

INVESTMENT FORECAST

Multifamily
San Jose

IPA
INSTITUTIONAL
PROPERTY
ADVISORS

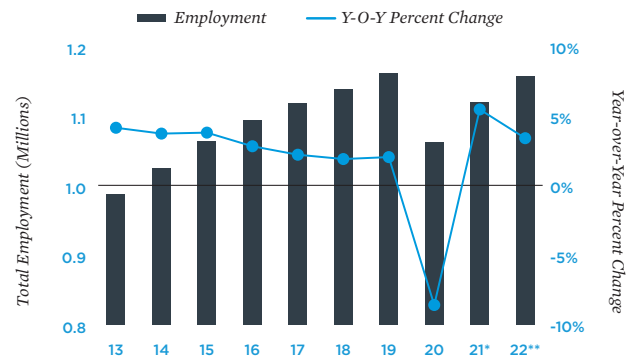
2022

Tech Firms Eventual Return to Campuses Attracting Apartment Renters and Investors

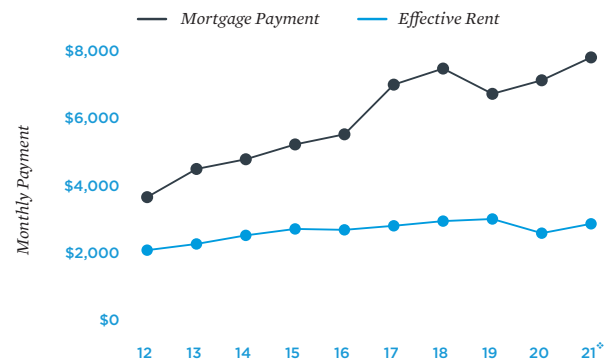
Anchor employers set stage for another strong year. The eventual return of Google and Apple workers to offices will support more gains in apartment fundamentals. Vacancy retreated to pre-health crisis levels late last year as remote workers moved back in preparation for a return to campuses. The early rebound relative to adjacent San Francisco is partially due to Google's delayed announcement that offices would not fully reopen until 2022 because of the delta variant. Smaller tech firms that contract with the tech giants take their cues from them, inevitably recalling their own employees in late 2021. Due to low vacancy entering the year and the construction pipeline moderating in 2022, rent growth will be the primary source of fundamental gains in the coming months in the Class A segment. South Sunnyvale-Cupertino and West San Jose-Campbell, where vacancy is already well below 3 percent, hold the strongest prospects for top-tier rent gains in the coming year. There are a few areas with room for Class A vacancy improvement. Mountain View-Palo Alto-Los Altos and Santa Clara have above-average availability and strong renter demand is anticipated in the coming months.

Broad array of buyers compete in the South Bay. The return of renters was preceded by investors taking advantage of a brief window in which prices dipped modestly. Those buyers will remain active this year, increasing the competition for assets. Navigating rent control measures and the prevalence of new projects that support household growth will drive buyer behavior in 2022. Sunnyvale, for example, does not have rent control and is central to many of the major employers, keeping the area popular. Adjacent Mountain View's laws, on the other hand, heighten due diligence and make pricing more difficult to ascertain. Investors will also target properties near Google's Downtown West campus in San Jose, which will eventually have sufficient office space to host 20,000 workers. Several apartment projects are planned for the area, which could provide institutional buyers additional prospects. Overall, average cap rates vary across the market depending on proximity to major employers. Near Google and Apple, top-tier assets can trade in the mid-3 percent range and rise to 4 percent farther away. Class B properties changed hands in the low-4 percent area entering the year.

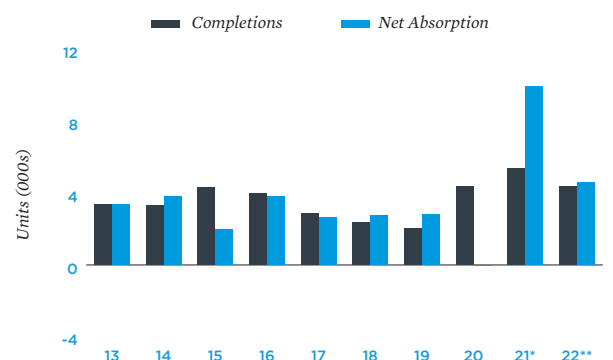
Employment Trends



Housing Affordability Gap



Supply and Demand



22.3% 2021 share of local population between 20 and 34 years old

47.6% of local population hold bachelor's degree or higher*

\$1,627,700 2021 median home price

* Estimate ** Forecast * Through 3Q
**2021: 25+ years old

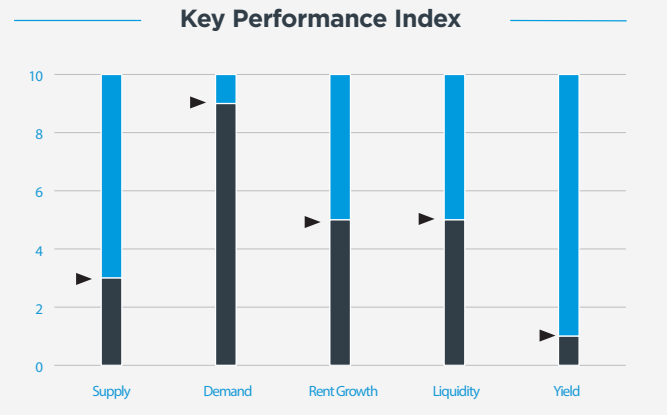
Sources: Marcus & Millichap Research Services; BLS; Freddie Mac; National Association of Realtors; RealPage, Inc.

2022 Investment Outlook

San Jose's low score on the supply Index should be balanced by a high score on the demand portion, helping keep market conditions relatively stable. The economic rebound and technology firms recalling workers to offices support the demand ranking of 9 in the Key Performance Index.

Following a challenging stretch during the pandemic when uncertainty weighed heavily on deal flow, buyer interest is expected to strengthen in 2022. The liquidity score of 5 is about the same as the pre-health crisis measure, as is the 1 on the yield segment of the Index.

Note: The Key Performance Index provides a metro-level relational benchmark scaled from 1-10 for five key metrics.



2022 Market Forecast

Employment

38,000 jobs



Metro **3.4%**

U.S. **2.5%**

Construction

as % of inventory*



Metro **2.4%**

U.S. **2.2%**

Class A Vacancy

Down 10 bps



Metro **3.5%**

U.S. **3.6%**

Class A Rent

\$3,719
per month



Metro **8.7%**

U.S. **7.5%**

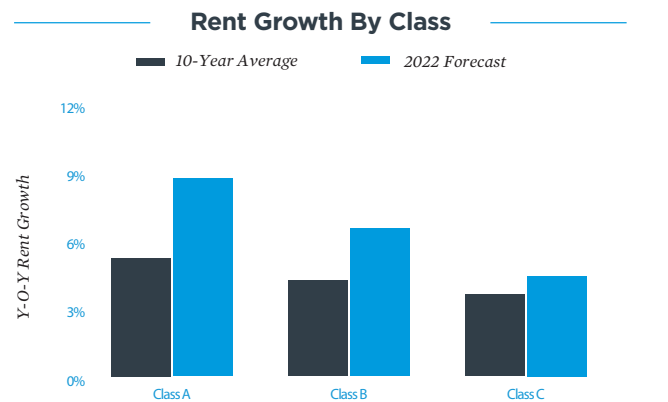
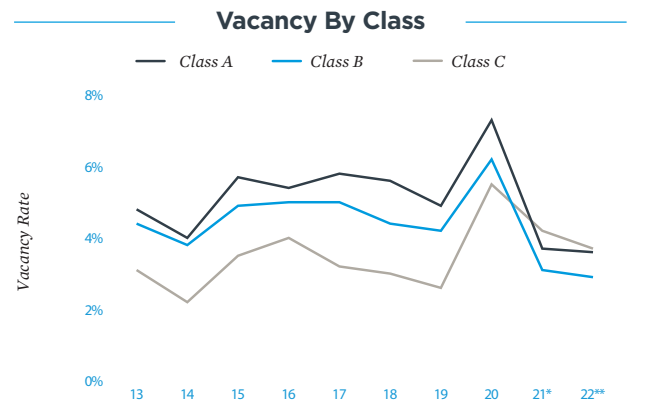
Investment

3-yr. avg. activity
\$20+ million



Deals: **10**

Volume: **\$885 Million**



John Sebree

Senior Vice President
Director IPA Multifamily
(312) 327-5400 | jsebree@ipausa.com

* Estimate ** Forecast
* Arrow reflects completions trend compared with 2021
Sources: Marcus & Millichap Research Services; CoStar Group, Inc.; RealPage, Inc.; Real Capital Analytics