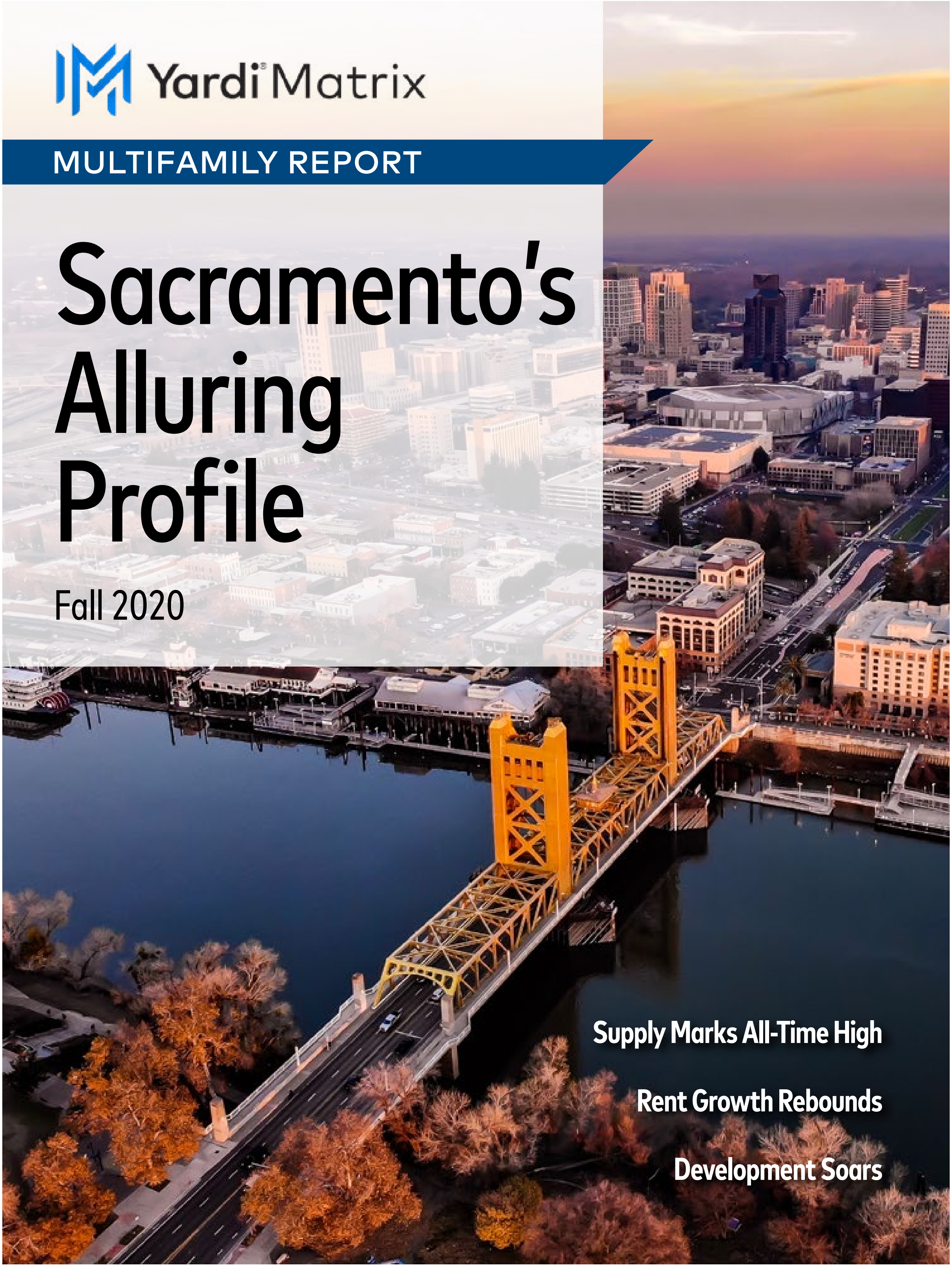
Yardi Matrix

MULTIFAMILY REPORT

# Sacramento's Alluring Profile

Fall 2020



Supply Marks All-Time High

Rent Growth Rebounds

Development Soars

# SACRAMENTO MULTIFAMILY

Yardi Matrix

# Strengthening Demand Boosts Rent Expansion

Sacramento's multifamily fundamentals held up well through the year's first three quarters, outperforming major markets and the nation. The average rent rose 0.6% on a trailing three-month basis through September to $1,575, while the U.S. rate inched up 0.1% to $1,463. The occupancy rate in stabilized properties pointed to solid demand, with the rate rising 10 basis points to 96.2%, in the year ending in August.

But the metro is not out of the woods yet, even though the unemployment rate rose from an all-time high of 14.0% in April to 11.6% in July. Moreover, due to a high number of unemployment claims, on Sept. 20, officials suspended the processing of new applications for two weeks. The job market marked the fourth-consecutive month of contractions, down 6.8% in July and 20 basis points above the U.S. rate. All sectors lost jobs, except financial activities. Government jobs and professional and business services–which account for a respective 24.0% and 14.3% of the workforce–have fared well, shrinking by 4.7% and 2.4%, respectively.

The pandemic has stalled sales activity. Just $341 million in multifamily assets traded through September, with the price per unit rising 11.2% to $200,606. Meanwhile, developers marked an all-time high in supply, with 1,460 units delivered and 4,678 underway. Accounting for these factors, we expect rents to rise 1.9% in 2020.

## Market Analysis | Fall 2020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### Recent Sacramento Transactions

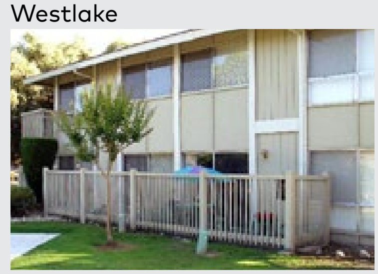
Fountains at Point West

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

Willow Grove

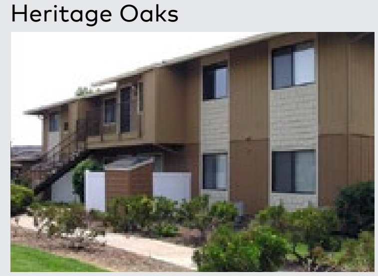
City: Sacramento, Calif.
Buyer: Western Management
Purchase Price: $53 MM
Price per Unit: $173,203

Westlake



City: Sacramento, Calif.
Buyer: Graceada Partners
Purchase Price: $24 MM
Price per Unit: $158,784

Heritage Oaks



City: Woodland, Calif.
Buyer: Affordable Housing Access
Purchase Price: $15 MM
Price per Unit: $122,500

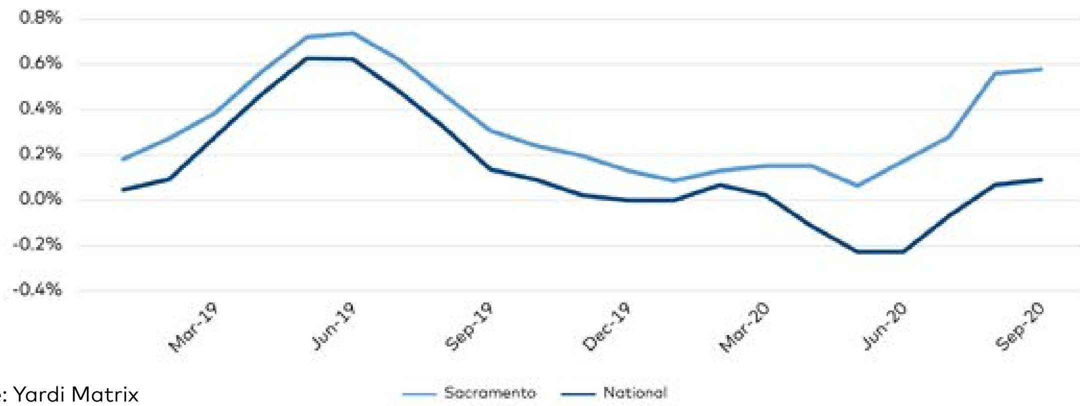
## RENT TRENDS

- The average Sacramento rent rose 0.6% to $1,575 on a trailing three-month basis through September for the second-consecutive month. Meanwhile, the national rate inched up 0.1% to $1,463. Robust demand for apartments—fueled by a new influx of Bay Area residents—coupled with historically limited inventory, has kept rent expansion positive in Sacramento throughout the year.

- The housing sector has performed well this year considering the struggles of the economy, especially in less-dense metros, such as Sacramento, which have experienced a new wave of in-migration of residents from larger markets. While the first half of the year recorded stronger demand for Renter-by-Necessity units, interest shifted in favor of Lifestyle properties in June. The average rent for upscale apartments led growth, up 0.8% on a trailing three-month basis through September to $1,880, and the average for RBN units rose 0.4% to $1,415 during the same period.

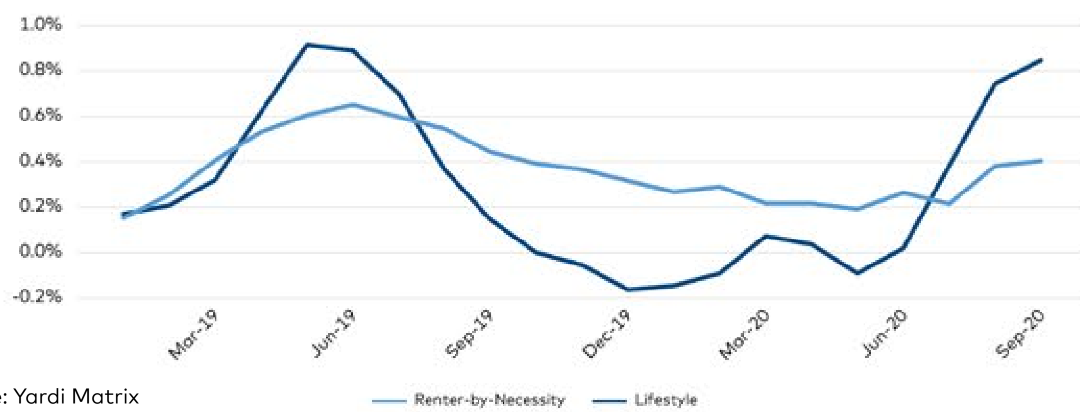
- All but five submarkets saw year-over-year rent increases, with Florin/Southeast Sacramento posting an 8.0% rise to $1,628. Rents rose in the most sought-after areas, too, led by Midtown (up 6.1% to $2,378), Central Davis (up 5.6% to $2,330) and Greater Davis (up 7.6% to $2,319). Similarly, the average rent rose in the most-affordable areas–Bellview/Howe Edison (up 3.2% to $1,147) and Parkway/South Sacramento (up 4.5% to $1,155).

**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

- Sacramento's unemployment rate has been on a slow and steady path to recovery since April. Unemployment marked an all-time high of 14.0% in April, and, by July, the rate had dipped to 11.6%. Preliminary data for August pointed to a 9.4% rate. The number of unemployment claims, which rose above the 8 million mark throughout the state, prompted local officials to suspend the processing of new unemployment applications for two weeks from Sept. 20, to catch up on the backlog of roughly 600,000 claims.

- Meanwhile, July marked the fourth-consecutive month of negative employment growth. The market contracted 6.8% in the 12 months ending in July, while the U.S. rate contracted 6.6%. All sectors lost jobs, except financial activities, which gained 1,300 positions. Leisure and hospitality shrunk by nearly one-third, and education and health services–representing 16.6% of the active workforce–declined by 6.9%. The metro's largest component—the public sector—which comprises 24.0% of the workforce, lost 4.7% of jobs.

- Gov. Gavin Newsom's reopening plan classifies counties in four tiers based on the level of risk. In early October, Sacramento was in the second tier, described as "substantial risk," with some nonessential indoor business operators remaining closed.

### Sacramento Employment Share by Sector

| | | Current Employment | |
|---|---|---|---|
| Code | Employment Sector | (000) | % Share |
| 55 | Financial Activities | 54 | 5.8% |
| 50 | Information | 11 | 1.2% |
| 30 | Manufacturing | 33 | 3.6% |
| 60 | Professional and Business Services | 132 | 14.3% |
| 15 | Mining, Logging and Construction | 66 | 7.1% |
| 80 | Other Services | 27 | 2.9% |
| 90 | Government | 222 | 24.0% |
| 65 | Education and Health Services | 154 | 16.6% |
| 40 | Trade, Transportation and Utilities | 148 | 16.0% |
| 70 | Leisure and Hospitality | 79 | 8.5% |

Sources: Yardi Matrix, Bureau of Labor Statistics

## Population

- Although moderating, Sacramento's population marked a 0.8% demographic increase in 2019, well above the 0.3% national rate.

- Demographic expansion in California's capital saw a 1.1% uptick in 2019.

### 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

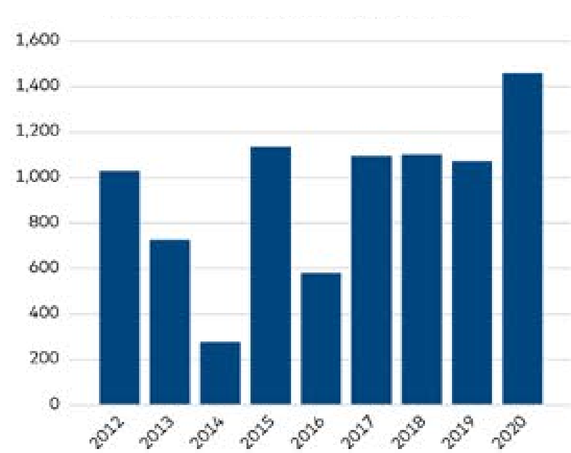
- Sacramento had 4,678 units underway in September, while deliveries, at 1,460 units year-to-date have been well above the metro's annual average of the past decade. That's 1.1% of the existing rental stock and 50 basis points below the national rate. The volume, which already marks an all-time high in the metro, despite the delays resulting from the health crisis, is poised to continue to grow, as 1,264 units are slated for completion by year-end.

- Incoming units are mostly polarized between upscale Lifestyle projects and several fully affordable communities. The composition caters to existing demand in the metro, which tilts in favor of the upscale segment based on the occupancy rate in stabilized properties. The rate inched up 10 basis points year-over-year as of August, to 96.2%. The increase was reflected in the Lifestyle segment—from 95.4% in August 2019 to 95.6% in August 2020—while the rate for RBN assets remained flat at 96.5% during the same period.

- Development activity remained most intense in the CBD area (954 units underway), Natomas (713 units) and Greater Folsom/El Dorado Hills/Shingle Springs (541 units). Combined, these three submarkets comprise more than half of the development pipeline.

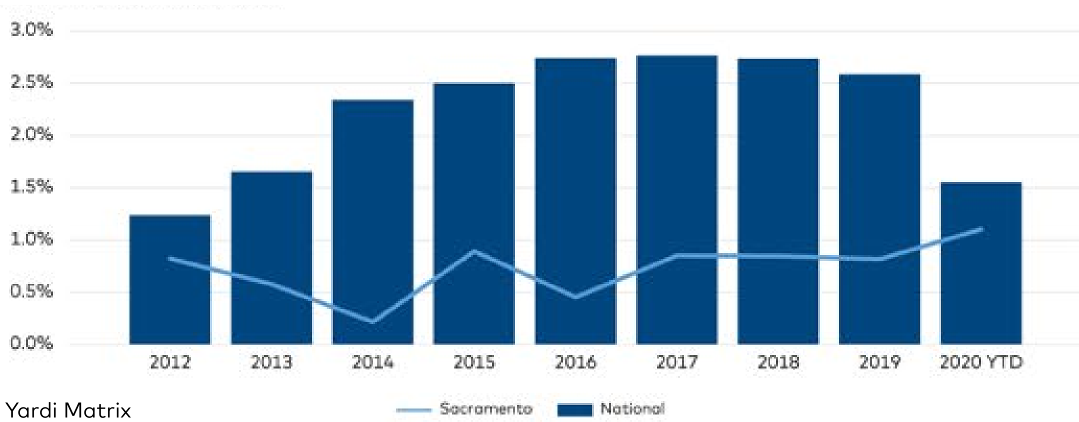
- The largest project delivered in 2020 through September was Harvest at Fiddyment Ranch, a 300-unit Life-style asset located in the Rocklin/Roseville submarket owned by USA Properties Fund.

**Sacramento Completions** (as of September 2020)




Source: Yardi Matrix

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

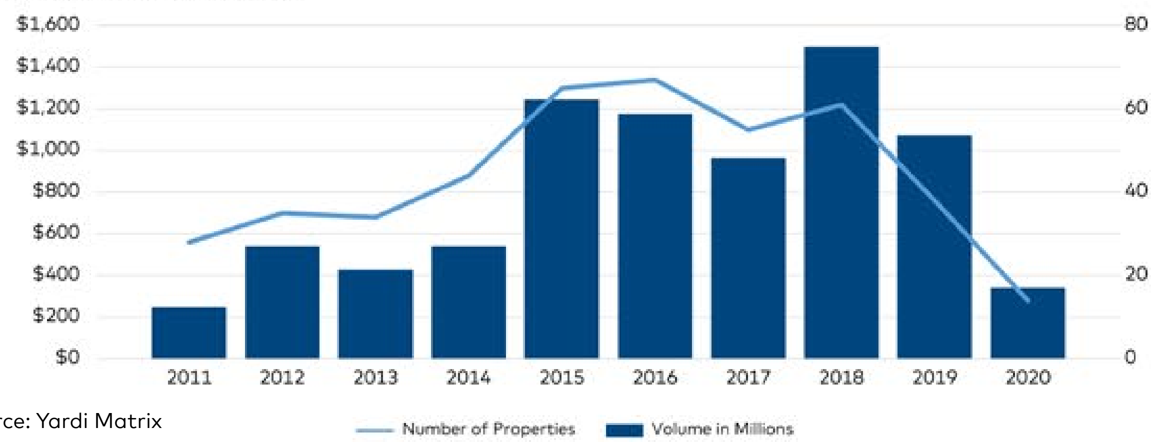



Source: Yardi Matrix

## TRANSACTIONS

- In the first nine months of 2020, some $341 million in multifamily assets traded in Sacramento. That's less than half of the volume traded through the same interval in 2019. Most deals took place in the first quarter, with transaction activity slowing considerably due to economic uncertainty–the second quarter actually saw an increase in sales volume, as nearly $153 million traded, but only three deals were inked. Activity further slowed during the third quarter, as only one sale was finalized.
- Investor interest was mostly in working-class Renter-by-Necessity properties as nine of the 14 properties that changed hands were RBN assets. Bucking the U.S. trend, which marked a 3.0% decline in the per-unit price, in Sacramento, the average price per unit rose 11.2% to $200,606.
- The Lily Co.'s sale of Westlake to Graceada Partners was the third quarter's only sale. The asset sold for $24 million, with an $18 million loan issued by California Bank of Commerce.

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




Source: Yardi Matrix

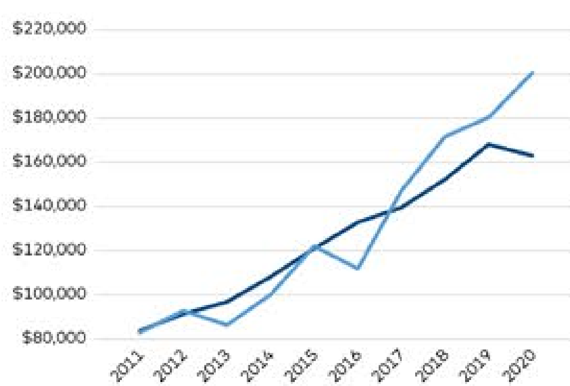
**Top Submarkets for Transaction Volume**[1]

| Submarket | Volume ($MM) |
|---|---|
| Encina/Ethan/Woodside | 177 |
| Natomas | 104 |
| Florin/Southeast Sacramento | 93 |
| North Sacramento | 72 |
| Laguna West | 65 |
| Central Davis | 42 |
| Pocket/West Greenhaven | 39 |

Source: Yardi Matrix

[1] From October 2019 to September 2020

**Sacramento vs. National Sales Price per Unit**




Source: Yardi Matrix

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MULTI-HOUSING NEWS

## How Sacramento Benefits from the Bay Area Exodus

By Evelyn Jozsa

Thanks to its proximity to the Bay Area, Sacramento, Calif., has been steadily growing in the past few years. Since the onset of the pandemic, Bay Area residents looking for more affordable options have chosen Sacramento as a place to live. Joe Muratore, co-founder & principal of Graceada Partners, talks about his company's latest acquisition in the metro and explains why multifamily assets are an appealing investment option in times of uncertainty.

*Why did you decide to invest in multifamily?*

The Westlake Apartments acquisition plays into our strengths in construction, repositioning and rebranding, so we felt like it was a great fit for our portfolio. While we have a lot of expertise with office buildings and retail centers, this gives us a new asset class to be in, in Sacramento and the Central Valley.

During COVID-19, we're finding that it is a good time to get a reasonable deal on multifamily real estate. There are fewer players in the game right now. Beyond that, people have been sitting on the sidelines waiting to see what's happening. Because of these conditions, we were able to get 10 percent better pricing on this acquisition.

*Do you plan to expand your Sacramento multifamily footprint?*

We do. We look for properties in great locations that are in need of significant updating.

*How does Sacramento fit into your investment strategy?*

Very well! Sacramento has emerged as one of the most stable and desirable cities to live in in America. It remains considerably more affordable than the Bay Area and has a very stable economy. It is the second-largest government center in America, after Washington, D.C. Rent prices have increased in Sacramento amid the pandemic as people flock there for more stable housing costs. It's an economy that is well-positioned both now and as we recover from the pandemic.

*How has your business strategy changed since the onset of the pandemic?*

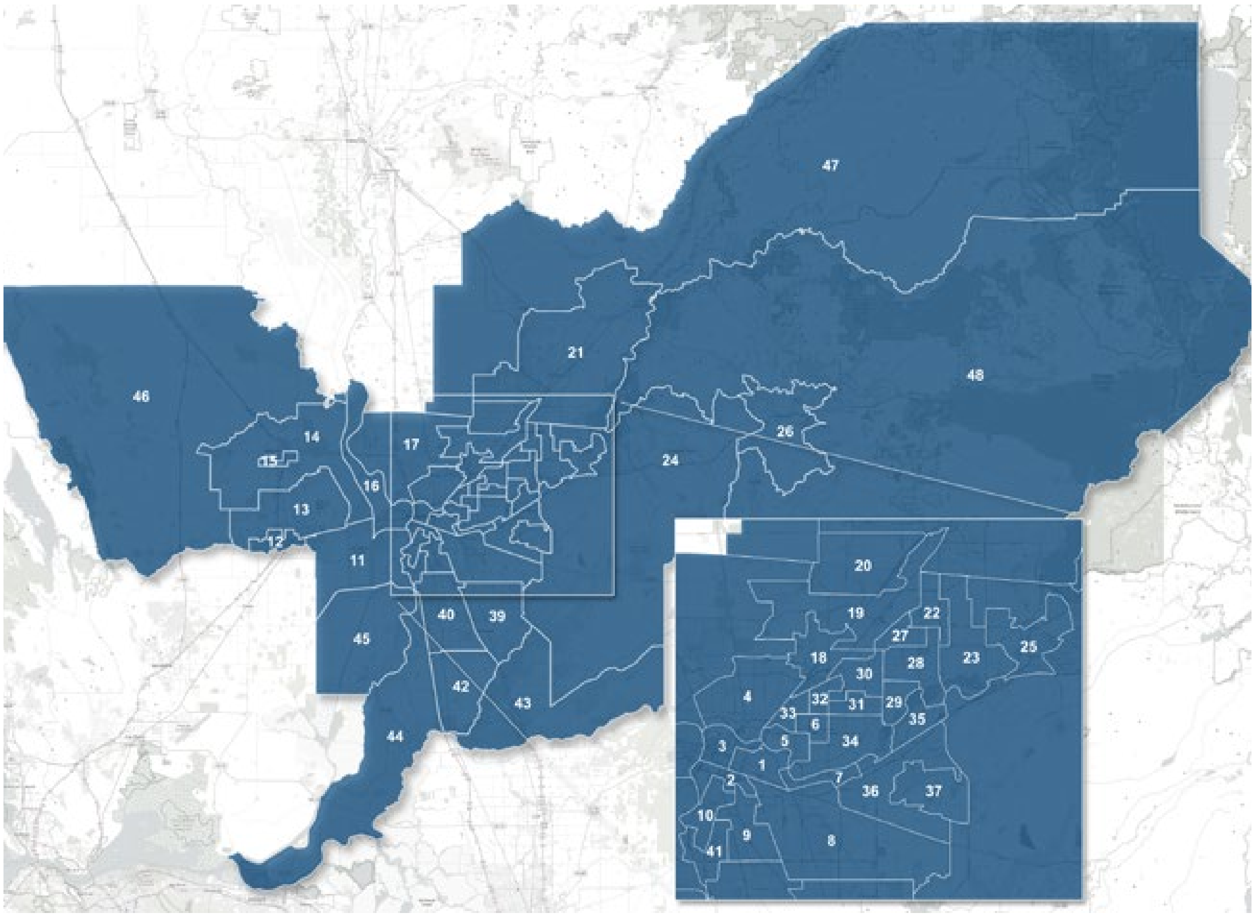
Being contrarian investors, we have taken an aggressive approach this year. The pandemic has highlighted the Central Valley—and especially Sacramento—as a desirable and affordable place to live. With people working from home, they are looking for more affordable options that still have some proximity to the Bay Area. Sacramento emerges as an excellent option in that equation.

*How do you expect the multifamily market in Sacramento/California to perform this year and in 2021, considering the current economic conditions?*

We expect trends already in place to accelerate. Looking at the state, we think there will be some turbulence over the next year or so, but, ultimately, California has a 3.5 million-unit housing shortage. Demand and occupancy in Sacramento remain very strong.

*(Read the complete interview on multihousingnews.com.)*

## 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 Wes |
| 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 September 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 September 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, September 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.

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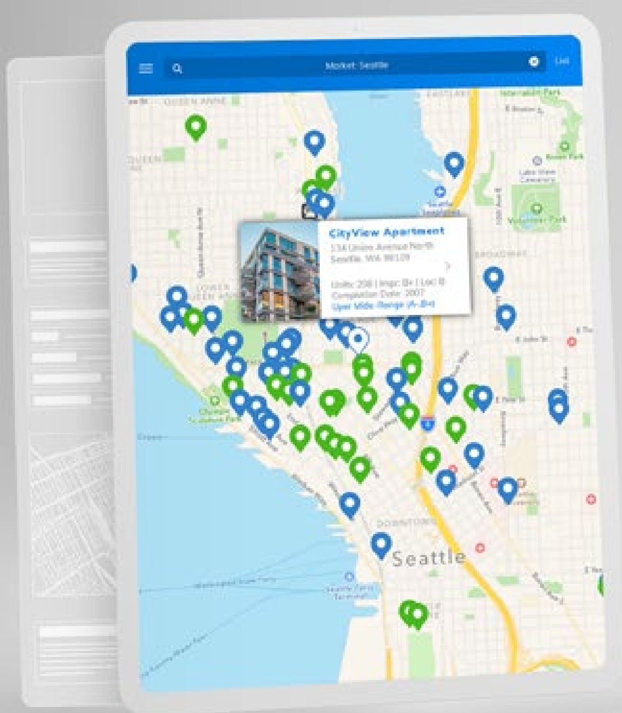


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