INVESTMENT FORECAST

Office

San Jose Metro Area

IPA INSTITUTIONAL PROPERTY ADVISORS

2024

San Jose's Retail Sector Collects Itself in 2024, With Future Growth Drivers Present

Retail landscape stabilizing on back of multifamily growth. Apartment demand will nearly keep pace with elevated openings this year, bolstering the consumer base. Santa Clara leads development, with more than 2,800 rentals underway for this year and beyond, representing 14 percent of existing local inventory. These units will be major entry points for the most expensive housing market in the country, heralding growing consumer spending to come — a boon for area retailers and existing properties, given relatively static local sector stock. While major shopping centers are under proposal here for later in the decade, construction in 2024 is negligible. Retail arrivals for this year are instead heading for Palo Alto and South San Jose. The latter area, housing more than a third of the metro's retail supply, is well-situated to welcome these openings, with vacancy under the 2019 level. This same dynamic is more apparent in North San Jose, where the local rate fell more than 360 basis points in that span. These factors are helping stabilize metro vacancy and rents, with the stage set for future gains.

While not trouble free, favorable signs offer reassurance. Despite the financing hurdles and economic uncertainty created by elevated interest rates, investors have multiple positive trends to look forward to. Roughly as many new retail leases were signed last year across the market as in 2019 or 2018, which, together with stabilizing vacancy and renewed residential growth, point to strengthening tenant demand. Buyers are likely to continue looking toward sizable South San Jose more so than other areas, where dining concepts change hands most often. A 2.5 percent dip in the metro's mean single-tenant sale price last year may have added encouragement for California-based buyers, who are actively looking for both individual and multi-property opportunities.

2024 MARKET FORECAST

+0.8% — **EMPLOYMENT:** While the metro's prominent tech sector continues to face headwinds, the overall employment base grows by 10,000 roles, slightly exceeding the gain in nearby San Francisco.

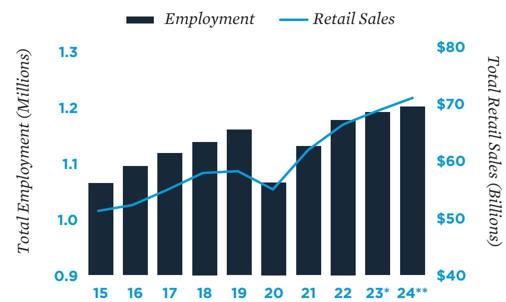
135,000 *sq. ft.* — **CONSTRUCTION:** Arrivals inch up from 2023, but remain under the trailing-decade annual average of 400,000 square feet. Multiple components of Evergreen Circle are set to arrive later this year.

+10 bps — **VACANCY:** San Jose's vacancy rate fell 10 basis points in 2023 to 4.7 percent, which will be undone this year. This stability follows a five-year stretch where the rate rose by a total of 170 basis points.

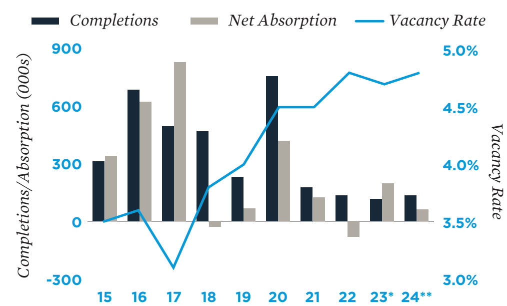
+0.4% — **RENT:** Consistent vacancy is joined by a static mean asking rent, which continues to hover in the $36 per square foot range. A modest 4 percent gain since 2019 opens up options for potential tenants.

INVESTMENT: *Sub-4 percent vacancy in the smaller towns of Morgan Hill and Gilroy likely keep investors' attention. Fast food and other establishments change hands regularly, with yields that can top 7 percent.*

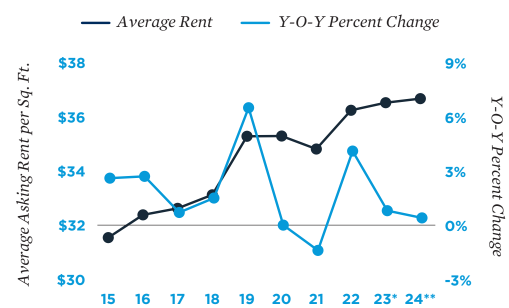
Economic Trends



Supply and Demand



Rent Trends



* Estimate; ** Forecast

Sources: CoStar Group, Inc.; Real Capital Analytics; RealPage, Inc.

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