



**Economic &  
Planning Systems**

*Real Estate Economics*

*Regional Economics*

*Public Finance*

*Land Use Policy*

## **DRAFT REPORT**

# MARKET ANALYSIS FOR RESIDENTIAL DEVELOPMENT IN COYOTE VALLEY

Prepared for:

City of San Jose

Prepared by:

Economic & Planning Systems, Inc.

In Association with:



S. L. State and Associates

August 2004

EPS #13159

BERKELEY  
2501 Ninth St., Suite 200  
Berkeley, CA 94710-2515  
www.epsys.com

Phone: 510-841-9190  
Fax: 510-841-9208



SACRAMENTO  
Phone: 916-649-8010  
Fax: 916-649-2070

DENVER  
Phone: 303-623-3557  
Fax: 303-623-9049

## I. INTRODUCTION AND SUMMARY OF FINDINGS

---

Economic & Planning Systems, Inc. (EPS) and S.L. State & Associates have been retained by the City of San Jose to provide a variety of economic consulting services in furtherance of the creation of the Coyote Valley Specific Plan. A key part of these services is the assessment of market conditions for residential, retail, and workspace development. This report presents the EPS/ S.L. State & Associates' findings regarding the current and future market prospects for residential development at Coyote Valley. It is supported by a companion document prepared by S. L. State and Associates, entitled "Recommended Product Array Synopsis - Coyote Valley".

### **BACKGROUND**

Coyote Valley is an area comprised of over 7,000 acres of land in the southern part of San Jose and in unincorporated Santa Clara County but within San Jose's sphere of influence. Since the 1980s, San Jose's City Council has maintained a policy that reserves Coyote Valley for future urban development, and establishes goals for the overall development program for the area as well as "triggers" that must be met for the development to begin. Specifically, the policy has maintained that the overall plan for Coyote Valley must reserve over half of the overall acreage as a "greenbelt" on which no urban development can occur, and that the remainder of the land must be developed at sufficient density to accommodate 50,000 "qualifying" jobs (excluding retail and public or quasi-public jobs) and 25,000 housing units. In addition, a trigger has been established that none of the housing development can occur until at least 5,000 of the qualifying jobs are in place in Coyote Valley.

The Coyote Valley Specific Plan is being developed through the joint efforts of the City of San Jose and a multidisciplinary group of consultants, including EPS. This residential market assessment is intended to provide information that will help this group of stakeholders to create the following:

1. A land use program that is supported by current and expected market conditions and meets the established goals for the development of Coyote Valley.
2. A financing program that distributes the benefits, costs, and risks of development among the various landowners.
3. An implementation strategy that efficiently phases and locates land use and infrastructure development to optimize the value of development to the landowners, developers, and the City of San Jose.

## KEY FINDINGS

The following points summarize the most important findings of this report:

### DEMOGRAPHIC AND HOUSING TRENDS

- 1. The Santa Clara County and City of San Jose housing markets have remained strong despite the economic downturn of the last several years.** Pent-up demand for housing and low interest rates has continued to drive housing construction and residential permit applications in Santa Clara County and the City of San Jose.
- 2. The City of San Jose's housing supply pipeline is significant, though is likely to be more limited beyond 2010.** There is a significant competitive supply of housing in the pipeline, though much of this will have been absorbed by the time Coyote Valley is developed. The City's housing supply pipeline includes about 22,000 housing units, the majority of which are infill, for-sale attached and rental projects.
- 3. Market demand for housing in the City of San Jose is expected to be strong well into the future.** The existing excess demand for housing along with projected new population and household growth will continue to drive the City's residential market and absorb new development into the future.
- 4. Demand for about 66,000 housing units is projected for the City of San Jose over the next 20 years.** Projections of new households in the City of San Jose vary, though, on average, equal about 3,300 new households each year, or about 66,000 household between 2005 and 2025.
- 5. Recent and projected demographic trends point to a diverse pattern of future residential demand.** Demographic changes in household size, age, and ethnicity will directly affect the types of residential products demanded. Current and projected estimates of family and non-family households imply a continued demand for family and non-family housing. The continued aging of the baby boom generation will dramatically increase the proportion of empty nester and retiree households in the housing market. Increases in the number of Asian and Hispanic buyers may also alter housing preferences.
- 6. The close relationship between household size and preferred unit size and type is expected to continue.** Case studies of residential developments in Santa Clara County, the San Francisco Bay Area, and other regions in California and the U.S. show clear differences in the demand profile between families with and without children, as well as between couples and singles, and older and younger households. Households with children predominantly seek single-family detached homes, and, to a lesser extent townhomes. Couples without children purchase a range of product types, with young

couples driving demand for small and medium-sized condos and all-age couples driving the demand for mid- and high-rise condos. Singles demand smaller units and represent an important segment of the demand for low-, mid-, and high-rise condos.

**7. Of the total of 66,000 housing units projected to be constructed over the next 20 years, about 20,000 units are expected to be single-family detached, 23,000 units single-family attached, and 23,000 units apartments.** The limited number of single-family detached development opportunities will reduce its typical share of new construction and shift much of its demand towards townhome product. The single-family detached product that is constructed will be absorbed quickly, including smaller lot detached product. Demand for attached product will come from a range of households, with significant variations in buyer profiles between small condos, lofts, different types of townhomes, and mid- and high-rise developments. Rental product is also expected to be in high demand over the next decades, and will be spurred, in part, by future economic growth.

## PROSPECTS FOR COYOTE VALLEY

**1. Coyote Valley is in a strong position to capture a significant proportion of this growth.** The increasingly constrained opportunities for development elsewhere, along with the scale and planned improvements, design, and amenities in Coyote Valley will result in a high capture of new residential development at Coyote Valley. **Table 1.1** shows a market-supported land use program that could also meet the City's housing requirement in addition to the expected Coyote Valley absorption rates by product type.

**2. Demand for single-family detached product will be strong, but its inclusion in the land use program will be limited by the required residential density.** The Coyote Valley land use program could support as much as 12,500 units of single-family detached product. However, in order to meet the density requirements, only about 25 percent of the program, or 6,250 units of primarily small lot single-family detached development, can be included. This product could likely be absorbed in less than 12 years at a rate of about 550 units each year.

**3. Demand for townhomes will also be strong, though not as strong as for single-family detached product.** Townhomes will appeal to a broad range of household types and will capture an increased proportion of demand due to the limited detached housing development opportunities. Coyote Valley will compete with townhome developments in a number of other areas, though over time, as it grows and develops, is expected to expand its capture rate from 25 percent to 40 percent of the townhome market. About 25 percent of the land use program could be allocated to townhomes, about 6,250 units, without compromising the overall density requirement and could be absorbed over the course of 25 years.

**Table 1.1  
Coyote Valley Capture, Absorption, and Potential Land Use Program  
Coyote Valley Specific Plan Market Analysis**

<b>Product Type</b>	<b>Annual San Jose Demand</b>	<b>Coyote Valley Avg. % Capture</b>	<b>Annual Coyote Valley Demand</b>	<b>Proposed Land Use Program</b>		<b>Years-to-Buildout</b>
SF Detached	1,000	55%	550	6,250	25%	11
Townhomes	750	32.5%	244	6,250	25%	26
Condos/ Lofts/ Stacked Townhomes (1)	400	30%	120	3,750	15%	31
Rental Product (1)	<u>1,150</u>	27.5%	<u>316</u>	<u>8,750</u>	<u>35%</u>	28
<b>Total</b>	<b>3,300</b>	--	<b>1,230</b>	<b>25,000</b>	<b>100%</b>	--

(1) Condo and apartment development will be spread amongst low-, mid- and high-rise developments. Rentals will dominate the low-rise product, though condos will be more prevalent among the mid- and high-rise developments.

Source: S. L. State & Associates; Economic & Planning Systems, Inc.

**4. Demand for condominiums will increase as Coyote Valley develops.** Demand will exist for a broad range of condominiums, including small condominiums and lofts aimed at singles, standard condominiums in three- and four-story buildings that will primarily appeal to young couples, and mid- and high-rise condos that will appeal to more affluent couples. Coyote Valley could capture about 20 percent of the demand for condominiums, lofts, and stacked townhomes in its early years, increasing to 40 percent as competitive supply diminishes and the range of amenities increases. A 15 percent allocation of the land use program, or 3,750 units of for-sale condominiums/ lofts/ stacked townhomes, will take about 30 years to absorb at a rate of about 120 units each year. With the exception of product aimed at seniors, the mid- and high-rise development is only likely to develop after five or more years of Coyote Valley development.

**5. Demand for apartments will be strong and consistent through time.** Outside of the senior housing rental market, a large proportion of demand for apartments will be driven by its proximity to jobs in Coyote Valley and in Edenvale. Apartments will primarily be in low-rise single- and mixed-use developments, in addition to some mid-rise developments. Apartment developments will compete with development elsewhere, and will need to provide the internal amenities expected by many apartment dwellers. About 35 percent of the land use program could be apartment development, about 8,750 units. It will take close to 30 years to absorb this product. As the baby boom generation ages, the senior housing market is set to expand, providing a number of opportunities for both assisted care and assisted living rental projects, in both low- and mid-rise developments.

**6. Mid- and high-rise developments could be absorbed at moderate levels.** Rental and for-sale mid- and high-rise product could be developed at Coyote Valley, as mentioned above. Mid- and high-rise developments have proved successful in a number of cities throughout the San Francisco Bay Area and beyond, and there is likely sufficient demand to support such developments at Coyote Valley. This development is unlikely to drive the early stages of residential development at Coyote Valley and is more likely to occur once Coyote Valley is more defined as a place. Together mid- and high-rise development should not represent more than 15 percent of the land use program, about 3,750 units, and a greater emphasis should be placed on mid-rise development.

## **ORGANIZATION OF REPORT**

After this introductory chapter, **Chapter II** provides an overview of historical and projected demographic trends. **Chapter III** summarizes the recent trends in residential development in the City of San Jose and Santa Clara County, and **Chapter IV** evaluates the prospects for residential development in Coyote Valley. **Appendix A** provides data on residential sales over the last 14 years and **Appendix B** describes a number of completed and planned mid- and high-rise projects.