

Housing Market Profile

Pacific • HUD Region IX



San Jose-Sunnyvale-Santa Clara, California

The San Jose-Sunnyvale-Santa Clara metropolitan area, located in Northern California along the San Francisco Bay, comprises Santa Clara and San Benito Counties. Commonly referred to as the Heart of Silicon Valley, the metropolitan area is home to approximately 6,600 companies that employ more than 200,000 workers involved in producing cutting-edge technology. The metropolitan area is also home to Stanford University, which has an estimated annual economic impact of approximately \$3.8 billion on the state. As of April 1, 2012, the population of the metropolitan area was estimated at 1.8 million, an average annual increase of 14,450, or 0.8 percent, since July 1, 2009, down from the average annual increase of 22,950, or 1.3 percent, 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.

Employment in the metropolitan area improved during the past year, but it has yet to fully recover from the decline that began during 2009. During the 12 months ending February 2012, nonfarm payrolls increased by 23,650 jobs, or 2.8 percent, compared with a gain of 8,350 jobs, or 1 percent, during the previous 12 months. Despite this gain, payrolls are down 11,350 jobs, or 1.3 percent, from the average during the 2006-through-2008 period, when economic conditions were strong. During the 12 months ending February 2012, nonfarm payroll growth was concentrated in the professional and business services, information, education and health services, and manufacturing sectors, which were up 7,950, 5,000, 4,625, and 4,350 jobs, or 4.9, 11.0, 4.1, and 2.8 percent, respectively. Employment growth in the computer systems design and related services industry accounted for nearly 40 percent of all jobs added in the professional and business services sector, and increased production of computers and semiconductors led job growth in the manufacturing sector. As a result of company restructuring, Yahoo! Inc. announced 860 layoffs to take effect during June 2012. Despite these layoffs, job growth is expected to continue during 2012. The largest employers in the metropolitan area are Cisco Systems, Inc., Kaiser Permanente®, and Stanford University, with 17,100, 13,500, and 12,000 employees, respectively. A loss in

the government sector of 2,300 jobs, or 2.4 percent, as a result of declines in both federal and local government subsector jobs, partly offset overall job growth. As economic conditions improved during the 12 months ending February 2012, the average unemployment rate declined to 9.7 percent from 11.1 percent during the previous 12 months, less than the 11.6-percent rate for California.

Despite improving economic conditions, the sales housing market in the San Jose-Sunnyvale-Santa Clara metropolitan area is slightly soft as a result of tight mortgage lending standards. According to Hanley Wood, LLC, during the 12 months ending February 2012, new and existing home sales decreased to 21,550, down 4 percent from 22,450 homes sold a year earlier and down 9 percent from the average of 23,800 homes sold annually during the comparable periods from 2006 through 2009. The average sales price for new and existing homes declined 2 percent, to \$617,400, 18 percent less than the average price of \$749,400 recorded during the comparable periods from 2006 through 2009. Condominium sales accounted for nearly 30 percent of total home sales during the 12 months ending February 2012, with the 6,225 condominiums sold up 5 percent from the 5,925 sold during the previous 12 months. Nearly 60 percent of the growth in condominium sales occurred in the city of San Jose. The average condominium prices in the metropolitan area and San Jose declined to \$385,600 and \$326,800, or by slightly more than 1 percent and less than 1 percent, respectively. According to LPS Applied Analytics, in February 2012, 4.7 percent of mortgage loans in the metropolitan area were 90 or more days delinquent, in foreclosure, or in REO (Real Estate Owned) compared with the 6.6-percent rate recorded in February 2011 and below the 7.6-percent rate for the nation.

Soft sales market conditions have resulted in reduced single-family home construction activity, as measured by the number of building permits issued, relative to earlier in the decade. According to preliminary data, during the 12 months ending February 2012, single-family homebuilding activity totaled 1,000 homes permitted, up from the 890 homes permitted during the previous 12-month period. Single-family construction was strong from 2002 through 2007, when an average of 2,425 homes was permitted annually. Approximately 50 percent of all single-family home construction in the metropolitan area is concentrated in the cities of San Jose, Sunnyvale, Palo Alto, and Mountain View, where major employers in Silicon Valley are located. New home prices were slightly less in San Jose than



elsewhere in the metropolitan area during the 12 months ending February 2012, averaging \$488,100 compared with \$572,100 for the metropolitan area as a whole. In San Jose, developments under construction include Pepper Lane, a 379-townhome community that broke ground in 2011 and is expected to complete 10 homes a month from April 2012 until it is completed during 2015.

The overall rental housing market in the San Jose-Sunnyvale-Santa Clara metropolitan area is tight, because renter household growth during the past year outpaced the production of new rental units, including the 570 condominiums converted to apartments during the past 3 years because of weak sales. The rental vacancy rate was estimated at 4.0 percent as of March 1, 2012, down from 4.3 percent in April 2010. According to MPF Research, during the fourth quarter of 2011, the apartment vacancy rate declined to 3.1 percent from 3.4 percent during the fourth quarter of 2010, but the average monthly rent increased 12 percent, from \$1,586 to \$1,773. In downtown San Jose, the vacancy rate was unchanged at 2.1 percent,

but the average rent increased 6 percent to \$1,648. In northern San Jose, the vacancy rate decreased to 3.5 percent, but the average rent increased 12 percent to \$1,925 because of new luxury apartment developments. According to local data, during the 12 months ending February 2012, apartment construction activity, as measured by the number of units permitted, declined 37 percent to 2,075 units permitted compared with the 3,300 units permitted during the previous year. The number of units permitted was 40 percent higher, however, than the average annual level of 1,475 units permitted from 2007 through 2009. Approximately 65 percent of all apartment developments in the metropolitan area are located in the city of San Jose. Current construction includes Crescent Village I, comprising 380 units, and Riverview, with 271 units. Both developments are located in northern San Jose and are expected to be complete by 2013. Monthly rents for recently completed efficiency, one-bedroom, and two-bedroom apartments in the metropolitan area start at \$1,650, \$1,850, and \$2,325, respectively.