Market Report

MULTIFAMILY 2Q/26

San Jose Metro Area

IPA | INSTITUTIONAL PROPERTY ADVISORS

2026 FORECAST

EMPLOYMENT

13,000 Jobs will be created

1.1% Increase Y-O-Y

CONSTRUCTION

150 Units will be added

0.1% Inventory increase Y-O-Y

VACANCY

3.2% Vacancy rate

80 BPS decrease Y-O-Y

RENT

$3,441 Average effective rent by year-end

4.4% Increase Y-O-Y

Compressed New Supply Keeps Vacancy Among the Lowest In the Metro's History

High-wage renters drive strong rent growth. The multifamily market in San Jose is showing notable strength, including sub-3.5 percent vacancy and rent growth three times the U.S. pace amid steady renter demand and limited new supply. As the only metro with a median household income above $180,000 but also a median home price near $2 million, the market is heavily influenced by the performance of the local tech sector. Continued investment in AI and technology is benefiting many highly educated, high-income younger professionals who are willing to pay a premium for amenity-rich or well-located apartments.

Core submarkets lead performance. In the 12 months ended in March, vacancy declined by at least 100 basis points in South Sunnyvale-Cupertino and Mountain View-Palo Alto-Los Altos. Both submarkets posted vacancy below 3.5 percent, indicating that the core of Silicon Valley remains the most sought-after area. As a result, nearby areas such as Santa Clara and North San Jose-Milpitas were capturing spillover demand, generating strong year-over-year rent growth. While Class C rent growth across these four submarkets was more modest than that of Class A and B properties, Class C vacancy rates below 2.5 percent suggest that solid renter demand is extending beyond luxury apartments.

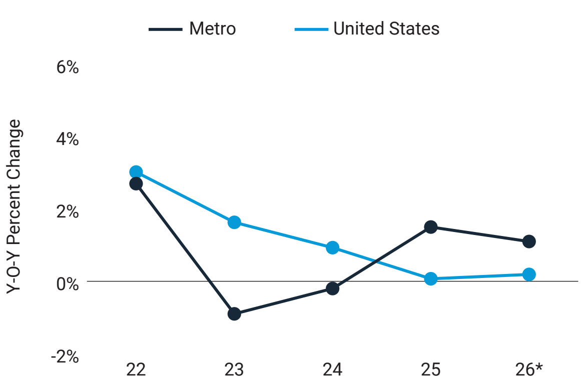
EMPLOYMENT

The San Jose job market has been strong. In 2025, the metro recorded a 1.5 percent increase in total employment, ranking second among all major U.S. markets behind only Las Vegas. This trend is expected to carry through the end of 2026 after the metro added another 6,000 jobs in the first quarter alone. Strong growth in education and health services employment is being further supported by a rapidly expanding 65+ age cohort, even as overall population growth in the metro remains largely flat.

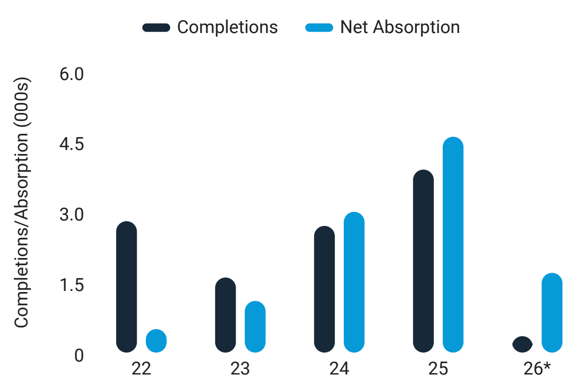
CONSTRUCTION

After adding more than 6,600 units over the last two years, very few new apartments will be delivered in San Jose this year. The only meaningful additions will occur in Santa Clara and Los Altos, combining for a mere 0.1 percent expansion of total apartment inventory. Still, the market could welcome about 2,500 new units next year, with projects coming online across much of the metro, indicating that this year's limited pipeline should be viewed as an outlier rather than a complete evaporation of supply pressure.

EMPLOYMENT TRENDS



CONSTRUCTION TRENDS



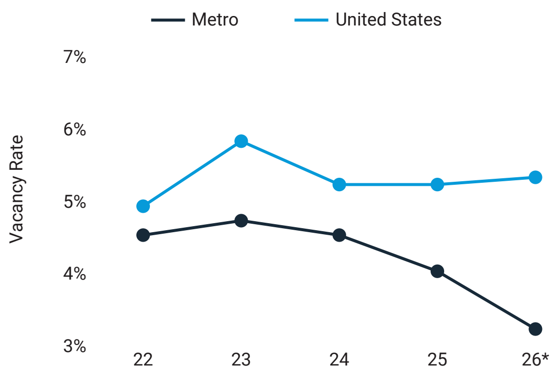
* Forecast

Sources: BLS; CoStar Group, Inc.; RealPage, Inc.

VACANCY

The sharp drop in deliveries this year, combined with steady renter demand, should allow for considerable vacancy compression in San Jose. The vacancy rate is expected to decrease more than in any other major U.S. market by year-end this year, bringing the metric to a 25-year low, as Class B and C vacancy rates already stood at 3.1 percent in March. However, as supply additions recover in 2027 and later, overall metrowide vacancy could begin to gradually rise toward the market's long-term average in the mid-4 percent range.

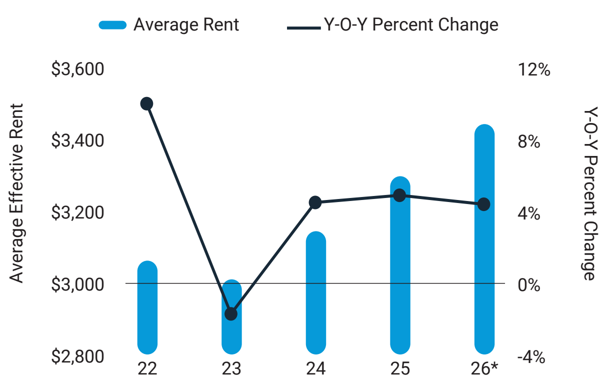
VACANCY TRENDS



RENT

Tight vacancy rates across the metro bode well for rent growth. The average asking rent is expected to increase third fastest among major U.S. metros in 2026. Momentum over the 12 months ended in March varied by class, as Class A and B properties recorded year-over-year rent growth of roughly 7 percent, while Class C properties posted growth of about 3 percent. This gap indicates that demand for luxury apartments remains the primary driver of rent growth as the metro's high-paying job market continues to perform well.

RENT TRENDS



* Forecast ** Through 1Q

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

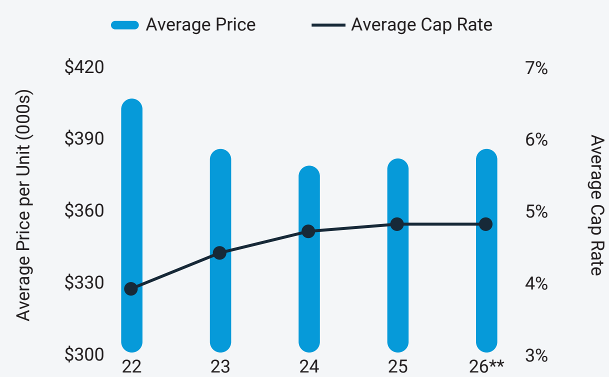
INVESTMENT HIGHLIGHTS

- Institutional reengagement contributed to transaction growth over the 12 months ended in March, accounting for about 60 percent of total dollar volume, up 20 percentage points year-over-year. The number of deals priced above $20 million more than doubled, contributing to a 40 percent increase in overall transaction activity, while deals below $10 million increased by about 20 percent. These larger institutional transactions were concentrated primarily in Sunnyvale and the Western San Jose-Campbell area.

- Other submarkets that witnessed substantial increases in sales include Downtown San Jose and South San Jose. Private investors have been more active in these areas, where barriers to entry are comparatively lower. Although these submarkets recorded the smallest vacancy compressions in the metro over the past 12 months, upcoming manufacturing facility openings by Supermicro and Nokia could boost renter demand for Class B and C properties, potentially supporting future rent growth and validating investor interest.

- The market's average price per unit remains the highest among major U.S. metros, resulting in an average cap rate of 4.8 percent among properties sold in the last 12 months. This was the second-lowest cap rate in the nation, trailing only San Diego, and stood 140 basis points below the national rate. Still, a strong renter base and limited development continue to support strong rent growth, boding well for investors seeking stable income streams tied to the outperforming tech sector.

SALES TRENDS



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