately 36 percent lower (Gilroy) than the average sales price in the HMA. Conversely, the population of census tracts in the northwestern part of the HMA—including those in and around the cities of Cupertino, Saratoga, and Los Gatos—declined during the 2013-to-2018 period. Low levels of available inventory have resulted in particularly high housing costs in the region and households moving to relatively affordable areas of the HMA or elsewhere. Average sales prices in the three cities ranged from 57 percent higher (Cupertino) to 167 percent higher (Los Altos) than the average sales prices in the HMA during 2019.

Population Forecast

Population growth is expected to continue during the 3-year forecast period but at a significantly slower rate, given moderating economic conditions and continued net out-migration due to high housing costs. The population is expected to reach 2.05 million by January 1, 2023, reflecting average annual growth of 5,975 people, or 0.3 percent. Net natural change will continue to account for all of the population growth, as affordability pressures continue to price out residents.

Map 1. Average Annual Population Change by Census Tract in the San Jose HMA, 2012-2017

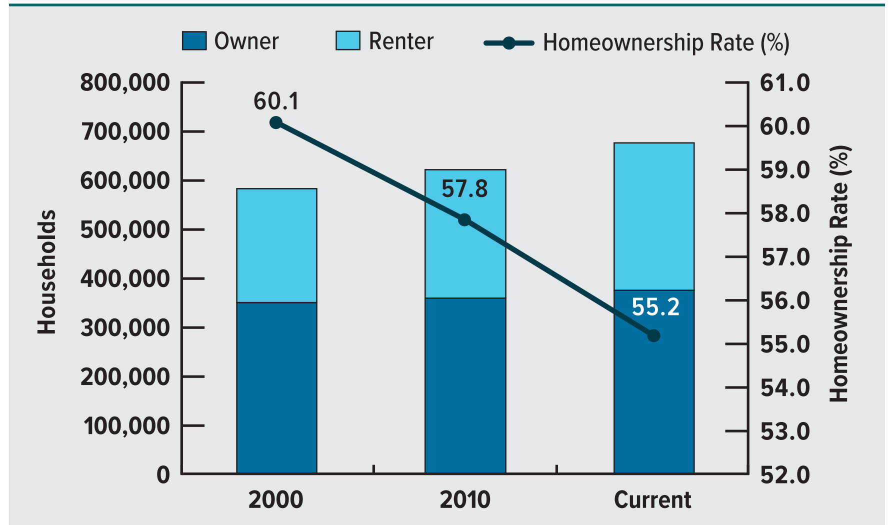


Source: American Community Survey 5-year data 2008–2012, 2013–2018

Household Trends

Household growth in the HMA has generally reflected population growth trends since 2000. As of January 2020, the number of households is estimated at 677,400, including an estimated 373,700 owner households and 303,800 renter households. From 2000 to 2010, households increased by an average of approximately 3,925, or 0.7 percent, a year—slightly faster than the 0.6-percent population growth. Since 2010, households increased by an average of 5,775, or 0.9 percent, a year, or slightly below the 1.0-percent population growth. The slowdown in household formation relative to population growth since 2010 partly reflects rising housing costs in the HMA, which have particularly affected homeownership. An estimated 55.2 percent of households currently in the HMA are homeowners, down from a homeownership rate of 57.8 percent in 2010 (Figure 7). Renter household formation, on the other hand, has accelerated since 2010, increasing at an average annual rate of 1.5 percent, or 4,300

Figure 7. Households by Tenure and Homeownership Rate in the San Jose HMA



Note: The current date is January 1, 2020.
Sources: 2000 and 2010—2000 Census and 2010 Census; current—estimates by the analyst

households, compared with an average annual increase of 1.2 percent, or 2,950 households, during the 2000-to-2010 period.

Household Forecast

Because economic conditions are expected to moderate and net out-migration will likely continue, household growth in the HMA is expected to slow to an average of 2,125, or 0.3 percent, annually during the next 3 years. Roughly 54.7 percent of the additional households are expected to be homeowners, down from the current homeownership rate of 55.2 percent, as housing affordability challenges keep homeownership out of reach for many potential first-time buyers.

Home Sales Market

Market Conditions: Very tight, but improving

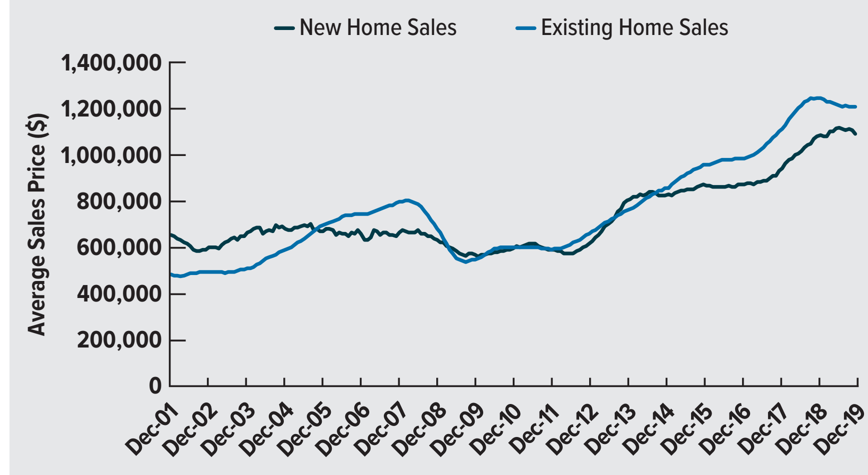
> Strong employment growth and rising incomes associated with the recent tech boom have boosted demand for sales housing, whereas new home construction has remained limited, resulting in an average home sales price of $1.2 million in 2019.

Trends in Sales Market Conditions

The home sales market in the San Jose HMA is very tight but improving, with an estimated 0.7-percent vacancy rate, 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-income technology workers, limited new home construction since 2008, and the absorption of nearly all the affordable inventory associated with the foreclosure crisis. There was less than a 1.0-month supply of existing single-family homes, condominiums, and townhomes available for sale in December 2019 at the current sales rate, down from a 1.5-month supply, a year ago (CoreLogic, Inc.). Rising incomes, primarily of tech workers in the HMA, combined with a limited supply have resulted in very high home sales prices since the mid-2010s; median incomes have increased by an average of 5 percent annually from 2010 to 2018 to $124,700 during 2018 (2010 and 2018 ACS 1-year data). Increasing numbers of residents have been priced out of the market and migrated to relatively affordable areas. The overall average sales price for both new and existing homes declined 2 percent to $1.20 million during 2019 but is 54 percent higher than the prerecession peak of $777,200 in 2007 (Figure 8). The average home sales price in the HMA remained almost four times the average for the nation, however, which rose 4 percent to $302,100 in 2019. Approximately 17,800 new and existing homes sold during 2019, a decline of 9 percent from the 19,600 homes sold during 2018 (Figure 9; CoreLogic, Inc., with adjustments by the analyst).

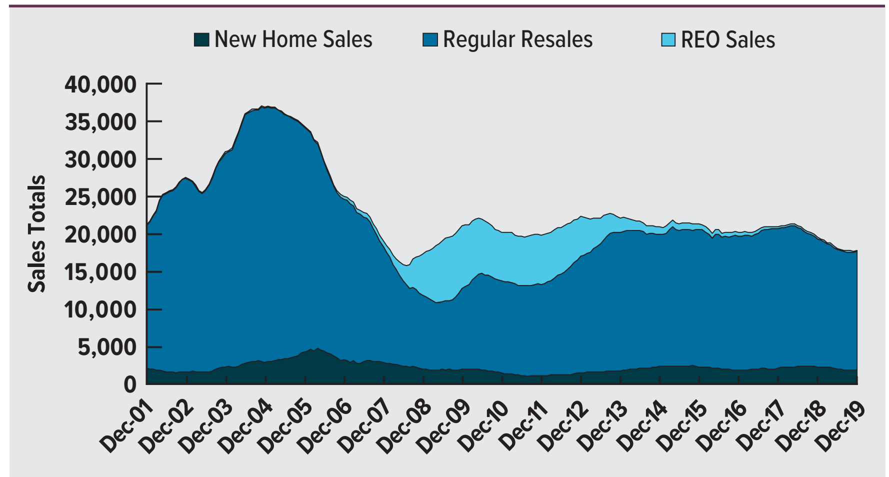
Home prices in cities near major technology companies are among the highest in the HMA. Average prices for new and existing home sales during

Figure 8. 12-Month Average Sales Price by Type of Sale in the San Jose HMA



Source: CoreLogic, Inc., with adjustments by the analyst

Figure 9. 12-Month Sales Totals by Type in the San Jose HMA



REO = real estate owned.
Source: CoreLogic, Inc., with adjustments by the analyst

2019 were $2.00 million in the city of Cupertino (where Apple Inc. has its headquarters), $1.40 million in the city of Mountain View (where Google LLC has its headquarters), and $2.74 million in the city of Palo Alto (where Facebook, Inc. has an office) (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 2019, 7,300 sales units sold in the city of San Jose, at an average sales price of $1.07 million; 1,100 homes sold in the city of Hollister, at an average sales price of $532,400; and 700 homes sold in the city of Gilroy, at an average sales price of $811,400.

New Sales: Current Trends

Although overall housing demand is high, production of new supply has remained relatively limited, with builders in the HMA reporting difficulty finding skilled construction labor and a burdensome and expensive regulatory process. During 2019, approximately 1,800 new homes sold in the HMA, down 20 percent from a year earlier. The average sales price of a new home in the HMA was $1.09 million during 2019, an increase of more than 1 percent from 2018. Average new home sales prices have been lower than average existing sales prices, however, since 2014, due in part to locational differences and a greater prevalence of smaller units being constructed. Approximately 47 percent of the new home construction from 2013 to 2018 occurred in lower cost areas where more vacant land is available, such as in Hollister, Gilroy, and Milpitas. In addition, during 2019, 57 percent of new home sales in the HMA were condominium and townhome units, compared with only 27 percent of existing home sales (Metrostudy, A Hanley Wood Company).

Existing Sales: Current Trends

During 2019, the average sales price of an existing home was $1.21 million, a 3-percent decline from the average price of $1.25 million during 2018. The recent decline signals the difficulty for even highly paid technology workers to afford high sales prices in the HMA. A total of 16,000 existing homes sold during the same period, an almost 8-percent drop from the total number of existing home sales during 2018. Existing home sales accounted for 90 percent of total homes sold during 2019, a proportion that has been similar every year since 2000. Roughly 62 percent of the stock of homes in the HMA was built in 1979 or earlier—higher than the nationwide percentage of 53 percent—reflecting the lack of new home construction in recent decades, particularly in the most sought-after neighborhoods.

Recovery from the Great Recession

During the housing boom, total sales of new and existing homes averaged 32,100 a year from 2004 through 2006. During this period, the average sales price increased by an average of 11 percent annually. As economic conditions slowed during the Great Recession, housing sales were cut by almost one-half. An average of only 18,150 homes were sold during 2007 through 2008, and the average sales price declined by an average of 13 percent annually. Total home sales remained significantly below the prerecession peak, at an average of 21,100 from 2009 through 2014. During this period, an increasing number of sales were of distressed properties—those that had gone into REO status, foreclosure, or short sale. An average of 4,950 distressed sales accounted for 25 percent of total existing sales, as investors and homebuyers took advantage of lower home prices. During the 2009-through-2014 period, the distressed home sales price ranged from $178,000 to $351,000 below, or 32 to 41 percent lower than, the average price of an existing home. The economic recovery and improved housing market conditions resulted in the absorption of much of the distressed inventory, and from 2014 to 2019, distressed sales accounted for only 3 percent of total existing sales. Despite higher demand, limited construction activity has kept housing sales growth steady. From 2014 to 2019, an average of 20,150 homes were sold, similar to the average during the 2007-through-2008 and 2009-through-2014 periods. The average home sales price increased by an average of 7 percent annually during the 2014-to-2019 period.

REO Sales and Delinquent Mortgages

Since 2000, the rate of seriously delinquent mortgages and REO properties in the San Jose HMA has remained well below the national rate. In December 2019, 0.2 percent of mortgages in the HMA were seriously delinquent or had transitioned into REO status, down slightly from 0.3 percent a year earlier (Table 4). Nationally, the rate declined from 1.7 percent to 1.4 percent during the same

Table 4. Home Sales Quick Facts in the San Jose HMA and the Nation

Home Sales Quick Facts		San Jose HMA	Nation
	Vacancy Rate	0.7%	NA
	Months of Inventory	0.9	2.7
	Total Home Sales	17,800	6,209,000
	1-Year Change	-9%	-3%
	New Home Sales Price	$1,094,000	$380,000
	1-Year Change	1%	0%
	Existing Home Sales Price	$1,212,000	$286,100
	1-Year Change	-3%	2%
	Mortgage Delinquency Rate	0.2%	1.4%

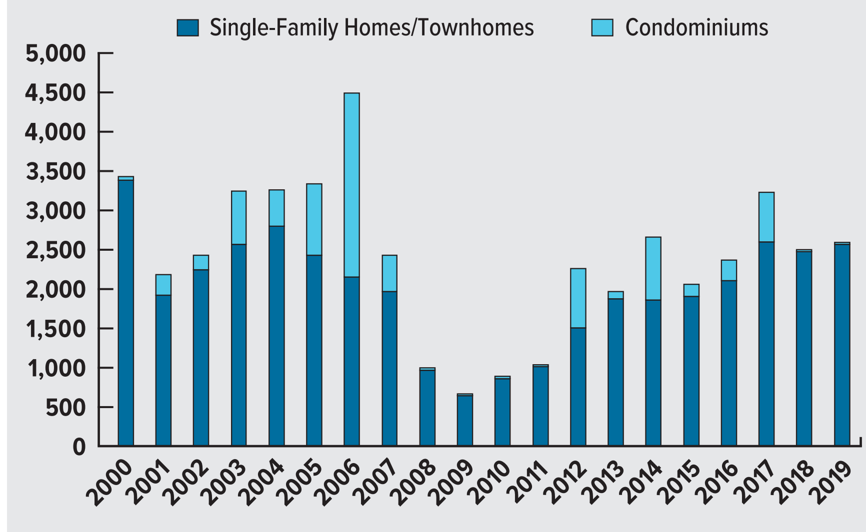
NA = data not available.
Notes: The vacancy rate is as of the current date; home sales and prices are for the 12 months ending December 2019; and months of inventory and mortgage delinquency data are as of December 2019. The current date is January 1, 2020.
Sources: CoreLogic, Inc.; Metrostudy, A Hanley Wood Company

period. The initial effect of the foreclosure crisis on the HMA was less severe than in other parts of the country, and the recovery was relatively rapid due to the start of the tech boom in the early part of the decade. In early 2010, the rate of seriously delinquent mortgages and REO properties in the HMA peaked at 7.2 percent, remaining below the national rate, which peaked at 8.6 percent.

Sales Construction Activity

Beginning in 2012, builders began responding to tightening sales market conditions by expanding for-sale home construction activity, as measured by the number of single-family homes, townhomes, and condominiums permitted (Figure 10). During 2019, 2,580 for-sale homes were permitted, up 4 percent from 2018 (preliminary data). Despite the recent increase in new home construction activity, building is below the peak levels from 2000 through 2007, when an average of 3,100 sales units were permitted annually. Because of the housing collapse, the number of homes permitted declined an average of 48 percent annually during 2008 and 2009. From 2009 through 2011, construction activity remained low, at an average of 860 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 2019, permitting of for-sale units expanded to an average of 2,450 homes permitted annually.

Figure 10. Average Annual Sales Permitting Activity in the San Jose HMA



Notes: Includes single-family homes, townhomes, and condominiums. Data for 2019 are through December 2019.
Sources: U.S. Census Bureau, Building Permits Survey; 2000 through 2018—final data and estimates by the analyst; 2019—preliminary data and estimates by the analyst

Homebuilding activity since 2010 has been particularly focused in the cities of Sunnyvale, Morgan Hill, Gilroy, and San Jose—which, respectively, accounted for 13, 12, 12, and 11 percent of total single-family homes permitted in the HMA. Both Gilroy and Morgan Hill are in the southern part of Santa Clara County, approximately 20 to 30 miles southeast of the city of San Jose. Single-family homes, in particular, are significantly less expensive in those cities because they are farther from the urban core of the HMA and developable land is more readily available.

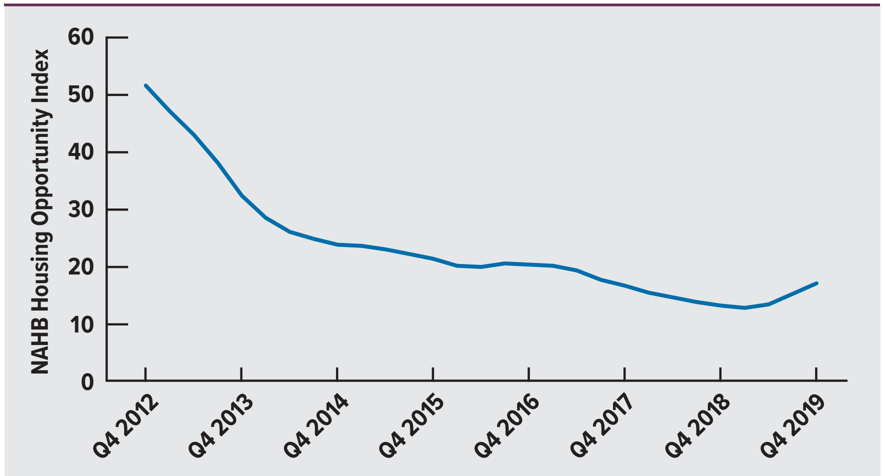
Given increasing construction and labor costs, most of the new sales construction in the HMA is of smaller units, including townhomes. Developments currently underway include the 188-unit The Capitol townhomes, which is near downtown San Jose, the McKee Light Rail Station, and Interstate 680. All units will contain three or four bedrooms and include a two-car garage; homes start in the mid-$800,000s. Construction is expected to be complete by summer 2020.

Housing Affordability

Homeownership in the San Jose HMA is extremely expensive, and the affordability of buying a home in the San Jose HMA has declined since 2009, when a large number of distressed home sales entered the market during the foreclosure crisis. Excess inventory has since been absorbed, and high demand from workers benefiting from the local tech boom have put upward pressure on sales prices. The four-quarter moving average National Association of Home Builders (NAHB)/Wells Fargo Housing Opportunity Index (HOI) for the San Jose HMA, which represents the share of homes that would have been affordable to a family earning the median income, was 17.1 during the fourth quarter of 2019, down from 51.6 during the fourth quarter of 2012 (Figure 11). Although the long-term trend is toward declining affordability, the HOI increased in 2019 from 13.2 in the fourth quarter of 2018 as a result of a 5 percent decline in the median sales price, a 5 percent increase in median incomes, and a 1.1 percentage point decline in the fixed-rate 30-year interest rate, which reduced monthly housing costs. The HMA was the seventh least affordable area among metropolitan areas in the nation during the fourth quarter of 2019, when 231, or 97 percent, of the 238 ranked areas in the nation had greater affordability.

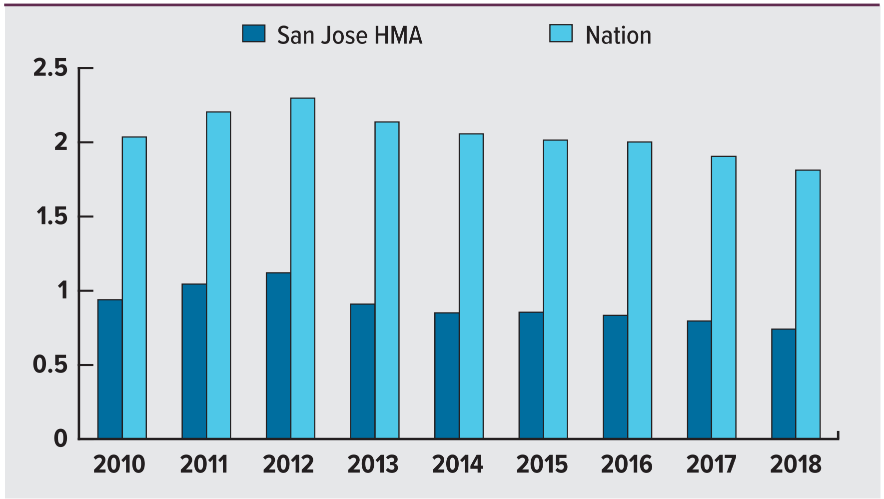
Low housing affordability in the HMA has made it difficult for first-time homebuyers to enter homeownership. The HUD First-Time Homebuyer Affordability Index is a measure of the median household income for householders ages 25 to 44 years old, relative to the income needed to purchase the 25th percentile-priced home. The index has declined every year since reaching a peak of 1.12 in 2012, when the median income for householders ages 25 to 44 years old was more than high enough to afford the 25th-percentile-priced home. During 2018, the index was 0.74, down from 0.79 in 2017, reflecting a 14-percent over-the-year increase in the 25th-percentile-priced home to $801,600 but only a 10-percent gain in the median income of householders ages 25 to 44 years (Figure 12). Nationwide, the index also declined, from 1.90 in 2017 to 1.81 in 2018, but during the past decade, the national index has remained above 1.00 in every year.

Figure 11. San Jose HMA Housing Opportunity Index



NAHB = National Association of Home Builders. Q4 = fourth quarter.
Notes: The Housing Opportunity Index above is a four-quarter moving average. A decline in the Housing Opportunity Index is an indication of reduced affordability.
Sources: NAHB; Wells Fargo

Figure 12. San Jose HMA HUD First-Time Homebuyer Index



Sources: ACS 1-year data; Federal Housing Finance Agency; Metrostudy, A Hanley Wood Company

Rising sales prices in the San Jose HMA, which averaged $1.2 million during 2019, have been a barrier to entry into homeownership that is particularly pronounced for heads of household ages 35 to 44 years—a prime age cohort for first-time homebuyers. From 2000 to 2010, the homeownership rate in the HMA declined by 2.3 percentage points because of the dot-com recession at the beginning of the decade and the Great Recession at the end of the decade. Despite improved economic conditions, the homeownership rate in the HMA declined 0.6 percentage points from 2010 to 2017 as an influx of high-wage tech workers was not accompanied by a commensurate surge in new home construction, which exacerbated existing affordability issues. The homeownership rate for heads of household ages 35 to 44 years declined at a significantly faster rate than for households overall during the period. From 2010 to 2017, the homeownership rate in the 35-to-44-years age group declined by 7.0 percentage points compared with a decline of 5.9 percentage points from 2000 to 2010 (Table 5). Nationwide, homeownership declined by 1.1 percentage points during the 2000-to-2010 period, compared with a 1.2 percentage point decline during the 2010-to-2017 period. For heads of household ages 35 to 44 years, the national homeownership rate declined by 3.9 percentage points in the 2000-to-2010 period and by 4.8 percentage points during the 2010-to-2017 period.

Table 5. Homeownership Rates by Age of Householder in the San Jose HMA and the Nation

	San Jose HMA			Nation		
	2000 (%)	2010 (%)	2017 (%)	2000 (%)	2010 (%)	2017 (%)
Householders Ages 25 to 34 Years	32.8	26.6	25.4	45.6	42.0	38.2
Householders Ages 35 to 44 Years	59.8	53.9	46.9	66.2	62.3	57.5
Total Households	60.1	57.8	57.2	66.2	65.1	63.9

Sources: 2000 and 2010 Decennial Census; 2017 American Community Survey 1-year data, with estimates by the analyst

Forecast

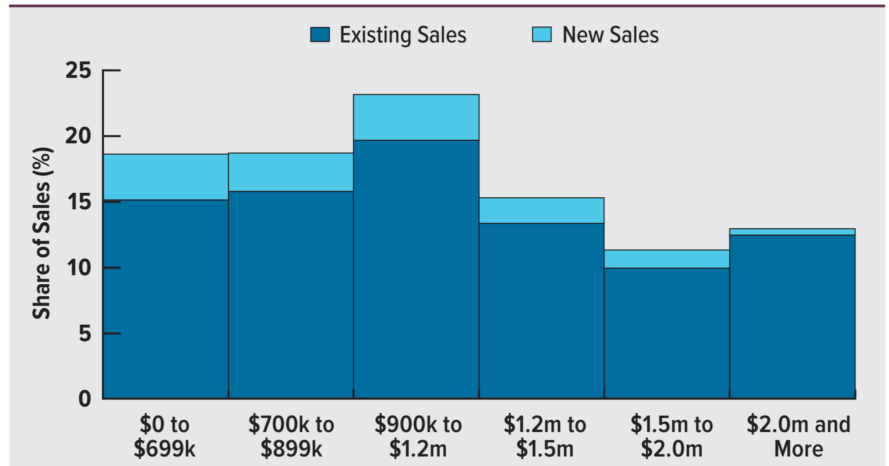
During the next 3 years, demand is expected for 4,225 new sales units in the San Jose HMA, with demand evenly distributed each year of the forecast (Table 6). The 1,275 homes currently under construction will meet a portion of the demand. Although smaller attached units, such as condominiums and townhomes, will meet some of the demand in the lower price ranges, new homes priced under $1.2 million are expected to account for most of the demand (Figure 13).

Table 6. Demand for New Sales Units in the San Jose HMA During the Forecast Period

	Sales Units
Demand	4,225 Units
Under Construction	1,275 Units

Note: The forecast period is from January 1, 2020, to January 1, 2023.
Source: Estimates by the analyst

Figure 13. Share of Sales by Price Range During the 12 Months Ending December 2019 in the San Jose HMA



Note: New and existing sales include single-family homes, townhomes, and condominium units.
Source: Metrostudy, A Hanley Wood Company

Rental Market

Market Conditions: Tight

Average apartment rents have continued to rise despite higher apartment vacancy rates since 2015.

Current Conditions and Recent Trends

Rental housing market conditions in the San Jose HMA are tight, with an estimated overall rental vacancy rate of 4.0 percent, down slightly from the 4.3-percent rate in April 2010 (Table 7). Apartment vacancy rates ranged from 4.0 to nearly 6.0 percent during much of the 2001-to-2009 period, rising from a low of 1.1 percent during 2000 at the height of the dot-com bubble to a high of 5.8 percent during 2003. After the subsequent foreclosure crisis shifted many owner households to renters, rental market conditions began to improve, and from 2010 to 2014, apartment vacancy rates remained in the 3.0-to-4.0-percent range (Figure 14). During this period, the rental market was very tight as a result of increased population growth, strong household preferences to rent, and a sustained economic recovery supported by tech growth. Since 2014, rental market conditions have eased as net out-migration, fueled by rising housing costs, has pushed apartment vacancy rates up to the 4.0-to-5.0-percent range. During the fourth quarter of 2019, the apartment vacancy rate was 4.4 percent, down slightly from 4.5 percent during the same period a year earlier (Reis, Inc.).

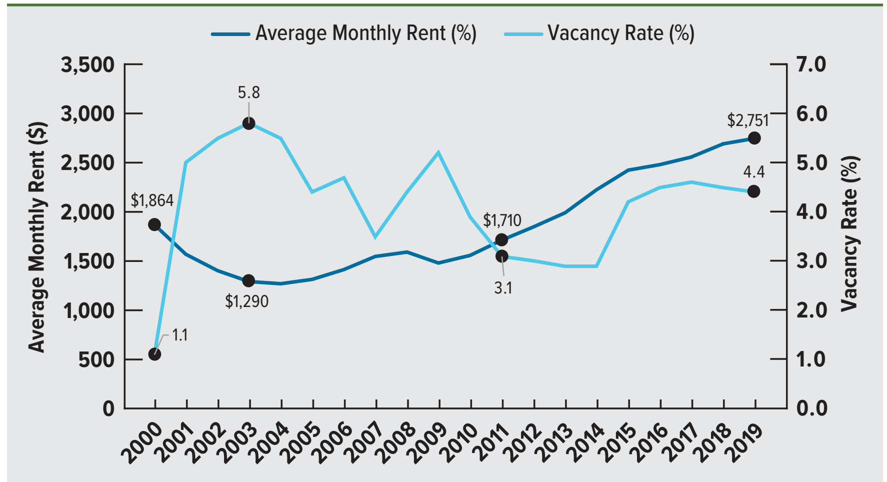
Despite a general trend of modest vacancy rate increases since the mid-2010s, average apartment rents in the HMA have increased every year since 2009. Apartment rents increased by an average of 3 percent annually from 2016 to 2019, compared with an average increase of 8 percent annually from 2011 to 2015. During the fourth quarter of 2019, the average rent was $2,751—a more-than-2-percent increase from the same period a year earlier. Average rents by unit type were $2,067 for studio units, $2,475 for one-bedroom units, $3,021 for two-bedroom units, and $3,888 for three-bedroom units.

Table 7. Rental and Apartment Market Quick Facts in the San Jose HMA

		2010 (%)	Current (%)
Rental Market Quick Facts	**Rental Vacancy Rate**	4.3	4.0
	Occupied Rental Units by Structure		
	Single-Family Attached & Detached	31.5	32.0
	Multifamily (2–4 Units)	17.0	13.7
	Multifamily (5+ Units)	49.9	53.0
	Other (Including Mobile Homes)	1.5	1.3
		Current	**YoY Change**
Apartment Market Quick Facts	**Apartment Vacancy Rate**	4.4%	-0.1%
	Average Rent	$2,751	2.4
	Studio	$2,067	2.5
	One-Bedroom	$2,475	2.3
	Two-Bedroom	$3,021	2.5
	Three-Bedroom	$3,888	3.6

YoY= year-over-year.
Notes: The current date is January 1, 2020. Percentages may not add to 100 percent due to rounding.
Sources: 2018 American Community Survey 1-year data; 2010 rental vacancy rate—U.S. Census Bureau; current rental vacancy rate—estimate by the analyst; apartment market data—Reis, Inc.

Figure 14. Apartment Rents and Vacancy Rates in the San Jose HMA



Source: Reis, Inc.

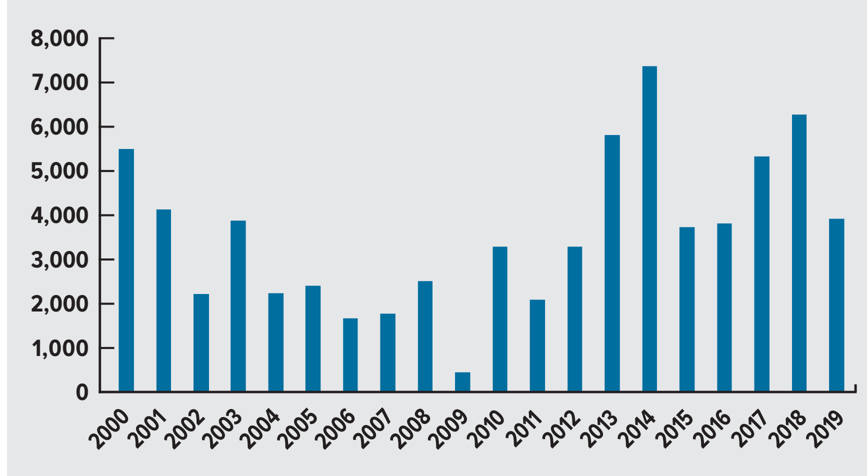
Market Conditions by Geography

As with home prices, apartment rents are notably higher in areas that are close to the large technology companies, particularly in the western portion of the HMA. The Reis-defined market areas (hereafter, market areas) of Mountain View/Los Altos and Cupertino/Saratoga had the highest average rents in the HMA during the fourth quarter of 2019 at $3,399 and $3,276, reflecting rent increases of more than 2 percent and nearly 2 percent, respectively. The apartment vacancy rates in the two market areas were 4.3 and 3.3 percent, respectively. Vacancy rates are generally lower in the more affordable market areas. The South San Jose and East San Jose market areas—where average rents were $2,305 and $2,385, respectively, during the fourth quarter of 2019—had apartment vacancy rates of 3.5 percent and 2.6 percent, respectively, which were among the lowest in the HMA. All market areas in the HMA had rent increases during the fourth quarter of 2019, ranging from 1 percent in the Santa Clara and East San Jose market areas to more than 5 percent in the Central San Jose market area.

Rental Construction Activity

Despite very tight rental market conditions, builders have scaled back the magnitude of multifamily home construction, as measured by the number of units permitted, after building activity peaked in 2013 and 2014, averaging 6,600 units permitted annually. Slower rent growth, combined with high costs of development, disincentivized high levels of construction activity, and multifamily permitting activity declined to an average of 4,275 units from 2015 through 2017. During 2019, approximately 3,900 rental units were permitted, a 37-percent decrease from the 6,275 units permitted in 2018 (preliminary data). By comparison, an average of 2,925 units were permitted annually from 2000 through 2008 (Figure 15). New multifamily construction reached a low of 440 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 22 percent per year.

Figure 15. Average Annual Rental Permitting Activity in the San Jose HMA



Notes: Includes apartments and units intended for rental occupancy. Data for 2019 are through December 2019.
Sources: U.S. Census Bureau, Building Permits Survey; 2000 through 2018—final data and estimates by the analyst; 2019—preliminary data and estimates by the analyst

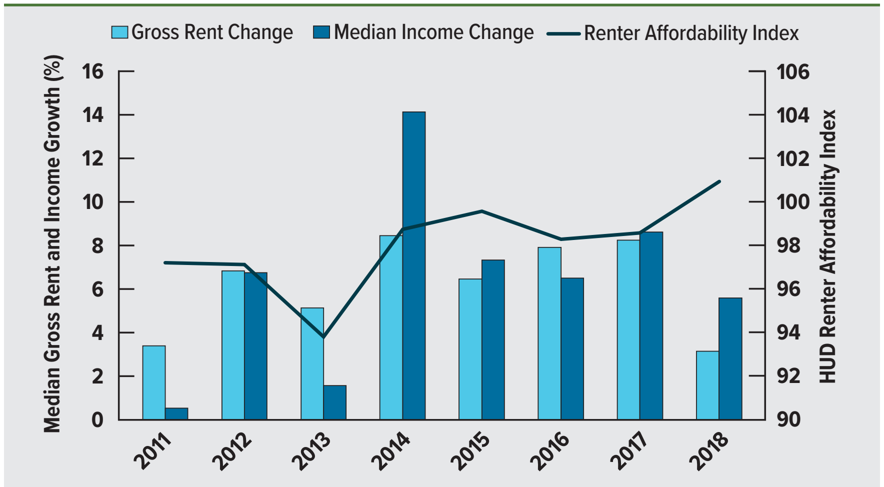
Developments currently underway are concentrated in four cities: Mountain View, Sunnyvale, Santa Clara, and San Jose, each with about 20 to 25 percent of the units under construction. The largest development underway is the AMD Campus Residential Redevelopment in the city of Sunnyvale. The 34-acre site is the former headquarters of Advanced Micro Devices, Inc. (AMD), a semiconductor manufacturer, which moved to its Santa Clara location in 2016 after 47 years in Sunnyvale. When completed, the development will have 944 apartments, with 57 of those units reserved for very low-income households. The first phase of construction is expected to be complete by spring 2021. In addition, the 583-unit The Dean Apartments is also underway in the city of Mountain View, and a portion of the units have already been completed and are currently in lease up. Rents range from $3,781 to $4,791 for studio units, $4,172 to $5,487 for one-bedroom units, $5,483 to $6,948 for two-bedroom units, and $6,653 to $7,683 for three-bedroom units.

Housing Affordability: Rental

Overall Affordability Issues

Rental housing is extremely expensive in the San Jose HMA, but rental affordability has improved since 2014. At the same time that renter household incomes have grown quickly due to increased employment of highly skilled and highly paid tech workers, median rent growth has slowed as more multifamily development has occurred. The median gross monthly rent in the HMA rose 28 percent, from $1,779 in 2014 to $2,283 in 2018. During the same period, the median household income for renter households increased 31 percent, from $70,269 to $92,176. As a result, the HUD Rental Affordability Index, a measure of median renter household income relative to qualifying income for the median-priced rental unit, has trended upward since 2014. The index was 101.0 during 2018 (using the latest data available), up from 99.0 in 2017 (Figure 16).

Figure 16. San Jose HMA Rental Affordability



Source: American Community Survey 1-year data

Renter Cost Burdens

During the 2012-through-2016 period, an estimated 22.2 percent of all renter households in the HMA were cost burdened, spending between 30 and 49 percent of their income on rent, while 22.1 percent were severely cost burdened, spending more than 50 percent of income on rent (Table 8). Nationwide, a greater proportion of renter households were severely cost burdened, at 23.3 percent, but a slightly smaller percentage of renter households were cost burdened, at 21.9 percent. Cost burdens are particularly notable for lower income renter households in the HMA, however. For renter households with incomes less than 50 percent of the Area Median Family Income (AMFI), a slightly higher proportion—28.6 percent—were paying between 30 and 49 percent of their incomes toward rent, but a majority of households at those income levels—52.7 percent—were severely cost burdened. By comparison, nationwide, 26.4 percent of lower income renter households were spending 30 to 49 percent of incomes toward rent, and 49.3 percent were spending more than 50 percent of incomes toward rent.

Table 8. Percentage of Cost-Burdened Renter Households, by Income, 2012–2016

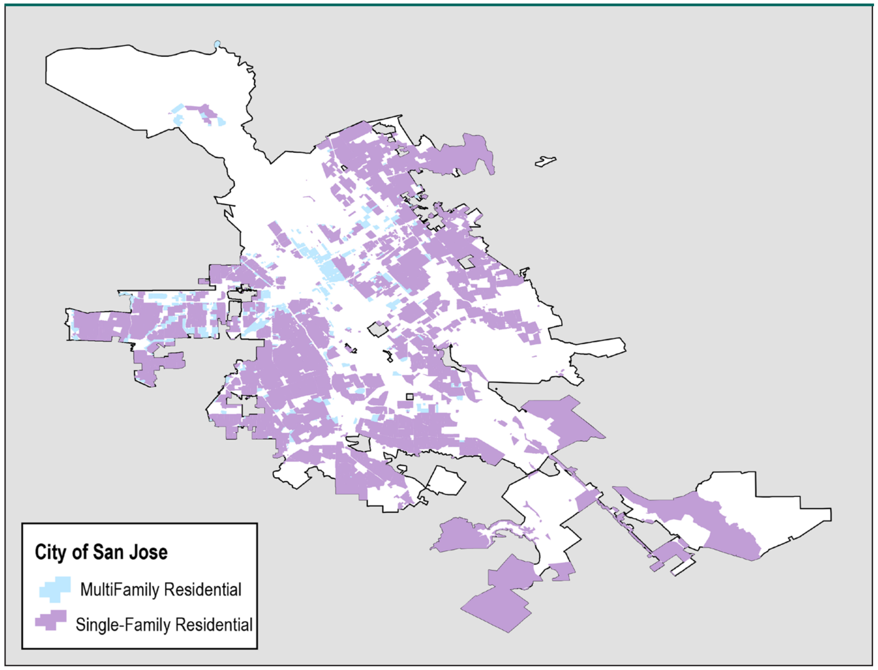
	Cost Burdened: 30–49 Percent of Income Toward Rent		Severely Cost Burdened: More than 50 Percent of Income Toward Rent	
	San Jose HMA	Nation	San Jose HMA	Nation
Renter Households with Income <50% HAMFI	28.6	26.4	52.7	49.3
Total Renter Households	22.2	21.9	22.1	23.3

Sources: Consolidated Planning/CHAS Data; 2016 American Community Survey 5-year estimates. (huduser.gov)

Regulatory Barriers

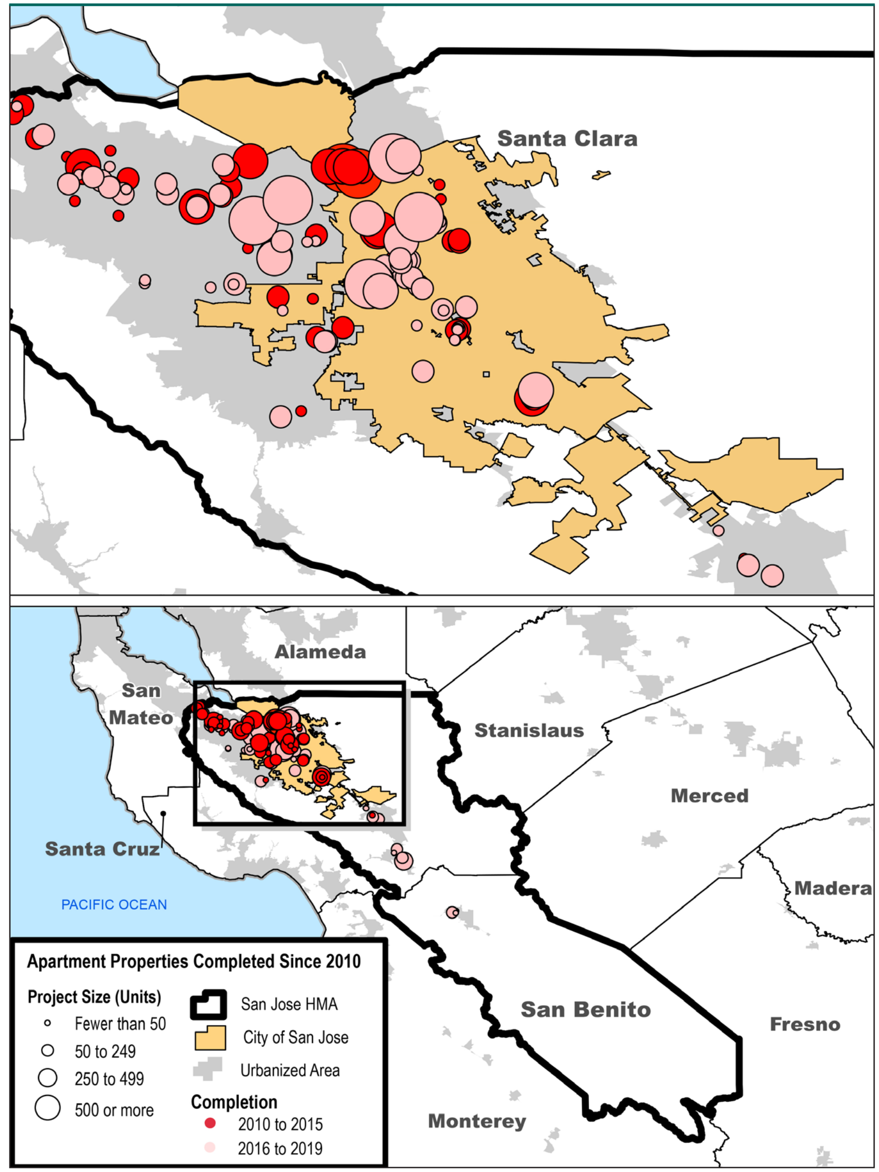
Housing is expensive in the HMA, partly due to the existence of regulatory barriers, regulations that adversely affect the development, cost, or availability of housing. Although the largest tech firms in the HMA have pledged a combined $4.5 billion toward the development of affordable housing, particularly in the "missing middle," restrictive zoning laws and regulatory barriers that add to the cost of construction may prevent much of that development from moving forward. Currently, about 94 percent of the land within the city of San Jose is zoned for single-family development (Map 2), and many cities in the HMA have similar or even higher percentages (City of San Jose). Much of the higher

Map 2. San Jose HMA Zoning Map



Source: City of San Jose

Map 3. San Jose HMA Completed Projects



Source: McGraw-Hill Construction Pipeline database, with adjustments by the analyst

density apartment and condominium units are in downtown San Jose and near the Caltrain Diridon Station (Map 3), not only because of greater demand for urban living but also because they are among the few areas in the city and the HMA zoned for dense multifamily construction. Density is limited due to height restrictions in this area, however, because the flight path for planes leaving the nearby Norman Y. Mineta San Jose International Airport is above the downtown area. To increase housing construction in those neighborhoods while complying with FAA guidelines, the city recently approved increases to height restrictions up to 35 feet higher in the downtown area and up to 150 feet higher in the Diridon Station area.

The Terner Center recently completed an analysis of development costs and their impact on rents. In the San Jose HMA, the typical development cost per unit was estimated at $513,165 in a market-rate, midrise, rental apartment building (Terner Center). The estimated rent required to make the project feasible at that cost was $2,081 for studio units, $3,143 for one-bedroom units, and $3,974 for two-bedroom units—significantly higher than what most renter households could afford. City fees and regulations—including park impact in-lieu fees, inclusionary housing requirements, and development service fees—can account for upward of 15 percent of the total cost of development within San Jose (Beacon Economics). The city inclusionary housing ordinance (IHO), which requires that 15 percent of units in new construction developments be made affordable to income-qualified buyers and renters, contributes the most to development costs. In a study of 33 potential developments across the city, 27 of those projects would be financially infeasible under the IHO (Beacon Economics).

Policy Initiatives

Several local and statewide policy initiatives are underway to address the severe affordability issues that the San Jose HMA is experiencing. In 2017, the city of Mountain View approved the North Bayshore Precise Plan put forth by Google, which will add 5,700 new homes; 30 percent of those homes will be for sale, and the other 70 percent will be rental apartments, of which 20 percent will be reserved for low- to moderate-income households. The plan would also include open space, office buildings, and retail and community spaces. The company is currently working with the city and community through reviews and approvals and intends to deliver the first proposed office buildings by 2023.

In addition, the city of San Jose recently announced plans to create 25,000 new housing units, including 10,000 affordable units through new sources of affordable housing funding, encouraging the development of accessory dwelling units, and identifying surplus and underutilized public land for affordable housing. The city goal is to reach these development numbers by 2022. The city council voted to contribute $19.2 million in loans to support the development of three new affordable housing developments with 251 total units that will be reserved for homeless or those at risk of homelessness. All three developments are expected to begin construction in the summer of 2020 and be complete by late 2021.

In 2017, the state legislature enacted a 15-bill comprehensive housing package that includes funding sources, tools, and regulatory measures to increase statewide production of housing units. Some of the measures include reaffirming inclusionary zoning practices to require a certain percentage of new construction be targeted toward lower income households and streamlining zoning guidelines to allow developments to move forward in a timely manner. In 2018, the state passed 16 additional housing bills that will facilitate development near Bay Area Rapid Transit stations (including the Milpitas station, which is currently underway, and the planned San Jose station), extend density bonuses to student housing, reduce regulatory barriers such as parking requirements for historic reuse projects, reform the process of assigning local jurisdictions their regional housing targets, expand restrictions on price gouging of rental properties during emergencies, and cap rent increases at no more than 5 percent plus the local rate of inflation per year. Those laws went into effect on January 1, 2019.

Current Affordable Housing Options: LIHTC, PBRA, HCV

Low-Income Housing Tax Credit (LIHTC) is the primary source of funding for new affordable rental housing in the nation. From 2010 to 2017, 5,250 LIHTC units have been placed in service in the HMA, with less than 3 percent of those units reserved for households with incomes at or below 50 percent of the Median Family Income (MFI) ($73,150 for a family of four in 2019) and the remaining reserved for households with incomes at or below 60 percent of MFI ($87,780 for a family of four in 2019). Of those units, 33 percent were reserved for seniors. By comparison, from 2000 through 2009, 12,800 LIHTC units were placed in service in the HMA, with almost 10 percent reserved for households with incomes at or below 50 percent of MFI and the remaining 90 percent reserved for households with incomes at or below 60 percent of MFI. During this period, 21 percent of all units were reserved for seniors. Approximately 3,225, or 61 percent of all LIHTC units placed in service in the HMA since 2010, are in the city of San Jose. The most recently completed project is the 144-unit Monte Vista Gardens Family Apartments, which was placed in service in 2017.

In addition to LIHTC, income-eligible residents may qualify for project-based rental assistance (PBRA) or housing choice vouchers (HCVs) through the local public housing authority (PHA). The PHAs in the HMA administered approximately 16,600 HCVs in 2019 (Picture of Subsidized Households). Some HCV holders report difficulty in obtaining a suitable unit at an affordable rent. The wait-list for HCVs has been closed since 2006, however, with an average wait of 8 to 10 years for a voucher (The Housing Authority of Santa Clara). The San Jose HMA contains nearly 22,400 subsidized units through project-based rental assistance and other programs (Picture of Subsidized Households). The number of households that are receiving federal rental assistance and the number of households that have a housing choice voucher in the HMA have increased by 1.9 and 1.5 percent, respectively, since 2010 due to rising household costs (Table 9). To address the growing number of assisted households with rising costs, the (inflation-adjusted) rent subsidy from HUD increased almost 19 percent since 2010 in the HMA; during the same time, the (inflation-adjusted) tenant contribution for HCV increased more than 5 percent. By comparison, since 2010, the total number of assisted and voucher households expanded by respective averages of 4.3 and 12.7 percent nationwide, while the inflation-adjusted HUD subsidy declined 1.7 percent and the inflation-adjusted tenant contribution increased 2.0 percent.

Table 9. Picture of Subsidized Households, 2019

	San Jose HMA	HMA Change Since 2010	National Total	National Change Since 2010
Total Assisted Households (2019)	22,399	1.9%	4,619,488	4.3%
Total Housing Voucher Households (2019)	16,628	1.5%	2,299,617	12.7%
Average HCV Tenant Monthly Contribution	$591	5.2%	$390	2.0%
Average Monthly HUD Subsidy	$1,810	18.8%	$807	-1.7%

HCV = housing choice voucher.
Note: Dollar changes are inflation adjusted using the Consumer Price Index for All Urban Consumers (CPI-U).
Source: Assisted Housing: National and Local (huduser.gov)

In the San Jose HMA, approximately 9,700 people were homeless in 2019, and nearly 82 percent of those were unsheltered homeless (2019 Point-in-Time Count). By comparison, about 72 percent of homeless persons in California were unsheltered.

Forecast

During the 3-year forecast period, demand is expected for 8,325 new rental units (Table 10). The 5,200 units currently under construction are expected to meet a portion of demand. Rental demand is expected to be greatest during the first year of the forecast period and gradually slow, as economic and population growth slow.

Table 10. Demand for New Rental Units in the San Jose HMA During the Forecast Period

	Rental Units
Demand	8,325 Units
Under Construction	5,200 Units

Note: The forecast period is from the current date January 1, 2020, to January 1, 2023.
Source: Estimates by the analyst

Terminology Definitions and Notes

A. Definitions

Residential Units Permitted	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.
Cost Burdened	Spending more than 30 percent of household income on housing costs.
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.
Distressed Home Sales	Includes REO and short sales.
Forecast Period	1/1/2020–1/1/2023—Estimates by the analyst.
Home Sales/ Home Sales Prices	Includes single-family home, townhome, and condominium sales.

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.**
Regulatory Barriers	**The state and local laws, regulations, and policies adversely affecting the development, maintenance, improvement, availability, and/or cost of affordable housing.**
Rental Housing Market/Rental Vacancy Rate	**Includes apartments and other rental units such as single-family, multifamily, and mobile homes.**
Seriously Delinquent Mortgages	**Mortgages 90+ days delinquent or in foreclosure.**
Net Natural Change	**Resident births minus resident deaths.**
Accessory Dwelling Unit	**Self-contained apartments, cottages, or small residential units that are located on a property that has a separate main, single-family home, duplex, or other residential unit.**

B. Notes on Geography

1.	**The metropolitan statistical area definition noted in this report is based on the delineations established by the Office of Management and Budget (OMB) in the OMB Bulletin dated April 10, 2018.**
2.	**Urbanized areas are defined using the U.S. Census Bureau 2010 Census Urban and Rural Classification and the Urban Area Criteria.**

3.	The census tracts referenced in this report are from the 2010 Census.

C. Additional Notes

1.	The national HUD First-Time Homebuyer Index is a weighted average of each metropolitan area index, weighted by the total number of sales.
2.	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.
3.	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.

D. Photo/Map Credits

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