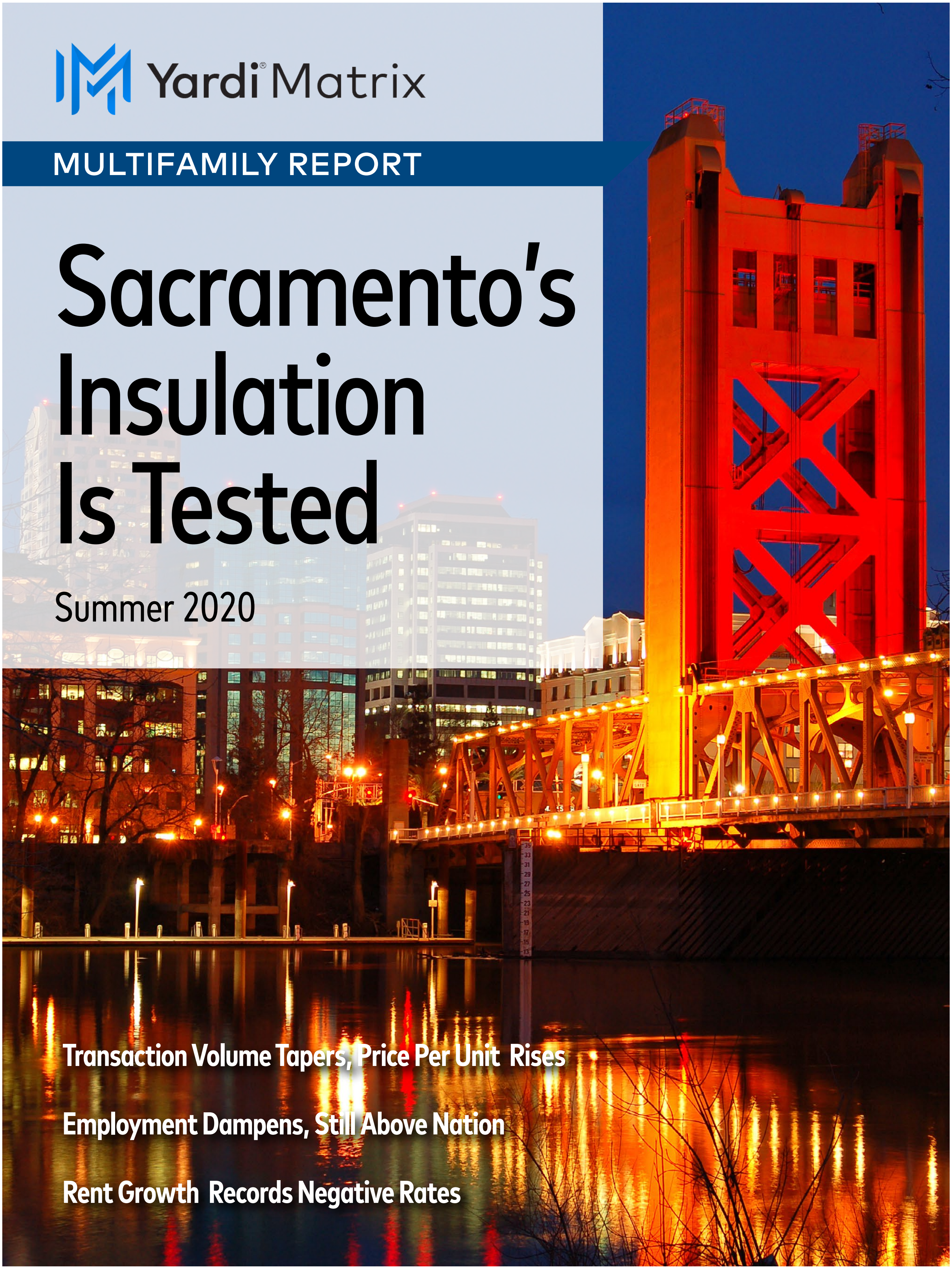
Yardi Matrix

MULTIFAMILY REPORT

Sacramento's Insulation Is Tested

Summer 2020



Transaction Volume Tapers, Price Per Unit Rises

Employment Dampens, Still Above Nation

Rent Growth Records Negative Rates

SACRAMENTO MULTIFAMILY

Yardi Matrix

Durable Jobs Offer A Hopeful Outlook

Despite an employment composition diverse enough to weather the brunt of the COVID-19 storm, Sacramento's multifamily market felt the early effects of the pandemic. From the highs of recent years, when its rent growth was among the leading ranks in the country, the market's average rent fell 0.3% on a trailing three-month basis through May—10 basis points lower than the U.S. rate, with the $1,524 average slightly above the $1,460 national amount.

Although the U.S. unemployment rate rose to 13.3% in May, and the number of unemployment claims filed throughout California totaled nearly 5.2 million in the first three months of the outbreak, the capital has one of the highest percentages of durable jobs thanks to its employment composition. Specifically, government jobs—the sector least affected by the pandemic—accounted for 24.2% of all positions, while professional and business services accounted for 13.4%. With the workforce for the latter more prone to working from home, jobs in this sector have done relatively well.

During the first five months of the year, multifamily deals in Sacramento totaled $249 million, a 31% drop in volume relative to the same time last year. The per-unit price rose 17.8%, surpassing the $200,000 mark for the first time. Meanwhile, developers delivered just 320 units and had more than 4,000 underway. Both metrics will likely remain low, at least in the short term.

Market Analysis | Summer 2020

Contacts

Jeff Adler
Vice President & General Manager of Yardi Matrix
Jeff.Adler@Yardi.com
(800) 303-615-3676

Jack Kern
Director of Research and Publications
Jack.Kern@Yardi.com
(800) 866-1124 x2444

Ron Brock, Jr.
Industry Principal, Matrix
JR.Brock@Yardi.com
(480) 663-1149 x2404

Author

Anca Gagiuc
Associate Editor

On the cover: Photo by Kirkikis/iStockphoto.com

Recent Sacramento Transactions

Fountains at Point West

City: Sacramento, Calif.
Buyer: Bridge Investment Group
Purchase Price: $85 MM
Price per Unit: $251,180

Landing at College Square

City: Sacramento, Calif.
Buyer: MG Properties Group
Purchase Price: $65MM
Price per Unit: $239,815

Cambridge House

City: Davis, Calif.
Buyer: Vaughn Management
Purchase Price: $42 MM
Price per Unit: $300,000

Rosemont Terrace

City: Sacramento, Calif.
Buyer: Positive Investments
Purchase Price: $16 MM
Price per Unit: $157,000

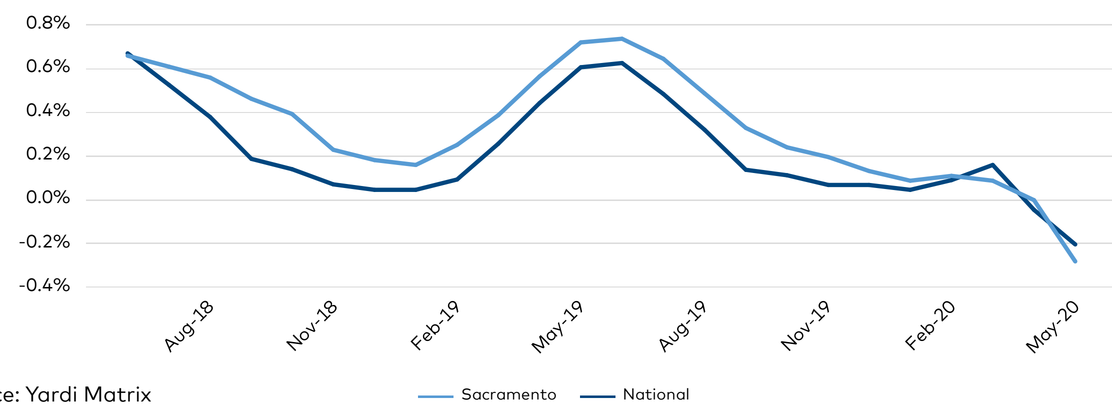
RENT TRENDS

- Rents in the state capital slid 0.3% to $1,524 on a trailing three-month basis through May. Meanwhile, the U.S. rate declined 0.2% to $1,460. Though leading the nation in rent growth not long ago, Sacramento's trend has turned negative for the first time since 2013. In line with gateway markets such as Los Angeles, Boston and San Francisco, the average rent in the Lifestyle segment registered the largest decrease, down 0.5% to $1,802, while Renter-by-Necessity rents slid 0.1% to $1,524.

- In recent years, Sacramento's rent growth has maintained a decent advantage over the U.S. rate, but the pattern dissolved during the pandemic. Going further, the trend will likely remain affected. Officials have extended the statewide moratorium on residential evictions to July 28.

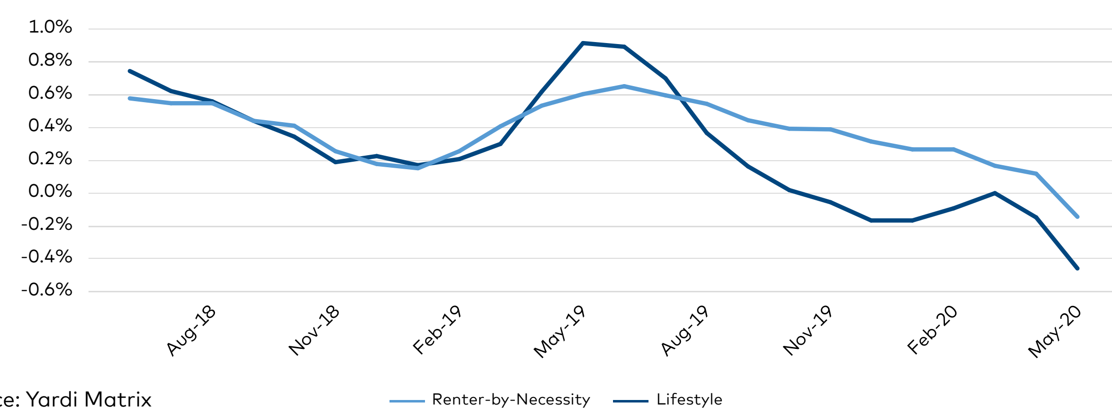
- The most sought-after areas remained the trio of neighboring eastern submarkets Central Davis (up 4.3% to $2,285), Greater Davis (up 4.9% to $2,261) and Midtown (up 1.8% to $2,203). The most affordable average rents were recorded in Parkway/South Sacramento (up 1.3% to $1,102) and Mira Loma/Marconi (up 7.6% to $1,137). The latter also marked the metro's highest performance over the 12 months ending in May.

Sacramento vs. National Rent Growth (Trailing 3 Months)



Source: Yardi Matrix

Sacramento Rent Growth by Asset Class (Trailing 3 Months)



Source: Yardi Matrix

ECONOMIC SNAPSHOT

- The impact of COVID-19 pushed the unemployment rate up to 13.3% in May, while unemployment claims filed over the first three months of the pandemic totaled nearly 5.2 million across the state.

- Employment growth had been moderating since the end of 2018, with the rate climbing only 1.6%, or 11,500 jobs, in the 12 months ending in March—20 basis points above the national average. Although the fallout from COVID-19 is expected to hit most markets, Sacramento is one of the metros with the highest percentage of durable jobs. Its government and professional and business services sectors account for 37.6% of the metro's employment composition, as those sectors are better insulated than others.

- The metro received an $89 million federal stimulus under the CARES Act, while persons who are residing in the U.S. illegally were given the possibility to apply for disaster relief payments of up to $1,000 per household under Gov. Gavin Newsom's one-time $75 million fund.

Sacramento Employment Share by Sector

		Current Employment	
Code	Employment Sector	(000)	% Share
40	Trade, Transportation and Utilities	163	15.9%
60	Professional and Business Services	137	13.4%
90	Government	247	24.2%
65	Education and Health Services	168	16.4%
55	Financial Activities	54	5.3%
30	Manufacturing	37	3.6%
15	Mining, Logging and Construction	66	6.5%
50	Information	12	1.2%
80	Other Services	34	3.3%
70	Leisure and Hospitality	106	10.4%

Sources: Yardi Matrix, Bureau of Labor Statistics

Population

- Sacramento gained 18,520 new residents in 2019—up 0.8% and nearly three times the 0.3% national rate. Growth was mostly boosted by domestic migration.

- Between 2016 and 2019, the state capital gained 71,320 new residents, for a 3.1% uptick.

Sacramento vs. National Population

	2016	2017	2018	2019
National	323,071,342	325,147,121	327,167,434	328,239,523
Sacramento Metro	2,292,410	2,320,381	2,345,210	2,363,730

Sources: U.S. Census, Moody's Analytics

SUPPLY

- Sacramento had 4,091 units underway as of May. Construction has been one of the leading job growth drivers in recent years in the metro. However, that was mostly due to commercial activities, as since 2012 just 7,000 units have come online.

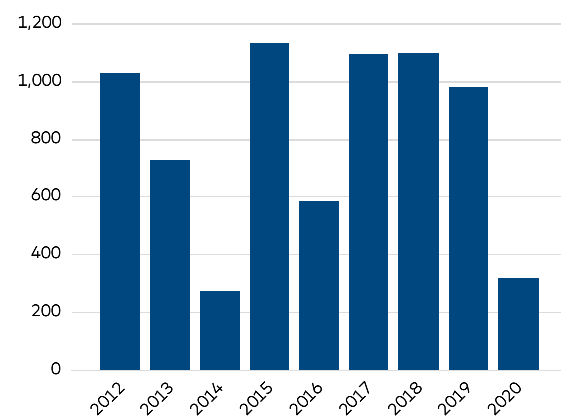
- Developers added 320 units to the metro's stock in the first five months of 2020, 0.2% of total stock and 50 basis points below the national rate. More than 2,500 units are slated for completion by year's end, but even though homebuilding has been deemed essential throughout the state, delays will likely impact the bulk of projects currently underway.

- Hot areas for new development are centered around the CBD (1,153 units underway), Greater Folsom/El Dorado Hills (834 units) and Natomas (713 units) submarkets, which when combined total more than half of the pipeline.

- The bulk of under construction multifamily projects has been geared toward the Lifestyle segment, however, coronavirus' impact on the local economy strengthened demand for RBN apartments and caused occupancy to drop in the upscale segment, despite landlords offering rent reductions and concessions.

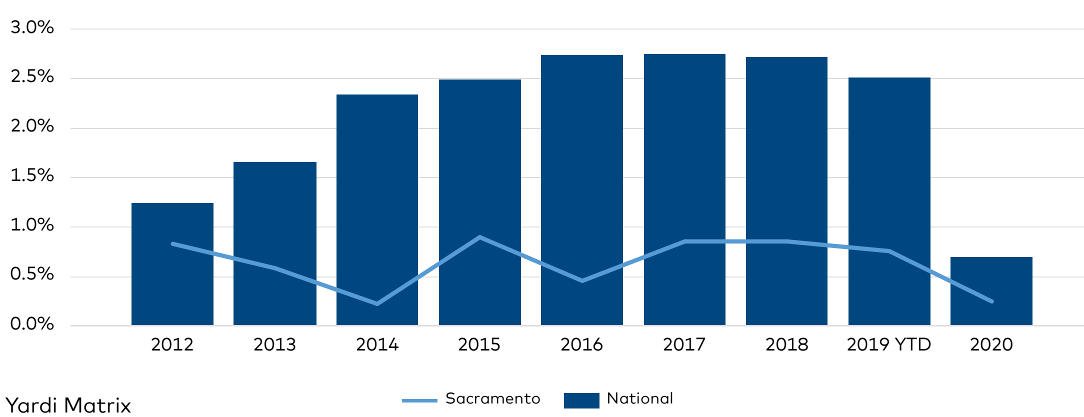
- The largest multifamily project underway is Weidner Investment Services' Sacramento Commons, a 436-unit asset located in the CBD and built with the help of a nearly $61 million loan funded by Wells Fargo.

Sacramento Completions (as of May 2020)



Source: Yardi Matrix

Sacramento vs. National Completions as a Percentage of Total Stock (as of May 2020)



Source: Yardi Matrix

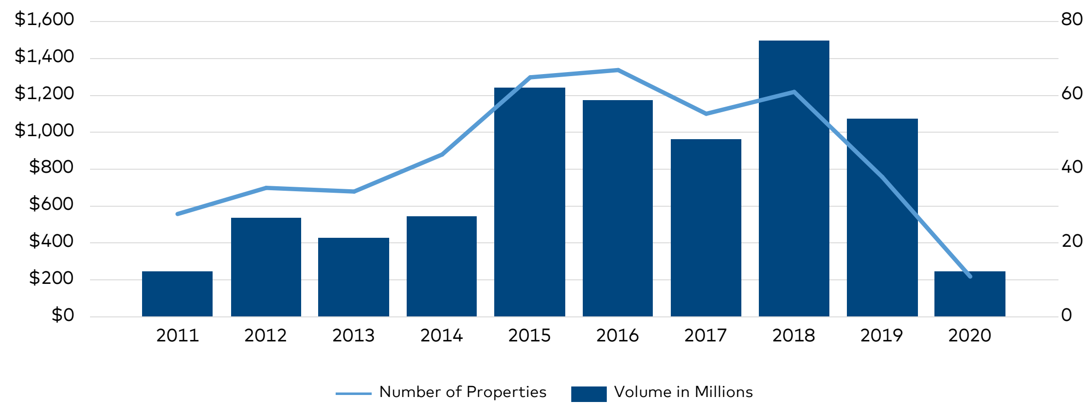
TRANSACTIONS

- Some $249 million in multifamily assets traded in Sacramento in the first five months of 2020, following last year's nearly $1.1 billion transaction volume. Investors have been equally drawn to upscale and working-class properties—of the 11 properties that changed hands during this time, six were Renter-by-Necessity assets.

- Unlike the national trend, which marked a 1.9% decline in the per-unit price, in Sacramento, the average per-unit price surpassed the $200,000 mark for the first time—with a 17.8% jump—clocking in at $212,650 in May. A drop of 31% was registered in the volume of sales relative to 2019's first five months.

- Bridge Investment Group's $85 million purchase of Fountains at Point West was the year's largest deal. This was the company's second acquisition in the metro after last October; it previously acquired the 368-unit The Creek at 2645 community in North Sacramento for $72 million.

Sacramento Sales Volume and Number of Properties Sold (as of May 2020)



Source: Yardi Matrix

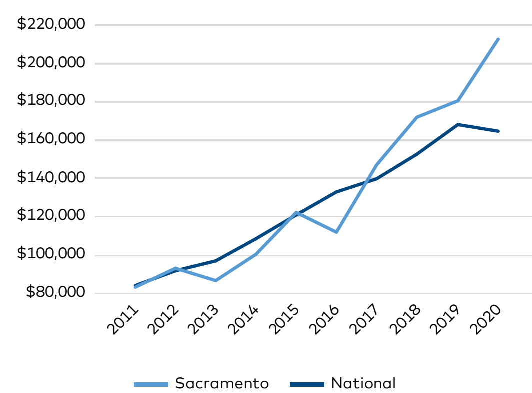
Top Submarkets for Transaction Volume[1]

Submarket	Volume ($MM)
Encina/Ethan/Woodside	160
Natomas	141
Pocket/West Greenhaven	97
Florin/Southeast Sacramento	93
North Sacramento	72
Laguna West	65
Foothills Farms/West Citrus Heights	62

Source: Yardi Matrix

[1] From June 2019 to May 2020

Sacramento vs. National Sales Price per Unit



Source: Yardi Matrix

What Draws Investors' Attention to Western Markets

By Adina Marcut

San Diego-based MG Properties Group focuses on the acquisition, development, rehabilitation and management of apartment communities throughout the Western U.S. Since 2017, the company has acquired nearly $3 billion worth of apartment properties on the West Coast. Earlier in March, MG Properties purchased a 270-unit community in Sacramento, expanding its local portfolio to nearly 1,000 units. CIO Paul Kaseburg talks about investing in the area.

MG Properties Group recently closed a deal in Sacramento. Are you planning to expand your West Coast portfolio?

We tend to be net buyers throughout market cycles and are continuing to actively pursue acquisitions in all Western states. We target properties in locations with strong job growth prospects, a limited supply pipeline and high barriers to entry. As a vertically integrated owner/operator, we use feedback from our existing portfolio to inform our investment decisions and target properties and locations that we believe have the best opportunities for solid, sustained performance.

What makes smaller Western markets like Sacramento, Inland Empire and Orange County suitable for multifamily investment?

Much of the development during this last cycle has been focused on core urban locations in gateway markets. The affordability of secondary markets has driven population and job growth, creating strong demand combined with less competition from new supply.

Tell us more about your investment strategy.

The bulk of our equity capital is syndicated from a broad group of private investors, family offices and wealth advisers. We are long-term cash-flow oriented investors and focus on properties that provide both potential upside as well as stability during market downturns. As owners/operators, we target properties where we can add value through value-add improvements and by implementing our hands-on management approach. We use moderate leverage and match our capitalization plan with the business strategy for each asset.

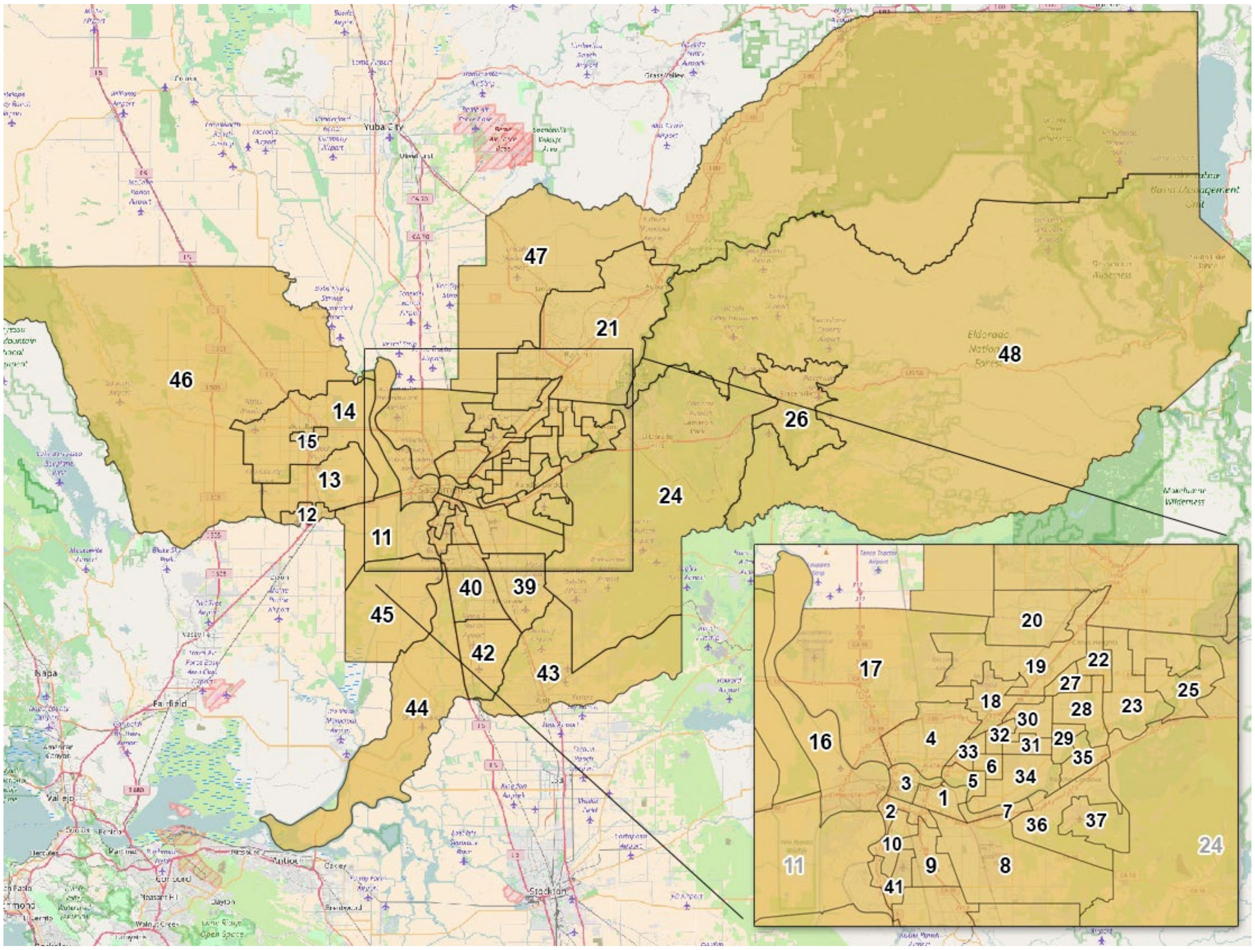
How did the health crisis impact the California markets you are active in?

Within California, the performance of our regions has varied significantly. Los Angeles and the Bay Area have been disproportionately affected by the crisis, while the influence on other markets has been more moderate. Portfolio performance so far tends to be most impacted in submarkets with a high concentration of job losses due to COVID-19 and those with more polarized political environments.

What are your expectations for investment on the West Coast?

We continue to be strong believers in the long-term growth potential of our markets in the Western states. Western markets tend to have relatively higher barriers to entry and they have benefited from sustained job growth, which we do not expect to change due to the COVID-19 crisis.

SACRAMENTO SUBMARKETS



Area No.	Submarket
1	Midtown
2	Broadway Corridor
3	Central Business District
4	North Sacramento
5	Encina/Ethan/Woodside
6	Arden Gardens/Arden Terrace
7	La Riviera
8	Florin/Southeast Sacramento
9	Parkway/South Sacramento
10	Land Park
11	Pocket/West Greenhaven
12	Central Davis
13	Greater Davis
14	North Woodland
15	South Woodland
16	North West Sacramento

Area No.	Submarket
17	Natomas
18	North Highlands
19	Foothills Farms/West Citrus Heights
20	Antelope
21	Rocklin/Roseville
22	Central Citrus Heights
23	Fair Oaks
24	Greater Folsom/El Dorado Hills
25	Central Folsom/South Orangeval
26	Placerville
27	Southwest Citrus Heights
28	Northeast Carmichael/West Fair Oaks
29	Southeast Carmichael
30	West Carmichael
31	Arcade Village/Mission
32	Mira Loma/Marconi

Area No.	Submarket
33	Bellview/Howe Edison
34	Arden Manor/Sierra Oaks Vista
35	North Rancho Cordova
36	South Rancho Cordova/Rosemont
37	Mather Airport
39	Elk Grove
40	Laguna West
41	East Greenhaven/South Land Park
42	Franklin/Laguna
43	Galt
44	Outlying Sacramento County
45	South Yolo County
46	Western Yolo County
47	Outlying Placer County
48	Outlying El Dorado County

DEFINITIONS

Lifestyle households (renters by choice) have wealth sufficient to own but have chosen to rent. Discretionary households, most typically a retired couple or single professional, have chosen the flexibility associated with renting over the obligations of ownership.

Renter-by-Necessity households span a range. In descending order, household types can be:

- *A young-professional*, double-income-no-kids household with substantial income but without wealth needed to acquire a home or condominium;
- *Students,* who also may span a range of income capability, extending from affluent to barely getting by;
- *Lower-middle-income ("gray-collar") households,* composed of office workers, policemen, firemen, technical workers, teachers, etc.;
- *Blue-collar households,* which may barely meet rent demands each month and likely pay a disproportionate share of their income toward rent;
- *Subsidized households*, which pay a percentage of household income in rent, with the balance of rent paid through a governmental agency subsidy. Subsidized households, while typically low income, may extend to middle-income households in some high-cost markets, such as New York City;
- *Military households*, subject to frequency of relocation.

These differences can weigh heavily in determining a property's ability to attract specific renter market segments. The five-star resort serves a very different market than the down-and-outer motel. Apartments are distinguished similarly, but distinctions are often not clearly definitive without investigation. The Yardi® Matrix Context rating eliminates that requirement, designating property market positions as:

Market Position	Improvements Ratings
Discretionary	A+ / A
High Mid-Range	A- / B+
Low Mid-Range	B / B-
Workforce	C+ / C / C- / D

The value in application of the Yardi® Matrix Context rating is that standardized data provides consistency; information is more meaningful because there is less uncertainty. The user can move faster and more efficiently, with more accurate end results.

The Yardi® Matrix Context rating is not intended as a final word concerning a property's status—either improvements or location. Rather, the result provides reasonable consistency for comparing one property with another through reference to a consistently applied standard.

To learn more about Yardi® Matrix and subscribing, please visit www.yardimatrix.com or call Ron Brock, Jr., at 480-663-1149 x2404.

How do you | find properties to buy or develop?

Invest confidently using the industry's most comprehensive market intelligence service. Only Yardi Matrix continuously updates and verifies critical data for 17 million+ units within more than 90,000 multifamily properties in 133 U.S. metros that encompass 90% of the population.

YARDI

(800) 866-1144
YardiMatrix.com