

Housing Market Update

Third Quarter 2019



The Silver Creek Mixed Use project is a one of a kind project in San Jose that will include a charter school, office space and residential space in one structure. When completed it will accommodate 94 affordable homes on 4 floors. The proposed office uses would be clustered at the ground floor along Alum Rock Avenue. The remainder of the structure would provide charter school classrooms and other school-related uses on four floors, including a multipurpose room on the ground floor and a rooftop playground. A concrete outdoor space would provide tables and patio trees adjacent to the multipurpose room on the ground floor. The rooftop playground would be for school use only (no access for future project residents) and would include an artificial turf area, a basketball court, planter trees, benches, tables, bathrooms, and two stairwells.

Q3 2019 San José Housing Market

- 568 residential building permits issued for market rate housing and 0 for affordable housing
- 117 second units / ADU (Accessory Dwelling Units) permits issued – 311 permits issued year to date (exceeds 190 permits issued in calendar year 2018)
- Average effective rent down 0.4% Quarter-over-Quarter (QoQ); Overall Residential Vacancy is 4.2%¹
- Renters must earn \$53/hour (\$110,360/year) to afford the average effective monthly rent for a 2-bedroom apartment of \$2,759²
- Median single-family home price is \$1,075,000, down 6% QoQ³
- Buyers must earn \$102/hour (\$212,710/year) to afford a median priced single-family home⁴

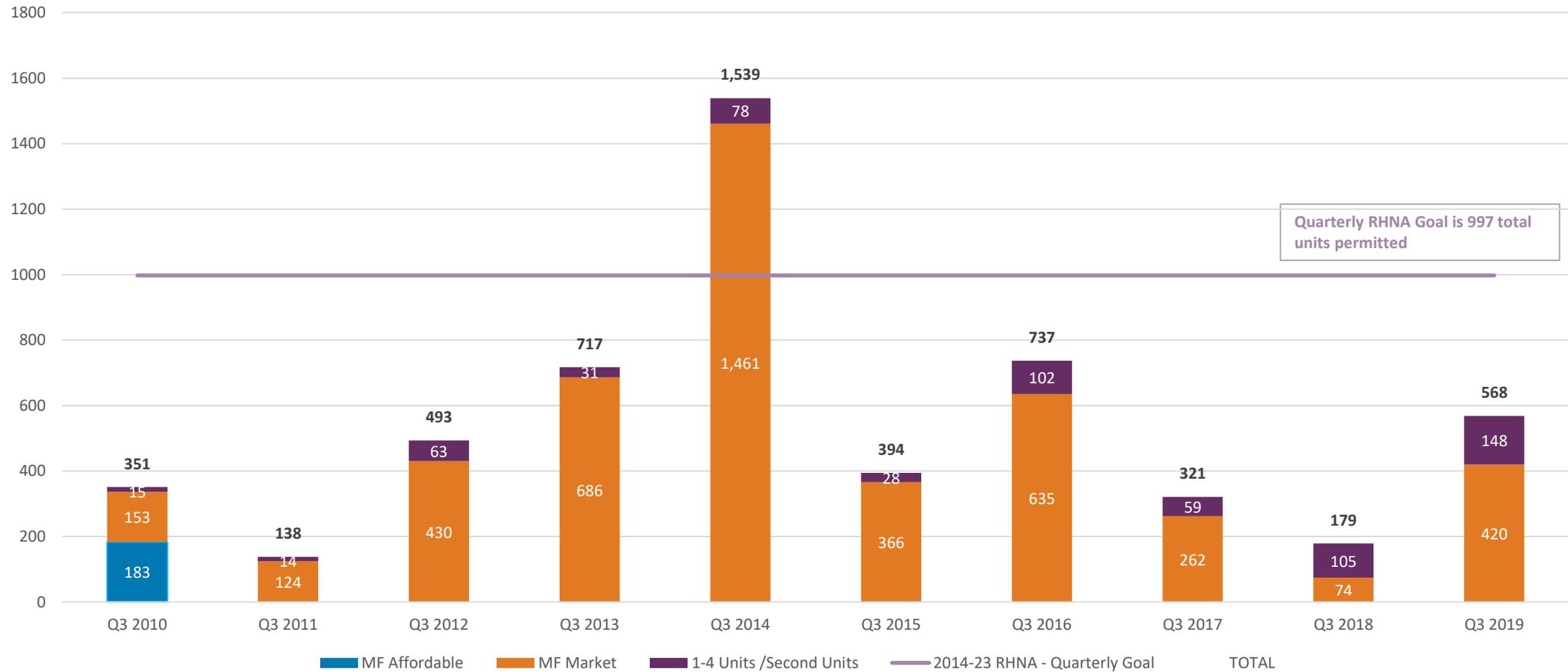
1. Costar October 8, 2019.

2. Based on October 2019 Costar average rents; income calculation assumes rents are 30% of income, 40-hour work week and a single income household.

3. Santa Clara County Association of Realtors (SCCAOR) September 2019.

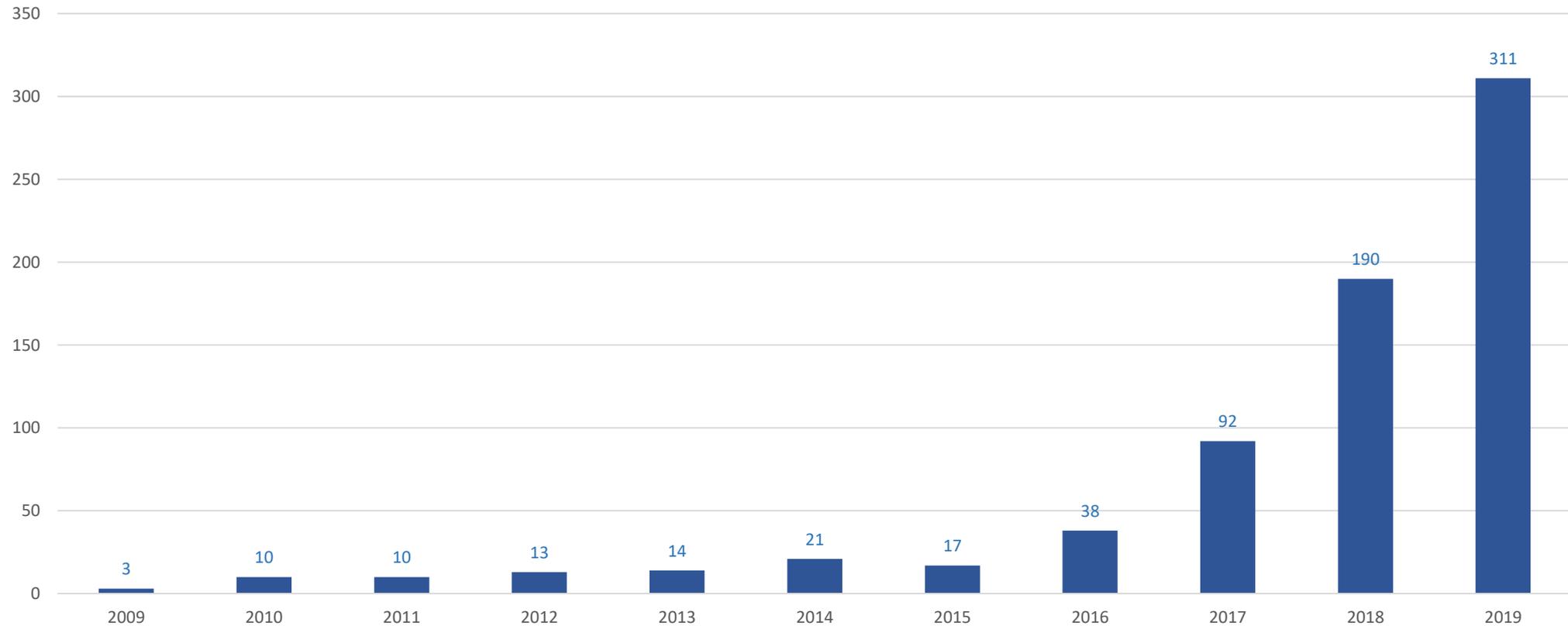
4. Based on SCCAOR, September 2019 median prices; income calculation assumes monthly payments are 30% of income, 20% down, 3.61% interest rate, 1.1% property tax, 40-hour work week and a single income household.

Q3 2019 Residential Building Permit Activity



SOURCE: City of San José Housing Department Q3 2019.

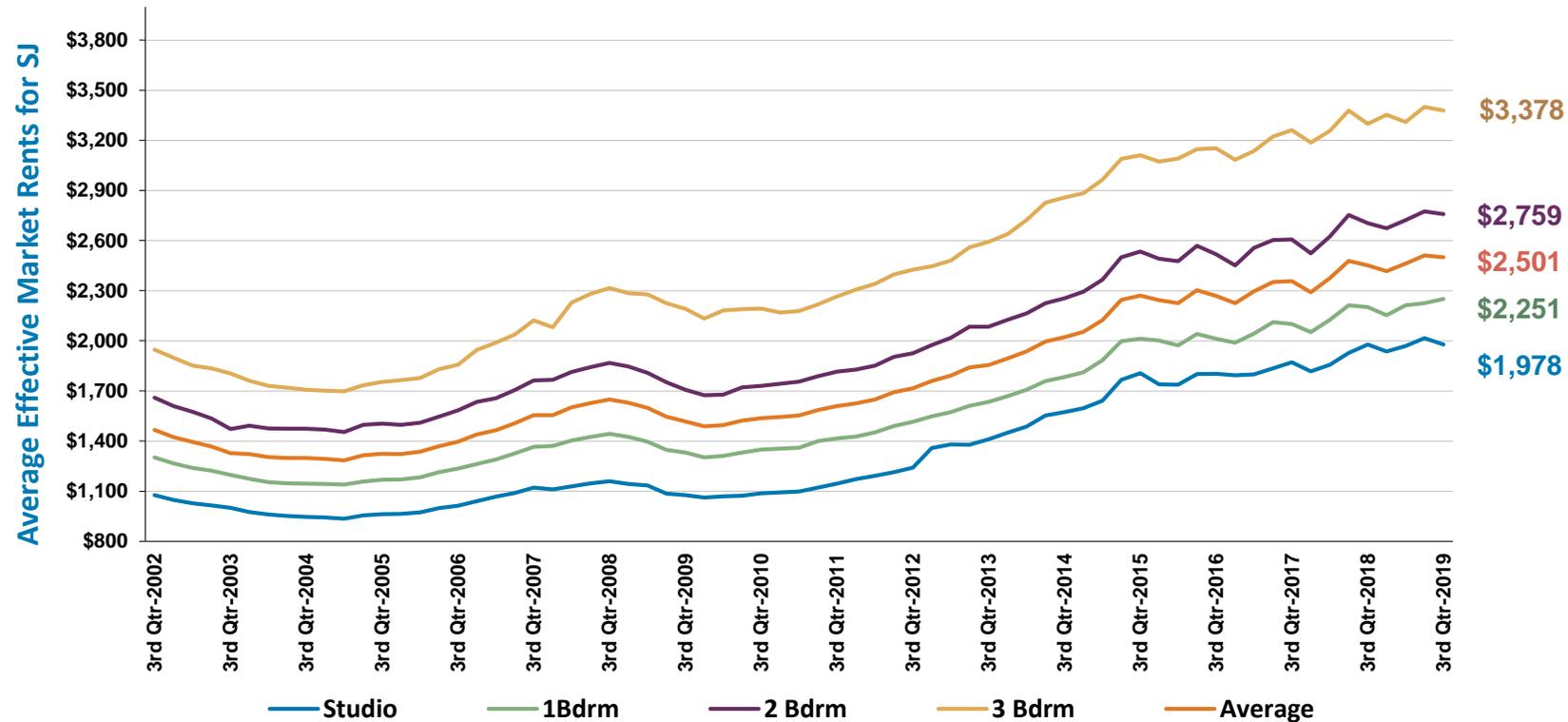
Second Unit / ADU Permits Far Exceed 2018 Permits



Zoning code updated in Nov 2016 and in June 2018 to conform with new State Legislation and to facilitate construction of ADUs; Not all permits result in units built.

SOURCE: City of San José Monthly Permit Reports as of September 2019.

San José Average Rents

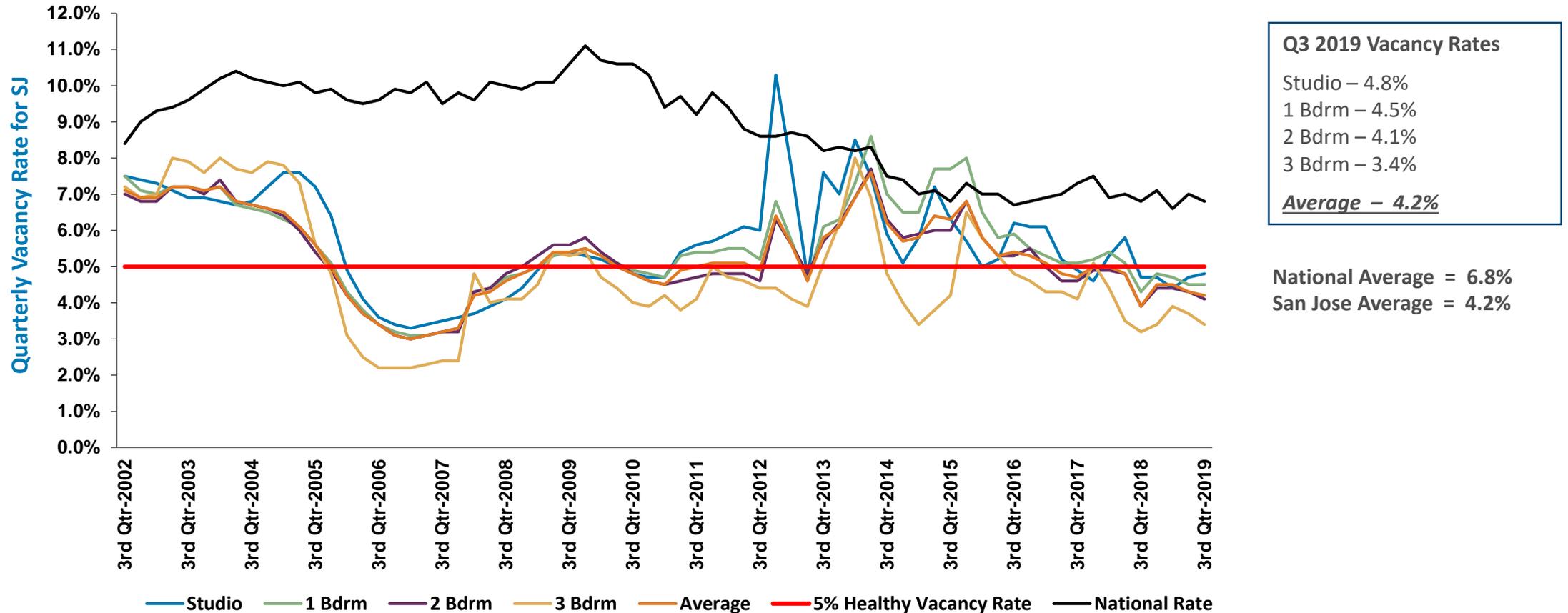


▲ Average Rents Down 0.4% QoQ* and Up 2% (YoY)*

SOURCE: Costar October 8, 2019.

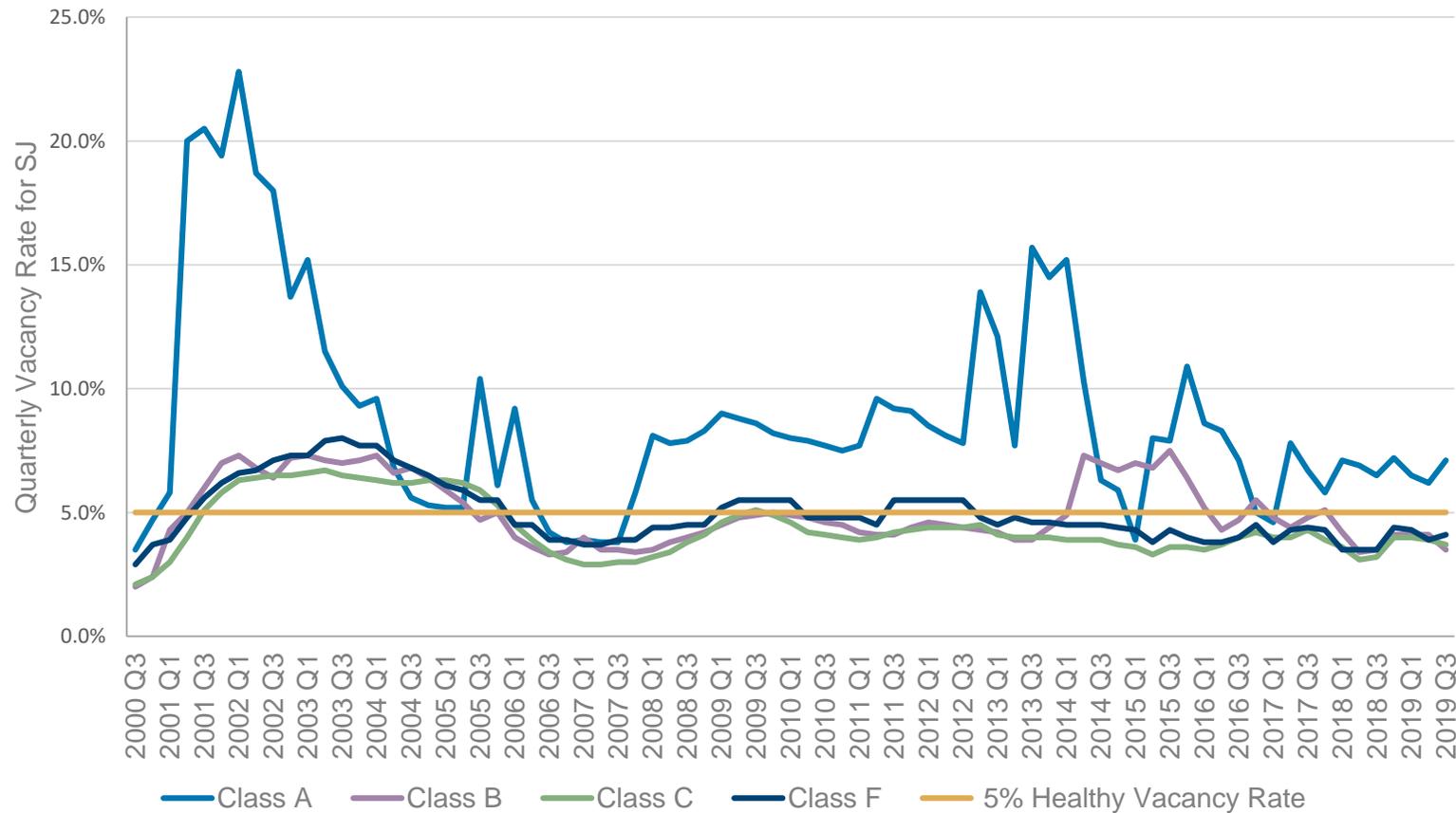
* QoQ = Quarter-over-Quarter; YoY = Year-over-Year.

Average Vacancy at 4.2%, below the “Healthy” Rate



SOURCE: Costar, October 8, 2019; National Rate – US Census Bureau Current Population Survey/ Housing Vacancy Survey October 29, 2019.

Average Vacancy Lower for Older Buildings* (84% of total rental stock)

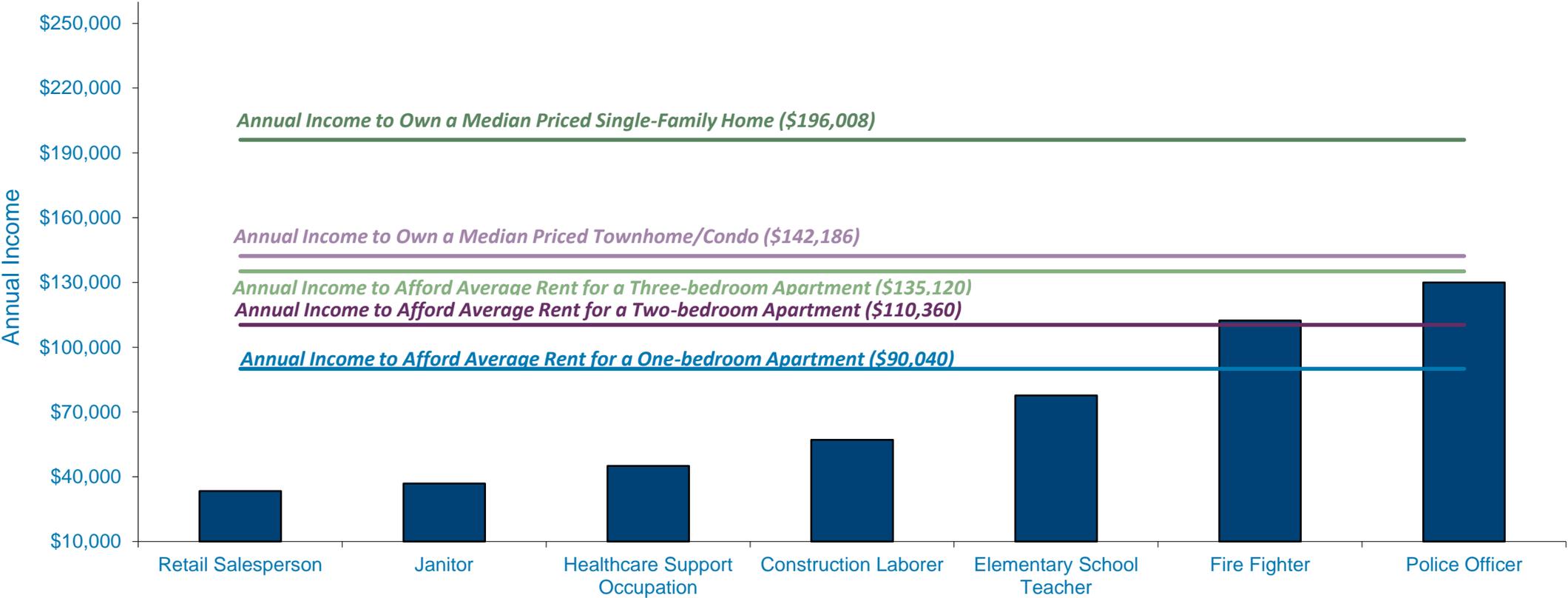


Q2 2019 Inventory	Rental Stock %	Vacancy %
Class A	16.2%	7.1%
Class B	33.4%	3.5%
Class C	50.2%	3.7%
Class F	0.2%	4.1%

SOURCE: Costar October 8, 2019.

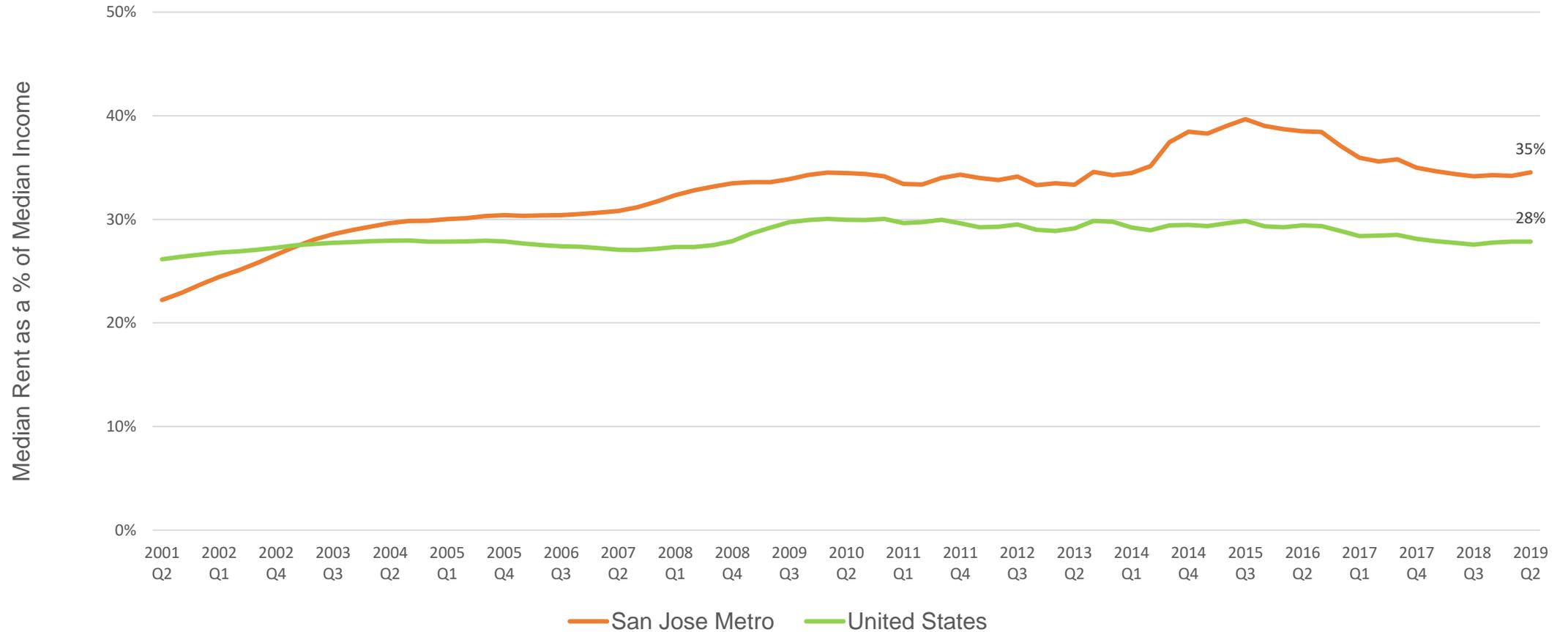
* Older buildings refer to Class B, C and F properties; Class A buildings are usually newly constructed properties.

Housing Unaffordable for Many San José Workers



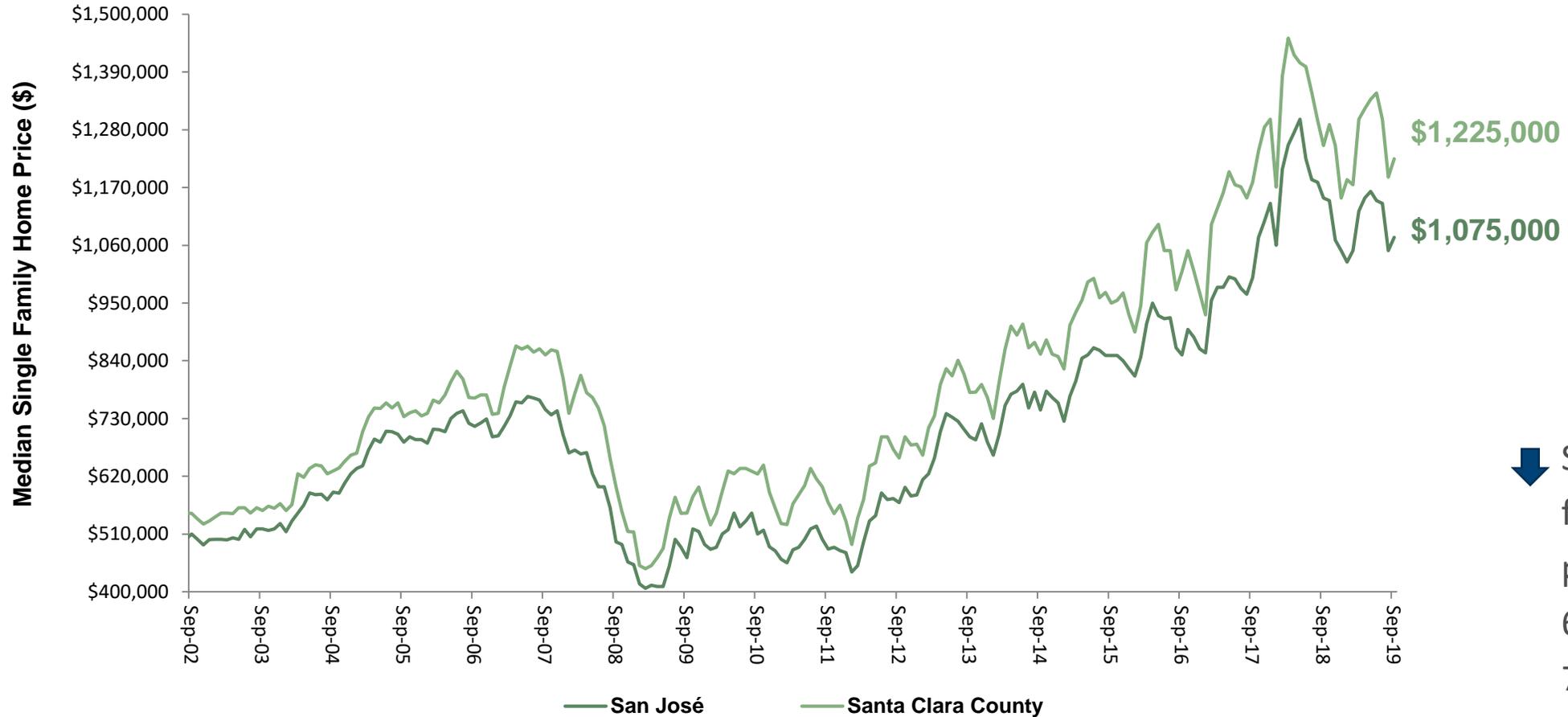
SOURCE: Employment Development Department (EDD) – First Quarter 2019 Wages; Costar Q2 2019 Average Effective Rents; Income to rent calculation assumes rent at 35% of income and a single income household; Santa Clara County Association of Realtors June 2019 median prices; Income to mortgage calculations assume payments at 30% of income, 20% down, 3.8% interest, 1.1% Property Tax, \$300 HOA dues for condos and a single-income household.

San José Renters Spend Higher % of Income on Rent



SOURCE: Zillow Rental Affordability Index Q2 2019 – One Quarter Lag.

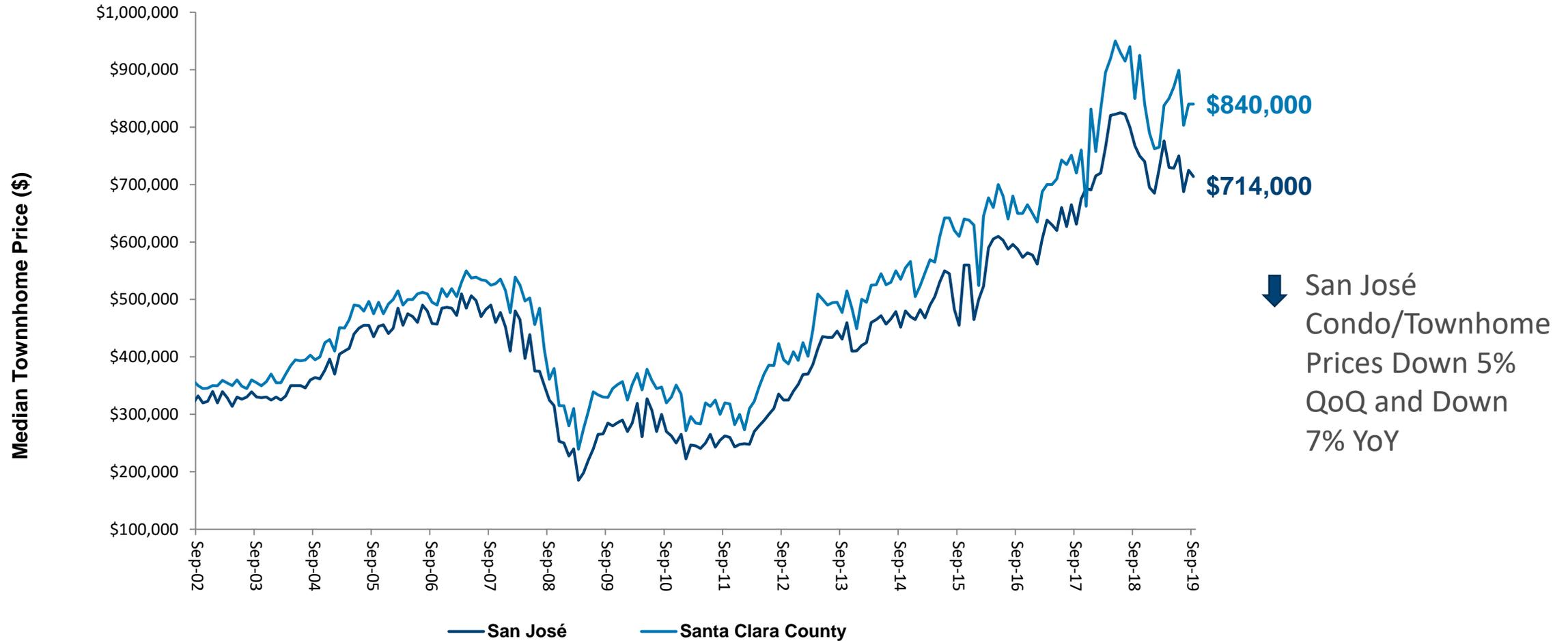
San José Single-Family Median Home Prices



↓ San José Single-family home prices Down 6% QoQ and 7% YoY

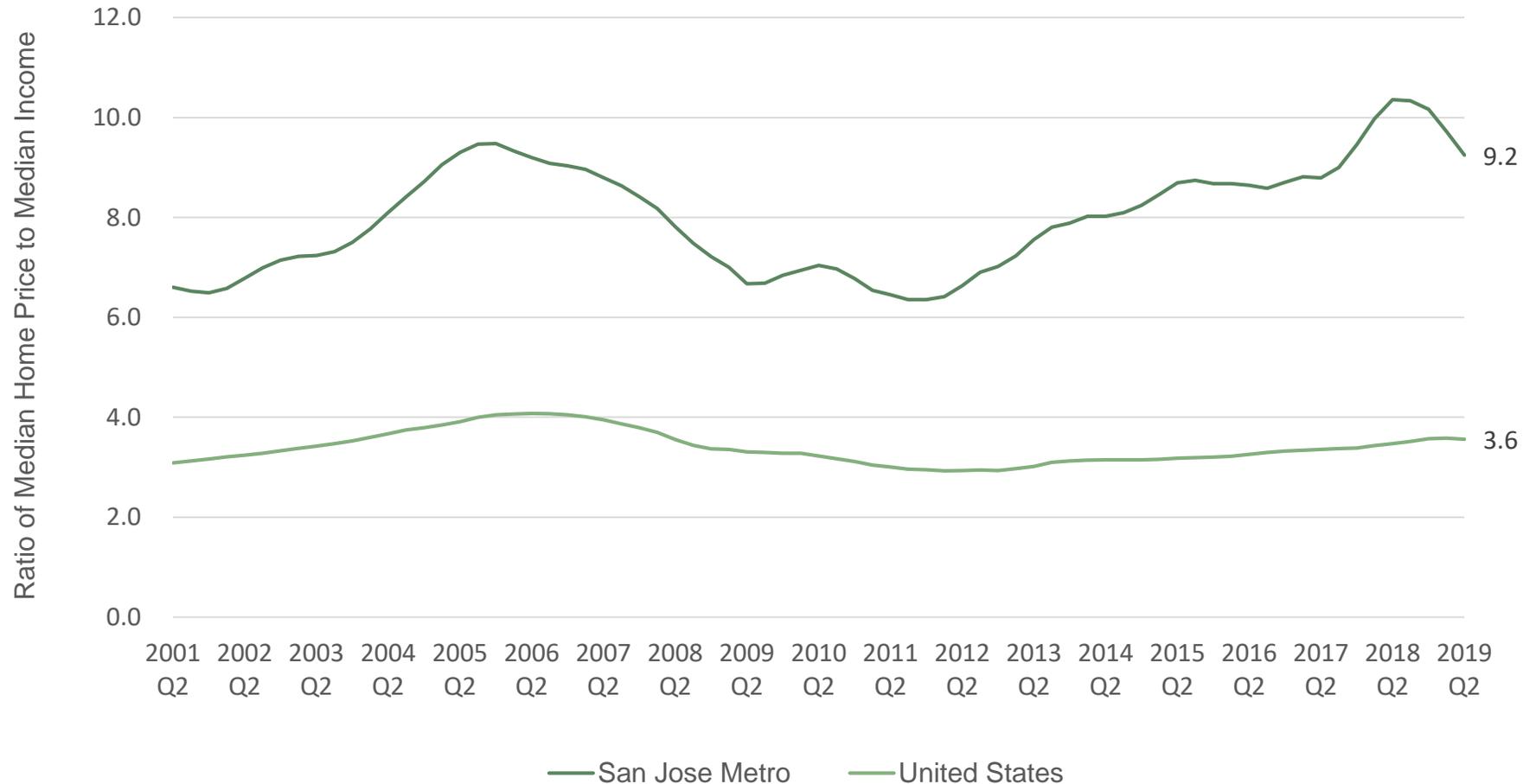
SOURCE: Santa Clara County Association of Realtors September 2019.

San José Condo/Townhome Median Prices



SOURCE: Santa Clara County Association of Realtors September 2019.

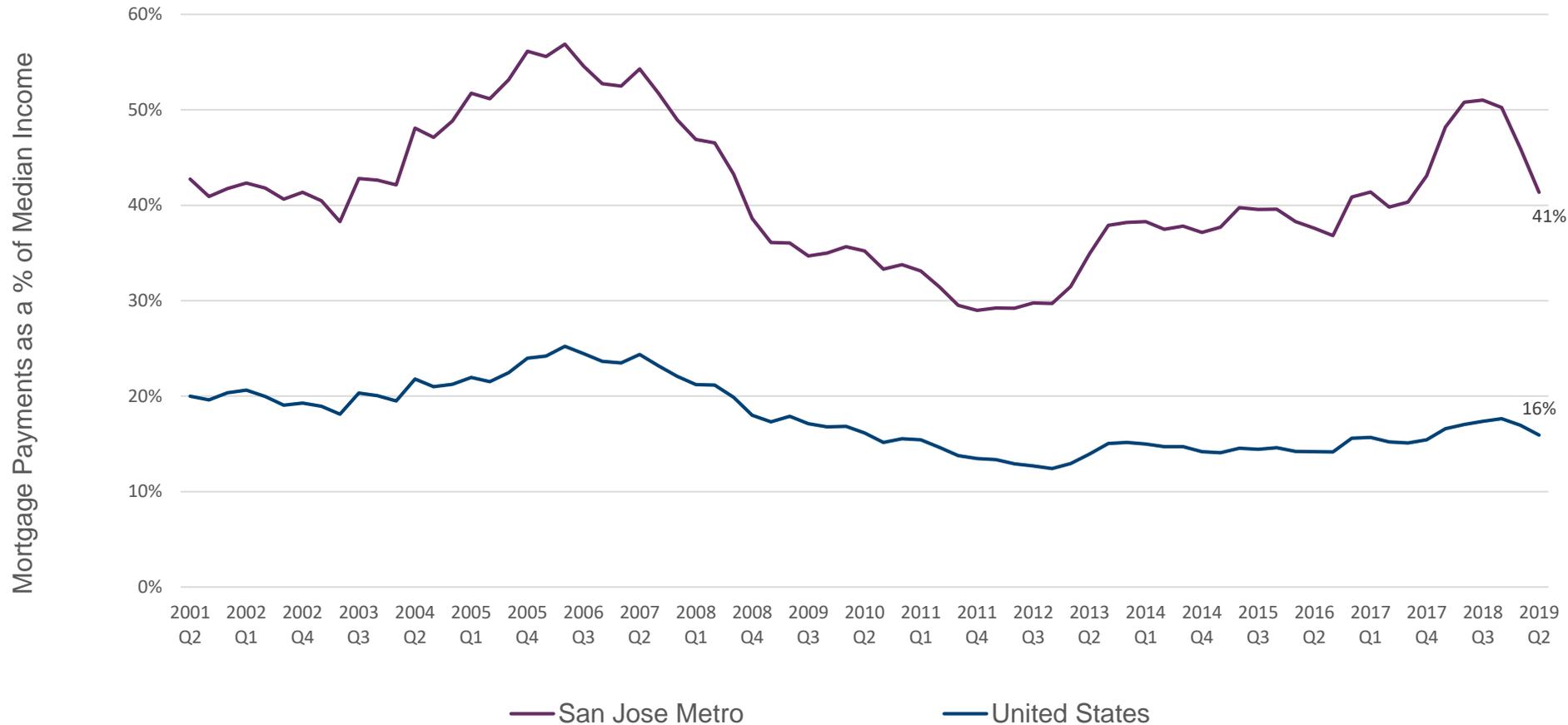
San José Metro Area Home Price to Income Ratio



San José Metro Area Median Home Prices close to 10x Median Income – **More than Double** the National Average

SOURCE: Zillow Price to Income Index Q2 2019, one quarter lag.

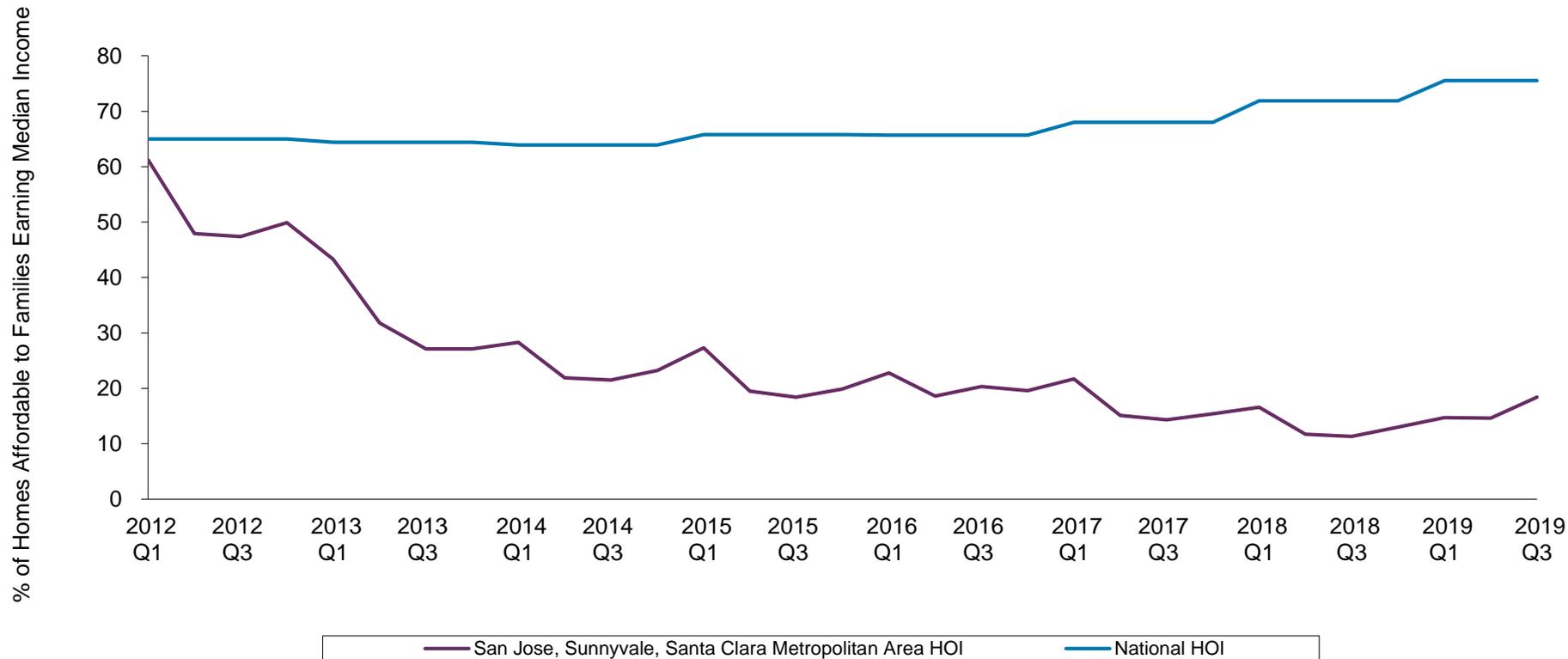
Percent of Income Spent on Mortgages



San José Owners Spend Close to Half their Income on Mortgages, 2.5X National Average

SOURCE: Zillow Mortgage Affordability Index Q2 2019, one quarter lag.

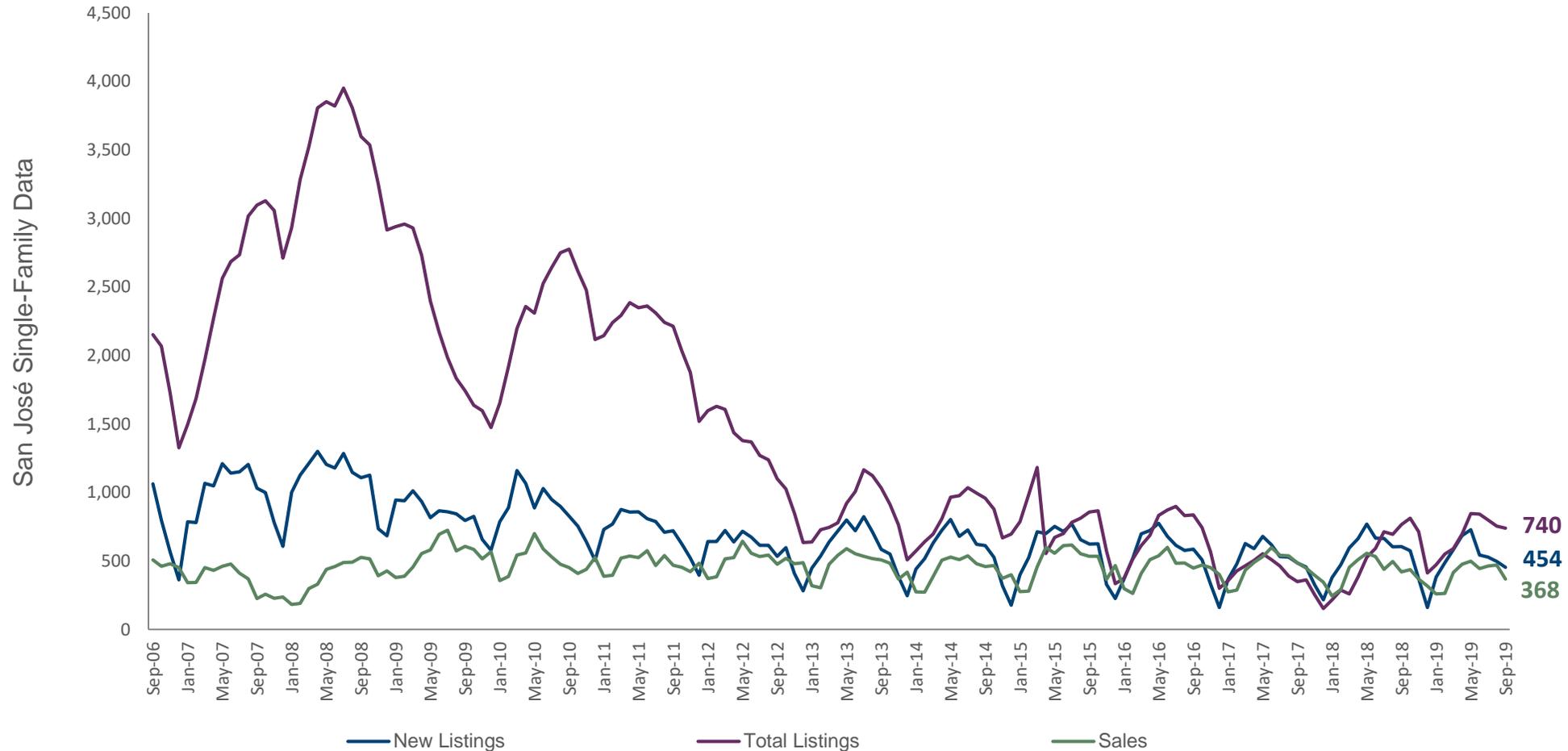
Only 18% of Homes Remain Affordable to Median Income Households



Only 1 in 6 families can afford to buy a median priced home in San José

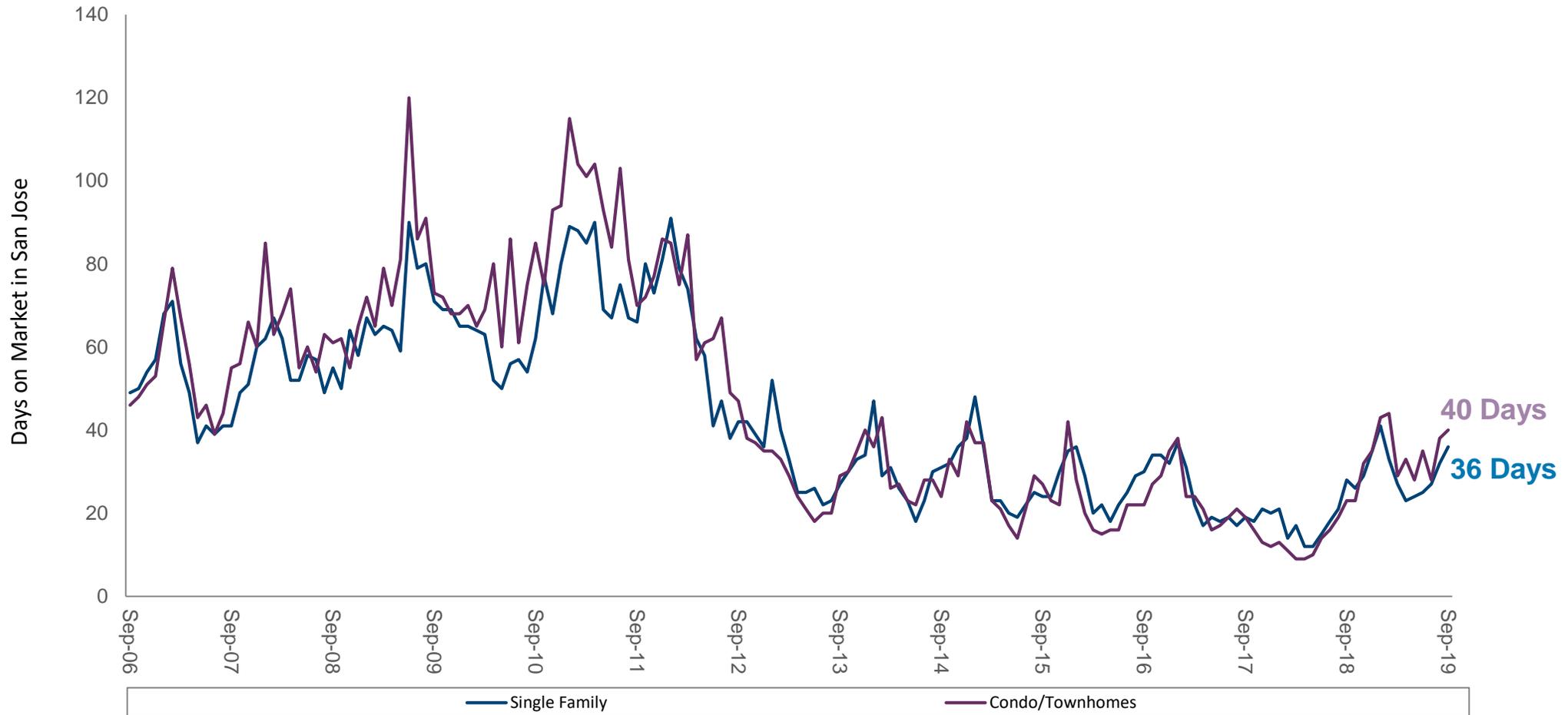
SOURCE: National Association of Home Builders, Housing Opportunity Index (HOI) Q3 2019.

Single-Family New Listings, Sales & Inventory Down QoQ (16%, 17%, 12%) and YoY



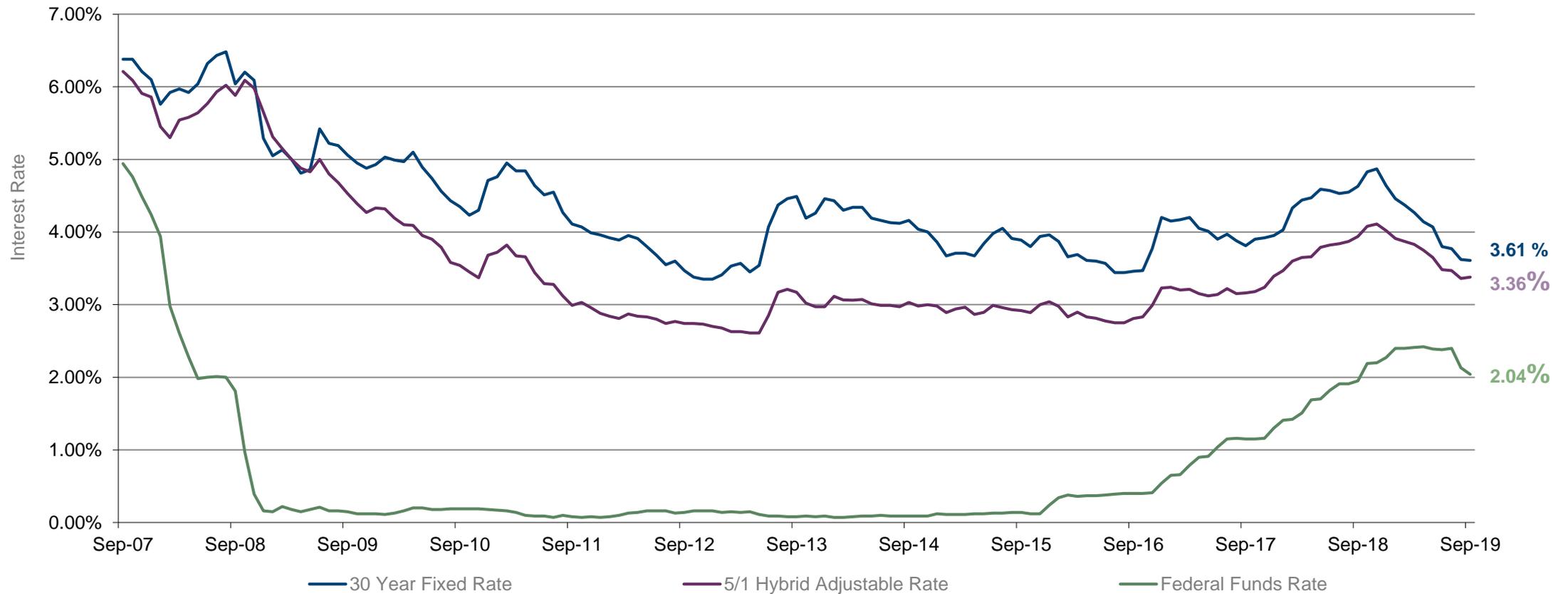
SOURCE: Santa Clara County Association of Realtors, September 2019.

Homes are Taking Over a Month to Sell; Condos Take Longer



SOURCE: Santa Clara County Association of Realtors September 2019.

Interest Rates Remain Low



SOURCE: Federal Reserve, Freddie Mac Primary Mortgage Market Survey, Q3 2019.

Data Sources and Definitions

- QoQ refers to Quarter-over-Quarter and YoY refers to Year-over-Year, in the slides above.
- 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.
- Moderate Market rate units in the Residential Building Permits data refers to market-rate units identified as affordable to moderate income households based on the expected rents data provided by the developer, during the building permit application process.
- For questions, please call the Housing Department at 408-535-3860.