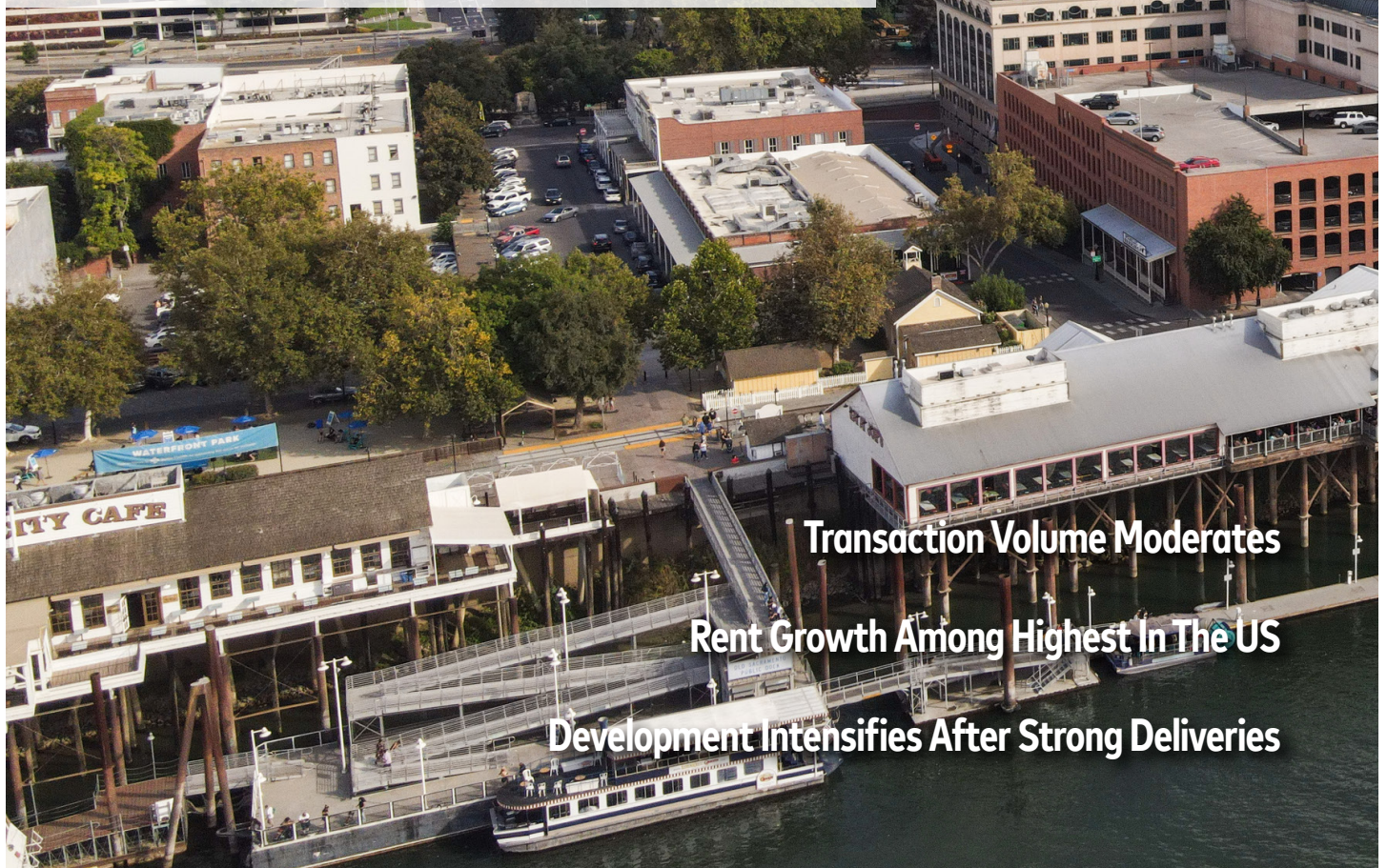


Sacramento: Rent Hikes Endure

Winter 2021



Transaction Volume Moderates

Rent Growth Among Highest In The US

Development Intensifies After Strong Deliveries

SACRAMENTO MULTIFAMILY



Strong Migration Aids Multifamily Market

Sacramento's multifamily market registered remarkable gains during the pandemic, with demand boosted by strong in-migration. The average rent rose 0.5% on a trailing three-month basis through January to \$1,634, while the national rate stayed flat at \$1,392. The metro's notoriously limited housing supply kept the occupancy rate in stabilized properties high, up 100 points year-over-year through December, to 96.8%.

The unemployment rate dropped to 6.7% in November, but December preliminary data pointed to 7.9%. The increase was correlated to a new spike in infections, that prompted Gov. Gavin Newsom to enforce a new set of restrictions. Employment growth in the 12 months ending in November marked a 7.9% contraction of the workforce, 70 basis points below the national rate. Financial activities—the only sector that gained jobs—expanded by 3.8% during the period. Newsom proposed the Equitable Recovery for California's Business and Jobs budget plan, a \$4.5 billion package that would aid the state's recovery.

2020 marked the best year in stock expansion, with 2,026 units delivered, and in January, 4,701 units were under construction. Meanwhile, \$918 million in multifamily assets traded for a price per unit that rose 27.4% to \$229,841.

Market Analysis | Winter 2021

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Recent Sacramento Transactions

Ascent at the Galleria



City: Roseville, Calif.
Buyer: Davlyn Investments
Purchase Price: \$95 MM
Price per Unit: \$347,985

Larkspur Woods Condos



City: Sacramento, Calif.
Buyer: Sequoia Equities
Purchase Price: \$71 MM
Price per Unit: \$306,034

Avion



City: Rancho Cordova, Calif.
Buyer: Jackson Square Properties
Purchase Price: \$55 MM
Price per Unit: \$262,019

Vista Torre

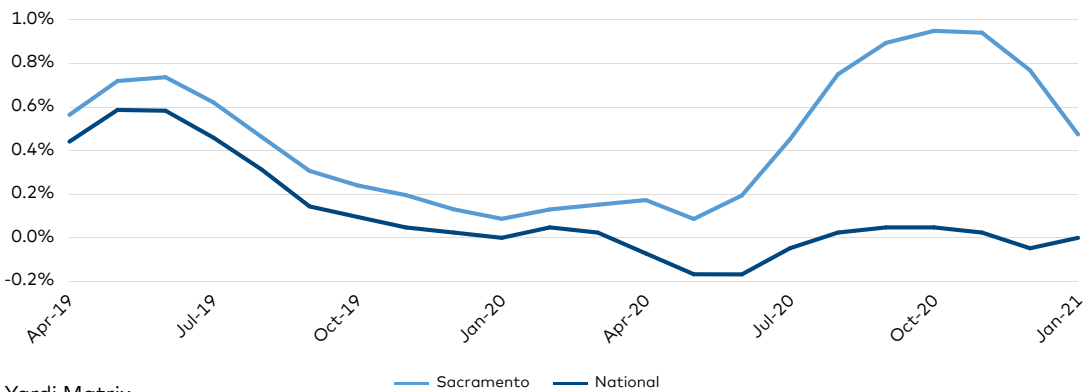


City: Carmichael, Calif.
Buyer: Realty Center Management
Purchase Price: \$23 MM
Price per Unit: \$284,063

RENT TRENDS

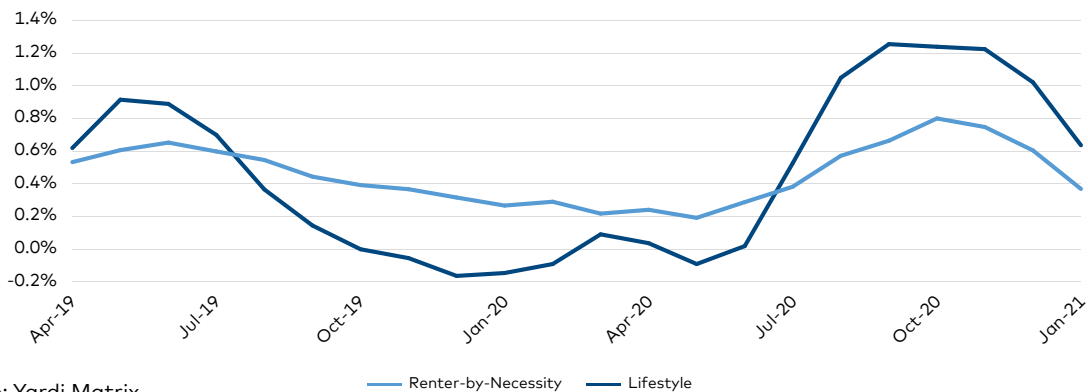
- ▶ Sacramento rents rose 0.5% on a trailing three-month (T3) basis through January to \$1,634, while the national average remained virtually flat for the seventh consecutive month at \$1,392. Although the metro has been consistently outpacing the U.S. rate in recent years, health crisis conditions actually caused a spike in rent performance. The occupancy rate in stabilized properties rose 100 basis points year-over-year through December, to 96.8%.
- ▶ The multifamily market in California's capital has surfaced as one of the leading markets for rent growth during the health crisis, thanks to its geographical position close to high-cost, dense gateway cities and its relative affordability. Lifestyle rents led growth from mid-2020, as the influx of residents relocating to Sacramento have jobs that allow for remote work. The average rent in the segment rose 0.6% on a T3 basis through January to \$1,969. Renter-by-Necessity rates during the period advanced 0.4% to \$1,457.
- ▶ The most sought-after submarket was Midtown (up 9.1% year-over-year to \$2,615), marking one of the largest increases. Greater Davis (down 0.9% year-over-year to \$2,251) posted the largest rent decline. Following a 6.6% uptick to \$1,173, Parkway/South Sacramento was one of the most affordable areas. We expect rents in Sacramento to rise 3.4% in 2021.

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 unemployment rate in Sacramento rebounded to 6.7% in November, but December preliminary data pointed to a rise to 7.9%, primarily due to a new spike in infections, which prompted Gov. Newsom to order a new set of restrictions in early December.
- ▶ Employment movement in the 12 months ending in November was 70 basis points weaker than the -7.2% national rate. However, the shift marked the second consecutive month of steady recovery from the -9.8% rate registered in September. Financial activities was the only sector that gained jobs, up 3.8%, or 2,000 jobs, year-over-year through November. The largest contraction was in the leisure and hospitality sector, down 22.7%, and other services. The latter lost 25.1% of its workforce. Manufacturing and information followed, shrinking by 11.3% and 11.1%, respectively. Sacramento's largest labor component—government—lost 1.9% of jobs to 24.8% of workforce.
- ▶ To help the state during the pandemic, in January, the state administration proposed a \$4.5 billion Equitable Recovery for California's Business and Jobs budget plan that includes \$575 million in cash grants, \$630 million in tax relief and \$135 million in low-interest loans.

Sacramento Employment Share by Sector

Code	Employment Sector	Current Employment	
		(000)	% Share
55	Financial Activities	55	5.7%
60	Professional and Business Services	137	14.2%
50	Information	10	1.0%
15	Mining, Logging and Construction	66	6.8%
30	Manufacturing	33	3.4%
90	Government	239	24.8%
80	Other Services	26	2.7%
40	Trade, Transportation and Utilities	157	16.3%
65	Education and Health Services	157	16.3%
70	Leisure and Hospitality	83	8.6%

Sources: Yardi Matrix, Bureau of Labor Statistics

Population

- ▶ Sacramento gained 18,520 residents in 2019, for a 0.8% uptick, nearly triple the 0.3% national rate.
- ▶ Despite the softening in demographic expansion, Sacramento is bolstered by the inflow of residents from the Bay Area in search of more affordable housing options.

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

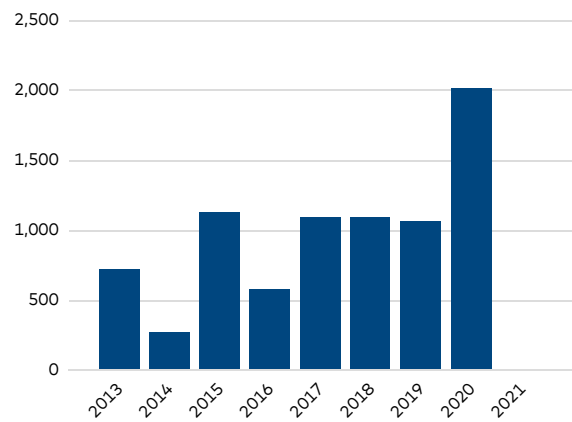
Sources: U.S. Census, Moody's Analytics

SUPPLY

- ▶ The metro's development pipeline had 4,701 units under construction in January 2021 and another 48,600 in the planning and permitting stages. Deliveries reached 2,026 units in Sacramento in 2020 for a 1.5% uptick of the total stock, marking the strongest year for inventory expansion in a decade. Since 2013, a little more than 8,000 units have come online in the metro.
- ▶ Sacramento's proximity to the Bay Area made the metro a strong option for relocation to cheaper housing. The metro enjoyed the spillover effect from higher-cost cities where the option of remote work led to a downshift in rents and occupancy.
- ▶ Last year, developers focused on the Lifestyle segment. The bulk of projects currently underway also targets Lifestyle assets, with just 436 units in one RBN property and six fully affordable communities totaling 474 units. Deliveries included one fully affordable community with 90 units.
- ▶ Development activity was most intense in the Central Business District, where 1,366 units

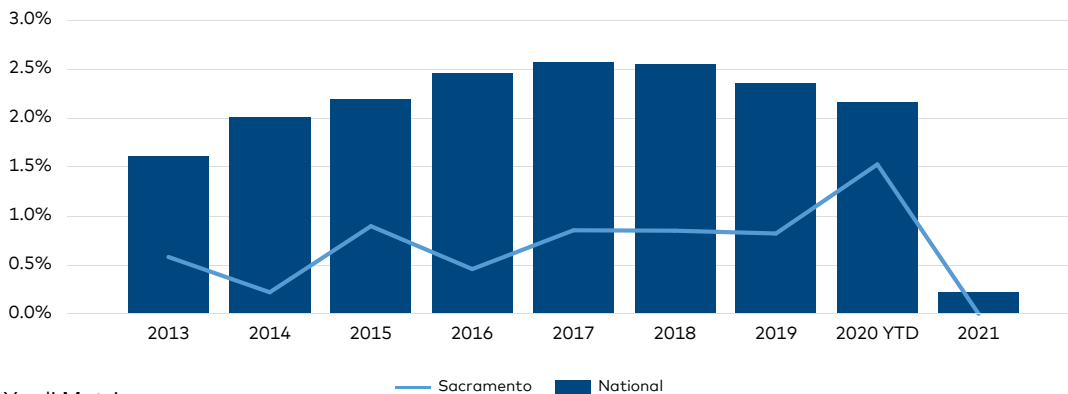
were underway in January. The largest projects under construction are also located in this submarket: McCormack Baron Salazar's mixed-income, 487-unit Mirasol Village and Weidner Investment Services' 436-unit Sacramento Commons, both slated for delivery at the end of 2022.

Sacramento Completions (as of January 2021)



Source: Yardi Matrix

Sacramento vs. National Completions as a Percentage of Total Stock (as of January 2021)



Source: Yardi Matrix

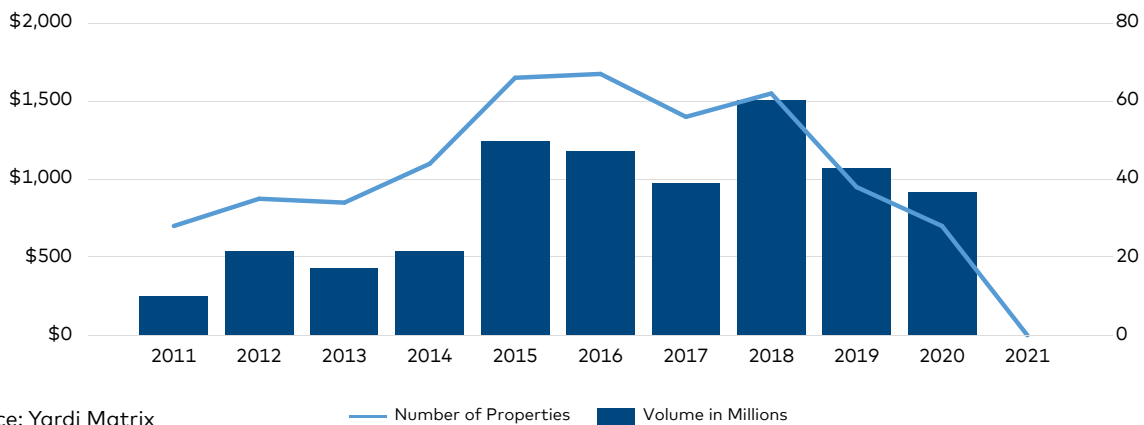
TRANSACTIONS

- ▶ Some \$918 million in multifamily assets traded in Sacramento in 2020. After a slower second quarter, when investors remained cautious due to the ongoing health crisis' implications on the rental market, transaction activity picked up. The fourth quarter picked up even more steam, as more than \$436 million worth of multifamily properties changed hands.
- ▶ Despite investor interest geared toward Rent-by-Necessity assets—17 of the 28 sales were

for RBN properties—the price per unit rose 27.4% year-over-year through December, to \$229,841. Meanwhile, the U.S. figure marked a 2.2% increase to \$157,900.

- ▶ With two Lifestyle properties trading in Natomas, the submarket led transactions in dollar volume (\$163 million).

Sacramento Sales Volume and Number of Properties Sold (as of January 2021)



Source: Yardi Matrix

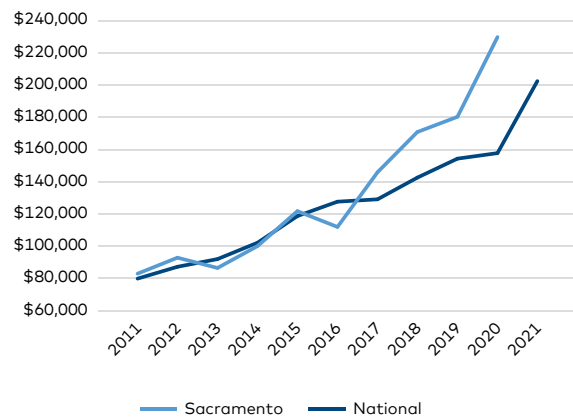
Top Submarkets for Transaction Volume¹

Submarket	Volume (\$MM)
Natomas	163
Encina/Ethan/Woodside	138
Central Business District	118
Rocklin/Roseville	95
Laguna West	65
South Rancho Cordova/Rosemont	55
Pocket/West Greenhaven	39

Source: Yardi Matrix

¹ From February 2020 to January 2021

Sacramento vs. National Sales Price per Unit



Source: Yardi Matrix

Top California Markets for Construction Activity

By Razvan Cimpean

One of the immediate effects at the start of the health crisis, as most states took action to prevent the spread of the virus in March and April, was that construction activity slowed down. While deliveries did not meet initial expectations in all markets, it's important to note that they only saw a 4.9 percent drop from the previous year, to more than 315,000 units, as states came out of lockdown, according to Yardi Matrix data.

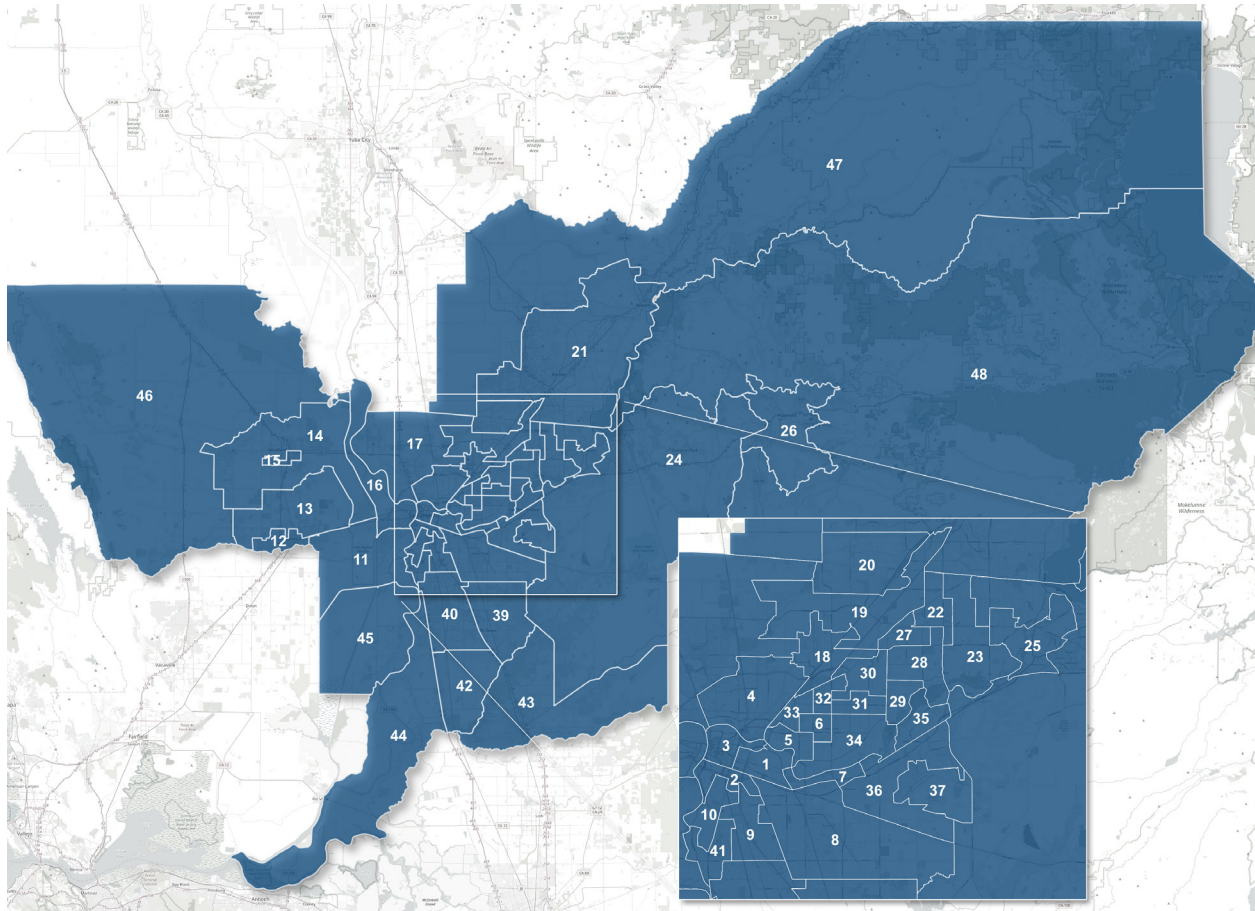
Rank	Market	Units Underway (as of January 2021)	Prop. Underway (as of January 2021)
1	Los Angeles	25,640	182
2	Bay Area—East and South Bay	24,019	103
3	San Francisco	9,497	54
4	San Diego	8,300	35
5	Orange County	6,686	27
6	Sacramento	4,701	23
7	Inland Empire	3,240	19
8	Central Valley	2,072	16
9	Central Coast	678	5

SACRAMENTO

Thanks to its robust government sector and lower multifamily rates compared to the more expensive California markets, Sacramento enjoyed moderate demographic and rent growth before the pandemic. But as the state has been hit hard by the current health crisis and ensuing economic volatility, Sacramento has also felt the impact. Some 70,000 jobs were lost in the 12 months ending in November, equal to a 6.4 percent drop. Meanwhile, the unemployment rate rose significantly at the start of the pandemic, to a record high of 14 percent in April, the highest level in more than a decade.



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 Orangevale
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 December 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 December 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, December 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.

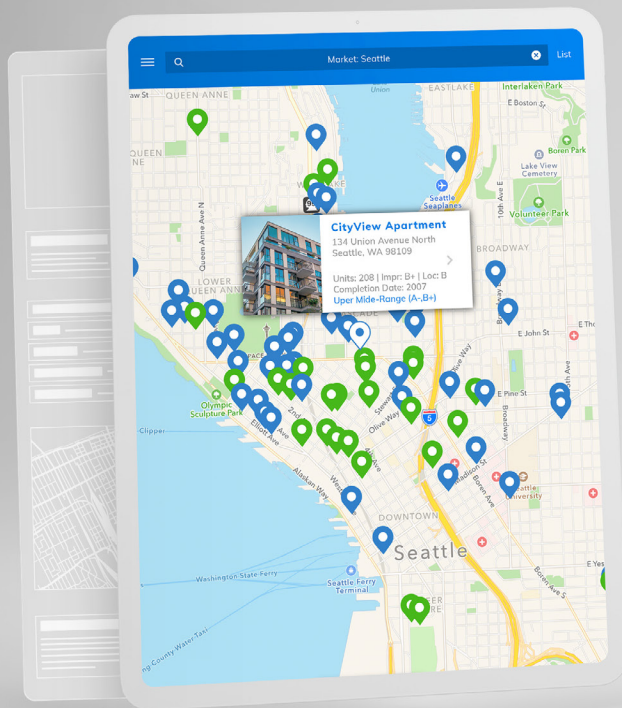
The Yardi® Matrix Context rating is not intended as a final word concerning a property's status—either improvements or location. Rather, the result provides reasonable consistency for comparing one property with another through reference to a consistently applied standard.

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