



San Jose-Sunnyvale-Santa Clara, California

U.S. Department of Housing and Urban Development | Office of Policy Development and Research | As of July 1, 2014

PD&R

Housing Market Area



The San Jose-Sunnyvale-Santa Clara Housing Market Area (hereafter, the San Jose HMA) consists of Santa Clara and San Benito Counties in the San Francisco Bay 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 includes the headquarters of Cisco Systems, Inc., Google, and Apple Inc.

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Summary

Economy

Nonfarm payrolls in the San Jose HMA increased during the 12 months ending June 2014 by 39,500 jobs, or 4.2 percent, reaching 980,700 jobs and surpassing the 2008 peak of 925,200 jobs. The average unemployment rate was 6.2 percent, down from 7.8 percent during the previous year. Top employers include Cisco Systems, Inc., Kaiser Permanente®, and Apple Inc., with 16,450, 13,500, and between 12,000 and 13,000 employees, respectively. Nonfarm payrolls are expected to grow at an average annual rate of 2.1 percent during the 3-year forecast period.

Sales Market

The sales housing market in the HMA is very tight, with an estimated vacancy rate of 0.5 percent. New and existing home sales prices increased 24 and 14 percent, respectively, during the 12 months ending April 2014. Demand is expected for 9,150 homes during the 3-year forecast period (Table 1). The 2,700 homes under construction and some of the 9,000 other vacant units that may return to the market will satisfy a portion of the demand.

Rental Market

The rental housing market in the HMA is very tight, with an estimated vacancy rate of 2.5 percent, resulting in strong growth in multifamily units permitted. Average apartment rents increased 6.2 percent from the second quarter of 2013 to the second quarter of 2014 (Reis, Inc.). During the 3-year forecast period, demand is expected for 11,750 rental units. The 6,675 units under construction will likely meet a portion of that demand (Table 1).

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

	San Jose HMA*	
	Sales Units	Rental Units
Total demand	9,150	11,750
Under construction	2,700	6,675

*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 July 1, 2014. A portion of the estimated 9,000 other vacant units in the HMA will likely satisfy some of the forecast demand. The forecast period is July 1, 2014, to July 1, 2017.

Source: Estimates by analyst

Economic Conditions

The strength of the local economy in the San Jose HMA historically has depended on the 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 represent a combined 42 percent of nonfarm payrolls and 6 of the top 10 largest employers (Table 2). A fourth sector, education and health services, represents 15 percent of nonfarm payrolls and 3 top employers. The three largest universities in the HMA are Stanford University, San Jose State University (SJSU), and Santa Clara University. In fiscal year 2012–13, these universities had a combined enrollment of 57,600 students, employed 19,300 faculty and staff, and had operating expenses of \$4.6 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 have founded 39,900 companies, accounting for 5.4 million jobs and \$2.7 trillion in annual revenue (Eesley,

Charles, and Miller, William. 2012. *Impact: Stanford University’s Economic Impact via Innovation and Entrepreneurship*. Stanford, CA: Stanford University).

After the collapse of the 1990s information technology boom, the subsequent national 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 2.5 percent in 2001, 9.8 percent in 2002, and 5.0 percent in 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, information, and professional and business services sectors, which declined 31, 25, and 26 percent, respectively, from 2000 through 2003. As the 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/National Venture Capital Association MoneyTree™ Report*, Data: Thomson Reuters).

The local economy in the HMA was bolstered by recovering homebuilding activity after the 2001 national recession. Nonfarm payrolls returned to growth in 2005 after 4 years in decline, increasing at an average annual rate of 1.6 percent from 2005 through 2008. The impact of the national recession in 2007 and ensuing foreclosure crisis led to relatively mild job losses in the HMA when compared with the 2001 national recession; nonfarm payrolls declined 6.2 percent in 2009 and 0.3 percent in 2010. Payrolls in the mining,

Table 2. Major Employers in the San Jose HMA*

Name of Employer	Nonfarm Payroll Sector	Number of Employees
Cisco Systems, Inc.	Manufacturing	16,450
Kaiser Permanente Northern California	Education & health services	13,500
Apple Inc.	Manufacturing	12,000–13,000
Stanford University	Education & health services	11,450
Google	Information	11,000–16,500
United States Postal Service	Government	9,000
Stanford Hospital and Clinics	Education & health services	8,450
Oracle Corporation	Information	8,000
Lockheed Martin Space Systems Co.	Manufacturing	6,400
Intel Corporation	Manufacturing	5,800

*San Jose-Sunnyvale-Santa Clara HMA.

Notes: Excludes state and local government agencies. The number of employees is in Full-Time Equivalents (FTEs).

Source: Silicon Valley Business Journal Book of Lists 2014

logging, and construction sector were particularly impacted by falling levels of new home construction, declining 33 percent from 2008 through 2011.

Current economic conditions in the HMA are very strong. During the 12 months ending June 2014, nonfarm payrolls increased by 39,500 jobs, or 4.2 percent (Table 3). By comparison, payrolls increased by 36,700 jobs, or 4.4 percent, during the previous 12 months. During the current 12-month period, the average unemployment rate declined from 7.8 to 6.2 percent and the labor force increased by 11,200 workers, or 1.2 percent, from the previous 12 months (Figure 1).

Table 3. 12-Month Average Nonfarm Payroll Jobs in the San Jose HMA,* by Sector

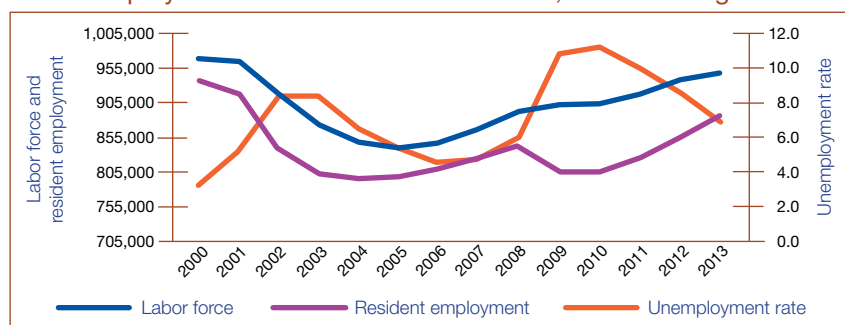
	12 Months Ending		Absolute Change	Percent Change
	June 2013	June 2014		
Total nonfarm payroll jobs	941,200	980,700	39,500	4.2
Goods-producing sectors	191,500	198,000	6,500	3.4
Mining, logging, & construction	36,100	39,000	2,900	8.0
Manufacturing	155,400	159,000	3,600	2.3
Service-providing sectors	749,700	782,700	33,000	4.4
Wholesale & retail trade	120,400	123,000	2,600	2.2
Transportation & utilities	13,500	14,300	800	5.9
Information	56,200	61,300	5,100	9.1
Financial activities	33,500	33,700	200	0.6
Professional & business services	185,700	194,100	8,400	4.5
Education & health services	138,500	149,300	10,800	7.8
Leisure & hospitality	85,300	88,600	3,300	3.9
Other services	25,100	25,500	400	1.6
Government	91,500	93,100	1,600	1.7

*San Jose-Sunnyvale-Santa Clara HMA.

Notes: Numbers may not add to totals because of rounding. Based on 12-month averages through June 2013 and June 2014.

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 2013



*San Jose-Sunnyvale-Santa Clara HMA.

Source: U.S. Bureau of Labor Statistics

The information sector had the fastest growth during the 12 months ending June 2014, increasing by 5,100 jobs, or 9.1 percent. One of the largest employers in the sector, Google, has been steadily expanding its presence in the HMA. The company won a bid to lease space from the National Aeronautics and Space Administration (NASA) at Moffett Airfield that includes three hangars and two runways, which the company will use for researching, testing, assembling, and developing new technology related to space, aviation, and rover/robotics (*San Jose Mercury News*, February 11, 2014). Moffett Airfield is 4 miles east of Google's headquarters in the city of Mountain View and the future site of its Bay View campus. Initial construction on Bay View began in the summer of 2013 with expected completion in 2015. Plans for the complex include nine buildings with space for 3,500 to 5,000 employees; however, Google announced a delay in July 2013 for redesign work (*San Jose Mercury News*, July 5, 2013, and July 12, 2013).

Mining, logging, and construction sector payrolls grew at the second fastest rate in the HMA during the 12 months ending June 2014, increasing by 2,900 jobs, or 8.0 percent. Although sector employment has declined 22 percent since 2000, it has been boosted recently by strong growth in home-building activity since 2009 and major ongoing construction projects in the HMA. 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 expected completion in 2016 will be followed by system testing in 2017 and passenger service beginning in late

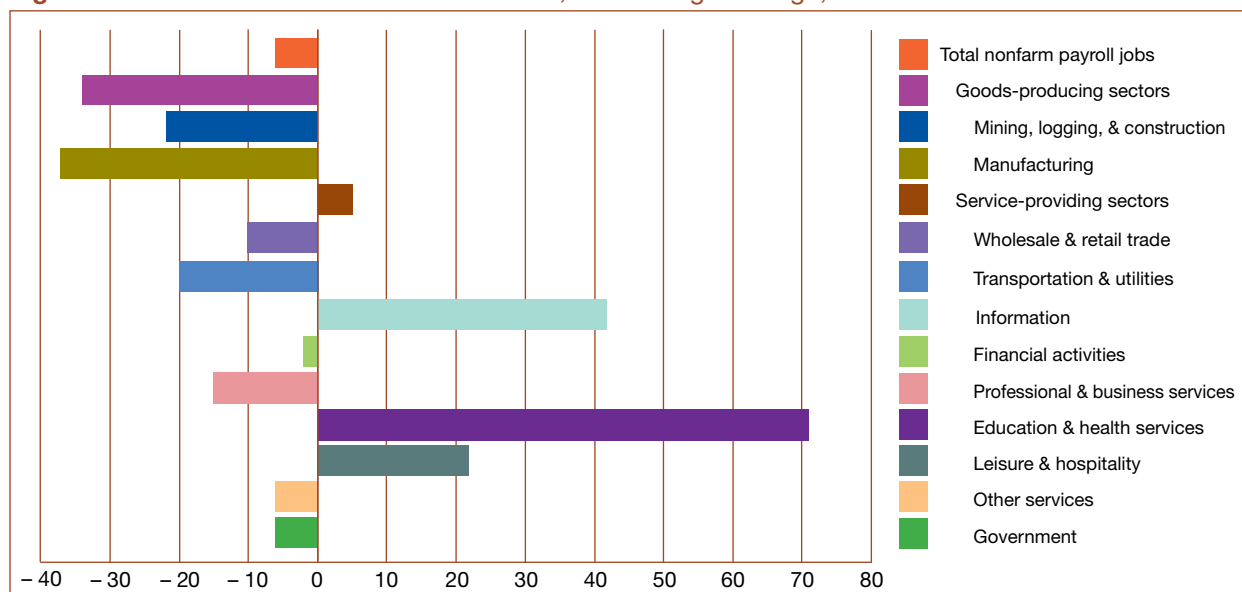
2017. Traveling on BART to San Francisco will take approximately 1 hour after the extension is complete (Santa Clara Valley Transportation Authority). The new home of the National Football League's San Francisco 49ers, Levi's Stadium, is currently under construction in the city of Santa Clara. After the \$1.2 billion stadium is complete in August 2014, it will have a capacity of 68,500 regular seats, 8,500 club seats, and 165 luxury suites and will host Super Bowl 50 in February 2016.

The education and health services sector grew more than any other sector since 2000, increasing 71 percent, and was the only sector that had no net job losses during the 2001 and 2007 national recessions (Figure 2). Payrolls increased by 10,800 jobs, or 7.8 percent, during the 12 months ending June 2014. Stanford University Medical Center has a \$5 billion Renewal Project under way that includes an expansion at Lucile Packard Children's Hospital of 150 beds and additional surgical, diagnostic, and treatment rooms and an expansion at Stanford

Hospital of 368 beds, 17 operating rooms, and a Level-1 trauma center. Expected completion times are in late 2016 and 2017, with patients expected to be accepted in early 2017 and 2018. Stanford University is also building an on-campus housing facility called the Kennedy Graduate Residences that will add four new buildings and 362 beds to the existing Escondido Village graduate student apartments; the residences are expected to be complete by the fall quarter of 2014.

Long-term conditions in the manufacturing sector have been mixed. Employment in the sector has declined 37 percent since 2000 and fallen from 24 percent of nonfarm payrolls to 16 percent during the 12 months ending June 2014 (Figure 3). Despite the 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 Inc. and Cisco Systems, Inc. Sector payrolls increased by 3,600 jobs, or 2.3 percent, during the 12 months ending June 2014.

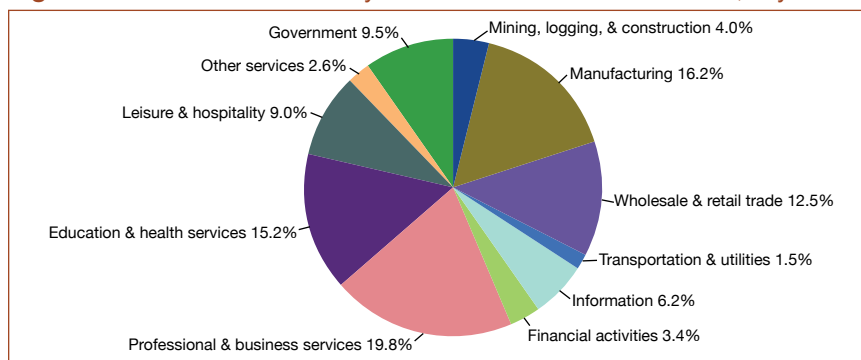
Figure 2. Sector Growth in the San Jose HMA,* Percentage Change, 2000 to Current



*San Jose-Sunnyvale-Santa Clara HMA.

Note: Current is based on 12-month averages through June 2014.

Source: U.S. Bureau of Labor Statistics

Figure 3. Current Nonfarm Payroll Jobs in the San Jose HMA,* by Sector

*San Jose-Sunnyvale-Santa Clara HMA.

Note: Based on 12-month averages through June 2014.

Source: U.S. Bureau of Labor Statistics

Apple Inc. has begun construction on the 176-acre site of its future headquarters, Apple Campus 2, in the city of Cupertino. Recent plans indicate that the campus will include a 2.8-million-square-foot main building, with space for 12,000 employees, and a second phase, with space for 2,200 employees (City of Cupertino). Cost estimates for the project range from \$3 to \$5 billion (*Bloomberg Businessweek*, April 4, 2013). Construction and occupancy of the main building is expected to be complete by late 2016. 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.). The company recently leased a 290,000-square-foot office complex in the city of Sunnyvale with space for approximately 1,450 employees (*San Jose Mercury News*, May 21, 2014).

Other expanding manufacturing companies include HGST, Inc., and

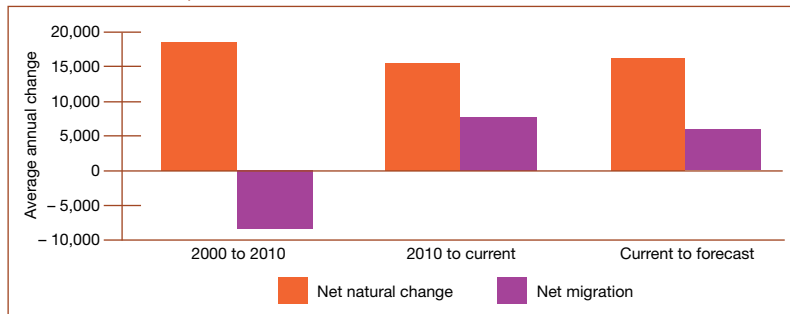
Samsung Semiconductor, Inc. HGST, Inc., is a subsidiary of hard-drive manufacturer Western Digital Corp., which plans to begin construction in 2014 on office and research buildings, with space for 1,300 to 1,700 employees. The buildings will be an addition to one of its current campuses in the city of San Jose (*San Jose Mercury News*, February 12, 2014). Samsung Semiconductor, Inc., is building a \$300 million regional campus that will include two office towers with a research facility, data center, and space for 2,000 employees; groundbreaking was in July 2013 and completion is expected by mid-2015.

Nonfarm payrolls in the HMA are expected to grow at an average annual rate of 2.1 percent during the 3-year forecast period. Ongoing expansions and hiring by major technology companies are expected to boost payroll growth in the information, professional and business services, and manufacturing sectors.

Population and Households

Population growth in the San Jose HMA slowed to an average of 0.1 percent a year from July 2000 to July 2005 because the collapse of the 1990s information technology boom and the national recession that began

Figure 4. Components of Population Change in the San Jose HMA,* 2000 to Forecast

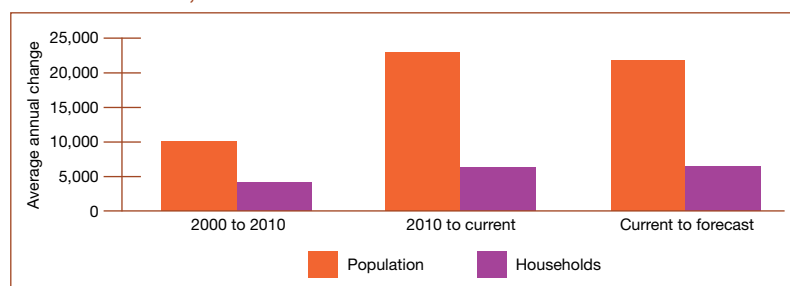


*San Jose-Sunnyvale-Santa Clara HMA.

Notes: The current date is July 1, 2014. The forecast date is July 1, 2017.

Sources: 2000 and 2010—2000 Census and 2010 Census; current and forecast—estimates by analyst

Figure 5. Population and Household Growth in the San Jose HMA,* 2000 to Forecast

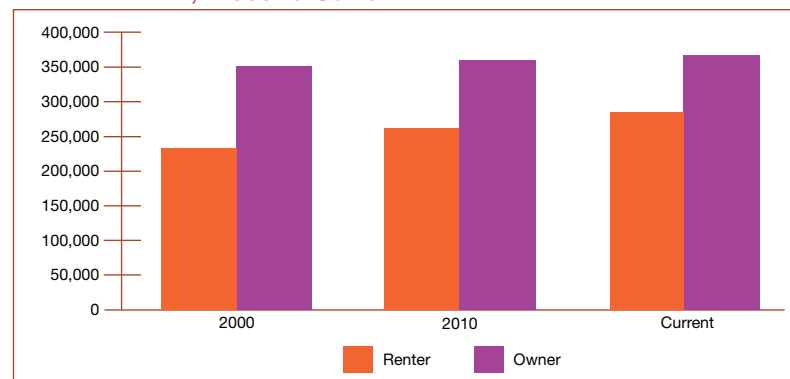


*San Jose-Sunnyvale-Santa Clara HMA.

Notes: The current date is July 1, 2014. The forecast date is July 1, 2017.

Sources: 2000 and 2010—2000 Census and 2010 Census; current and forecast—estimates by analyst

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 July 1, 2014.

Sources: 2000 and 2010—2000 Census and 2010 Census; current—estimates by analyst

in March 2001 affected hiring by technology companies. During this period, net out-migration occurred at an average annual rate of 16,250 people; this change was offset by net natural change (resident births minus resident deaths), which averaged 18,950 people a year (Figure 4). Average annual population growth increased to 19,950 people, or 1.1 percent, from July 2005 to July 2008 and then slowed to 14,150 people, or 0.8 percent, from July 2008 to July 2010 because of the national recession, which began in December 2007, and the ensuing foreclosure crisis. Annual net in-migration of 1,150 people and annual net out-migration of 2,750 people occurred during these two periods, respectively.

From April 2010 to July 1, 2014, the population of the HMA grew at an average annual rate of 22,850, or 1.2 percent, reaching an estimated 1.93 million (Figure 5). The number of households grew at an average annual rate of 6,250 households, or 1.0 percent, during that time, reaching an estimated 647,600 households; of these households, approximately 44 percent are rental households, up from 40 percent in 2000 and 42 percent in 2010 (Figure 6). Of the two counties in the HMA, Santa Clara County accounts for more than 97 percent of the total population and households.

Net in-migration from April 2010 to July 1, 2014, increased to an average annual rate of 7,500 people, or 33 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 2013, net foreign in-migration totaled 30,950 people and net domestic out-migration was 7,675 people (California Department

of Finance). Approximately 37 percent of the population in the HMA in 2012 was born outside the United States compared with a national figure of 13 percent; of these people who migrated to the HMA, their most common regions of origin were Asia at 62 percent, Latin America at 27 percent, and Europe at 8 percent (2012 American Community Survey 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 Inc.). Of the approximately 878,100 jobs in the HMA during 2011, 330,600, or 38 percent, were held by workers who lived outside the HMA: 9 percent in Alameda County, 6 percent in San Mateo County, 3 percent in Contra Costa County, and 3 percent in San Francisco County (U.S. Census Bureau. 2014. "OnTheMap" Application, Longitudinal-Employer Household Dynamics Program).

Housing affordability declined as sales and rental market conditions continued to tighten. Sales housing affordability (percent of households that can afford to purchase the median priced home in the HMA) declined from 24 percent in the second quarter of 2013 to 19 percent in the second quarter of 2014 (California Association of REALTORS®). Affordable housing construction was affected by 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. 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 generated by increased property taxes in the redevelopment area 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 (Blount, Ip, Nakano, and Ng. 2014. *Redevelopment Agencies in California: History, Benefits, Excesses, and Closure*. Working Paper No. EMAD-2014-01. Washington, DC: U.S. Department of Housing and Urban Development, Economic Market Analysis Division: http://www.huduser.org/portal/Publications/pdf/Redevelopment_WhitePaper.pdf). In January 2013, approximately 7,631 homeless people were living in the San Jose/Santa Clara County area and 74.4 percent were unsheltered, which represents the third highest rate in the country, behind Fresno/Madera County, at 81.0 percent, and Los Angeles City and County, at 76.0 percent (U.S. Department of Housing and Urban Development, Office of Community Planning and Development. 2013. *The 2013 Annual Homelessness Assessment Report (AHAR) to Congress: Part 1, Point-in-Time Estimates of Homelessness*. Washington, DC: U.S. Department of Housing and Urban Development, Office of Community Planning and Development. <https://www.hudexchange.info/resources/documents/ahar-2013-part1.pdf>).

In the city of San Jose, voters passed an initiative in November 2012, which raised the minimum wage to \$10 an hour and linked it to the regional Consumer Price Index. A proposal before the San Jose City Council suggests the possibility of building microhousing unit pods to provide shelter for the

homeless; each unit would be 150 square feet and cost approximately \$5,000 to build (*San Jose Inside*, April 29, 2014).

The population and number of households in the HMA are expected to grow at an average annual rate of 1.1 and 1.0 percent, respectively, reaching nearly 2 million people and 666,800

households by the end of the 3-year forecast period. Net migration is expected to represent approximately 26 percent of total population growth, down from 33 percent from 2010 to July 1, 2014. 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 estimated vacancy rate of 0.5 percent. 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 has been 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 April 2010 at 7.5 percent before falling to 4.6 percent in April 2012, 2.9 percent in April 2013, and 1.5 percent in April 2014 (Black Knight Financial Services, Inc.). By comparison, the average rates in California during those months were significantly higher at 11.0, 6.9, 4.5, and 2.5 percent, respectively.

Although the 2001 national recession was more harmful to the HMA than the 2007 national recession in terms of jobs lost, the sales housing market was less affected. Sales volume amounted to 24,500 existing homes sold and 2,400 new homes sold during the 12 months ending April 2001; by the same period in 2002, it had declined 7 percent, to 22,700 existing homes, and 22 percent, to 1,875 new homes

(CoreLogic, Inc.). Average sales prices declined 9 percent, to \$478,000, for an existing home and 5 percent, to \$613,600, for a new home during the same time. The existing home sales market began to recover first: sales volume increased 7 percent in 2003, 30 percent in 2004, and 6 percent in 2005, reaching a peak of 33,600 existing homes sold. By comparison, new home sales declined 20 percent in 2003 and then increased during 2004 through 2006 at an average annual rate of 47 percent, to a peak of 4,750 new homes sold. The price of an existing home sold grew at average annual rates of 16 percent in 2005 and 2006 and 5 percent in 2007 and 2008; it then declined 26 percent in 2009 as the housing crisis began to affect the HMA. The recovery in new home prices was weaker and relatively brief. Average prices remained relatively unchanged from 2005 through 2008 and then declined 10 percent in 2009.

Sales demand was boosted during the past 4 years by strong population growth and a local economy that benefits from the presence of large, stable technology companies. Single-family home prices in the HMA during April

Housing Market Trends

Sales Market *Continued*

2014 were 7 percent higher than the previous peak in mid-2006; by comparison, California and national prices remain 17 and 14 percent less than their respective peaks (CoreLogic, Inc. Housing Price Index). The average price of homes sold during the 12 months ending April 2014 increased 14 percent, to \$788,500, for an existing home and 24 percent, to \$828,000, for a new home. Sales volume amounted to 19,800 existing homes and 1,850 new homes, or a decrease of 4 percent and an increase of 22 percent, respectively, since the previous 12-month period.

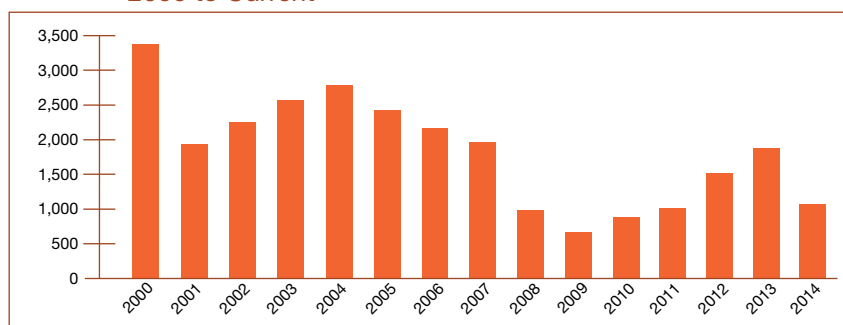
Condominium and townhome sales amounted to 5,700 existing homes and 1,000 new homes during the 12 months ending April 2014. The sales volume of existing homes has been relatively unchanged since the previous 12 months and the sales volume of new homes was up 24 percent. Average sales prices increased 21 percent, to \$553,800, for an existing home and 15 percent, to \$678,800, for a new home (Metrostudy, A Hanley Wood Company). Developments in the pipeline include the 101-unit Balbach Condominiums near the San Jose McEnery Convention Center and SJSU. The project is in the planning and zoning phase, but current plans indicate that it

will include 66 one-bedroom units, 25 two-bedroom units, 10 three-bedroom units, and 1,405 square feet of retail space. Proposed prices are not yet available (City of San Jose).

Home prices in the cities near major technology companies were among the highest in the HMA. Median prices during the 3 months ending April 2014 were \$1.36 million in the city of Mountain View, \$1.65 million in the city of Cupertino, and \$2.43 million in the city of Palo Alto (MLSListings, Inc.). The most active markets in terms of sales volume during the 3 months ending April 2014 were the city of San Jose, with 1,225 single-family home sales at a median price of \$745,000; the city of Sunnyvale, with 110 sales at a median price of \$1.2 million; and the city of Santa Clara, with 110 sales at a median price of \$853,000 (MLSListings, Inc.).

Single-family home construction in the HMA reached peak levels during the late 1990s at the height of the information technology boom. The average annual number of homes permitted was 4,575 from 1996 through 1998, declining to 3,379 homes permitted in 2000 and 1,923 permitted in 2001 as the national recession impacted local technology companies. As with total nonfarm payrolls, home construction activity did not recover to prerecession levels: during 2003 through 2005, the number of homes permitted rose to an average of 2,600 a year, before declining to an average of 2,050 a year in 2006 and 2007, and 870 a year from 2008 through 2011 (Figure 7). During the 12 months ending June 2014, 1,975 single-family homes were permitted, up 13 percent from 1,750 homes during the previous 12 months (preliminary data).

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 June 2014.

Sources: U.S. Census Bureau, Building Permits Survey; estimates by analyst

Housing Market Trends

Sales Market *Continued*

Local REALTORS reported that the construction of large, single-family developments in the HMA has declined because of the difficulties involved in acquiring land parcels. Homebuilding activity from 2000 through 2013 was particularly focused in the cities of San Jose, Gilroy, and Morgan Hill, which, respectively, accounted for 27, 11, and 9 percent of total single-family units 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 during the 3 months ending April 2014 was \$600,000 in Gilroy and \$754,000 in Morgan Hill compared with \$851,400 for all of Santa Clara County (MLS Listings, Inc.).

Developments that are currently under construction in the HMA include Coyote Creek and Classics at Townsend Estates. Coyote Creek is in the city of Milpitas, with 285 townhomes and flats. Approximately 65 percent of the

units have been sold and half have been occupied. Prices start at \$620,000 for a two-bedroom/two-and-a-half-bathroom home, \$665,000 for a three-bedroom/two-and-a-half bathroom home, and \$750,000 for a four-bedroom/three-and-a-half bathroom home. Classics at Townsend Estates consists of 18 homes being built in the city of Sunnyvale. Prices start at \$1.71 million for a three-bedroom/two-bathroom home, \$1.80 million for a four-bedroom/two-and-a-half bathroom home and \$2.05 million for a four-bedroom/three-bathroom home.

During the 3-year forecast period, demand is expected for 9,150 sales units (Table 1). Approximately 45 percent of the demand is expected to be for homes that cost less than \$699,999, 40 percent for homes in the \$700,000-to-\$1.09 million range, and 15 percent for homes in the \$1.10 million-and-higher range (Table 4). The 2,700 units under construction and a portion of the 9,000 other vacant units that may reenter the market will likely satisfy some of this demand.

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

Price Range (\$)		Units of Demand	Percent of Total
From	To		
100,000	299,999	460	5.0
300,000	499,999	920	10.0
500,000	699,999	2,750	30.0
700,000	899,999	2,750	30.0
900,000	1,099,999	920	10.0
1,100,000	1,299,999	460	5.0
1,300,000	1,499,999	460	5.0
1,500,000	and higher	460	5.0

*San Jose-Sunnyvale-Santa Clara HMA.

Notes: The 2,700 homes currently under construction and a portion of the estimated 9,000 other vacant units in the HMA will likely satisfy some of the forecast demand. The forecast period is July 1, 2014, to July 1, 2017.

Source: Estimates by analyst

Rental Market

Rental housing market conditions in the San Jose HMA are very tight with an estimated vacancy rate of 2.5 percent (Figure 8). Vacancy rates have declined since 2009 because of recovering population growth, strong shifts in household preferences from owning to renting, and low levels of multifamily construction from 2009 through 2011. Average annual rent growth from 2010 through 2013 was 4.4 percent.

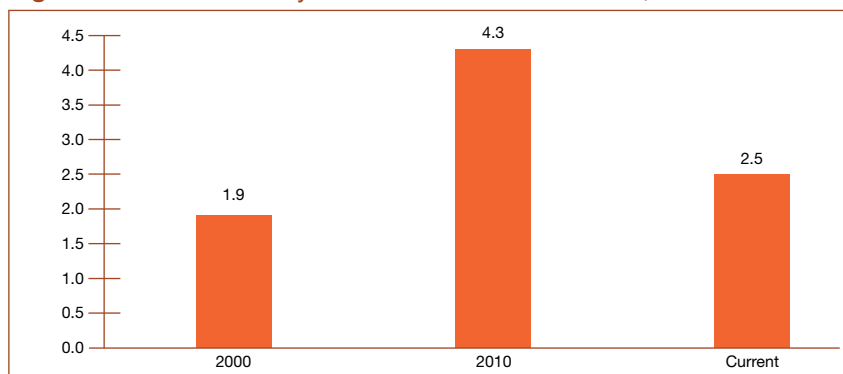
The apartment vacancy rate in the second quarter of 2014 was 2.4 percent, down from 3.0 percent in the second quarter of 2013, and the average asking rent was \$1,814, up 6.2 percent from the same period a year ago (Reis, Inc.). Average rent by unit type in the second quarter of 2014 was \$1,250 for a studio, \$1,619 for a one-bedroom unit, \$2,030

for a two-bedroom unit, and \$2,470 for a three-bedroom unit. Apartment rents are particularly high in the western and northwestern portions of the HMA that are close to major technology companies. The Reis-defined market areas of Cupertino/Saratoga (site of Apple Inc.'s headquarters), Mountain View/Los Altos (site of Google headquarters), and Northeast San Jose (site of Cisco Systems, Inc. headquarters) had the highest average rents in the HMA during the second quarter of 2014, at \$2,121, \$2,099, and \$2,031, respectively.

Multifamily construction in the HMA peaked at an average of 3,650 units a year in 2005 and 2006 before declining to an average of 2,375 units a year in 2007 and 2008 (Figure 9). Prolonged absorption of excess supply built during the housing boom and weak economic conditions led to a 30-year low of 452 units permitted in 2009. Apartment market conditions have tightened significantly since 2009 and caused strong growth in multifamily construction. The number of units permitted nearly doubled from 2011 to 2012, reaching 4,031 units, and increased 46 percent from 2012 to 2013, to 5,894 units. During the 12 months ending June 2014, 6,475 multifamily units were permitted, up 49 percent from 4,350 during the previous 12 months (preliminary data).

New multifamily developments are focused along major transit corridors and the Caltrain commuter rail line connecting San Francisco to cities throughout the HMA, which include Palo Alto, Mountain View, Sunnyvale, Santa Clara, San Jose, and Gilroy. Most multifamily construction historically has been within the city of San Jose;

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

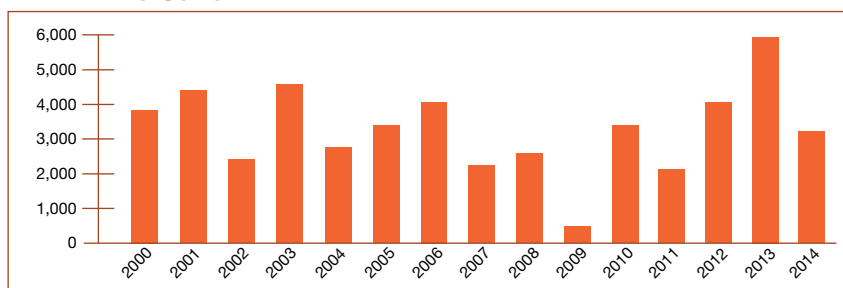


*San Jose-Sunnyvale-Santa Clara HMA.

Note: The current date is July 1, 2014.

Sources: 2000 and 2010—2000 Census and 2010 Census; current—estimates by analyst

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 June 2014.

Sources: U.S. Census Bureau, Building Permits Survey; estimates by analyst

from 2000 through 2013, it represented 67 percent of multifamily units permitted, followed by the city of Santa Clara with 9 percent and the city of Milpitas with 6 percent.

Recently completed projects include the 569-unit Epic Apartments in the city of San Jose, which was leased in four phases during June 2013 through May 2014. An additional 202-unit phase is being planned. Rents range from \$2,230 to \$2,710 for a studio unit; \$2,423 to \$2,998 for a one-bedroom, one-bathroom unit; and \$2,940 to \$3,492 for a two-bedroom, two-bathroom unit. A low-income housing tax credit apartment complex, the 93-unit Mayfair Court, was completed in March 2014 in the eastern portion of the city of San Jose at a cost of \$23 million. Initial asking rents ranged from \$663 to \$1,129 for a two-bedroom unit and \$763 to \$1,301 for a three-bedroom unit (*Silicon Valley Business Journal*, March 5, 2014). Mayfield Court rents are targeted for people who earn 30 to 50 percent of the Area Median Income. In May 2014, typical absorption rates were estimated at 20 to 50 units a month.

Downtown San Jose has several highrise apartment buildings under construction or in planning. The

21-story, 347-unit Centerra is under construction after work began in September 2013 and the groundbreaking ceremony was held in March 2014; expected completion is in 2015 at an estimated total cost of \$149 million for the development (*Silicon Valley Business Journal*, September 12, 2013, and July 11, 2014). One South Market Street is a 23-story, mixed-use development that will include 312 apartment units and 6,000 square feet of commercial space; construction began in June 2013 with expected completion in 2015. Silvery Towers was approved by the city of San Jose in March 2014. The \$250 million development will consist of a 20-story tower and a 22-story tower containing 643 apartment units and 20,000 square feet of retail space. Construction is expected to begin in late 2014 with the first units completed in 22 to 24 months (*Silicon Valley Business Journal*, March 11, 2014). Proposed rent levels are not yet available for these projects.

During the 3-year forecast period, demand is expected for 11,750 rental units. Table 5 includes expected demand by unit type and rent ranges. The 6,675 units under construction will likely satisfy demand during the first year and a portion of the second year of the forecast period.

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
1,800 to 1,999	60	2,000 to 2,199	530	2,400 to 2,599	530	3,000 to 3,199	290
2,000 to 2,199	150	2,200 to 2,399	3,175	2,600 to 2,799	530	3,200 to 3,399	60
2,200 or more	380	2,400 to 2,599	530	2,800 to 2,999	1,575	3,400 to 3,599	90
		2,600 or more	1,050	3,000 to 3,199	1,575	3,600 to 3,799	90
				3,200 or more	1,050	3,800 or more	60
Total	590	Total	5,300	Total	5,300	Total	590

*San Jose-Sunnyvale-Santa Clara HMA.

Notes: Numbers may not add to totals because of rounding. The 6,675 units currently under construction will likely satisfy some of the estimated demand. The forecast period is July 1, 2014, to July 1, 2017.

Source: Estimates by analyst

Data Profile

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

	2000	2010	Current	Average Annual Change (%)	
				2000 to 2010	2010 to Current
Total resident employment	937,379	804,158	896,000	- 1.5	3.1
Unemployment rate	3.2%	11.2%	6.2%		
Nonfarm payroll jobs	1,045,600	865,600	980,700	- 1.9	3.6
Total population	1,735,819	1,836,911	1,934,000	0.6	1.2
Total households	581,748	621,009	647,600	0.7	1.0
Owner households	349,491	359,225	364,700	0.3	0.4
Percent owner	60.1%	57.8%	56.3%		
Renter households	232,257	261,784	282,900	1.2	1.8
Percent renter	39.9%	42.2%	43.7%		
Total housing units	595,828	649,790	665,700	0.9	0.6
Owner vacancy rate	0.5%	1.5%	0.5%		
Rental vacancy rate	1.9%	4.3%	2.5%		
Median Family Income	\$82,600	\$102,500	\$105,000	2.2	0.8

*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 June 2014. Median Family Incomes are for 1999, 2009, and 2012. The current date is July 1, 2014.

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: 7/1/2014—Analyst's estimates
 Forecast period: 7/1/2014–7/1/2017—Analyst's estimates

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 the U.S. Department of Housing and Urban Development's (HUD's) analysis, 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 http://www.huduser.org/publications/pdf/CMARtables_SanJose-Sunnyvale-SantaClaraCA_14.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 HUD's Economic and Market Analysis Division. 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 www.huduser.org/portal/ushmc/chma_archive.html.