



MULTIFAMILY REPORT

Sacramento: Going Steady

March 2022



Deliveries Record Solid Year

YoY Rent Growth on Par With US Figure

Investor Appetite Tilts Toward Value-Add Plays

SACRAMENTO MULTIFAMILY



Healthy Fundamentals Start Off 2022

The Sacramento market posted steadily improving fundamentals last year and entered 2022 on the right foot, despite an expected seasonal slowdown. Rent growth hovered around the 1.0% mark on a trailing three-month (T3) basis for nine months and only fell below the threshold in the fourth quarter. The seasonal softening continued into early 2022, but figures remained in positive territory, up 0.1% on a T3 basis through January, to \$1,874. Year-over-year, however, Sacramento rents were up a healthy 14.0%. Meanwhile, occupancy was flat over 12 months, at 97.2%.

Sacramento unemployment dropped to 4.4% in December, a 320-basis-point improvement from January 2021, according to preliminary Bureau of Labor Statistics data. Yet job growth was slow, with the metro adding just 32,700 jobs in the 12 months ending in November, up 3.8% and lagging the 4.6% U.S. rate. Construction led gains (7,300 jobs), with leisure and hospitality (4,900) and government (4,800) next in line. Total employment stood at a little over 1 million as of December, with some 12,000 jobs below pre-pandemic levels.

Developers delivered 1,442 units in 2021, marking the second-best year in a decade. Another 8,394 units were under construction at the start of 2022. Meanwhile, the transaction volume totaled \$1.1 billion in 2021, and due to the sales composition tilting toward RBN assets, the per-unit price slid to \$225,148.

Market Analysis | March 2022

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Recent Sacramento Transactions

Westlake



City: Sacramento, Calif.
Buyer: Tesseract Capital Group
Purchase Price: \$53 MM
Price per Unit: \$360,011

The Retro



City: Sacramento, Calif.
Buyer: Clear Capital
Purchase Price: \$48 MM
Price per Unit: \$235,294

Manzanita Woods



City: Carmichael, Calif.
Buyer: M & L Financial Properties
Purchase Price: \$14 MM
Price per Unit: \$162,651

Auburn Palms



City: Auburn, Calif.
Buyer: Primrose Real Estate
Purchase Price: \$7 MM
Price per Unit: \$130,000

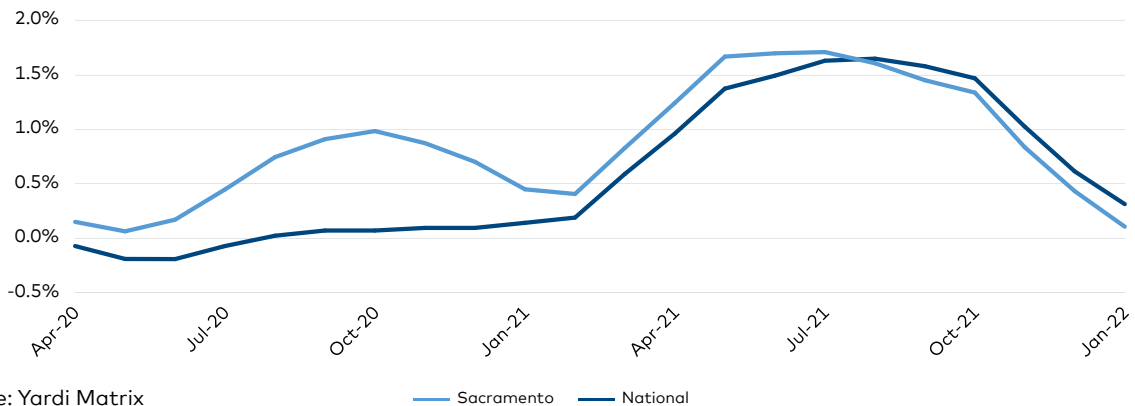
RENT TRENDS

- ▶ Year-over-year, rents were up 14.0% as of January, almost on par with the 13.9% U.S. figure. Sacramento rates have been on a decelerating path since August, following three months at 1.7% on a trailing three-month (T3) basis. As of January, the metro's average rent inched up 0.1% on a T3 basis, to \$1,874, while the U.S. rate reached \$1,604.
- ▶ Renter-by-Necessity units led growth, with rates up 0.5% on a T3 basis through January, to \$1,672. That made up for a contraction in Lifestyle rents, which dropped 0.4%, to \$2,236. The occupancy rate in stabilized properties mirrors this dynamic. RBN occupancy rose 20 basis points in 2021, to 97.4%, while for Lifestyle apartments it decreased 20 basis points to

96.9%. The rental market in California's capital is one of the tightest in the country, with the overall occupancy at 97.2% at the start of 2022.

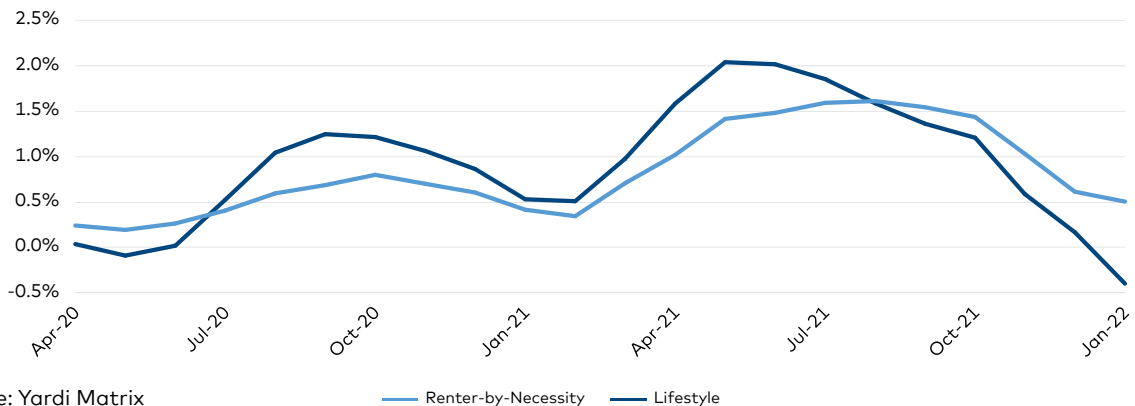
- ▶ Sacramento's housing market reflects the uneven nature of the recovery: The city is relatively affordable to those relocating from expensive Bay Area locations, but is becoming challenging for locals, in part due to this spillover effect. The dynamic is not new and Sacramento has been historically undersupplied, but migration patterns brought by the pandemic exacerbated this trend.
- ▶ Of the 42 submarkets tracked by Yardi Matrix, 36 posted double-digit gains, with just one registering a year-over-year drop—in Midtown, rents decreased 5.2%, to \$2,350.

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 dropped to 4.4% in December, from 7.6% in January 2021, according to preliminary data from the BLS. From an unemployment standpoint, the metro outperformed the state (6.5%), but trailed the nation (3.9%).
- In Sacramento, as well as across California, the economy rebounded in 2021, but job growth remained relatively slow. The metro added 32,700 positions in the 12 months ending in November 2021, a 3.8% growth rate, lagging the 4.6% U.S. expansion. In fact, even since the recovery picked up the pace in June 2021, Sacramento's performance has been trailing the nation.
- Mining, logging and construction led job growth in the 12 months ending in November (7,300 jobs), followed by leisure and hospitality (4,900 jobs) and government (4,800 jobs).
- Office-using sectors gained just 4,000 positions combined (financial activities remained flat during the period), which shows that the influx of new residents did not create as many tech jobs as initially expected. Those relocating from the Bay Area boosted the housing market more than the local economy, with many either working remotely or choosing a longer commute.

Sacramento Employment Share by Sector

Code	Employment Sector	Current Employment	
		(000)	% Share
15	Mining, Logging and Construction	79	7.8%
70	Leisure and Hospitality	87	8.6%
90	Government	241	23.8%
80	Other Services	34	3.4%
60	Professional and Business Services	137	13.5%
30	Manufacturing	38	3.8%
65	Education and Health Services	165	16.3%
40	Trade, Transportation and Utilities	169	16.7%
50	Information	10	1.0%
55	Financial Activities	53	5.2%

Sources: Yardi Matrix, Bureau of Labor Statistics

Population

- Sacramento gained 11,539 residents in 2020, but the pace of growth has slowed down. The figure represented a 0.5% uptick, down from 0.8% one year prior.
- Even so, the Sacramento rate outperformed the U.S. by 10 basis points.

Sacramento vs. National Population

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

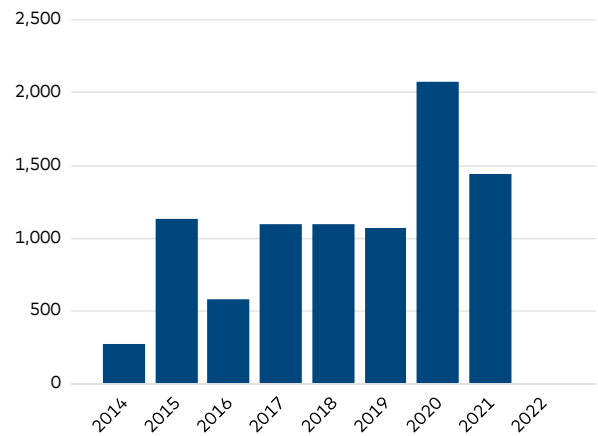
Sources: U.S. Census, Moody's Analytics

SUPPLY

- ▶ The construction pipeline comprised 8,394 units underway at the beginning of 2022 and another 50,000 units in the planning and permitting stages. The pipeline is somewhat more balanced but still tilted in favor of the Lifestyle segment (65%). The Renter-by-Necessity segment represented 35% of the pipeline: 1,732 units in fully affordable communities and 1,105 market-rate units.
- ▶ Developers delivered 1,442 units in 2021, 1.1% of total stock, trailing the 2.5% U.S. average. Even so, the new inventory expansion marked the undersupplied metro's second-best year for deliveries in a decade.
- ▶ The composition of last year's deliveries included more than 90% Lifestyle projects and just 128 units in fully affordable communities.
- ▶ Construction remained most intense in the Central Business District (1,784 units under construction) and Natomas (1,582 units), with the two submarkets accounting for 40% of the total pipeline. With the majority of these projects slated for delivery in this year, the upcoming supply might impact the supply-demand balance in these areas. However, ongoing delays are likely to push some completions into 2023.

- ▶ Sacramento's largest project underway is a student housing property slated for completion in 2024. The 613-unit, 1,778-bed Orchard Park Redevelopment, owned by a joint venture comprising Collegiate Housing Foundation, The Michaels Organization and UC Davis, is set to include 200 affordable units.

Sacramento Completions (as of January 2022)



Source: Yardi Matrix

Sacramento vs. National Completions as a Percentage of Total Stock (as of January 2022)



Source: Yardi Matrix

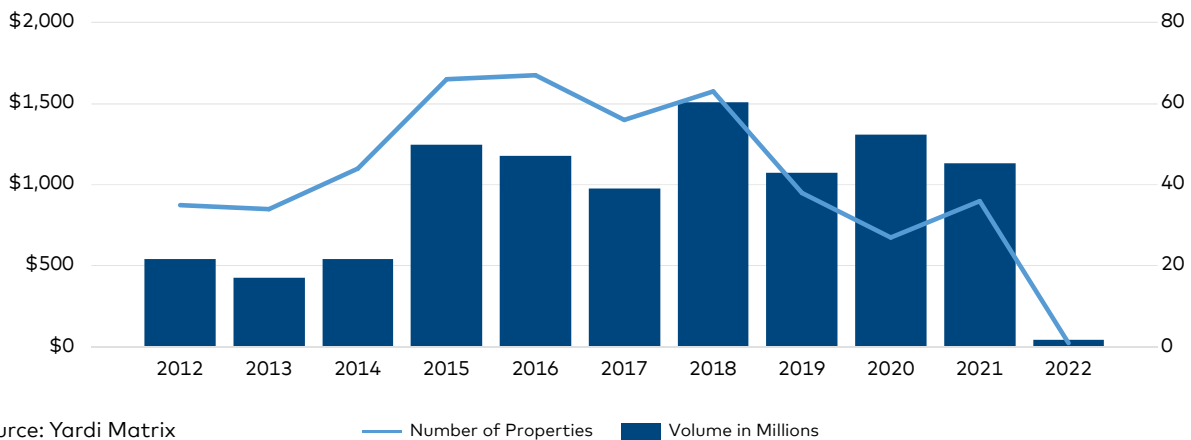
TRANSACTIONS

- ▶ Investors traded roughly \$1.1 billion in multifamily assets in 2021, with sustained interest in value-add plays, which accounted for more than 80% of all sales.
- ▶ Due to increased demand for value-add assets, which shifted the deal composition toward less expensive properties, the average price per unit in Sacramento decreased by 21.7% last year, to \$225,148. The average per-unit price for Renter-by-Necessity assets rose 14.9% to \$188,627,

while for Lifestyle assets it dropped by 13.8%, to \$325,086. Nationally, the price per unit rose 21.3%, to \$191,341, during the period.

- ▶ Last year, three assets had a sale price above the \$100 million mark: The 410-unit Autumn Ridge (\$120 million), the 405-unit The Eisley—which sold prior to full completion for \$113 million—and Harvest at Fiddymont Ranch (\$111 million), which also marked the highest per-unit price: \$371,152.

Sacramento Sales Volume and Number of Properties Sold (as of January 2022)



Source: Yardi Matrix

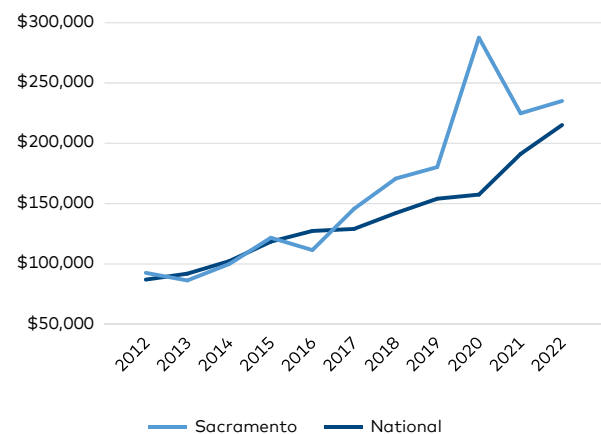
Top Submarkets for Transaction Volume¹

Submarket	Volume (\$MM)
Southwest Citrus Heights	120
Bellview/Howe Edison	113
Outlying Placer County	111
Laguna West	108
Arden Manor/Sierra Oaks Vista	100
Greater Folsom/El Dorado Hills/Shingle Springs	86
Florin/Southeast Sacramento	57

Source: Yardi Matrix

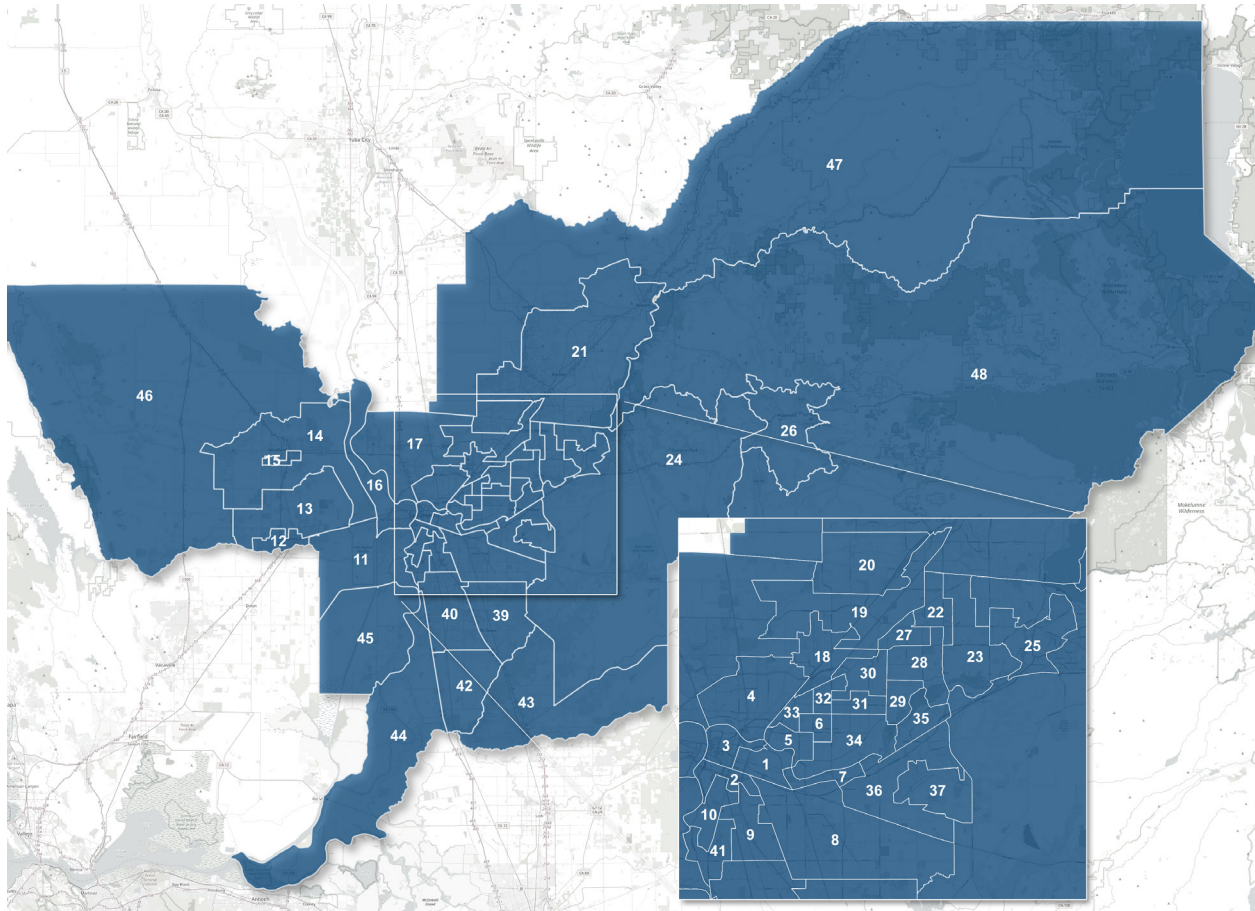
¹ From February 2021 to January 2022

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 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.

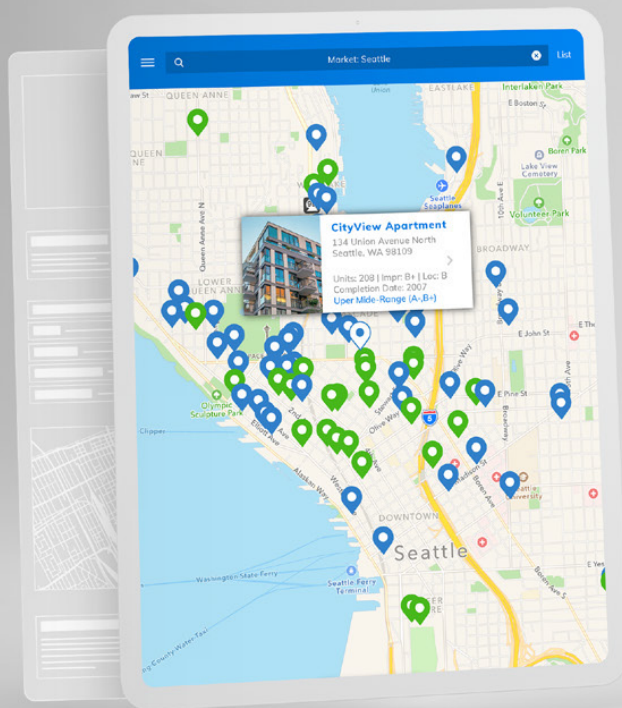
The Yardi® Matrix Context rating is not intended as a final word concerning a property's status—either improvements or location. Rather, the result provides reasonable consistency for comparing one property with another through reference to a consistently applied standard.

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