

# Sacramento: Holding Steady

Fall 2021



YoY Rent Growth in Double Digits

Investors Drawn to Value-Add Plays

Development Continues, Deliveries Dip



# SACRAMENTO MULTIFAMILY



## Limited Inventory Pressures Occupancy

Sacramento's multifamily fundamentals paint the image of a healthy market, despite the ongoing crisis. Rents posted a 1.4% increase on a trailing three-month basis through October, while on an annual basis, rate performance improved 15.4%, to an overall average of \$1,882. Moreover, the occupancy rate in stabilized properties was higher than it has ever been, clocking in at 97.3% in September.

Sacramento maintained a steady recovery in 2021, with the unemployment rate improving to 5.5% in September, according to the Bureau of Labor Statistics. The rate was behind the 4.6% U.S. average, but ahead of the 7.5% state figure. The job market posted a 3.8% increase in the 12 months ending in August, and although it was behind the 4.6% U.S. average, it marked the third-consecutive month of expansion. During the period, 41,300 jobs were added in Sacramento, nearly half of which were in the leisure and hospitality (11,500 jobs) and construction (8,600) sectors.

Development remained elevated, but deliveries softened: Through October, just 614 units were added to the existing stock and another 8,778 were underway. Investors traded \$753 million in multifamily assets during the period, but their focus on working-class properties pushed the annual per-unit price down by 33.6% to \$204,174.

## Market Analysis | Fall 2021

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### Recent Sacramento Transactions

#### Autumn Ridge



City: Citrus Heights, Calif.  
Buyer: Kennedy Wilson  
Purchase Price: \$120 MM  
Price per Unit: \$292,683

#### Harvest at Fiddymnt Ranch



City: Roseville, Calif.  
Buyer: Bridge Partners  
Purchase Price: \$111 MM  
Price per Unit: \$371,152

#### Continental Terrace



City: Sacramento, Calif.  
Buyer: Positive Investments  
Purchase Price: \$47 MM  
Price per Unit: \$332,746

#### Park Knoll

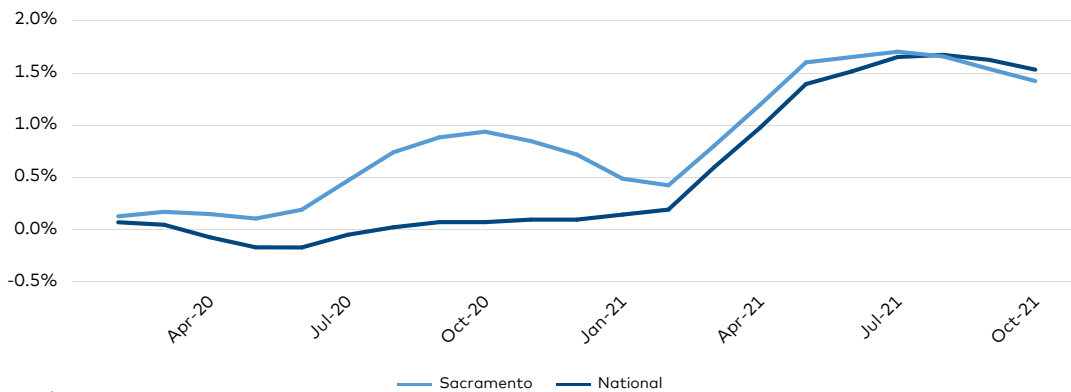


City: Rancho Cordova, Calif.  
Buyer: Trinity Property Consultants  
Purchase Price: \$25 MM  
Price per Unit: \$156,250

## RENT TRENDS

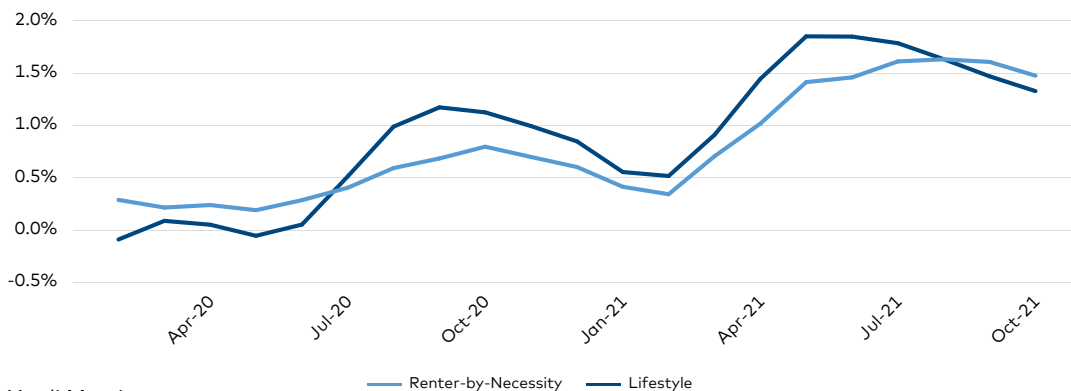
- ▶ Sacramento rents rose 1.4% on a trailing three-month (T3) basis through October, to \$1,882, above the \$1,572 U.S. average and trailing the national rate by 10 basis points. On a year-over-year basis, the dynamic was reversed: Sacramento to rose by 15.4%, above the 13.7% U.S. average.
- ▶ Renter-by-Necessity figures led growth, up 1.5% on a T3 basis through October to \$1,650. Lifestyle rents rose 1.3% to \$2,292.
- ▶ Unlike rent performance, the occupancy rate in stabilized properties showed greater interest for upscale units, with the rate rising 80 basis points in the 12 months ending in September, to 97.3%. RBN occupancy increased 40 basis points to 97.4%. Overall, occupancy stood at 97.3% in September.
- ▶ Rents decreased only in Midtown—the third-highest average rent in Sacramento—down 2.1% year-over-year to \$2,257. The most sought-after areas—Greater Davis and Central Davis—saw rents increase by 6.4% to \$2,438 and 8.6% to \$2,413, respectively. Of the 42 submarkets tracked by Yardi Matrix, 35 posted double-digit rent increases, led by Natomas, up by 21.0% to \$2,145. The area is highly attractive to developers and investors, having more than 1,500 units underway and leading in annual transaction volume.
- ▶ Sacramento has benefited from people relocating from the Bay Area, and its housing market is the biggest standout. The main question, which also applies on a national level, is: How long can this growth continue?

### 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

- ▶ Except for a spike in June, Sacramento's unemployment rate maintained a steady recovery trend, improving to 5.5% in September, according to preliminary data from the Bureau of Labor Statistics. While the rate is outperformed by the 4.6% national average, it is well above California's 7.5% unemployment rate.
- ▶ The employment market expanded by 3.8% in the 12 months ending in August—also marking the third-consecutive month of positive growth—which places it behind the 4.6% U.S. average.
- ▶ Nearly half of the 41,300 jobs added since September 2020 were in the leisure and hospitality (11,500 jobs) and construction (8,600) industries.
- ▶ Sacramento has weathered the pandemic better than other California markets, as it relies less on the leisure and hospitality sector and is aided by the volume of people relocating from the Bay Area. However, the metro has not managed to diversify its economy and still relies on government and service-sector jobs. Consequently, recovery softened in June, falling behind the U.S. rate. This softening is likely to persist as coronavirus activity in California showed signs of rising ahead of winter.

### Sacramento Employment Share by Sector

Code	Employment Sector	Current Employment	
		(000)	% Share
70	Leisure and Hospitality	89	9.0%
15	Mining, Logging and Construction	80	8.0%
80	Other Services	34	3.4%
60	Professional and Business Services	137	13.8%
40	Trade, Transportation and Utilities	160	16.1%
90	Government	232	23.3%
55	Financial Activities	52	5.2%
30	Manufacturing	37	3.7%
50	Information	10	1.0%
65	Education and Health Services	162	16.3%

Sources: Yardi Matrix, Bureau of Labor Statistics

### Population

- ▶ Sacramento was one of the few California metros to increase its population during the pandemic.
- ▶ In 2020, the capital gained 11,539 residents, up 0.5% and 10 basis points above the national rate, but 30 basis points below the expansion rate recorded in 2019.

### Sacramento vs. National Population

	2017	2018	2019	2020
National	325,147,121	327,167,434	328,239,523	329,484,123
Sacramento Metro	2,320,381	2,345,210	2,363,730	2,374,749

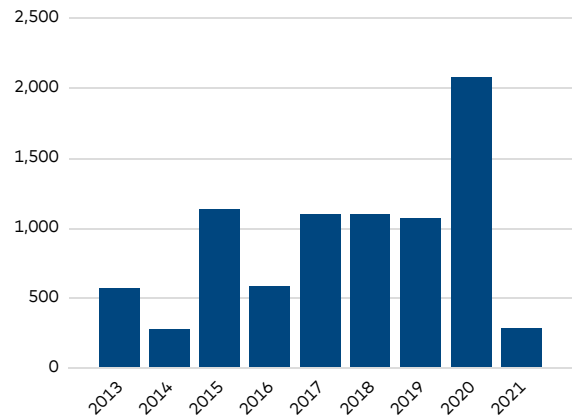
Sources: U.S. Census, Moody's Analytics

## SUPPLY

- ▶ Sacramento multifamily deliveries totaled just 614 units through October—128 units in fully affordable communities and 486 units in the Lifestyle sector. Although another 1,753 units are slated for completion in 2021, delays are likely to impact delivery.
- ▶ Developers had 8,778 units under construction as of October and more than 47,000 units in the planning and permitting stages.
- ▶ The construction pipeline continues to favor the upscale Lifestyle segment, with 6,111 units targeting the high-income renter. The Renter-by-Necessity class will expand by 1,562 units in fully affordable communities and 1,105 market-rate apartments.
- ▶ Construction activity is uneven across the map, with the Central Business District (1,726 units) and Natomas (1,511 units) accounting for nearly 40% of the apartments underway. This volume will likely dent demand in 2022, when all these units are slated for completion.
- ▶ The largest project delivered in 2021 through October was Pique at Iron Point, a 327-unit Lifestyle property in Folsom, built by Elliott

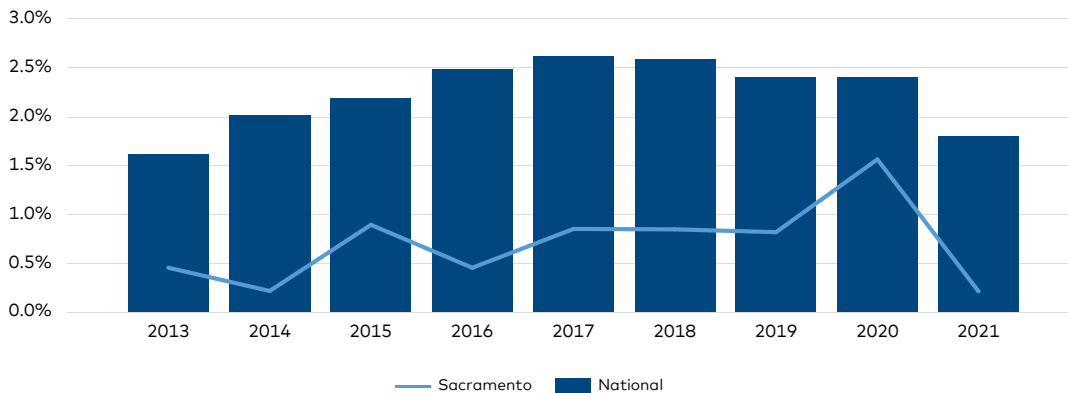
Homes with aid from a \$65 million construction loan issued by Wells Fargo Bank. The largest project underway is the 613-unit, 1,778-bed Orchard Park Redevelopment, a student housing property owned by a joint venture comprising Collegiate Housing Foundation, The Michaels Organization and UC Davis. The asset is slated for completion in 2024 and includes 200 affordable units.

**Sacramento Completions** (as of October 2021)



Source: Yardi Matrix

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

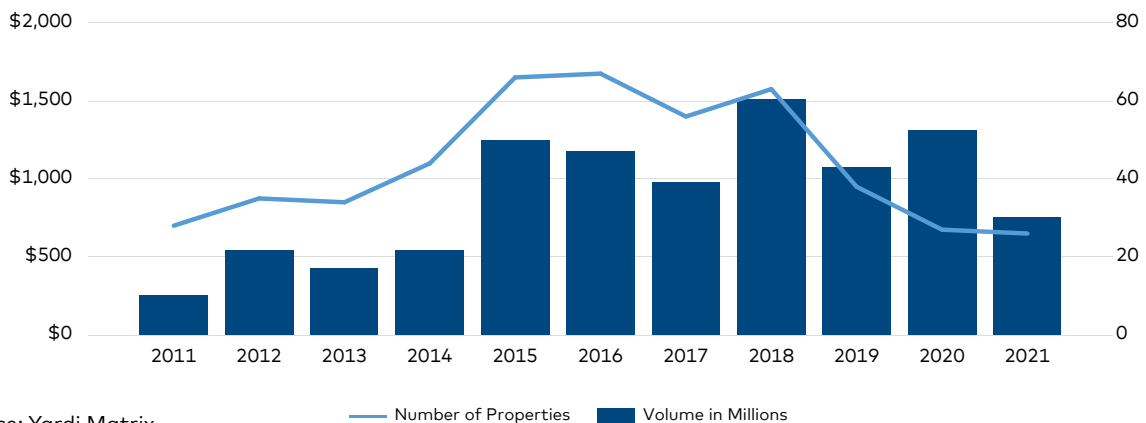


Source: Yardi Matrix

## TRANSACTIONS

- ▶ Investment activity was solid in 2021, with \$753 million trading during the year's first 10 months. That was less than the \$912 million registered during the same period last year, but 2020 was Sacramento's second-best year of the decade for multifamily sales. In that year, sales totaled \$1.3 billion.
- ▶ Investors' affinity for Renter-by-Necessity communities, which comprised more than 90% of all sales, decreased the per-unit price by 33.6% year-over-year through October to \$204,174. Meanwhile, the national price per unit rose to \$184,007.
- ▶ Kennedy Wilson acquired the property with the highest price tag—the 410-unit Autumn Ridge—from Oakmont Properties. The new owner paid \$120 million, or \$292,683 per unit, with aid from an \$85 million loan held by JPMorgan Chase. The 300-unit Harvest at Fiddymont Ranch marked the highest per-unit price: \$371,152.

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



Source: Yardi Matrix

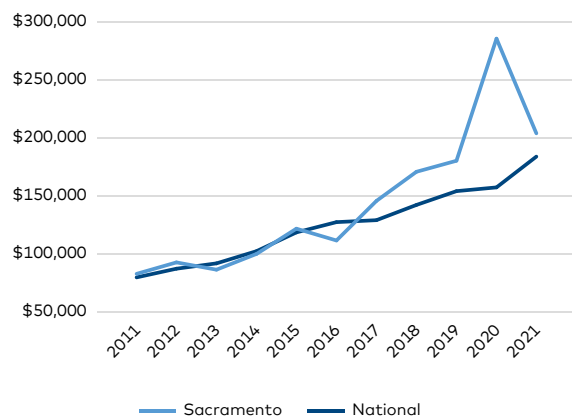
### Top Submarkets for Transaction Volume<sup>1</sup>

Submarket	Volume (\$MM)
Natomas	163
Rocklin/Roseville	134
Southwest Citrus Heights	120
Outlying Placer County	111
Laguna West	108
South Rancho Cordova/Rosemont	68
Florin/Southeast Sacramento	57

Source: Yardi Matrix

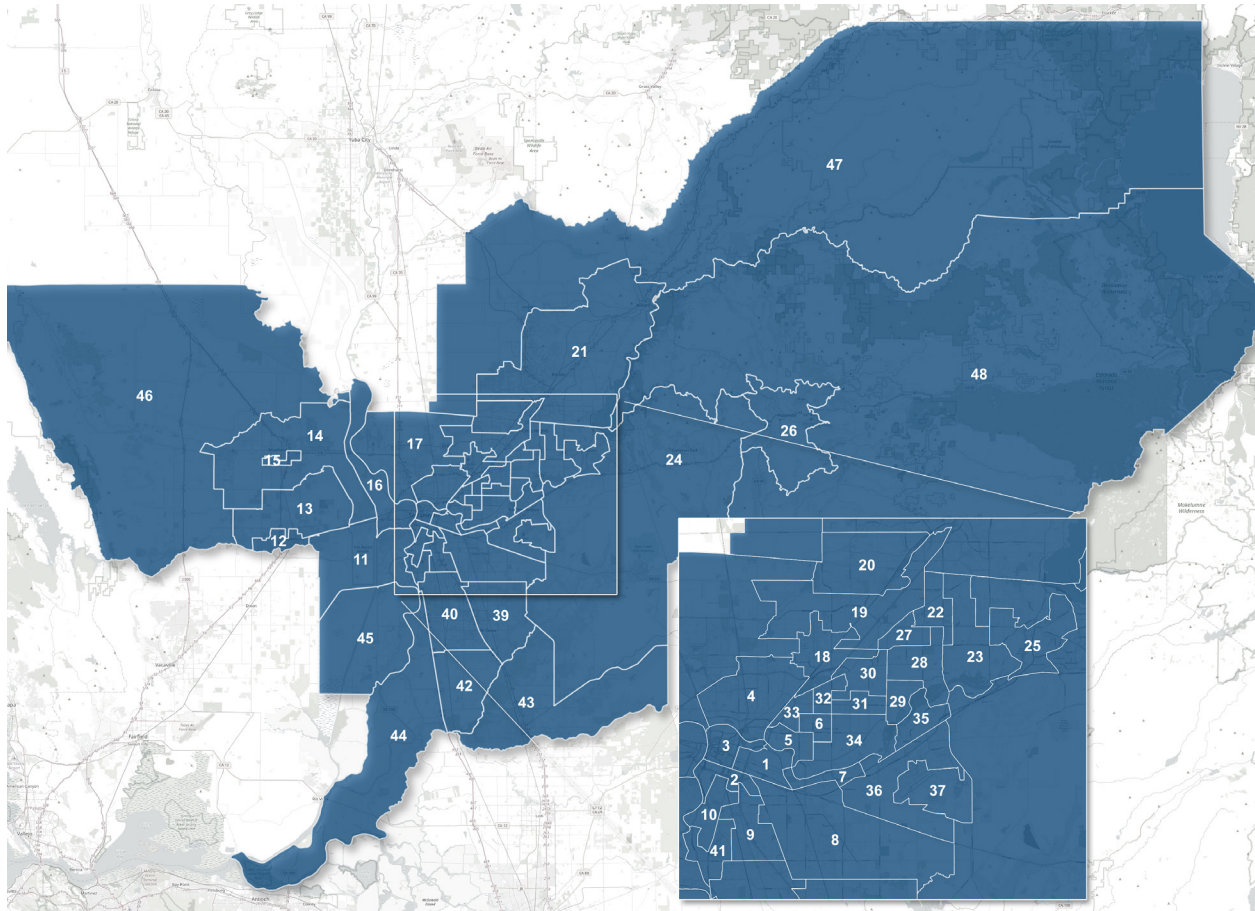
<sup>1</sup> From November 2020 to October 2021

### Sacramento vs. National Sales Price per Unit



Source: Yardi Matrix

# 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 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.

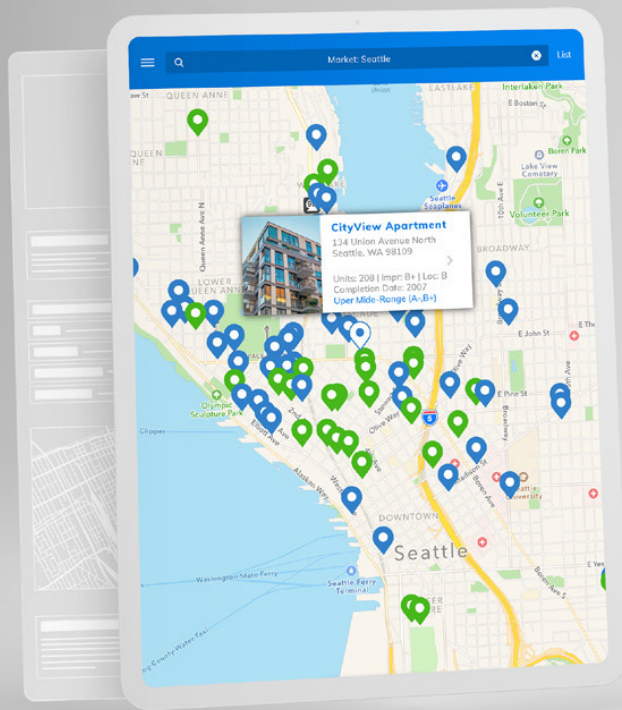
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