

# City of San José

## Housing Market Update



Quetzal Gardens will bring 71 units of affordable housing to East San Jose, directly adjacent to the upcoming Alum Rock/Santa Clara Bus Rapid Transit line. The building design provides a unique identity to the neighborhood and compliments the nearby Mexican Heritage Plaza. Of the 71 units provided, twenty units will be reserved for chronically homeless people and the rest will house low-income residents. A full-time service coordinator will provide on-site mental health treatment and case management.

## Third Quarter 2018

# Q3 2018 San José Housing Market

---

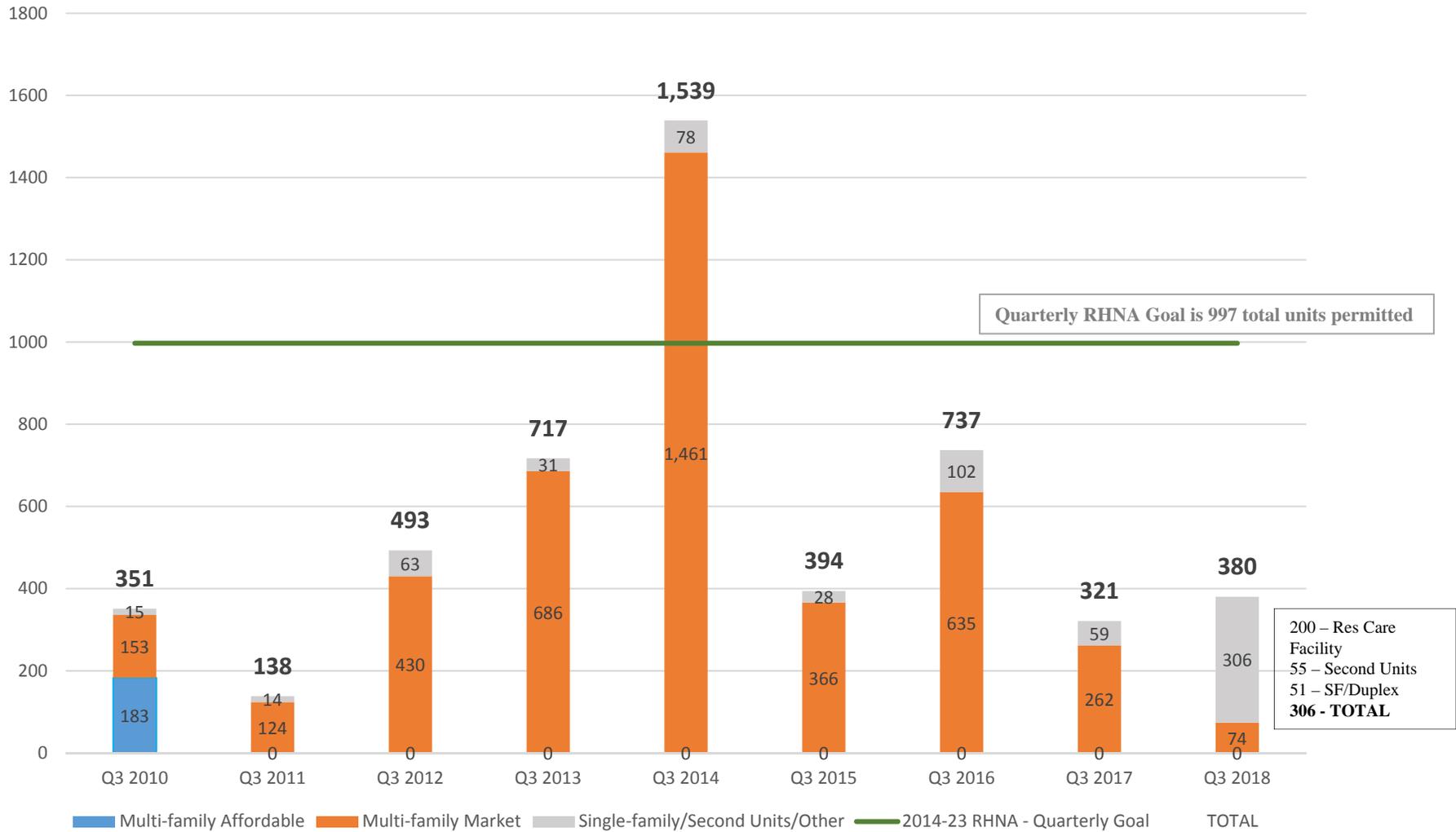
- **380** residential permits issued – none for affordable housing
- Second Unit permits surpass 2017 levels
- Average effective rent fell by **1%** Quarter-over-Quarter (QoQ); Overall vacancy is at **3.9%**<sup>1</sup>; vacancy lower for older buildings
- Renters must earn **\$52/hour** (\$108,200/year) to afford the average effective monthly rent for a 2-bedroom apartment of **\$2,705**<sup>2</sup>
- Median single-family home price was **\$1,150,000**, down 6% QoQ
- Residents must earn **\$114/hour** (\$237,230/year) to afford a median priced single-family home<sup>3</sup>

1. Costar October 17, 2018.

2. Based on October 2018 Costar average rents; income calculation assumes rents are 30% of income, 40-hour work week and a single income household.

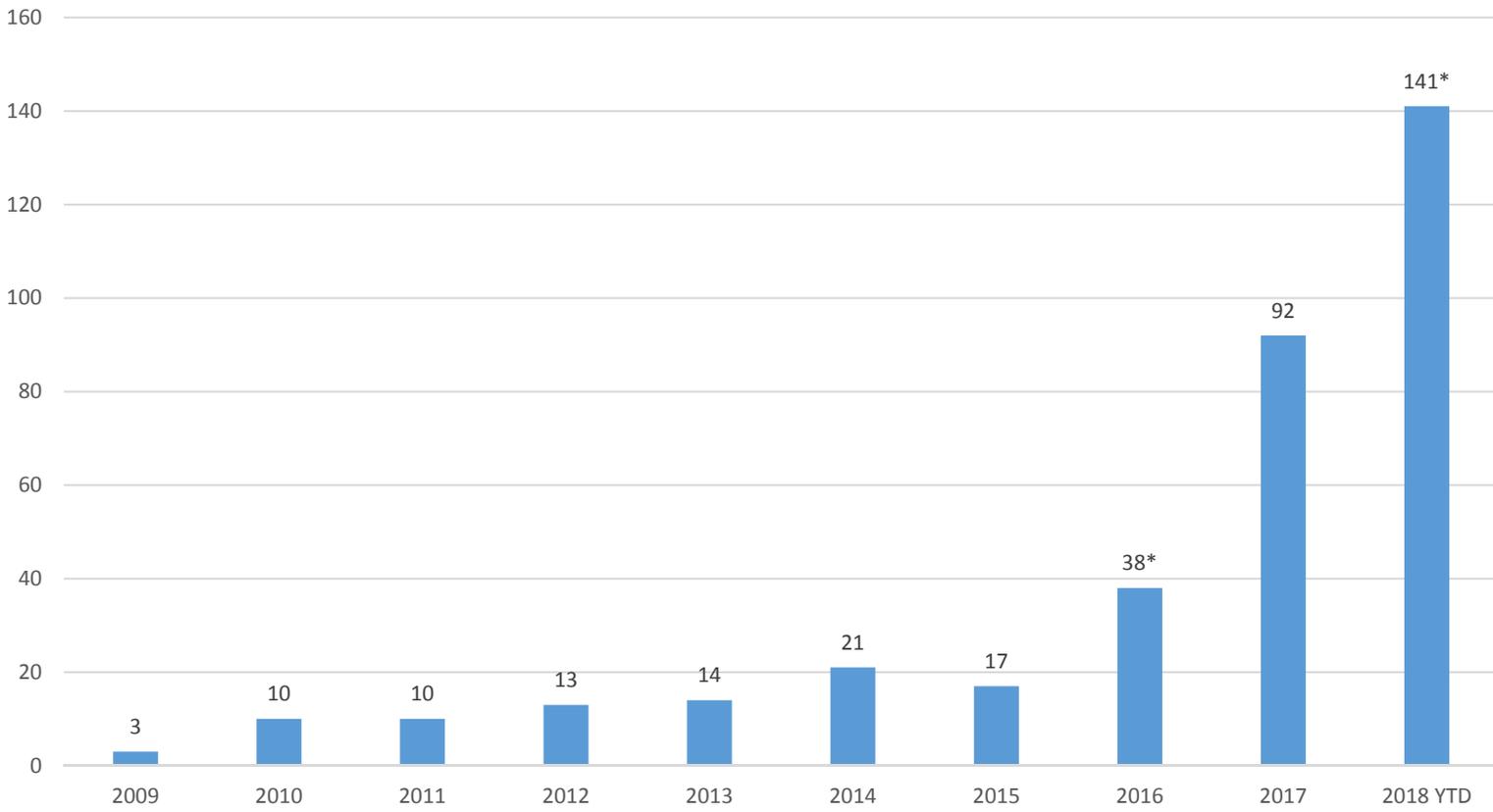
3. Based on Santa Clara County Association of Realtors, September 2018 median prices; income calculation assumes monthly payments are 30% of income, 20% down, 4.63% interest rate, 1.25% property tax, 40-hour work week and a single income household.

# Q3 2018 San José Residential Permit Activity – Sluggish, Boosted by Single-Family/Second Units/Other



SOURCE: City of San José Housing Department, September 2018.

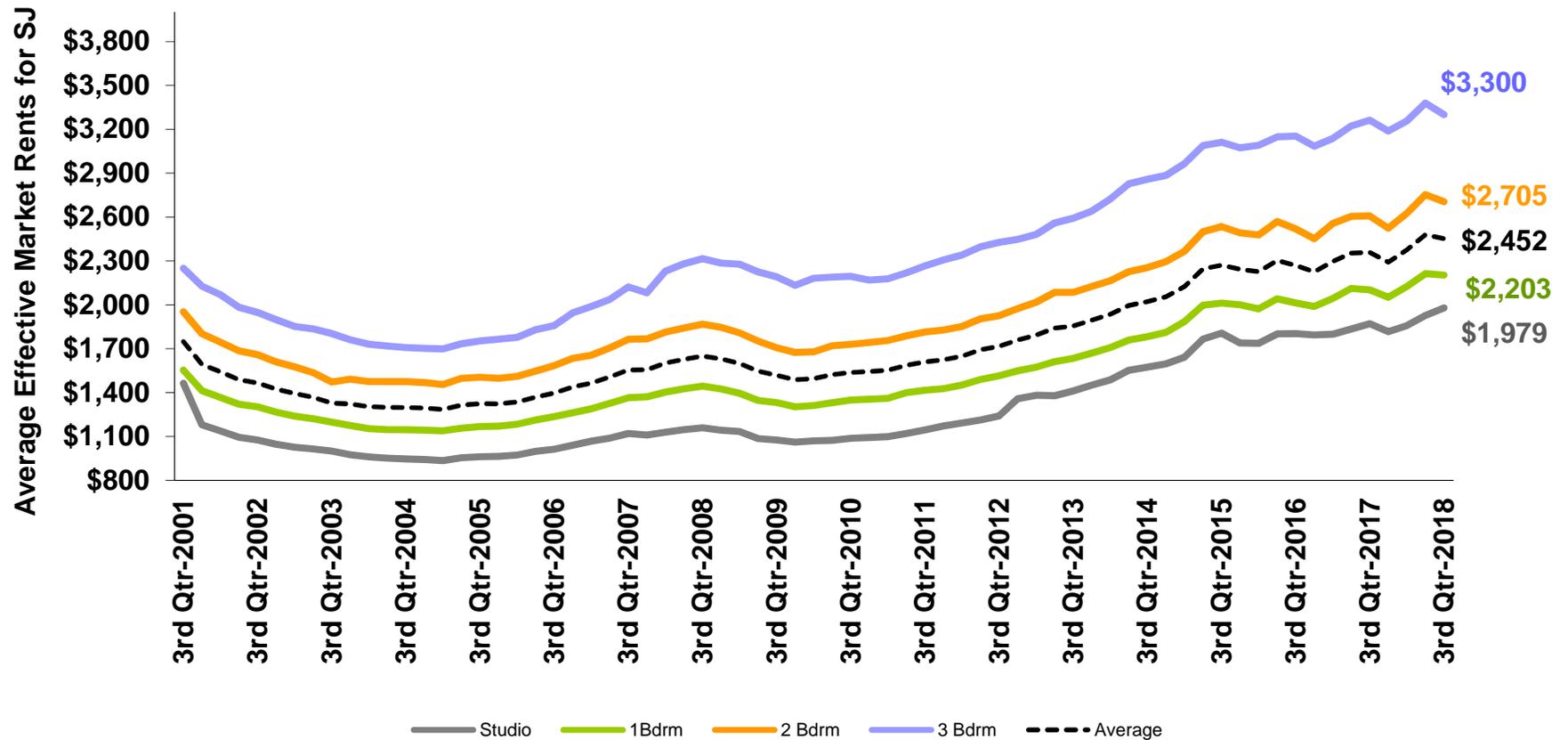
# 2018 Second Unit Permits Surpass 2017 Levels



\* Zoning code updated in December 2016 and in 2018 to conform with new State Legislation and to encourage ADU development; Not all permits result in units built

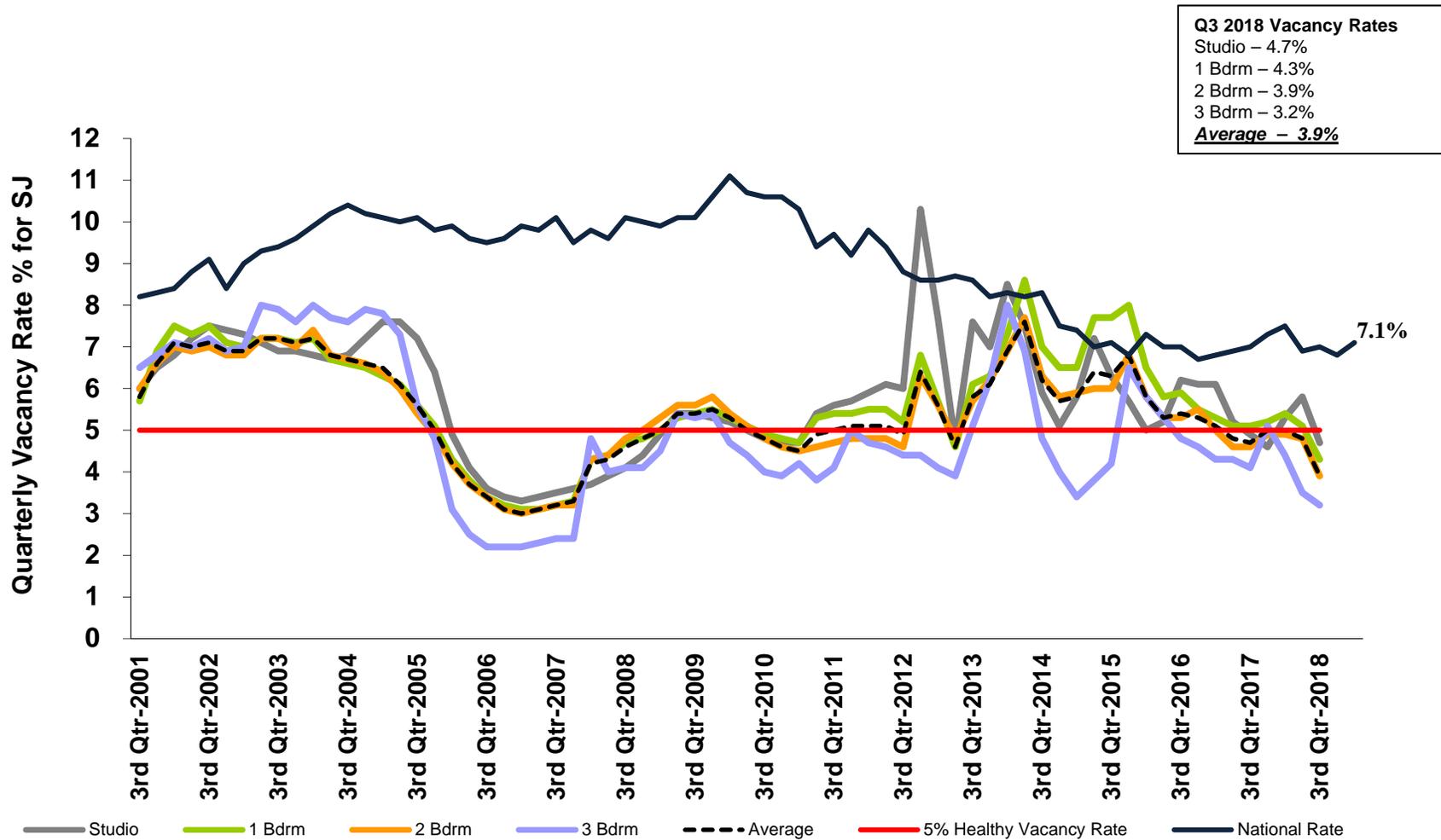
SOURCE: City of San José Monthly Permit Reports as of September 2018

# Average Rents Down 1% QoQ, Up 4%YoY



SOURCE: Costar October 17, 2018.

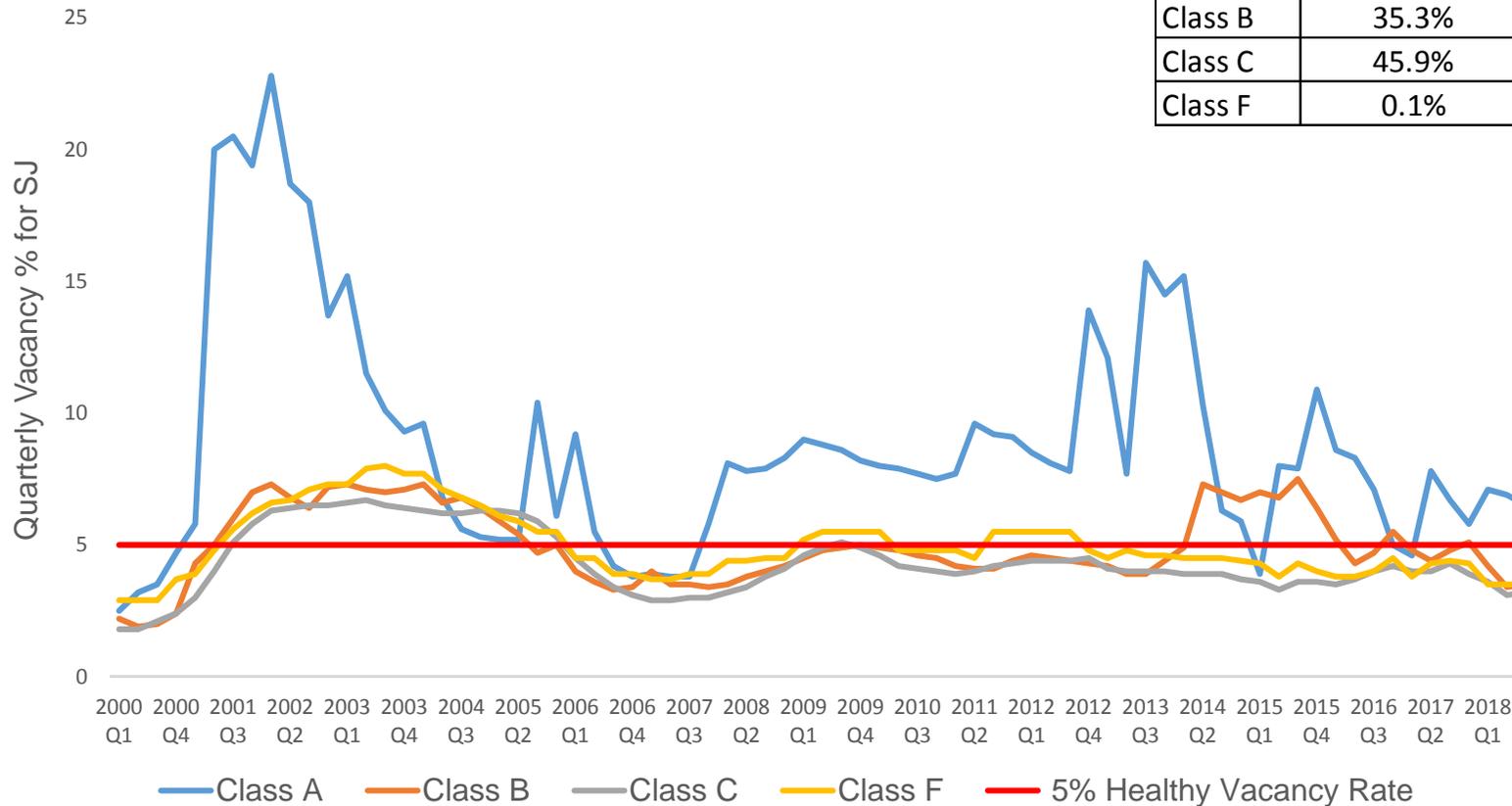
# Average Vacancy at 3.9%, lower for larger units



SOURCE: Costar, October 17, 2018, National Rate – US Census Bureau Current Population Survey/ Housing Vacancy Survey 10/30/18.

# Average Vacancy Lower for Older Buildings (81% of total rental stock)

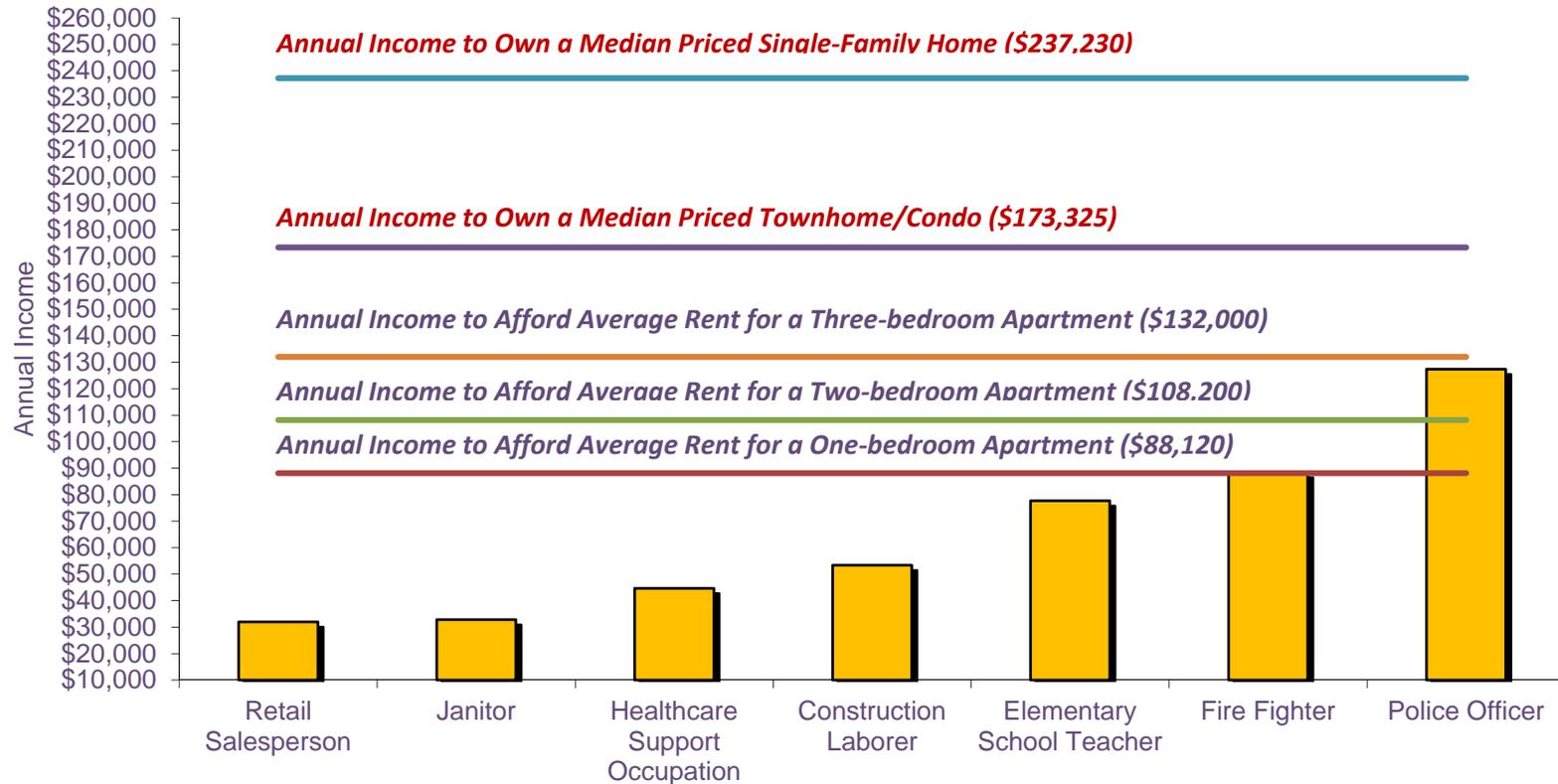
Q3 2018	Rental Stock %	Vacancy %
Class A	18.8%	6.5%
Class B	35.3%	3.5%
Class C	45.9%	3.2%
Class F	0.1%	3.5%



SOURCE: Costar, October 29, 2018

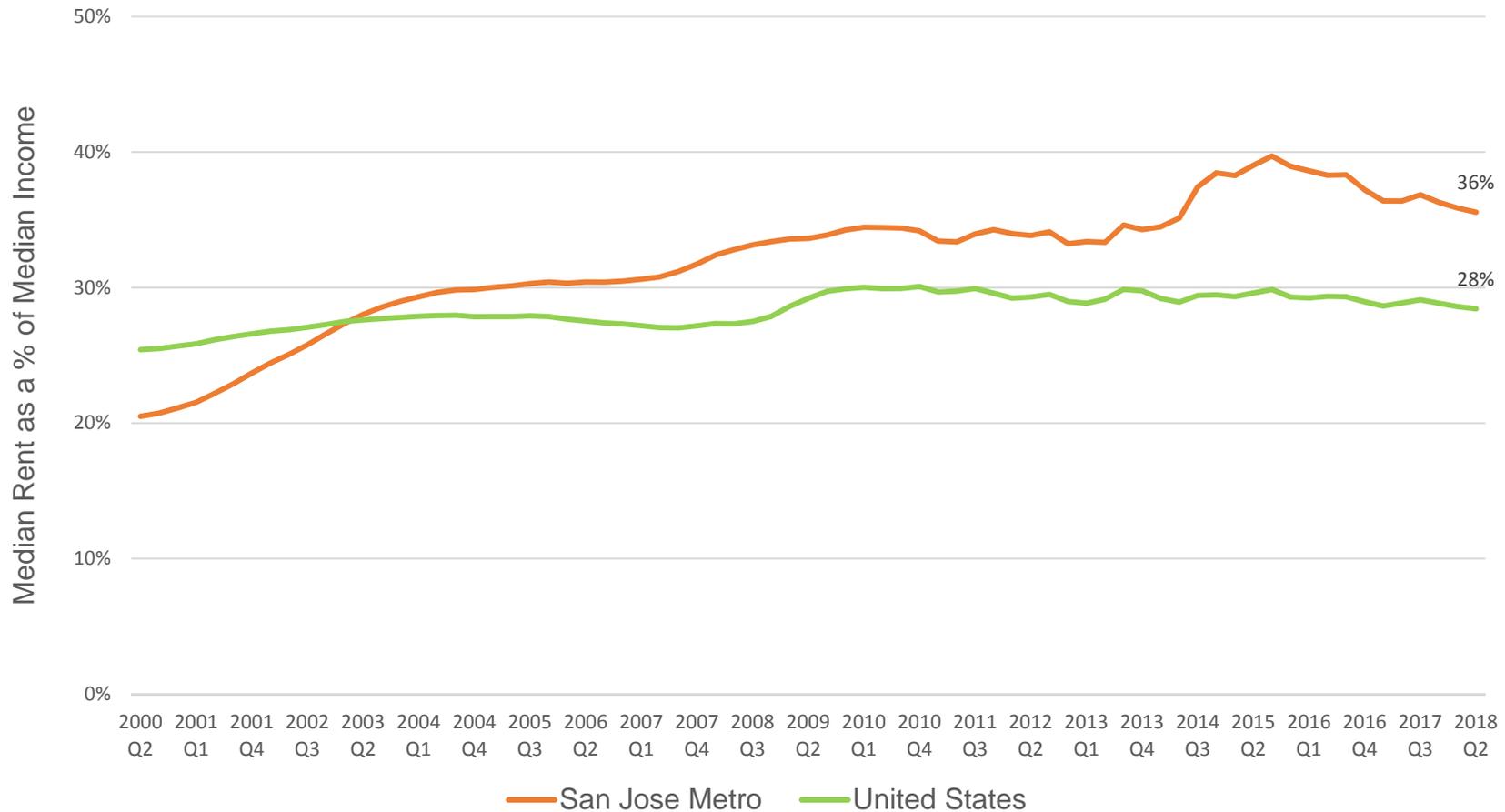
Class A refers to highest quality construction, Class B refers to more utilitarian space, Class C refers to a no-frills older building and Class F refers to a functionally or economically obsolete building, per Costar

# Housing is Out of Reach for Many San José Workers



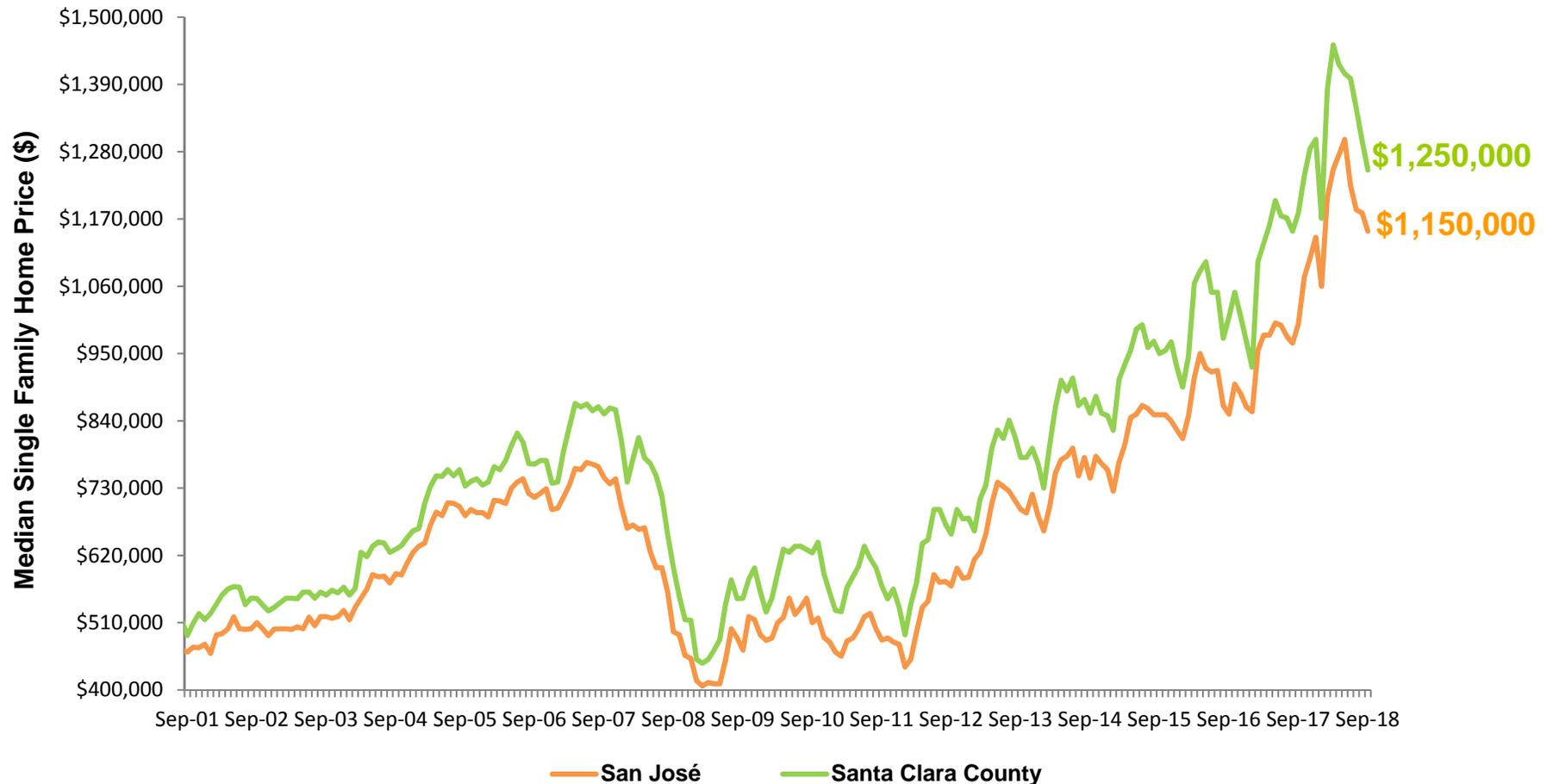
SOURCE: Employment Development Department (EDD) – First Quarter 2018 Wages; Costar October 17, 2018. Average Rents; Income to rent calculation assumes rent at 30% of income and a single income household; Santa Clara County Association of Realtors Sept 2018 median prices; Income to mortgage calculations assume payments at 30% of income, 20% down, 4.63% interest, 1.25% Property Tax, \$375 HOA dues for condos and a single-income household.

# San José Renters Spend Higher % of Income on Rent



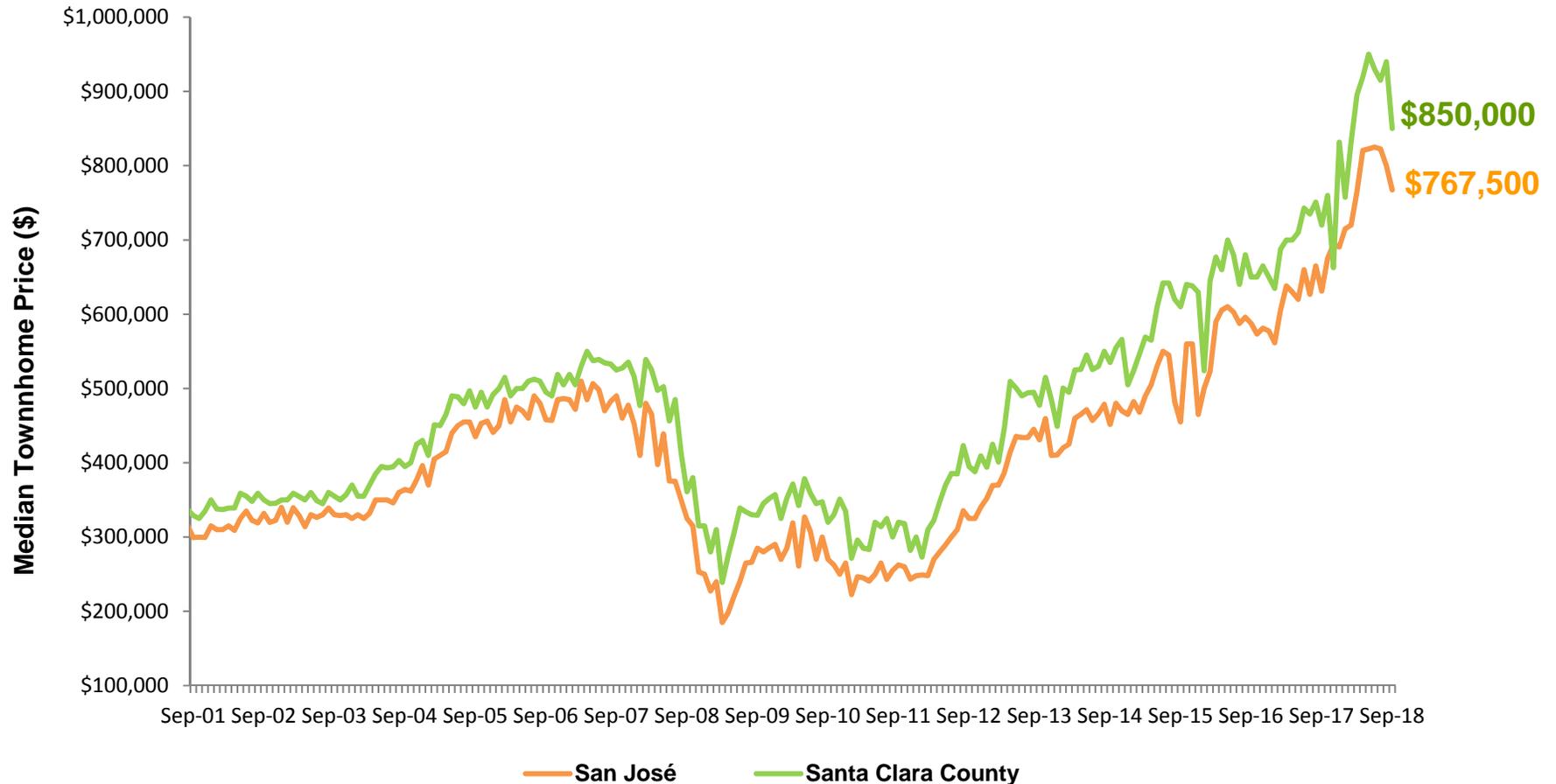
SOURCE: Zillow Rental Affordability Index Q2 2018 – One Quarter Lag.

# San José Single-Family Median Home Price Down 6% QoQ, Up 15%YoY



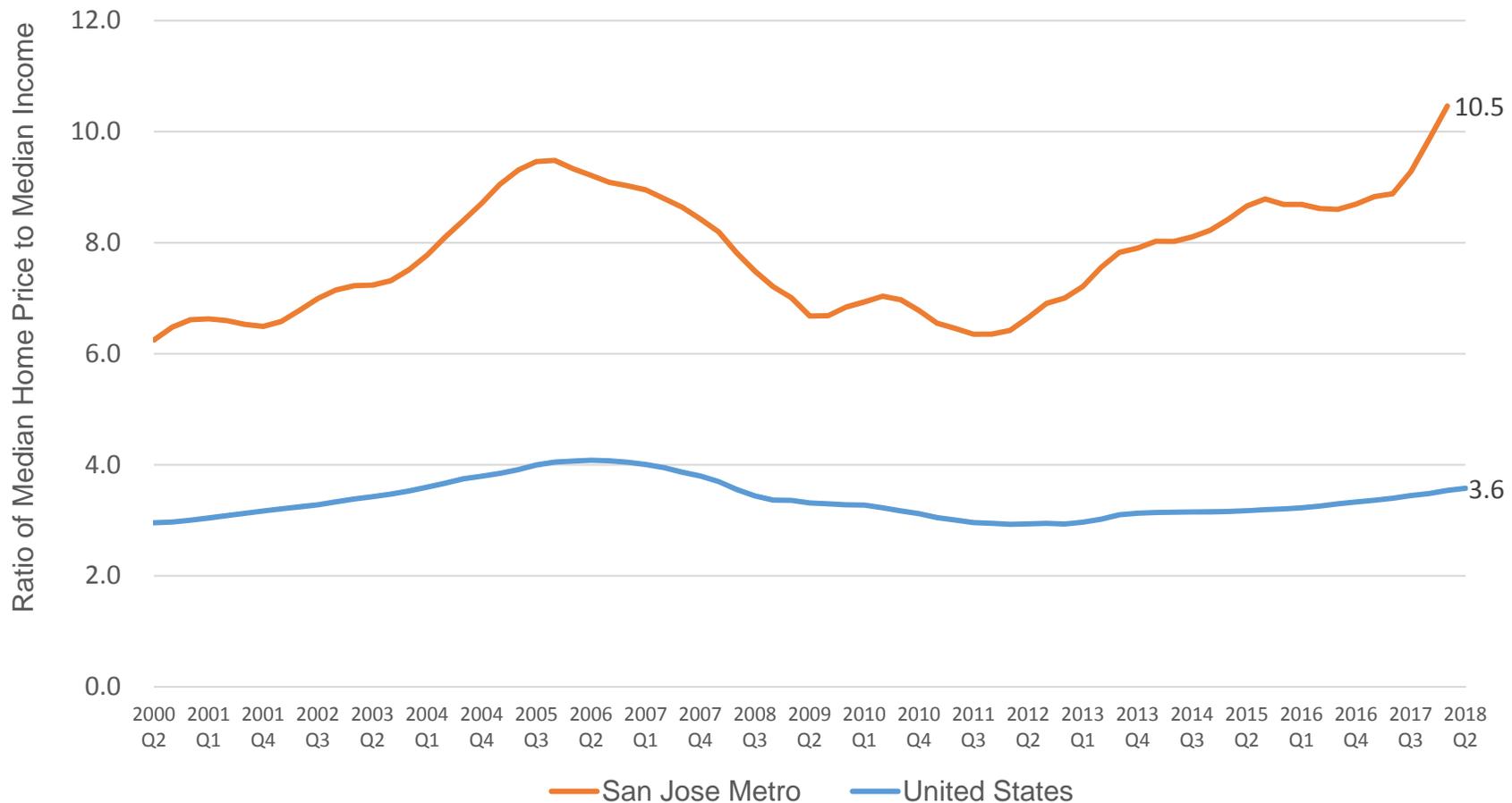
SOURCE: Santa Clara County Association of Realtors, September 2018.

# San José Condo/Townhome Median Price Falls 7% QoQ , Up 22% YoY



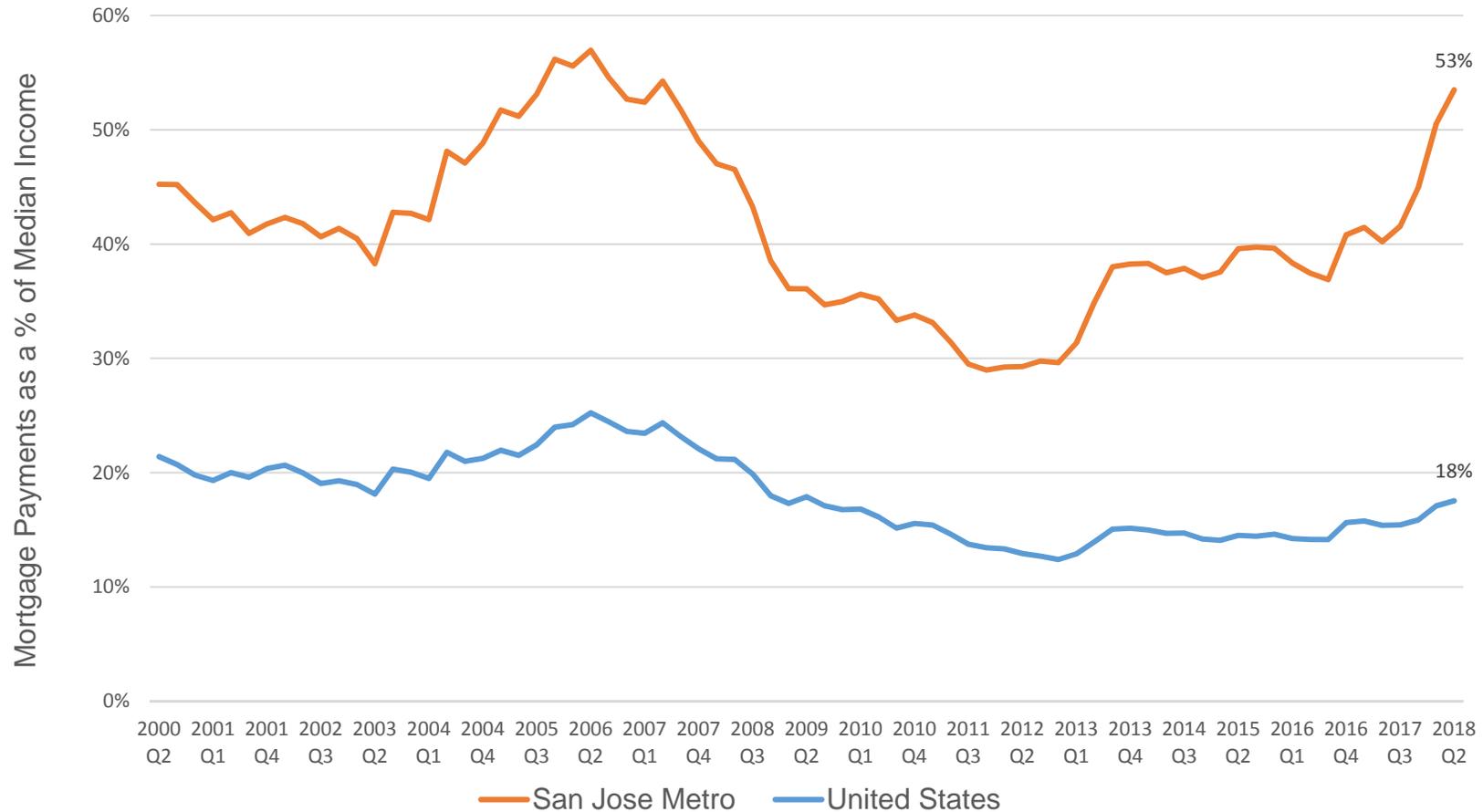
SOURCE: Santa Clara County Association of Realtors September 2018.

# San José Metro Area Median Home Prices 10x Median Income – Almost Triple the National Average



SOURCE: Zillow Price to Income Index Q2 2018 – One Quarter Lag.

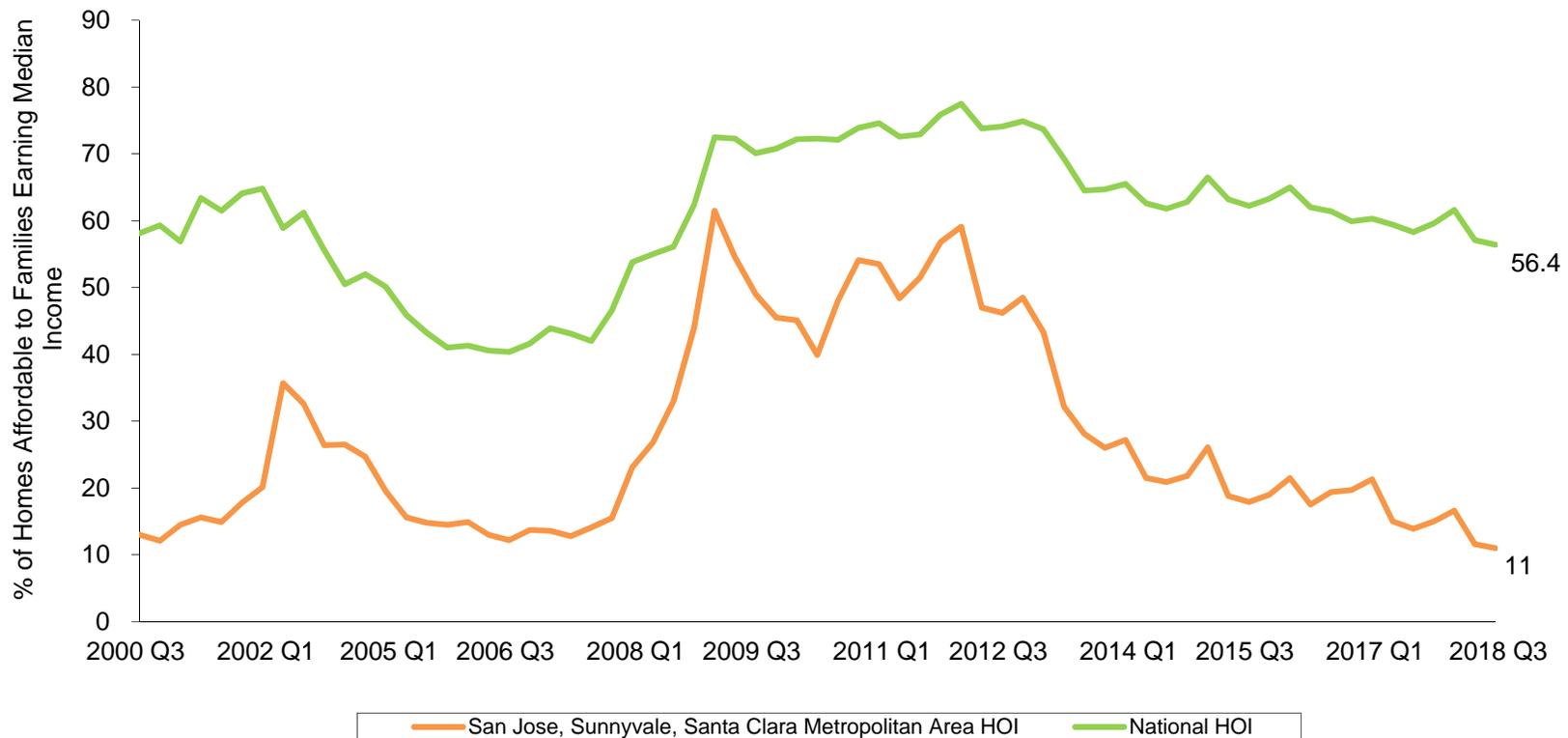
# San José Owners Spend More than Half their Income on Mortgages, 3x National Average



SOURCE: Zillow Mortgage Affordability Index Q2 2018 – One Quarter Lag.

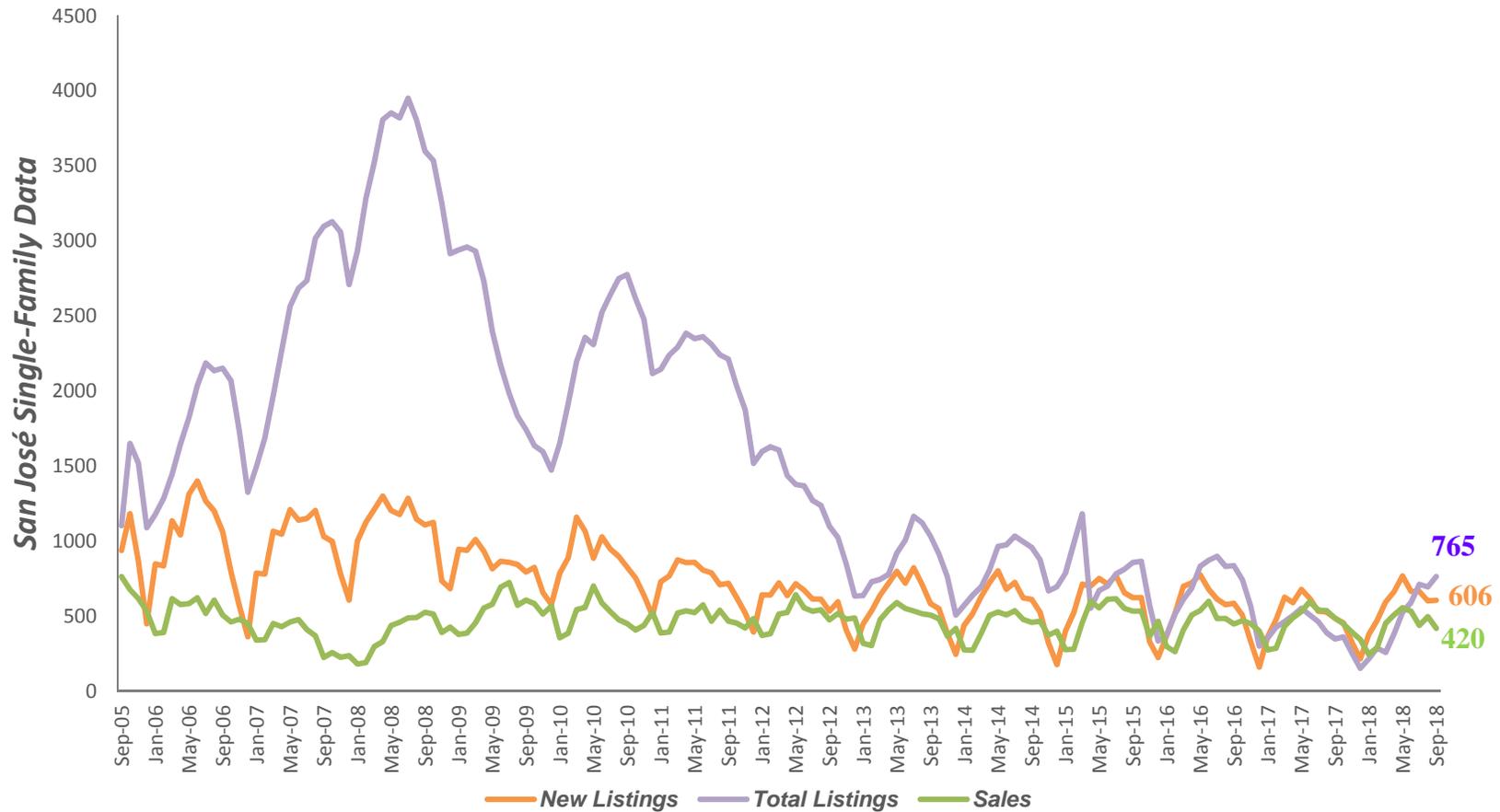
# San José Housing Affordability Remains Low Relative to the Nation (6<sup>th</sup> least affordable)

Only 1 in 9 families in San José can afford to own a median priced home



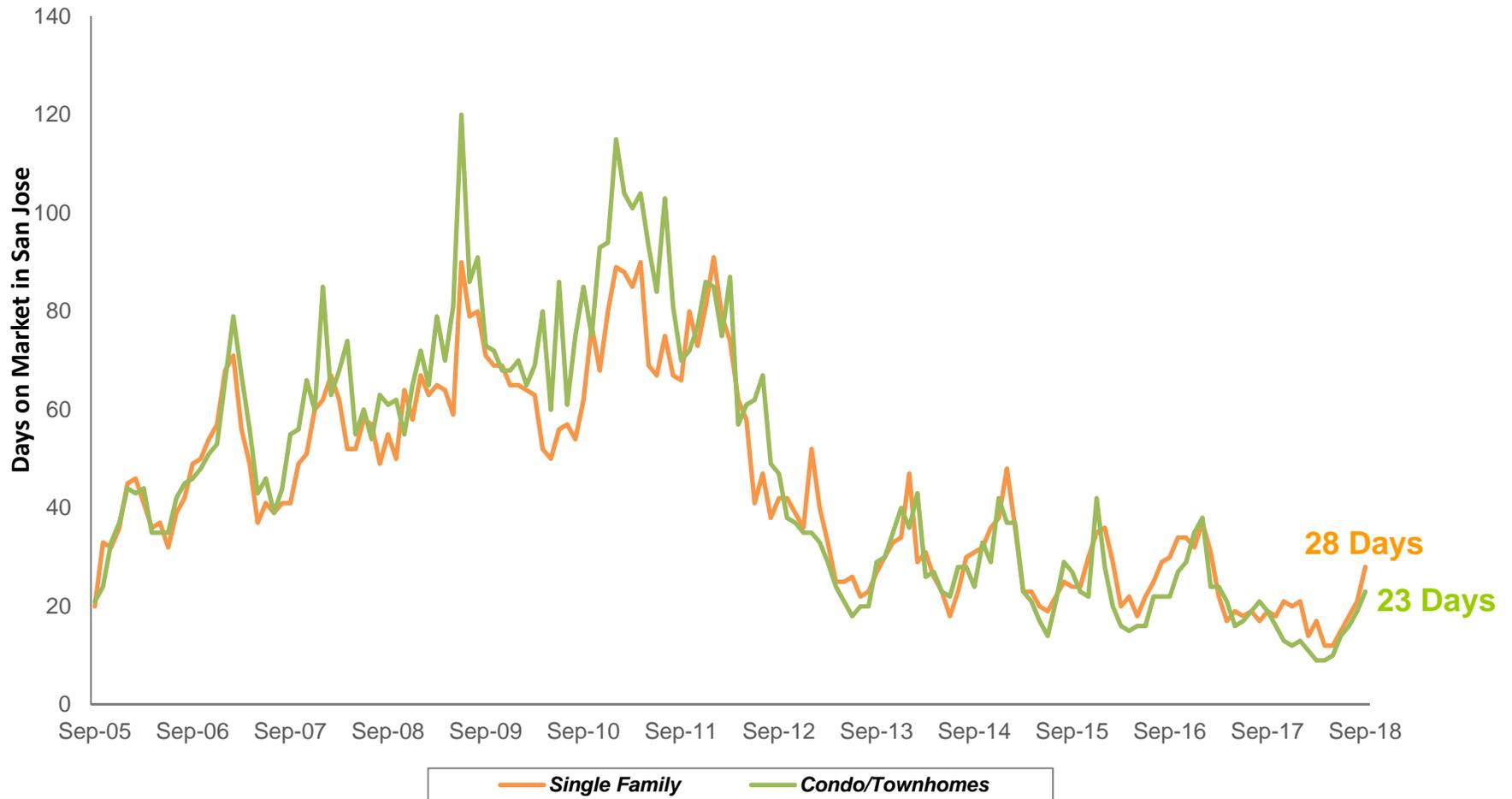
SOURCE: National Association of Home Builders, Housing Opportunity Index Q3 2018.

# San José Single-Family: Inventory Up 30% QoQ, Up 120% YoY; Sales Down 21% QoQ & 14% YoY



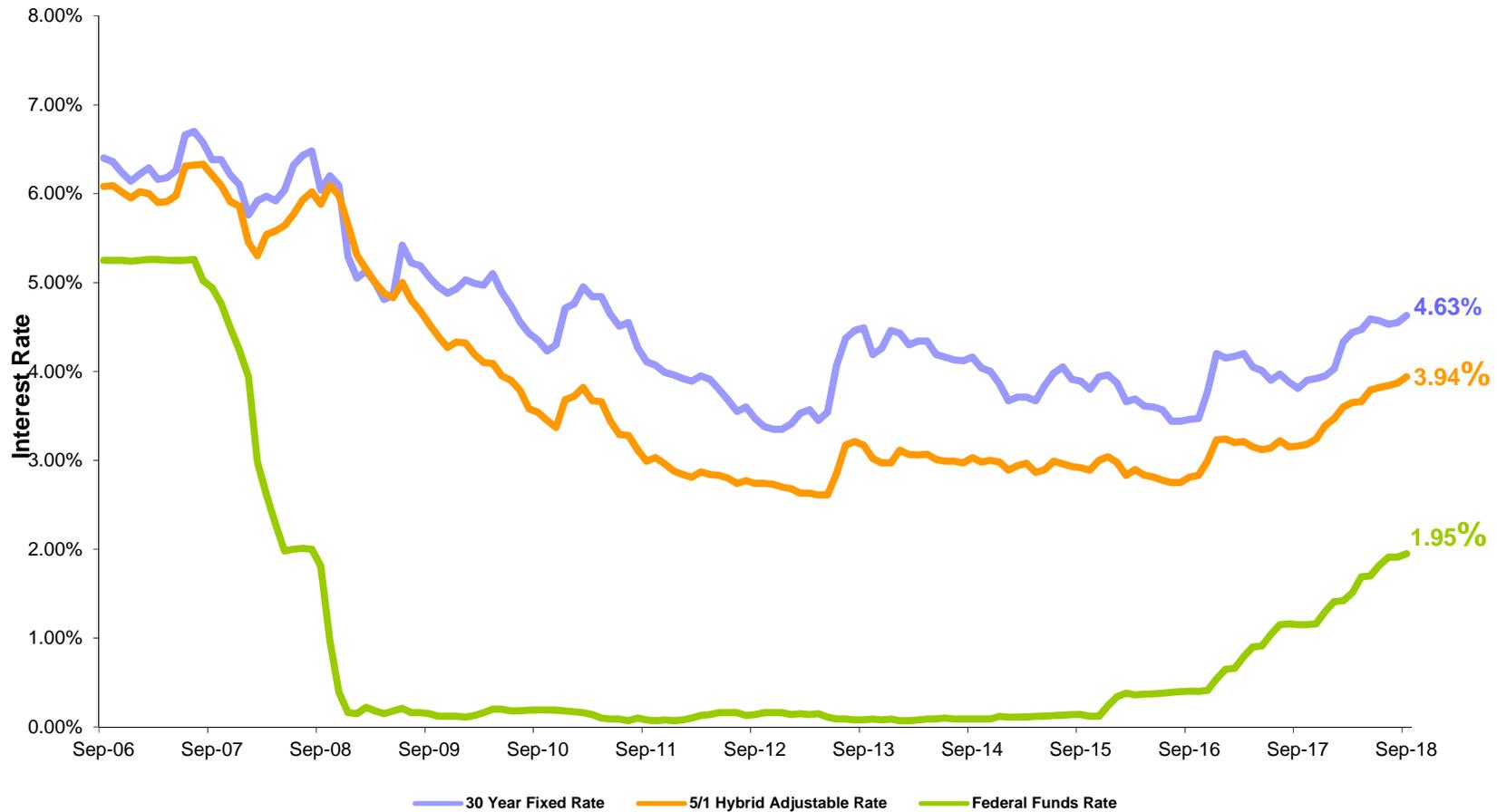
SOURCE: Santa Clara County Association of Realtors, September 2018.

# San José Homes are Taking Longer to Sell



SOURCE: Santa Clara County Association of Realtors June 2018.

# Interest Rates Continue to Inch Upwards



SOURCE: Federal Reserve, Freddie Mac Primary Mortgage Market Survey, Q3 2018.

# Data Sources and Definitions

- The City of San José selected **Costar** to supply rental housing statistics as of July 1, 2017. The City's previous vendor, RealAnswers, went out of business in Q4 2016
- The City has restated rents and vacancy data beginning **January 2000**, using Costar. The revised data will be posted in the Housing Market Updates beginning in Q2 2017
- The **source** of the quarterly rents and vacancy data will be *average, effective, market-rate* apartment rents for the geography encompassing the *City of San José*, as reported in Costar's proprietary database
- **Effective rent** is the average rent paid over the term by a tenant adjusted downward for concessions paid for by the landlord (such as free rent, moving expenses, or other allowances), and upward for costs that are the responsibility of the tenant (such as operating expense pass throughs)
- The rents reported are average **market rate** rents charged by existing market-rate apartments; Costar updates rents data once a month for apartments with more than 30 units and once a quarter for apartments with less than 30 units
- For questions, please call the Housing Department at 408-535-3860