Yardi® Matrix

Sacramento Sets the Standard

Multifamily Report Spring 2017

Rents Grow at Highest Rate in U.S.

Demand Far Outpaces Supply

Property Values Skyrocket

Market Analysis

Spring 2017

Contacts

Paul Fiorilla
Associate Director of Research
Paul.Fiorilla@Yardi.com
(800) 866-1124 x5764

Jack Kern
Director of Research and Publications
Jack.Kern@Yardi.com
(800) 866-1124 x2444

Author

Alex Girda
Senior Editor

Still Leading the Way in Rent Gains

Although multifamily rents across the country have been decelerating in recent months, Sacramento continues to outperform. While no longer in the double digits, its rent growth continues to lead major metros, and was up 9.0% year-over-year as of April. Investors have taken notice, with transactions ballooning during the second half of the cycle, leading to consecutive annual sales volumes topping the $1 billion mark.

While employment growth continued at above-trend levels, there is still concern that high-paying manufacturing and information jobs are lagging in Sacramento. Education and health services, and leisure and hospitality, drove gains in 2016, while a decline in construction jobs following the completion of Golden 1 Center hurt overall employment. However, after Kaiser Permanente acquired an 18-acre site in the city's Railyards with the intent to build a new medical center, the conversation moved toward the potential for additional development in the area.

The impressive rent gains come from the combination of a strong demand and a dearth of deliveries, resulting in high occupancy rates. With 1,500 units underway, short-term supply growth is unlikely, but 10,000 units in the planning stages demonstrate a significant increase in developer interest. With affordability not yet a concern despite rapid growth, we expect rent hikes to continue at roughly 9.5% in 2017.

Recent Sacramento Transactions

Capitol Towers and Villas

City: Sacramento
Buyer: Weidner Investment Services
Purchase Price: $92 MM
Price per Unit: $224,939

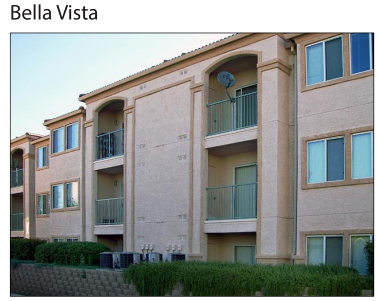
The Woodlands

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

Bella Vista



City: Elk Grove, Calif.
Buyer: Fairfield Residential
Purchase Price: $45 MM
Price per Unit: $186,722

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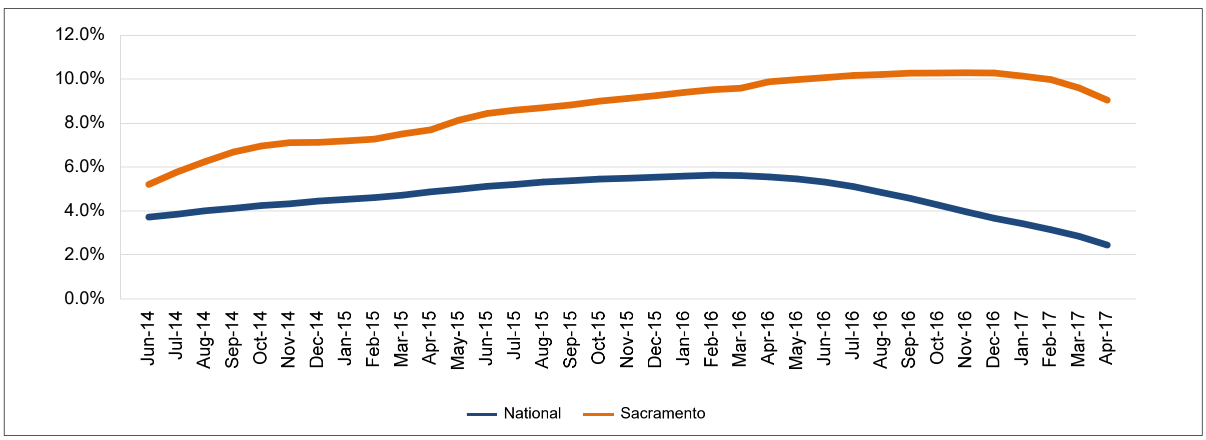
Hollie Zepke
Audience Development Specialist
Hollie.Zepke@Yardi.com
(800) 866-1124 x5389

On the cover: Photo by Davel5957/iStockphoto.com

Rent Trends

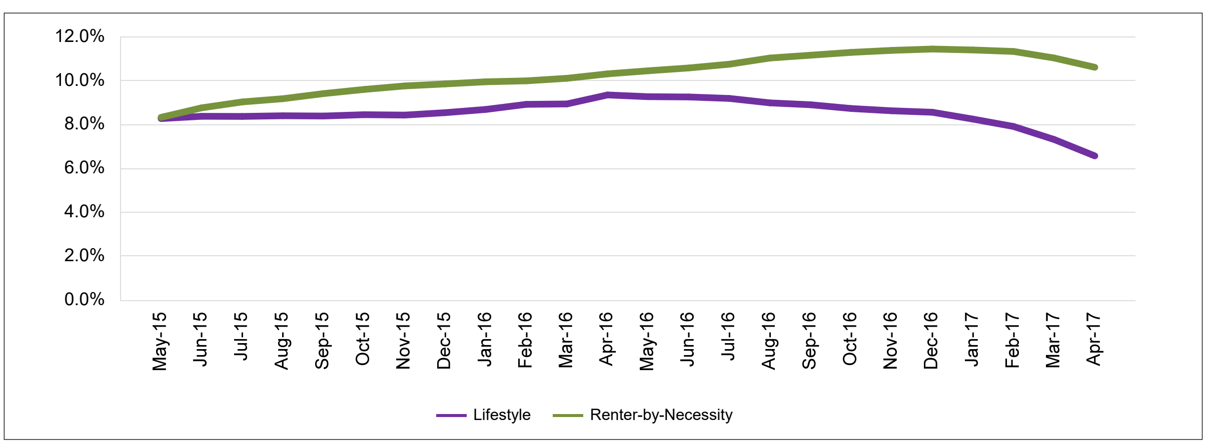
- Rents in Sacramento were up 9.0% year-over-year in April, more than four times the national rate of 2.0%, and topping all major metros for rent appreciation. Supply has not met demand during the past few years, as only 2,000 units have been added to the market since 2014. This has pushed the average rent to $1,308, largely in line with the $1,314 national average.
- The working-class Renter-by-Necessity segment has driven the bulk of growth, with the average rent up 10.6% year-over-year, to $1,176. With only a quarter of the existing housing stock in the upscale Lifestyle segment, rent growth occurred at a far higher rate than the national average, at 6.6% year-over-year in April. Lifestyle units now average $1,588, still a relatively affordable level when compared to other major Californian metros. Some residents moving to Sacramento endure long commutes to the less-affordable Bay Area.
- Rent growth occurred at a rate greater than 10% in 20 submarkets. West Carmichael (16.7%), South Woodland (14.2%), Placerville (14%), Mira Loma/Marconi (13.9%) and Arden Garden/Arden Terrace (13.7%) saw the highest gains, while growth in core submarkets slightly cooled off. As the market is poised to stay supply constrained for the short term, we expect rents to continue to rise at roughly 9.5% in 2017.

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)

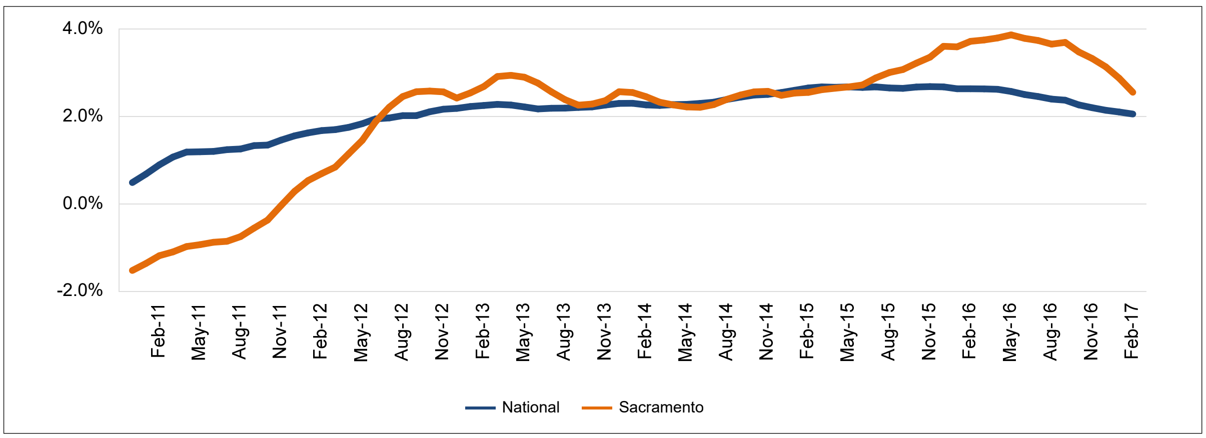


Source: YardiMatrix

Economic Snapshot

- Sacramento added 15,800 jobs in the 12 months ending in February, up 2.6%, 50 basis points above the national rate. Given that it's the capital of California, nearly a quarter of its jobs are in the public sector. However, the bulk of growth occurred in education and health services, auxiliary positions, as well as leisure and hospitality.
- The leisure and hospitality sector added 3,300 new jobs, backed by increased business travel to the metro. This summer's opening of The Sawyer hotel and condo tower near the city's new downtown arena will further drive growth in hospitality employment.
- With the completion of the new Golden 1 Center and the apartment pipeline severely lagging behind demand, the construction sector contracted by 1,700 jobs. However, upcoming projects in Sacramento's Railyards, including Kaiser Permanente's new 18-acre medical complex, will likely boost development activity by the end of the decade.
- Sacramento's office market is characterized by steadily dropping vacancy rates, limited new supply and rising rental rates. Growth is driven by the market's Central Business District, which is home to the California State Capitol and where the tight vacancy is the result of a low stock expansion and a high demand for nearby amenities.

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)

		Current Employment		Year Change	
Code	Employment Sector	(000)	% Share	Employment	%
65	Education and Health Services	151	15.9%	6,200	4.3%
60	Professional and Business Services	131	13.8%	5,500	4.4%
70	Leisure and Hospitality	102	10.7%	3,300	3.3%
40	Trade, Transportation and Utilities	152	16.0%	2,900	1.9%
55	Financial Activities	52	5.5%	1,000	2.0%
90	Government	236	24.8%	1,000	0.4%
50	Information	14	1.5%	(500)	-3.6%
30	Manufacturing	36	3.8%	(600)	-1.7%
80	Other Services	30	3.2%	(1,300)	-4.2%
15	Mining, Logging and Construction	50	5.3%	(1,700)	-3.3%

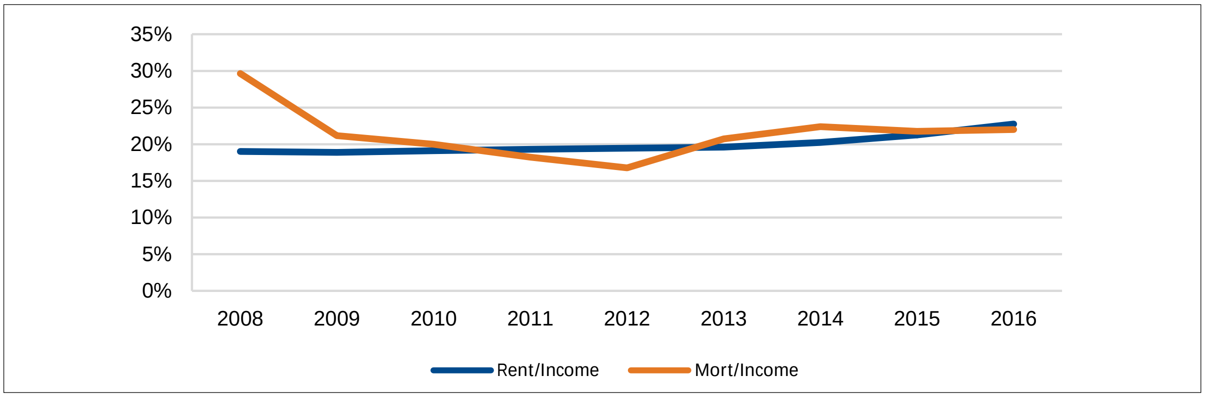
Sources: YardiMatrix, Bureau of Labor Statistics

Demographics

Affordability

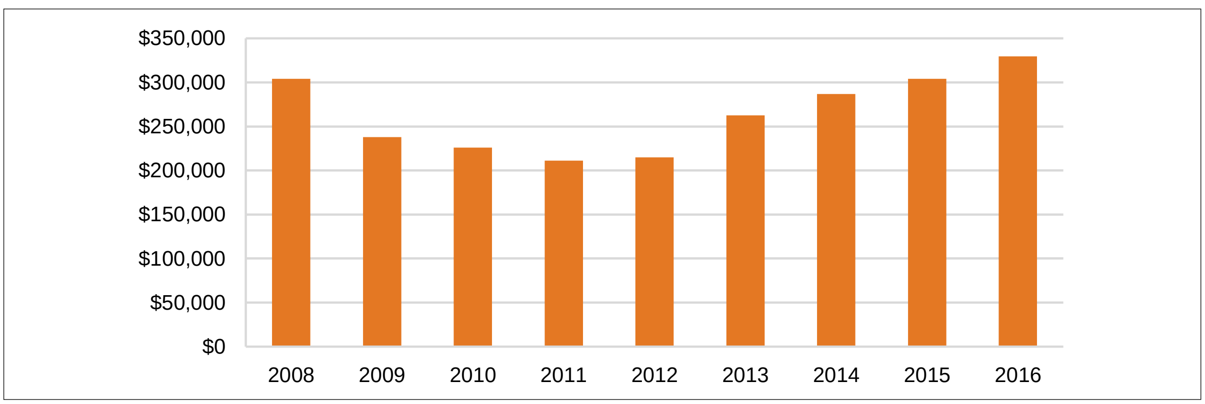
- The median home price has rapidly grown over the second half of the current cycle, reaching $329,729 in 2016, 56% above the 2011 level, when the market bottomed out. The accelerated home value increase has been mirrored by rent gains, which have led all U.S. metros over the past 12 months.
- Rapid housing cost increases have reached high points for the current cycle, leading both owning and renting to account for nearly a quarter of the area's median income. As supply constraints continue to push rent growth well above average levels, affordability may become a broader issue, but for now, Sacramento remains affordable compared to the nearby Bay Area.

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 added 28,830 residents in 2016, a growth rate of 1.3%, 60 basis points above the national rate.
- The market has some of the most affordable rental rates in the state, which has helped push population growth.

Sacramento vs. National Population

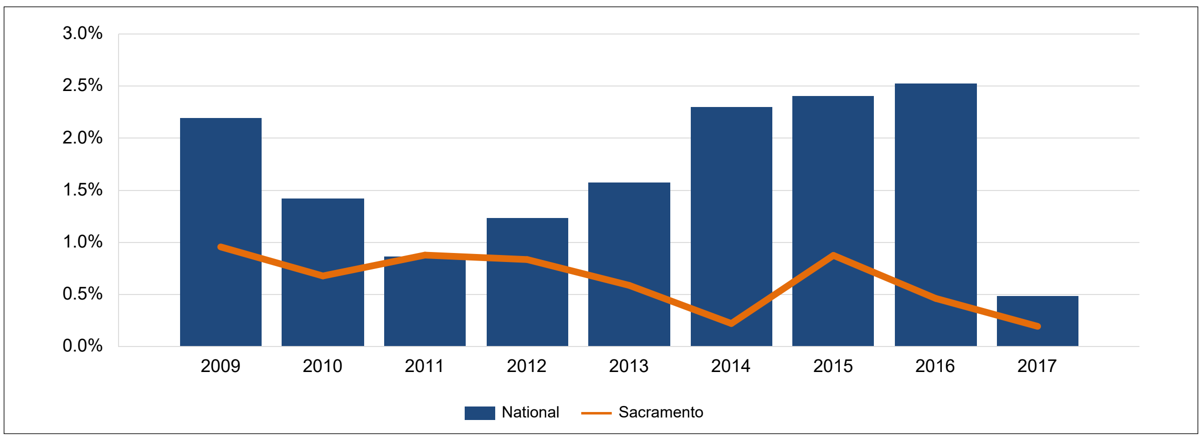
	2012	2013	2014	2015	2016
National	313,998,379	316,204,908	318,563,456	320,896,618	323,127,513
Sacramento Metro	2,193,741	2,214,570	2,240,391	2,267,588	2,296,418

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

Supply

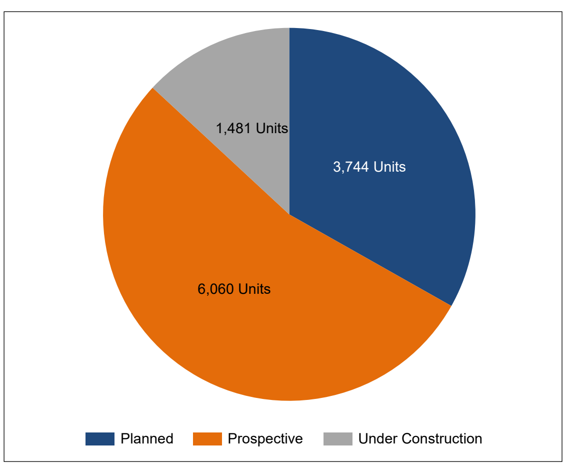
- Deliveries have lagged significantly throughout the current cycle, and 2016 was no different, as developers added fewer than 600 units, an inventory expansion rate of 0.5%, 200 basis points below the national rate. Restricted housing stock growth has pushed property values well above the national average, compressing yields for area assets.
- Roughly 1,500 units are now underway in Sacramento, pointing toward a continued tepid rate of completions over the short term. However, nearly 10,000 units are in the planning and entitlement phases. The expanding development pipeline is mostly due to growing rents and escalating property values, while the small number of completions has also resulted in rising average occupancy of stabilized properties, at 96.6% in March, 20 basis points up from January.
- Development activity is at its highest in Rocklin/Roseville (446 units), Laguna West (270), the Central Business District (205) and South Rancho Cordova/Rosemont (199). The 270-unit Landing at College Square is the largest project underway in Sacramento. A number of downtown residential projects are condominiums rather than apartments, resulting in limited multifamily completions in the area.

Sacramento vs. National Completions as a Percentage of Total Stock (as of April 2017)



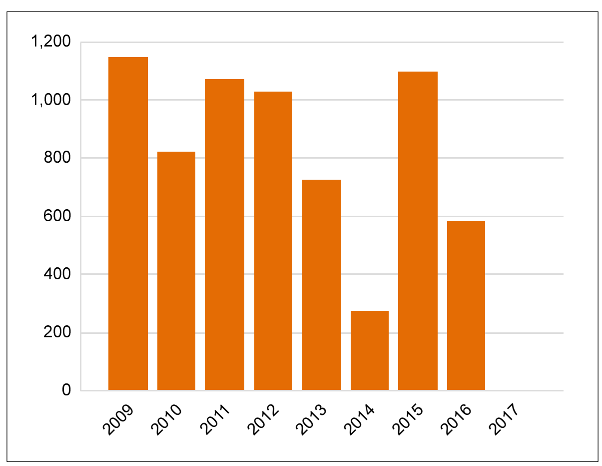
Source: YardiMatrix

Development Pipeline (as of April 2017)



Source: YardiMatrix

Sacramento Completions (as of April 2017)



Source: YardiMatrix

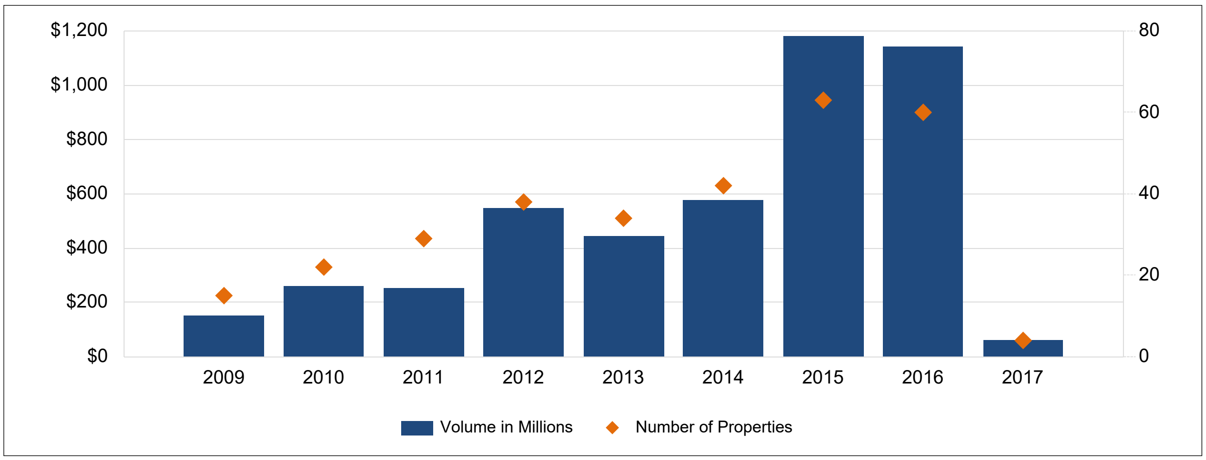
Transactions

- Following two years in which the sales volume topped $1 billion, transaction activity slowed in early 2017. Investors are gauging the economic climate and trying to avoid buying at the top of the market. In the year's first four months, only about $60 million worth of multifamily properties changed hands in the metro.

- High investment activity has compressed acquisition yields for Sacramento assets, pushing them below the national average during the second half of 2016. Thus far in 2017, the average price per unit is 37% higher than the 2016 average, and well above the national average.

- Transaction volume topped $20 million in 14 submarkets during the past 12 months. Weidner Investment Services' $92 million purchase of the Capitol Towers and Villas from Kennedy Wilson was the largest deal of the past 12 months, and the sale price represented a 44% appreciation since 2012.

Sacramento Sales Volume and Number of Properties Sold (as of April 2017)



Source: YardiMatrix

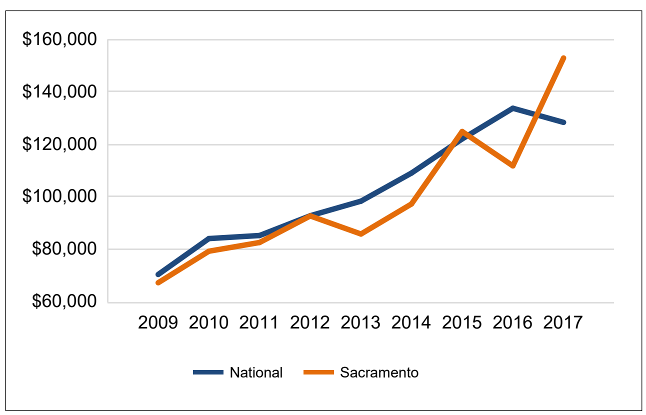
Top Submarkets for Transaction Volume[1]

Submarket	Volume ($MM)
North Sacramento	111
Central Business District	92
Central Citrus Heights	74
South Rancho Cordova/ Rosemont	72
Laguna West	58
Foothills Farms/West Citrus Heights	50
Central Davis	42

Source: YardiMatrix

[1] From May 2016 to April 2017

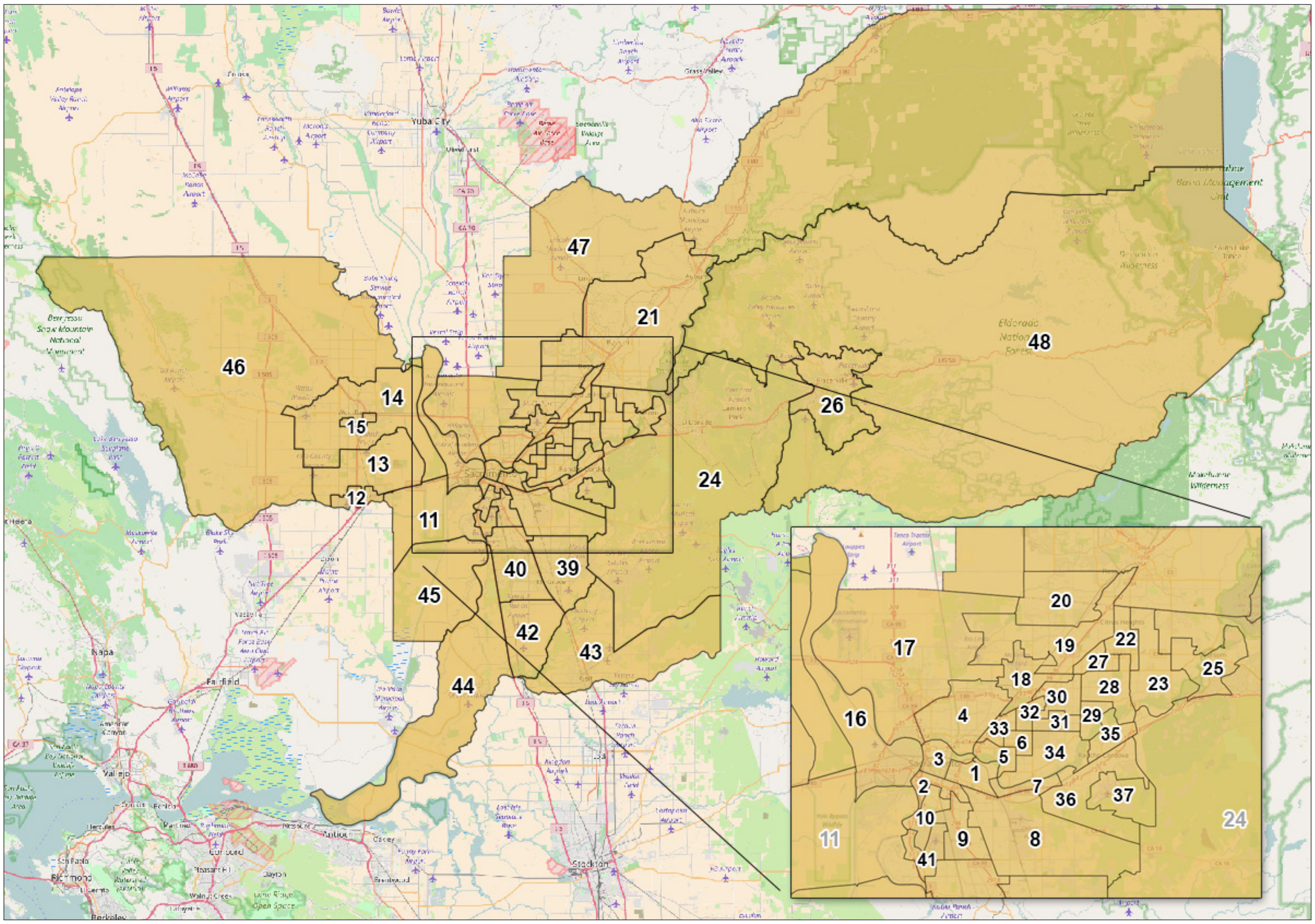
Sacramento vs. National Sales Price per Unit



Source: YardiMatrix

Photo by JohnnyH5/iStockphoto.com

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 Heights
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

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.

To learn more about Yardi® Matrix and subscribing, please visit www.yardimatrix.com or call Ron Brock, Jr., at 480-663-1149 x2404.