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 April 1, 2012

PD&R

Housing Market Area

The San Jose-Sunnyvale-Santa Clara Housing Market Area (HMA) (hereafter, the San Jose HMA), in northern California, south of the San Francisco Bay, comprises San Benito and Santa Clara Counties. The HMA is divided into two submarkets: the San Jose submarket comprises the city of San Jose in Santa Clara County, and the Remainder submarket comprises San Benito County and the remaining portion of Santa Clara County. The HMA, which is home to 6,600 high-technology companies, is known as the "Heart of Silicon Valley."

Market Details

Summary

Economy

Economic conditions have strengthened in the San Jose HMA during the past 12 months. Nonfarm payrolls increased by 24,200 jobs, or 2.8 percent, to 885,000 jobs during the 12 months ending March 2012, with the most significant growth occurring in the education and health services, manufacturing, professional and business services, and information sectors. Nonfarm payroll jobs are expected to increase an average of 1.9 percent a year during the 3-year forecast period, led by expansion in industries related to high technology.

Sales Market

Sales housing market conditions are currently slightly soft in the HMA. During the 12 months ending March 2012, home sales declined 5 percent, to 20,750 homes. Demand during the forecast period is expected for 5,250 new homes; the 350 homes currently under construction will meet a portion of that demand (Table 1). Some of the 11,950 other vacant units in the HMA may reenter the market and satisfy a portion of the demand.

Rental Market

Rental housing market conditions in the HMA are currently tight, with a 4-percent vacancy rate. The growth in renter households since 2010 outpaced rental housing development, leading to the tight conditions. During the forecast period, demand in the HMA is expected for 9,425 new rental units; the 1,950 rental units currently under construction will meet a portion of that demand (Table 1).

Table 1. Housing Demand in the San Jose HMA,* 3-Year Forecast, April 1, 2012 to April 1, 2015

	San Jose HMA		San Jose Submarket		Remainder Submarket	
	Sales Units	Rental Units	Sales Units	Rental Units	Sales Units	Rental Units
Total Demand	5,250	9,425	830	5,275	4,425	4,150
Under Construction	350	1,950	50	1,000	300	950

** 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 April 1, 2012. A portion of the estimated 11,950 other vacant units in the HMA will likely satisfy some of the forecast demand. Numbers may not add to totals because of rounding.

Source: Estimates by analyst

Economic Conditions

The San Jose HMA serves as a major center in the nation for the development and production of cutting-edge technology. During the 12 months ending March 2012, employment conditions in the HMA strengthened; nonfarm payrolls increased by 24,200 jobs, or 2.8 percent, compared with payrolls during the previous 12 months, to 885,000 jobs (Table 2). A decline of 2,150 jobs, or 2.3 percent, in the government sector partly offset overall nonfarm payroll growth. Despite the reduction in jobs in the government sector, the only sector that experienced job losses in the previous 12 months, the recent overall gain is a significant improvement from the employment decline that occurred during 2009 and 2010, when the HMA lost an average of 29,900 nonfarm payroll jobs annually. Nearly 85 percent of the losses during 2009 and 2010 were concentrated in four sectors: (1) professional and business services, (2) manufacturing, (3) mining, logging, and construction, and (4) wholesale and retail trade. Employment began to recover during the 12 months ending March 2011, when growth in industries related to high technology led improvement in economic conditions and nonfarm payrolls added 12,000 jobs.

During the 12 months ending March 2012, notable expansions occurred in the education and health services, manufacturing, professional and business services, and information sectors, which increased by a combined 21,800 jobs, or 4.6 percent. As economic conditions improved during the 12 months ending March 2012, the average unemployment rate declined to an average of 9.5 percent, down from 10.8 percent during the previous 12 months. The current unemployment rate is less than the 11.5-percent average rate recorded for California. Figure 1 shows trends in the labor force, resident employment, and average unemployment rate in the HMA, and Figure 2 shows nonfarm payroll sector growth from 2000 to the current date.

Accounting for 13 percent of all jobs (Figure 3), employment in the education and health services sector provides stability to the HMA economy. Employment in the sector increased by an average annual rate of 2,650 jobs, or 2.7 percent, during the 2000s despite two economic downturns: the bursting of the technology bubble in the early

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

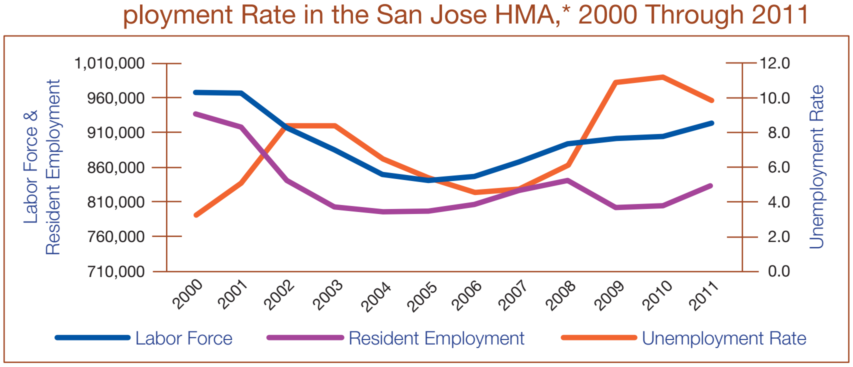
	12 Months Ending March 2011	12 Months Ending March 2012	Percent Change
Total Nonfarm Payroll Jobs	860,800	885,000	2.8
Goods Producing	186,700	191,000	2.3
Mining, Logging, & Construction	32,100	32,250	0.5
Manufacturing	154,600	158,800	2.7
Service Providing	674,100	694,000	3.0
Wholesale & Retail Trade	114,300	116,500	1.9
Transportation & Utilities	12,050	12,150	1.0
Information	45,150	50,150	11.0
Financial Activities	31,200	31,800	2.0
Professional & Business Services	163,700	171,600	4.9
Education & Health Services	114,100	118,800	4.1
Leisure & Hospitality	75,400	76,600	1.6
Other Services	24,100	24,400	1.1
Government	94,150	92,000	– 2.3

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

Notes: Based on 12-month averages through March 2011 and March 2012. Numbers may not add to totals because of rounding.

Source: U.S. Bureau of Labor Statistics

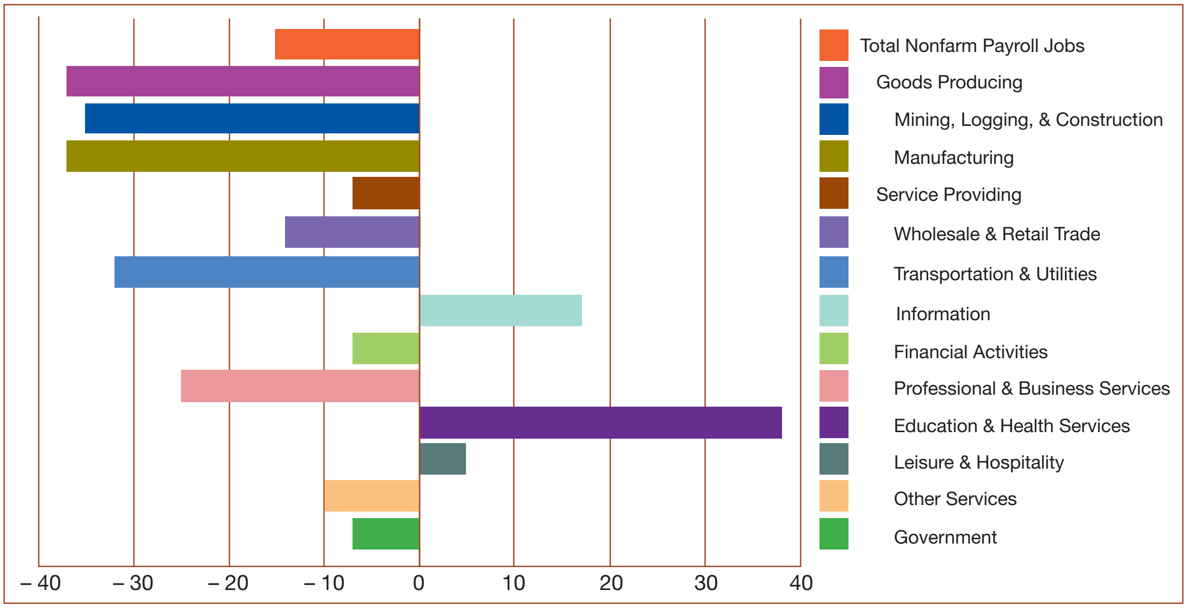
Figure 1. Trends in Labor Force, Resident Employment, and Unemployment Rate in the San Jose HMA,* 2000 Through 2011



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

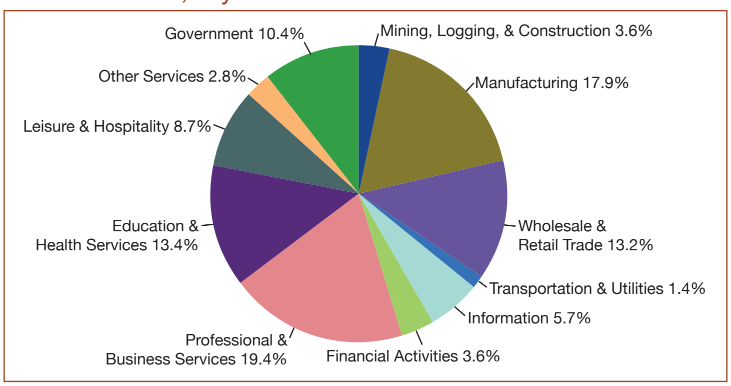
Source: U.S. Bureau of Labor Statistics

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 March 2012.
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 March 2012.
Source: U.S. Bureau of Labor Statistics

Table 3. Major Employers in the San Jose HMA*

Name of Employer	Nonfarm Payroll Sector	Number of Employees
Cisco Systems, Inc.	Manufacturing	17,100
Kaiser Permanente®	Education & Health Services	13,500
Stanford University	Education & Health Services	12,000
Apple Inc.	Manufacturing	10,000
Oracle Corporation	Information	8,000
Lockheed Martin Corporation	Manufacturing	7,750
Stanford Hospital & Clinics	Education & Health Services	7,300
Google	Information	6,000
Yahoo! Inc	Information	4,900
Hewlett-Packard Development Company	Manufacturing	2,000

** San Jose-Sunnyvale-Santa Clara HMA.*
Note: Excludes local school districts.
Source: Silicon Valley-San Jose Business Journal, *2011*

2000s and the recession that started in December 2007, which began to impact the HMA in 2009. Recently, the pace of job growth in the education and health services sector has increased. During the 12 months ending March 2012, the sector increased by 4,700 jobs, or 4.1 percent, a similar increase as during the previous 12 months but higher than the average gain of 2,200 jobs, or 2.1 percent, annually during 2009 and 2010. Gains in the educational services subsector, up 3,000 jobs, or 8.1 percent, accounted for nearly 70 percent of the growth in the sector during the 12 months ending March 2012. The largest employers in this sector are Kaiser Permanente®, Stanford University, and Stanford Hospital & Clinics, with 13,500, 12,000, and 7,300 employees, respectively (Table 3). Stanford University is expected to contribute to additional job growth during 2012. According to data from the State of California Employment Development Department (EDD), Stanford University announced 406 job openings during March 2012.

Developments under construction include expansions of two hospitals in Palo Alto: the Stanford Hospital and the Lucile Packard Children's Hospital at Stanford, both of which are scheduled for completion by 2018 at a total cost of $3.5 billion.

For more than 50 years, Stanford University has promoted growth in companies developing cutting-edge technology. When the university constructed the Stanford Research Park, it helped establish the HMA as a high-technology manufacturing community. Today, manufacturing is the second largest sector in the HMA, accounting for 18 percent of all jobs (Figure 3). The largest employers in this sector are Cisco Systems, Inc., Apple Inc., Lockheed Martin Corporation, and Hewlett-Packard Development Company, with 17,100, 10,000, 7,750, and 2,000 employees, respectively. During the 12 months ending March 2012, the manufacturing sector expanded by 4,200 nonfarm payroll jobs, or 2.7 percent, an increase from the 1,100-job, or 0.7-percent, growth during the previous 12-month period and a reversal from an average 7,300 jobs lost annually during 2009 and 2010. Jobs in the production of computers and electrical components, up by 5,125 jobs, or 4.8 percent, led increases in the manufacturing sector during the 12 months ending March 2012. This year, Apple Inc., is planning to start construction on a 13,000-employee headquarter campus in the city of Cupertino that is scheduled for completion in 2015. According to data from the EDD, Apple Inc. advertised 1,378 jobs during March 2012, up from the 679 jobs announced during March 2011.

The professional and business services sector added the greatest number of jobs during the past year, in part because of expansion in industries related to high technology. During the 12 months ending March 2012, employment in this sector increased by 7,900 jobs, or 4.9 percent, up from the 4,500-job, or 2.8-percent, increase during the previous 12-month period. Of those jobs added, approximately 70 percent were in the professional, scientific, and technical services subsector, which increased by 5,600 jobs, or 5.3 percent, a 133-percent increase compared with the 2,400 jobs added, or 2.3-percent increase, during the same period a year earlier.

Employment in the information sector increased by 5,000 jobs, or 11 percent, during the 12 months ending March 2012, up from the 3,500 jobs added, or 8.3-percent increase, during the previous 12 months. The information sector includes three leading employers in the HMA: Oracle Corporation, Google, and Yahoo! Inc. Growth in the sector occurred despite the relocation of nearly 2,000 Facebook, Inc. employees to San Mateo County during late 2011 and early 2012. Developments under construction include the $120 million expansion of Google's headquarter campus, Googleplex, in Mountain View. The expansion is scheduled for completion during the next 3 years. Growth in the information sector is expected to be modest during the 3-year forecast period, because Yahoo! Inc. plans to reduce its global workforce by 14 percent as a result of corporate restructuring. Yahoo! Inc. announced 850 layoffs in the HMA that will take effect by June 2012. During March 2012, Google announced 780 job openings, up 31 percent from the 588 openings during March 2011, according to data from the EDD. These additional jobs are expected to offset a portion of the losses elsewhere in the sector.

During the 3-year forecast period, as the economy fully recovers from the recession, nonfarm payrolls are expected to increase 1.9 percent, or by 17,150 jobs, a year, with 40 percent of that growth estimated to occur in the San Jose submarket.

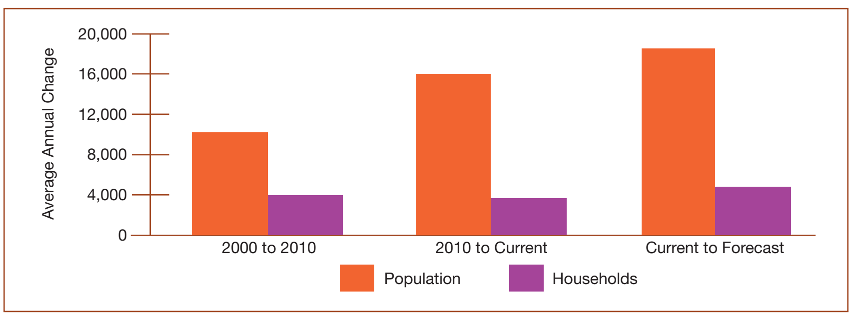
Population and Households

The population of the San Jose HMA was estimated at more than 1.8 million as of April 1, 2012, reflecting an average increase of approximately 14,450, or 0.8 percent, annually since July 1, 2009, down from the average increase of 22,900, or 1.3 percent, annually from 2006 through 2008. Population growth slowed as employment began to decline during 2009, leading to an average net out-migration of 2,900 people annually compared with a net in-migration of 3,900 people annually from 2006 through 2008, when employment conditions were stronger. According to data from the Internal Revenue Service, approximately 85 percent of the net out-migration that has occurred since 2009 was to counties outside the HMA but within California. As economic conditions continue to improve during the next 3 years, net migration is expected to reverse, resulting in an average net in-migration of 2,500 people annually. Since 2009, net natural change (resident births minus resident deaths) has accounted for all of the population growth in the HMA, averaging 15,500 people annually compared with an average of 19,050 people, accounting for 80 percent of population growth, during 2006 through 2008. Net natural change is expected to increase slightly during the next 3 years, adding 15,900 people annually during the forecast period.

Approximately 50 percent of the HMA population resides in the San Jose submarket. In the Remainder submarket, most of the population is concentrated within a 15-mile radius around San Jose, in the cities of Milpitas, Mountain View, Palo Alto, Santa Clara, and Sunnyvale. The recent recession affected population growth in the San Jose submarket. Since 2009, the population of the San Jose submarket has increased by an average annual rate of 1,275, or 0.1 percent, compared with an average annual increase of 11,650, or 1.3 percent, from 2006 through 2008. Net out-migration from the San Jose submarket has averaged approximately 8,650 people annually compared with average net in-migration of 1,400 people annually from 2006 through 2008. Also since 2009, the population in the Remainder submarket has increased by an average of 13,150, or 1.5 percent, a year compared with an average annual increase of 8,350, or 1.0 percent, from 2006 through 2008. In the Remainder submarket, population growth since 2009 was attributable, in part, to net in-migration of households that sought more affordable housing in areas to the east and south of San Jose but still within commuting distance to major centers of employment. These areas included the cities of Gilroy, Milpitas, and Morgan Hill. During the next 3 years, the population in the San Jose and Remainder submarkets is expected to increase by an average of 7,500 and 10,900, or 0.8 and 1.2 percent, respectively, as economic conditions continue to strengthen. In the HMA as a whole, the population is expected to increase by an average annual rate of 18,350, or 1.0 percent, during the 3-year forecast period to reach 1,924,000. Figure 4 shows population and household growth in the HMA, and Figure 5 shows the components of population change in the HMA from 2000 through the forecast period.

The number of households in the HMA has increased since 2010, but at a reduced pace compared with the rate of increase from 2000 through 2010. The number of households has increased by 3,700, or 0.6 percent, annually since 2010. In contrast, from 2000 through 2010, the number of households increased by 3,925, or 0.7 percent, a year. The slowing of household growth resulted, in part, from households that comprise young professionals doubling up to share living expenses because of the weak economy. In the San Jose submarket, since 2010, the number of households has increased by 1,625, or 0.5 percent, annually compared with an increase of 2,475 households, or 0.9 percent, annually from 2000 through 2010. Since 2010, household growth in the Remainder submarket has averaged 2,125 households, or 0.7 percent, compared with 1,450 households, or 0.5 percent, annually from 2000 through 2010. During the 3-year forecast period, the number of households in the San Jose and Remainder submarkets is expected to increase by an average annual rate of 2,075 and 2,625, or 0.7 and 0.8 percent, respectively, to a combined 642,600 households in the HMA by the end of the forecast period. Table DP-1 at the end of this report shows the number of households in the HMA by tenure from 2000 through the current date. Figures 6 and 7 show households by tenure in each submarket since 2000.

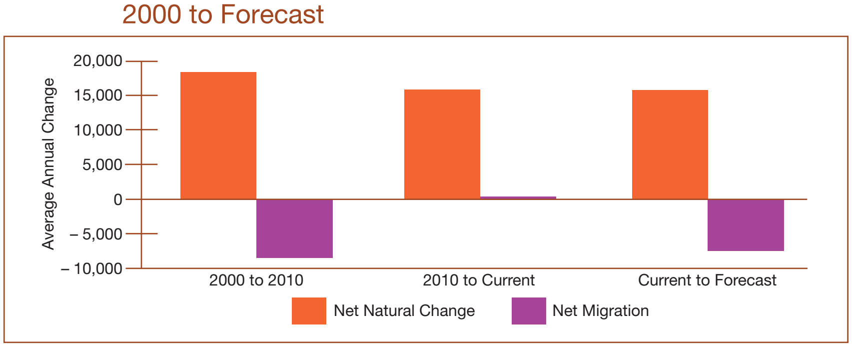
Figure 4. Population and Household Growth in the San Jose HMA,* 2000 to Forecast



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

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

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



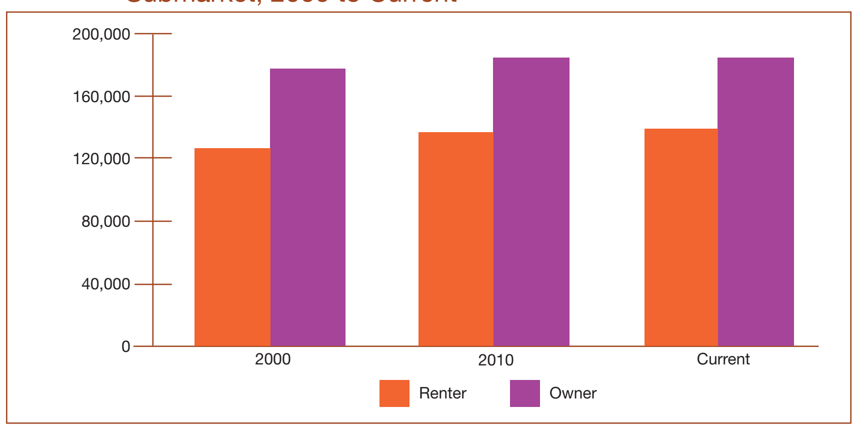
** San Jose-Sunnyvale-Santa Clara HMA.*

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 Submarket, 2000 to Current

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

Figure 7. Number of Households by Tenure in the Remainder Submarket, 2000 to Current



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

Housing Market Trends

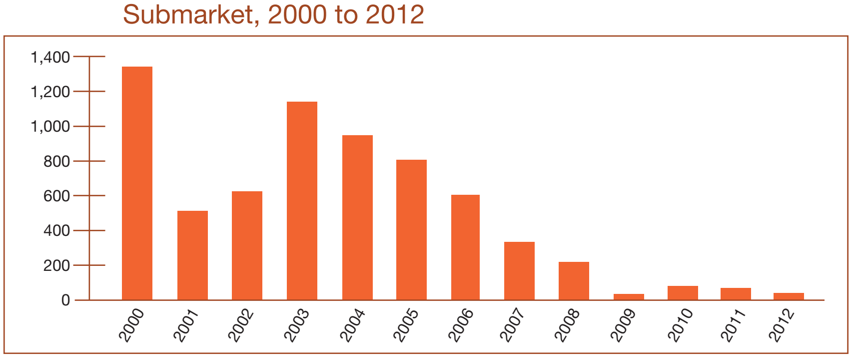
Sales Market—San Jose Submarket

The sales housing market in the San Jose submarket is slightly soft. The current estimated vacancy rate is 1.5 percent, down from 1.6 percent during 2010, because the sales market inventory declined by 280 units annually and the number of owner households was nearly unchanged at 167,100 (Table DP-2 at the end of this report). Growth in the sales market inventory slowed because of a decline in single-family and condominium construction activity and because some existing sales units shifted to the rental market. The current weakness in the sales market began during 2008 in response to stringent lending practices and continued as a result of the economic decline that first began to affect the HMA in 2009. According to data from Hanley Wood, LLC, from 2008 through 2010, home sales declined by an average annual rate of 10 percent, or 1,400 homes, to total 12,900 homes sold compared with an average annual rate of 14,300 sold during 2006 and 2007. During the 12 months ending March 2012, home sales decreased nearly 6 percent, to 11,650 homes compared with 12,400 homes sold during the previous 12-month period. During the same period, the average sales price declined 5 percent, to $470,100 compared with $495,900 in the previous year. The average home sales price peaked during 2007 at $698,400 before declining by a 9-percent average annual rate through March 2012. During the 12 months ending March 2012, the percentage of existing home sales that were REO (Real Estate Owned) declined to 22 from 46 percent during the previous 12-month period but remained significantly greater than the 4-percent average annual rate recorded during 2006 and 2007. Approximately 65 percent of all REO sales in the HMA during the 12 months ending March 2012 were in the San Jose submarket.

Condominiums have represented approximately 30 percent of all home sales in the submarket since the mid-2000s and are priced, on average, $160,000 less than single-family homes, according to data from Hanley Wood, LLC. During the 12 months ending March 2012, condominium sales decreased 4 percent, to 3,825 homes from 4,000 homes during the previous 12 months, and the average condominium sales price declined 10 percent, to $309,100, from $344,100. Condominium sales are 12 percent less than the average annual rate of 4,325 homes sold during 2006 and 2007, when sales market conditions were stronger. In response to soft conditions during the past 3 years, builders have limited condominium construction to 5 percent of total multifamily development in the submarket. Recent additions have been concentrated in the downtown area, including Plant 51, with 265 homes, and Axis, with 329 homes. Prices for these recently completed condominiums start at $340,000.

As a result of soft sales market conditions, single-family home construction activity, as measured by the number of single-family building permits issued, slowed during the past 5 years (Figure 8). Single-family home construction activity from 2007 through 2011 averaged 140 homes permitted annually, down 84 percent from the average of 850 homes permitted annually from 2000 through 2006. Based on preliminary data, during the 12 months ending March 2012, construction activity increased slightly to 70 single-family homes permitted, up from 60 during the previous 12 months. Single-family developments under construction include Savona and Pepper Lane, both adjacent to downtown San Jose. Because of the scarcity of available land, single-family home construction primarily comprises townhomes, allowing for higher density. The developers of Pepper Lane,

Figure 8. Single-Family Building Permits Issued in the San Jose Submarket, 2000 to 2012



Notes: Includes townhomes. Includes data through March 2012.
Sources: U.S. Census Bureau, Building Permits Survey; estimates by analyst

which will consist of 379 townhomes, plan to build approximately 10 homes a month beginning in April 2012 until it is complete by 2015. New single-family home prices in both Savona and Pepper Lane start at $384,000.

Table 4. Estimated Demand for New Market-Rate Sales Housing in the San Jose Submarket, April 1, 2012 to April 1, 2015

Price Range ($)		Units of Demand	Percent of Total
From	To		
340,000	389,899	120	15.0
389,900	439,899	170	20.0
439,900	489,899	330	40.0
489,900	539,899	120	15.0
539,900	and higher	85	10.0

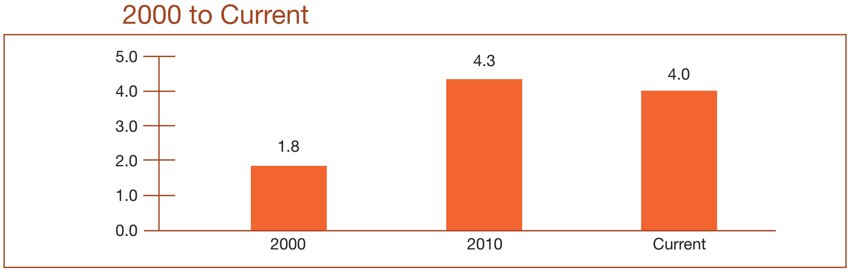
Note: The 50 homes currently under construction and a portion of the estimated 4,350 other vacant units in the submarket will likely satisfy some of the forecast demand.
Source: Estimates by analyst

During the next 3 years, demand is estimated for 830 new sales units in the submarket (Table 1). The 50 homes currently under construction will meet a portion of this demand. In addition, some of the estimated 4,350 other vacant units in the submarket may return to the sales housing market and satisfy a portion of the demand. Demand is expected to be stronger during the second and third years of the forecast period and greatest in the $439,900-to-$489,899 price range (Table 4).

Rental Market—San Jose Submarket

The San Jose submarket rental housing market is tight. The overall rental vacancy rate is currently estimated at 4.0 percent, down from 4.3 percent in 2010 (Figure 9) because renter household growth exceeded the development of rental properties and the conversion of sales units to the rental inventory. The apartment market is tighter than the overall rental housing market. According to data from Reis, Inc., during the first quarter of 2012, the apartment vacancy rate averaged 2.8 percent, decreasing from 3.7 percent during the first quarter of 2011. The apartment market tightened most in the northern portion of the submarket, where the vacancy rate declined from 3.7 to 2.6 percent. The average market rent for apartments in the submarket increased 4 percent, to $1,525, during the first quarter of 2012. In the northern San Jose area, average market rents increased from $1,650 to $1,725, or 4 percent. The average market rent in the northern San Jose area is higher than in the submarket as a whole as a result of newly completed luxury apartments.

Figure 9. Rental Vacancy Rates in the San Jose Submarket, 2000 to Current

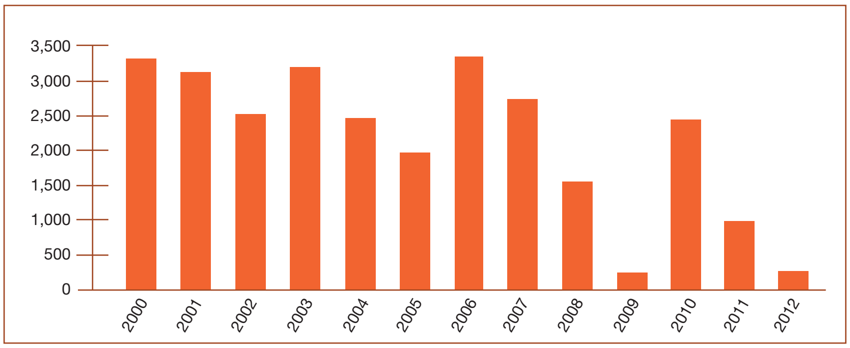


Sources: 2000 and 2010—2000 Census and 2010 Census; current—estimates by analyst

From 2000 through 2008 in the submarket, multifamily construction activity, as measured by the number of multifamily units permitted, averaged 2,700 units annually before declining to 250 units permitted during 2009, as a result of stringent lending standards that limited development. Multifamily building permits increased significantly, to 2,425 units, during 2010 (Figure 10), in part because the 1,750-unit Crescent Village development broke ground. The first phase of Crescent Village, totaling 380 units, is scheduled for completion during the second quarter of 2012. Multifamily development has moderated during the past year. According to preliminary estimates from the U.S. Census Bureau, data from the San Jose Planning Division, and Real Data, approximately 1,025 multifamily units were permitted during the 12 months ending March 2012, down from 2,075 units during the previous 12 months.

Approximately 95 percent of multifamily development in the submarket since 2009 has consisted of apartments compared with an average of 50 percent from 2004 through 2008. Projects completed in 2011 include Levare, a 180-unit complex, and 360 Residences, a 213-unit complex initially planned as condominiums.

Figure 10. Multifamily Building Permits Issued in the San Jose Submarket, 2000 to 2012



Notes: Excludes townhomes. Includes data through March 2012.
Sources: U.S. Census Bureau, Building Permits Survey; estimates by analyst

Apartments under construction or in planning are mostly concentrated in the northern San Jose area and include the second phase of Crescent Village, containing approximately 1,000 units, and Riverview, a 271-unit complex. The second phase of Crescent Village is scheduled for completion by the end of 2012. Riverview is in planning and expected to be complete by the fourth quarter of 2013. For the submarket as a whole, average asking rents for newly constructed efficiency, one-bedroom, and two-bedroom apartments start at $1,650, $1,850, and $2,325, respectively.

During the forecast period, demand is expected for 5,275 new rental units in the submarket (Table 1). The 1,000 units currently under construction will satisfy a portion of rental housing demand during the first year of the forecast period. Demand is expected to be stronger during the second and third years of the forecast period. Table 5 shows estimated demand by rent level for new market-rate rental housing in the submarket during the forecast period.

Table 5. Estimated Demand for New Market-Rate Rental Housing in the San Jose Submarket, April 1, 2012 to April 1, 2015

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
1,650 to 1,849	370	1,850 to 2,049	630	2,325 to 2,524	840	2,900 to 3,099	630
1,850 to 2,049	110	2,050 to 2,249	320	2,525 to 2,724	630	3,100 to 3,299	470
2,050 or more	55	2,250 or more	110	2,725 or more	630	3,300 or more	470
Total	530	Total	1,050	Total	2,100	Total	1,575

Notes: Numbers may not add to totals because of rounding. The 1,000 units currently under construction will satisfy some of the estimated demand.
Source: Estimates by analyst

Sales Market—Remainder Submarket

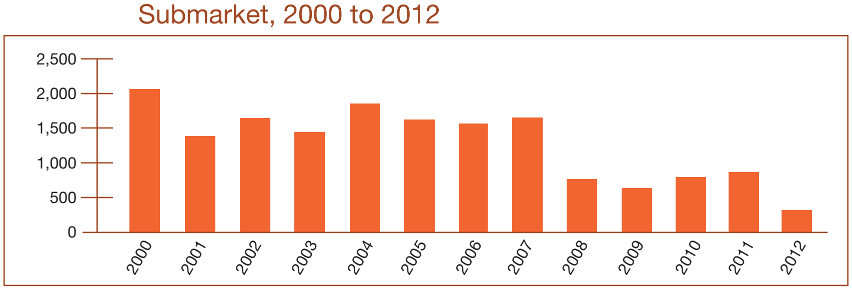
The sales housing market in the Remainder submarket is balanced to soft, with an estimated vacancy rate of 1.3 percent, unchanged from 2010, as growth in single-family and condominium inventory slightly outpaced owner household growth (Table DP-3 at the end of this report). During the 12 months ending March 2012, single-family home sales decreased 5 percent, or by 410 homes, to 7,100 homes sold compared with sales during the same period a year earlier. Condominium sales during the 12 months ending March 2012 increased by nearly 180 homes, or 7 percent, to 4,000 homes, up from the 3,825 homes sold during the previous 12-month period. Approximately 60 percent of condominium sales were localized in the cities of Milpitas, Mountain View, Santa Clara, and Sunnyvale. During the 12 months ending March 2012, condominium prices declined 1 percent, to $492,400, from $498,100 during the previous 12 months.

The average sales price for single-family homes in the submarket increased nearly 2 percent, to $895,800, during the 12 months ending March 2012 compared with $879,500 during the previous 12-month period. The increase was, in part, the result of a decline in the volume of REO sales, which are priced, on average, 50 percent below the price of regular existing home sales in the submarket, according to data from Hanley Wood, LLC. During the 12 months ending March 2012, REO and foreclosed home sales declined by 1,700 homes, or 57 percent, from the previous year. In the submarket, REO sales represent about 14 percent of total existing sales, down from 31 percent during the previous 12-month period.

Single-family home construction activity, as measured by the number of single-family building permits issued, averaged approximately 1,625 homes annually from 2000 through 2007 before declining to an annual average of 750 homes from 2008 through 2011 (Figure 11). During the 12 months ending March 2012, according to preliminary data, 930 single-family homes were permitted, up from the 750 homes permitted during the previous 12 months.

Most of the portion of the submarket that is in Santa Clara County has few remaining areas that can support significant single-family development. Major subdivisions comprising single-family homes are concentrated in Gilroy and Morgan Hill, along Highway 101, which connects with downtown San Jose. These subdivisions broke ground during the early 2000s and continue to build out slowly. Prices for new homes in these areas start at $345,000, nearly $100,000 less than starting prices in cities closer to the major employment centers in the HMA. Other areas that have single-family development include Palo Alto, Santa Clara, and Sunnyvale, which are home to major employers in the area, and Milpitas, which is within close proximity to a planned

Figure 11. Single-Family Building Permits Issued in the Remainder Submarket, 2000 to 2012



Notes: Includes townhomes. Includes data through March 2012.

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

Bay Area Rapid Transit station. Developments in these areas consist mainly of townhomes with prices starting at about $450,000. New single-family developments include Fusion, a 228-unit townhome community with nearly 50 homes complete and 100 homes currently under way; Contour, comprising 92 townhomes expected to begin construction during late 2012; and the Gallery at Central Park, a mixed townhome and apartment complex with 766 townhomes, where site preparation is still under way and construction of model homes is expected to start during the summer of 2012.

Condominium developments completed since 2005 are concentrated in the cities of Milpitas, Palo Alto, and Santa Clara. Prices for new condominiums in the submarket start at $450,000. Condominiums are under construction at the Harmony, consisting of 183 condominiums and 93 townhomes, and Murphy Ranch, comprising 374 apartments and 285 condominiums. The anticipated completion date for both projects is in the fourth quarter of 2013.

During the next 3 years, demand is estimated for 4,425 new market-rate sales units in the submarket (Table 1). The 300 homes under construction will meet a portion of this demand. In addition, some of the estimated 7,600 other vacant units in the submarket may return to the sales housing market and satisfy a portion of the demand during the forecast period. Demand is expected to be stronger during the second and third years of the forecast period and greatest in the $525,000-to-$614,999 price range (Table 6).

Table 6. Estimated Demand for New Market-Rate Sales Housing in the Remainder Submarket, April 1, 2012 to April 1, 2015

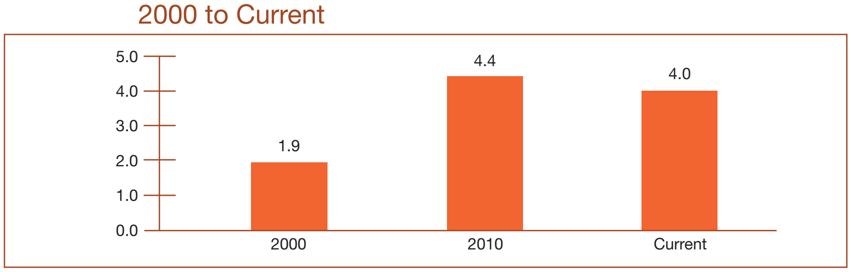
Price Range ($)		Units of Demand	Percent of Total
From	To		
345,000	434,999	220	5.0
435,000	524,999	1,100	25.0
525,000	614,999	1,775	40.0
615,000	704,999	890	20.0
705,000	and higher	440	10.0

Note: The 300 homes currently under construction and a portion of the estimated 7,600 other vacant units in the submarket will likely satisfy some of the forecast demand.
Source: Estimates by analyst

Rental Market—Remainder Submarket

Rental housing market conditions in the Remainder submarket are currently tight. The estimated 4.0-percent vacancy rate is down from the 4.4-percent rate recorded in 2010 (Figure 12). The tightening resulted from an increase in the growth rate of renter households, up from 0.8 percent annually from 2000 to 2010 to 1.2 percent annually since 2010, whereas apartment construction levels remained flat. Table DP-3 at the end of this report shows rental household growth in the submarket. As with the San Jose submarket, the apartment market is tighter than the overall rental housing market. According to data from Reis, Inc., during the first quarter of 2012, the apartment vacancy rate averaged 2.4 percent, decreasing from 3.1 percent during the first quarter of 2011. The average apartment market rent

Figure 12. Rental Vacancy Rates in the Remainder Submarket, 2000 to Current



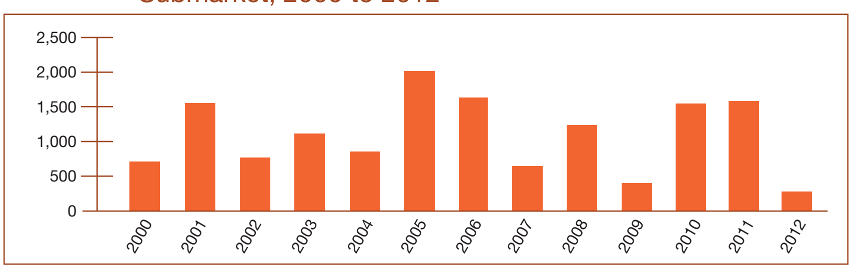
Sources: 2000 and 2010—2000 Census and 2010 Census; current—estimates by analyst increased 4 percent, from $1,600 to $1,675, during the same period. The tightest segment of the submarket is in the Sunnyvale area, with a 2.2-percent vacancy rate. The average apartment rent in Sunnyvale is $1,600, $75 per month less than the average rent in the submarket as a whole.

Multifamily construction activity, as measured by the number of units permitted, has remained stable since 2010, averaging 1,550 units annually after a decline to 400 units during 2009 (see Figure 13). During the 12 months ending March 2012, 1,450 multifamily units were permitted compared with the 1,550 units permitted during the previous 12-month period, according to preliminary estimates from the U.S. Census Bureau, data from local planning divisions, and Real Data. Since 2000, approximately 85 percent of all multifamily permits have been for apartments.

Nearly one-half of the apartment development since 2000 has been in the cities of Mountain View, Santa Clara, and Sunnyvale. Multifamily developments completed during 2011 include the 374-unit Fairfield Cerano, the 290-unit Oakwood, and the 180-unit Villa Sierra. Apartments currently under construction include Via Apartments and Lawrence Station Apartments, both in Sunnyvale, with 284 and 336 units, respectively, and Madera, a 203-unit complex in Mountain View. These projects are expected to be complete by the first quarter of 2013. Additional development includes the apartment portion of the Gallery at Central Park in Santa Clara, comprising 525 units expected to begin construction during the third quarter of 2012. Rents in the submarket for newly completed one-, two-, and three-bedroom apartments start at $2,000, $2,800, and $3,500, respectively.

During the forecast period, demand is expected for 4,150 new rental units in the submarket (Table 1). The 950 apartments currently under construction will satisfy a portion of the demand. Table 7 shows estimated demand by rent level for new market-rate rental housing in the submarket during the forecast period.

Figure 13. Multifamily Building Permits Issued in the Remainder Submarket, 2000 to 2012



Notes: Excludes townhomes. Includes data through March 2012.
Sources: U.S. Census Bureau, Building Permits Survey; estimates by analyst

Table 7. Estimated Demand for New Market-Rate Rental Housing in the Remainder Submarket, April 1, 2012 to April 1, 2015

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
2,000 to 2,199	830	2,800 to 2,999	830	3,500 to 3,699	420
2,200 to 2,399	660	3,000 to 3,199	660	3,700 to 3,899	330
2,400 or more	170	3,200 or more	170	3,900 or more	85
Total	1,650	Total	1,650	Total	830

Notes: Numbers may not add to totals because of rounding. The 950 units currently under construction will satisfy some of the estimated demand.
Source: Estimates by analyst

Data Profiles

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

	2000	2010	Current	Average Annual Change (%) 2000 to 2010	Average Annual Change (%) 2010 to Current
Total Resident Employment	937,379	798,160	839,900	– 1.6	4.2
Unemployment Rate	3.2%	11.3%	9.5%		
Nonfarm Payroll Jobs	1,044,300	855,200	885,000	– 2.0	2.8
Total Population	1,735,819	1,836,911	1,869,000	0.6	0.9
Total Households	581,748	621,009	628,500	0.7	0.6
Owner Households	349,491	359,225	360,000	0.3	0.1
Percent Owner	60.1%	57.8%	57.3%		
Renter Households	232,257	261,784	268,500	1.2	1.3
Percent Renter	39.9%	42.2%	42.7%		
Total Housing Units	595,534	649,790	656,500	0.9	0.5
Owner Vacancy Rate	0.5%	1.5%	1.4%		
Rental Vacancy Rate	1.9%	4.3%	4.0%		
Median Family Income	$80,981	$102,500	$103,500	2.4	1.0

** 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 March 2012. Median family incomes are for 1999, 2009, and 2010.

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

Table DP-2. San Jose Submarket Data Profile, 2000 to Current

	2000	2010	Current	Average Annual Change (%) 2000 to 2010	Average Annual Change (%) 2010 to Current
Total Population	894,943	945,942	958,000	0.6	0.6
Total Households	276,598	301,366	304,600	0.9	0.5
Owner Households	170,950	176,216	176,100	0.3	0.0
Percent Owner	61.8%	58.5%	57.8%		
Rental Households	105,648	125,150	128,500	1.7	1.3
Percent Renter	38.2%	41.5%	42.2%		
Total Housing Units	281,547	314,038	316,900	1.1	0.5
Owner Vacancy Rate	0.4%	1.6%	1.5%		
Rental Vacancy Rate	1.8%	4.3%	4.0%		

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

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

Table DP-3. Remainder Submarket Data Profile, 2000 to Current

	2000	2010	Current	Average Annual Change (%) 2000 to 2010	Average Annual Change (%) 2010 to Current
Total Population	840,876	890,969	910,900	0.6	1.1
Total Households	305,150	319,643	323,900	0.5	0.7
Owner Households	178,541	183,009	183,900	0.2	0.2
Percent Owner	58.5%	57.3%	56.8%		
Rental Households	126,609	136,634	140,000	0.8	1.2
Percent Renter	41.5%	42.7%	43.2%		
Total Housing Units	313,987	335,752	339,600	0.7	0.6
Owner Vacancy Rate	0.5%	1.3%	1.3%		
Rental Vacancy Rate	1.9%	4.4%	4.0%		

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

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: 4/1/2012—Analyst's estimates
Forecast period: 4/1/2012–4/1/2015—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, estimates this additional construction activity. Some 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 www.huduser.org/publications/pdf/CMARtables_SanJose-Sunnyvale-SantaClaraCA_12.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/publications/econdev/mkt_analysis.html.