



**YARDI**<sup>®</sup> Matrix

# Sacramento: Capital Appreciation

Multifamily Winter Report 2017

**Rent Growth Tops Nation**

**Occupancy Tightens Amid Slow Deliveries**

**Transaction Volume Reaches \$1B**

## Market Analysis

Winter 2017

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## Metro's Rent Growth Leads Nation

As the only remaining metro with year-over-year rent appreciation in double figures, Sacramento seems unfazed by the national downward trend. Completions have been added at a slow pace throughout the cycle, and with only 1,600 units under construction, the supply-constrained market is expected to see occupancy continue to dwindle.

As the capital of California, Sacramento relies on the public sector, with roughly a quarter of the active population employed by the state and local governments. Job growth has been consistent over the past few years. The city's core is spawning new development projects with entertainment options, while companies are in need of updated office and retail space. Although little progress has been made on the Downtown Riverfront Streetcar project, the \$3 billion transit project would galvanize the city's downtown, especially as new major mixed-use developments are coming to the Capitol Mall, near the newly completed Golden 1 Center sports arena.

Going forward, Sacramento's multifamily market is expected to remain steady. Despite the recent growth, the metro's rents are affordable relative to nearby San Francisco and are incentivizing the creation of new households. Investors have also taken note of the improvement, with more than \$2 billion in multifamily assets trading since 2015.

## Recent Sacramento Transactions

The Woodlands



City: Sacramento  
Buyer: Jackson Square Properties  
Purchase Price: \$85 MM  
Price per Unit: \$106,156

Montage



City: Citrus Heights, Calif.  
Buyer: JRK Property Holdings  
Purchase Price: \$74 MM  
Price per Unit: \$116,352

The Palms



City: Sacramento  
Buyer: Robert C. Kopple  
Purchase Price: \$67 MM  
Price per Unit: \$134,000

Waterford Place



City: Folsom  
Buyer: Bridge Partners  
Purchase Price: \$53 MM  
Price per Unit: \$184,441

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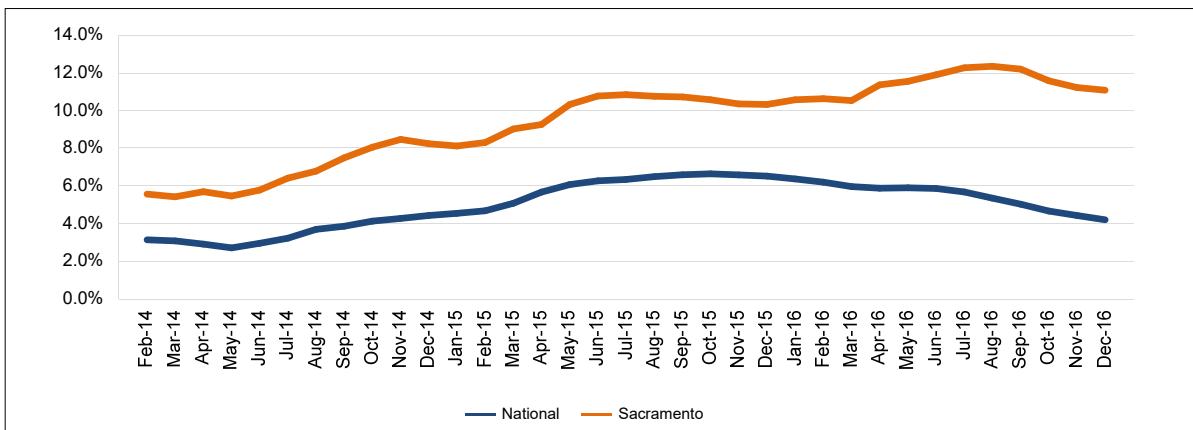
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## Rent Trends

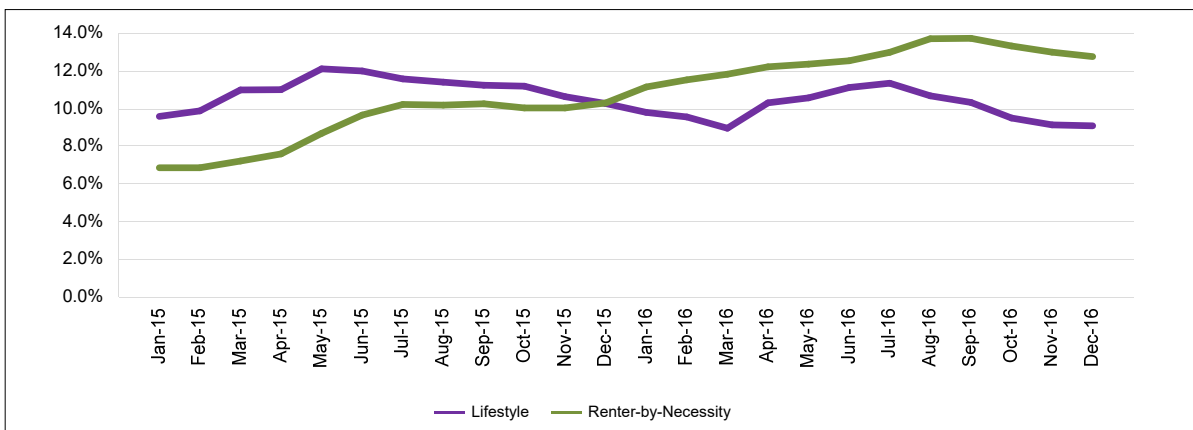
- Rents in Sacramento rose 11.1% through December, marking the highest year-over-year rent growth in the nation. Sacramento was also the only metro to end 2016 with a double-digit increase, well above the 3.9% national rate. The average rent stood at \$1,275, higher than the \$1,210 national average.
- Rent gains are helped by the lack of new supply. With occupancy in stabilized assets now at 96.6% and only 1,600 units underway, expect rent appreciation to continue to be strong, up another 9.6% in 2017.
- Continued job growth has helped push demand, resulting in higher rents across asset classes. In recent months, the bulk of employment growth has taken place in lower-paying sectors, driving Renter-by-Necessity assets to average rents of \$1,133 in December, up 12.8% year-over-year.
- Submarkets in the market's core and Eastern areas performed the strongest, with the affordable Arden Gardens/ Arden Terrace and North Rancho Cordova each gaining nearly 20% in rent appreciation year-over-year. Other submarkets rounding out the top five include the Central Business District (18.8%), South Rancho Cordova/ Rosemont (18%) and East Greenhaven/South Land Park (17.9%).

### Sacramento vs. National Rent Growth (Sequential 3 Month, Year-Over-Year)



Source: YardiMatrix

### Sacramento Rent Growth by Asset Class (Sequential 3 Month, Year-Over-Year)

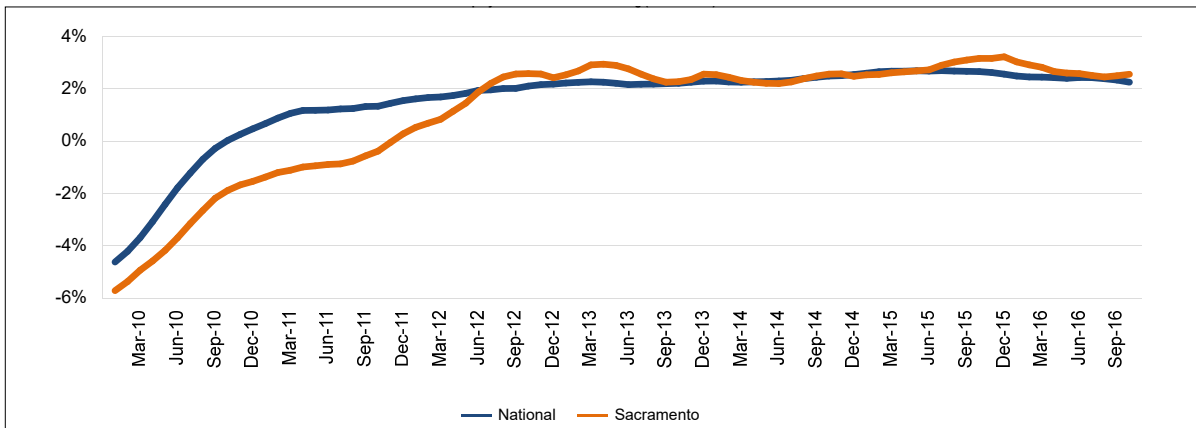


Source: YardiMatrix

## Economic Snapshot

- Sacramento added 24,100 new jobs in the year ending in October, up 2.6%, 30 basis points above the national rate. Gains in construction, education and health services, and government led the way, as local authorities are concerned that growth is far too concentrated in lower-rated employment sectors, while the more value-creating sectors such as manufacturing and information lagged.
- Education and health services added 5,000 new jobs, backed by the continuation of the University of California, Davis' 2020 Initiative, a program that calls for substantial growth of enrollment, investment, faculty and staff.
- The construction sector added 4,500 jobs, an 8.3% year-over-year growth. Over the past decade, roughly \$1 billion in public and private investments have targeted Sacramento's core. Among the announced projects, a 30-story, 1.1 million-square-foot mixed-use tower that's taking shape at 301 Capitol Mall will add 100 new condominium units and 400,000 square feet of office space to the city's downtown.
- Sacramento's office market has reaped the rewards of job growth. According to Colliers, vacancy is now dropping in the metro's suburban areas, as supply is slowly being depleted in the central business district. With only incremental supply growth coming in the immediate future, vacancy is likely to go down further.

### Sacramento vs. National Employment Growth (Year-Over-Year)



Sources: YardiMatrix, Bureau of Labor Statistics (not seasonally adjusted)

### Sacramento Employment Growth by Sector (Year-Over-Year)

Code	Employment Sector	Current Employment		Year Change	
		(000)	% Share	Employment	%
65	Education and Health Services	149	15.7%	5,000	3.5%
15	Mining, Logging and Construction	58	6.1%	4,500	8.3%
90	Government	239	25.1%	4,000	1.7%
40	Trade, Transportation and Utilities	152	16.0%	3,700	2.5%
60	Professional and Business Services	124	13.0%	3,300	2.7%
55	Financial Activities	53	5.6%	1,400	2.7%
70	Leisure and Hospitality	95	10.0%	1,200	1.3%
30	Manufacturing	37	3.9%	800	2.2%
80	Other Services	31	3.3%	400	1.3%
50	Information	14	1.5%	-200	-1.4%

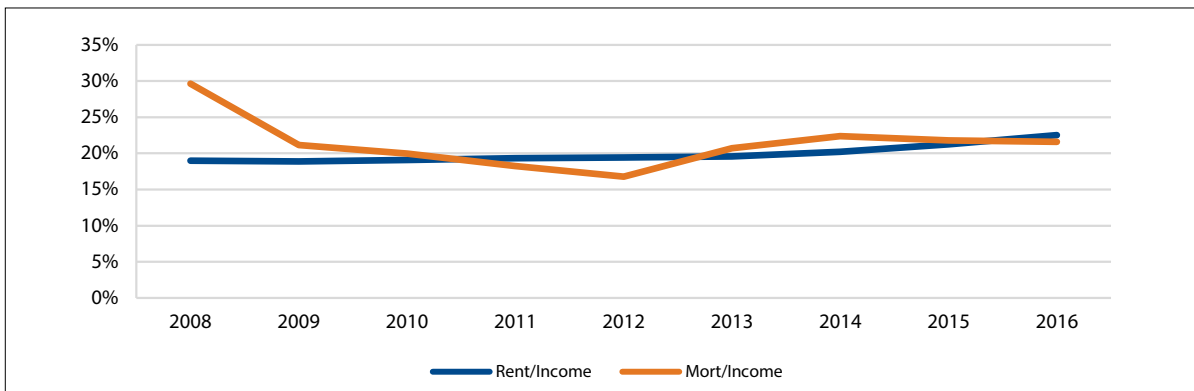
Sources: YardiMatrix, Bureau of Labor Statistics

## Demographics

### Affordability

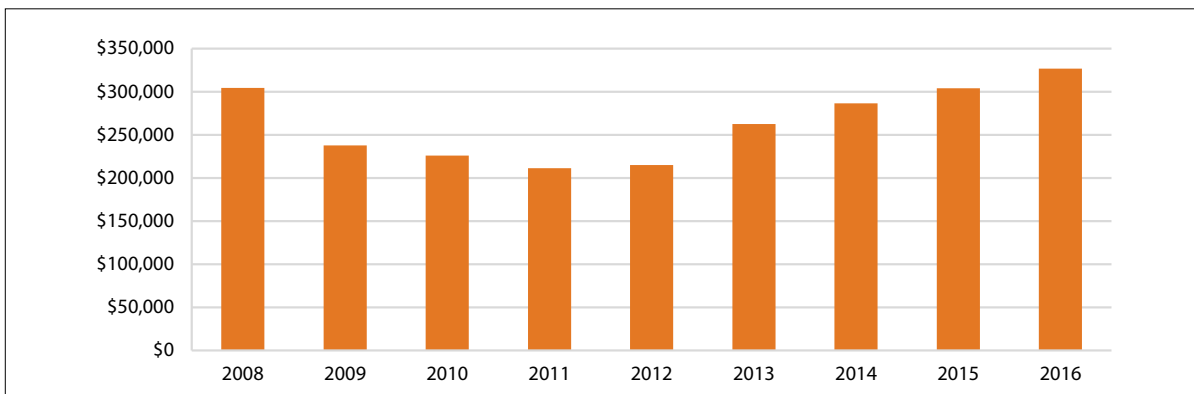
- The current cycle has generally seen incremental supply growth, while demand has pushed rents up to historic highs. As a result, residents are dedicating nearly a quarter of their incomes to making rent. Furthermore, renter-occupied dwellings account for the majority of the metro's households, according to county records.
- The median home value has fully rebounded in Sacramento, with the metro's median home price at \$326,604 in 2016. Although home prices are now above pre-recession levels, owning a home accounts for 10% less of the average income than it did in 2008, indicative of the market's significant economic improvement.

### Sacramento Rent vs. Own Affordability as a Percentage of Income



Sources: YardiMatrix, Moody's Analytics

### Sacramento Median Home Price



Source: Moody's Analytics

### Population

- Sacramento has added roughly 100,000 new residents since 2011.
- The metro grew by 1.3% between 2014 and 2015, well above the national rate of 0.8%.

### Sacramento vs. National Population

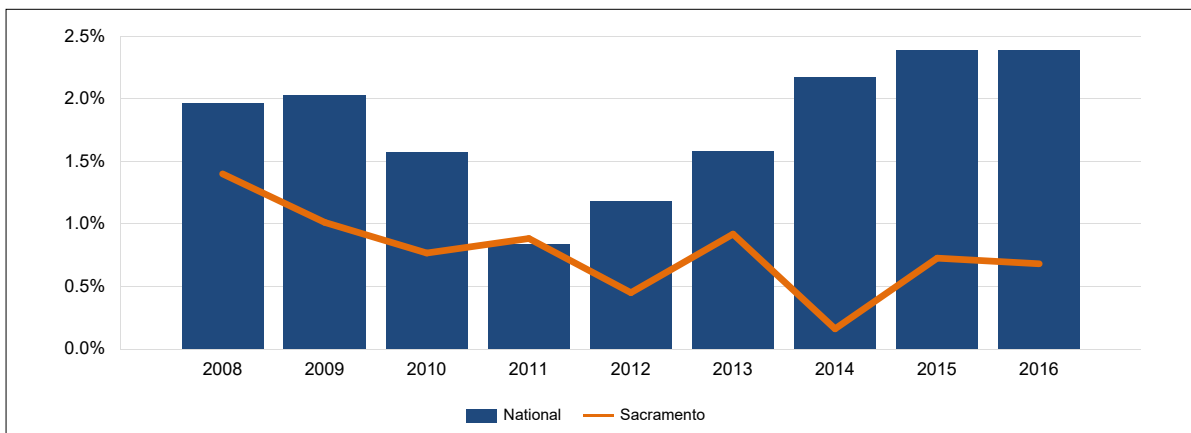
	2011	2012	2013	2014	2015
National	311,718,857	314,102,623	316,427,395	318,907,401	321,418,820
Sacramento-Metropolitan Statistical Area	2,175,568	2,195,353	2,217,634	2,244,879	2,274,194

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

## Supply

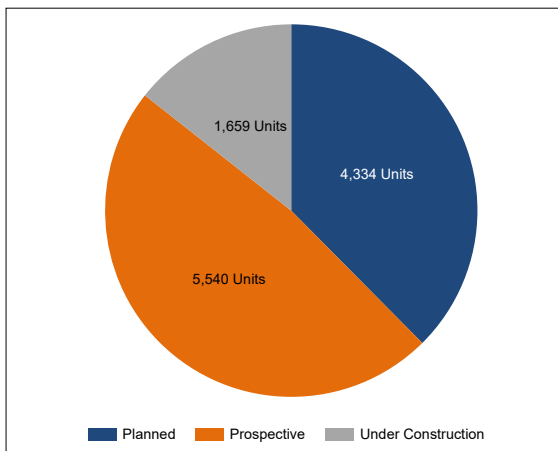
- Although its pipeline has grown significantly during the past 18 months, Sacramento added only 852 units in 2016, an expansion rate of 0.7%. That's well below the national apartment supply growth, as completions continue to lag in the market.
- Supply is not expected to pick up too soon, either. Only 1,700 units are currently underway in Sacramento, although another 10,000 are in the planning and entitlement stages.
- Developers are focusing on the eastern end of the metro, with most of the units that are currently underway being built in order to capitalize on the area's improvement. As a result, nearly two-thirds of all supply is being added in the Rocklin/Roseville, Laguna West, South Rancho Cordova/Rosemont and Arden Gardens/Arden Terrace submarkets. Rents in Rancho Cordova and Arden Gardens/Arden Terrace grew by nearly 20% in 2016.
- The largest project currently underway is Landing at College Square in the Laguna West submarket. USA Properties Fund is developing the 270-unit community at 7640 West Stockton Blvd., which is near the new light-rail station.

### Sacramento vs. National Completions as a Percentage of Total Stock (as of December 2016)



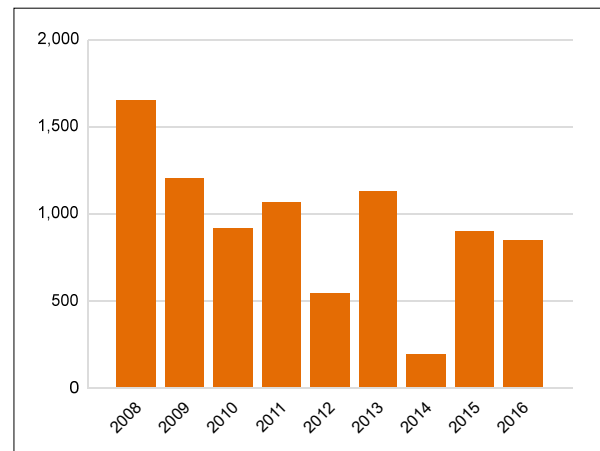
Source: YardiMatrix

### Development Pipeline (as of December 2016)



Source: YardiMatrix

### Sacramento Completions (as of December 2016)

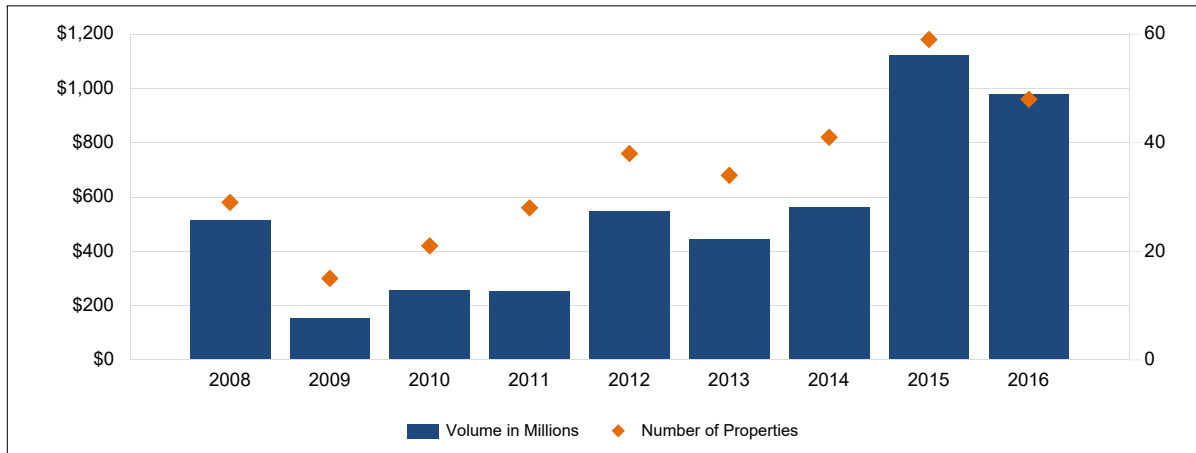


Source: YardiMatrix

## Transactions

- The rapidly appreciating, supply-constrained Sacramento multifamily market continues to appeal to investors, with total sales volume almost reaching \$1 billion in 2016.
- Assets recorded consistent rent appreciation in 2015 and 2016 at some of the highest rates in the nation, but new inventory was added at a lackluster pace, pushing property values upwards. Although overall per-unit prices dropped to \$110,538 in 2016, that was mainly due to the fact that more than 75% of trades involved assets in the Renter-by-Necessity segment. Investors are looking for transitional properties that can be renovated to command higher rents.
- North Sacramento was the focal point of investor interest in 2016, with \$159 million in properties trading. The largest transaction was Jackson Square Properties' \$84.5 million acquisition of The Woodlands.

### Sacramento Sales Volume and Number of Properties Sold (as of December 2016)



Source: YardiMatrix

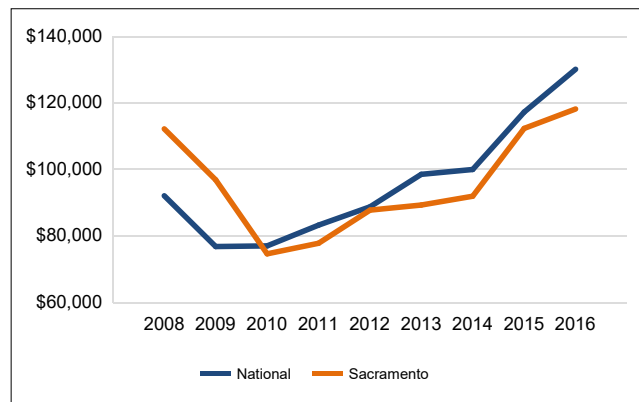
### Top Submarkets for Transaction Volume<sup>1</sup>

Submarket	Volume (\$MM)
North Sacramento	159
Encina/Ethan/Woodside	127
Central Citrus Heights	74
South Rancho Cordova/Rosemont	72
Laguna West	66
Rocklin/Roseville	54
Central Folsom/South Orangevale	53

Source: YardiMatrix

<sup>1</sup> From January 2016 to December 2016

### Sacramento vs. National Sales Price per Unit



Source: YardiMatrix

# Read All About It!



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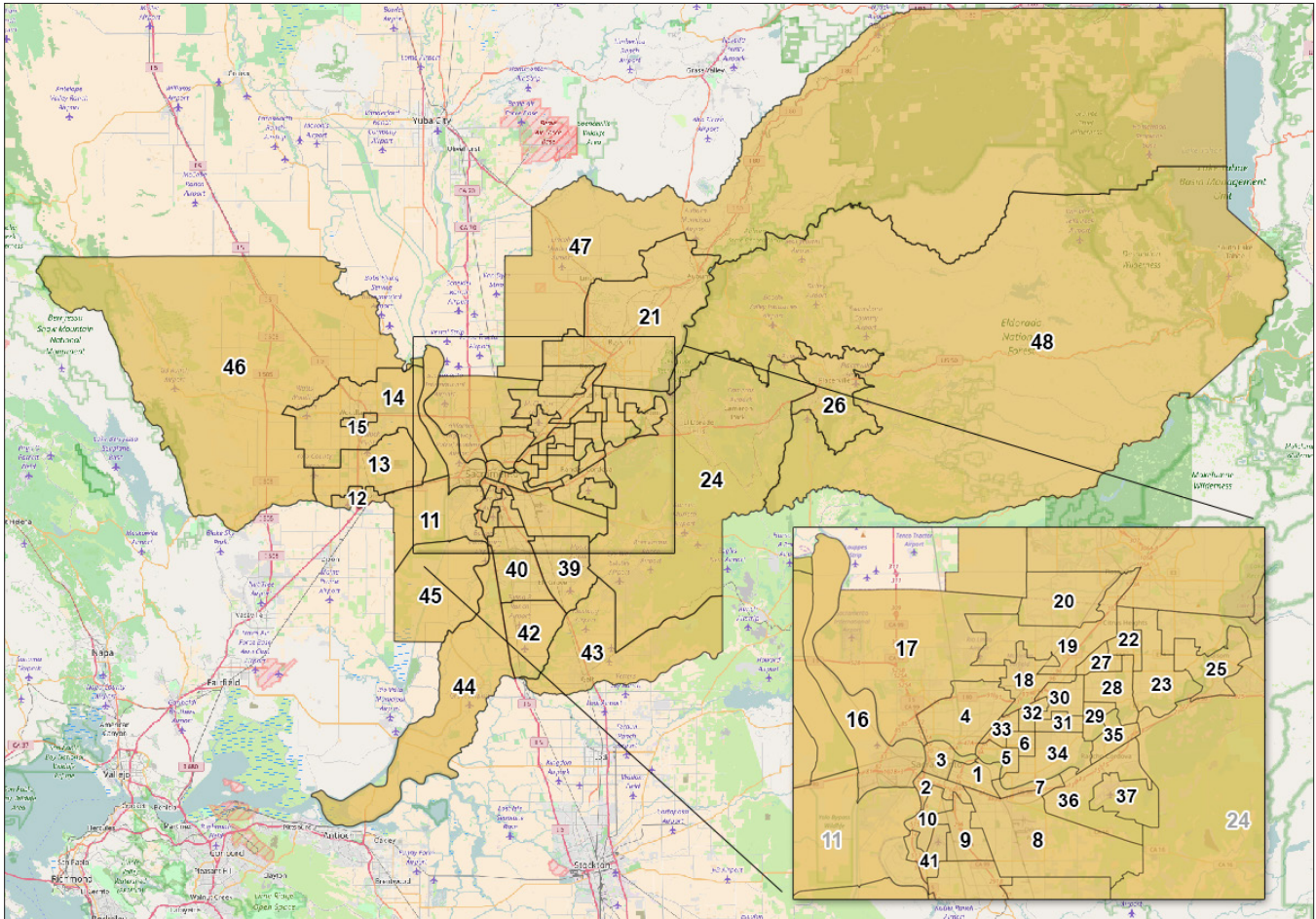
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## Sacramento Submarkets



Area #	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 #	Submarket
17	Natomas
18	North Highlands
19	Foothills Farms/West Citrus He
20	Antelope
21	Rocklin/Roseville
22	Central Citrus Heights
23	Fair Oaks
25	Central Folsom/South Orangeval
26	Placerville
27	Southwest Citrus Heights
28	Northeast Carmichael/West Fair
29	Southeast Carmichael
30	West Carmichael
31	Arcade Village/Mission
32	Mira Loma/Marconi
33	Bellview/Howe Edison

Area #	Submarket
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 Par
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

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## 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.

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