



MULTIFAMILY REPORT

Sacramento Rents Steady

July 2022

Average Rates Close to \$2K Mark

Population Expansion Surpasses US

Employment Recovery Outpaces Nation

SACRAMENTO MULTIFAMILY



Sacramento Finds More Manageable Pace

Sacramento's multifamily market has led the nation through long intervals of the market cycle, but California's high cost of living and pandemic-driven woes have curbed growth of late. The metro's rent performance was slightly below the national pace as of May, at 0.8% on a trailing three-month basis. Meanwhile, the average rate, which started the decade well below the U.S. figure, reached \$1,936, \$256 above the national benchmark. The average occupancy rate in stabilized assets remained high, at 96.7%, despite a 60-basis-point slide year-over-year.

The California capital's employment market is faring well, as 56,000 jobs were added in the 12 months ending in March, up 5.0%, topping the national average by 30 basis points. The leisure and hospitality sector, by far the hardest hit by pandemic fallout, saw the most significant gains as 17,600 jobs were recovered. Sacramento's state capital status means that its main economic driver is still the public sector, accounting for just under a quarter of total employment. Sacramento's Railyards infill development district has seen changes, most notably to its proposed MLS stadium endeavor, but it is still underway with major projects.

Sacramento's rental sector saw just under \$500 million in sales activity through the year's first five months, with assets in the Renter-by-Necessity segment driving activity. Though notoriously slow to add inventory, the metro had 8,744 units underway.

Market Analysis | July 2022

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Recent Sacramento Transactions

The Core Natomas



City: Sacramento, Calif.
Buyer: The Shidler Group
Purchase Price: \$103 MM
Price per Unit: \$343,583

Vue at the Lake



City: Sacramento, Calif.
Buyer: Prime Group
Purchase Price: \$68 MM
Price per Unit: \$341,250

Aspire Arden



City: Sacramento, Calif.
Buyer: Clear Capital
Purchase Price: \$64 MM
Price per Unit: \$254,000

The Archer

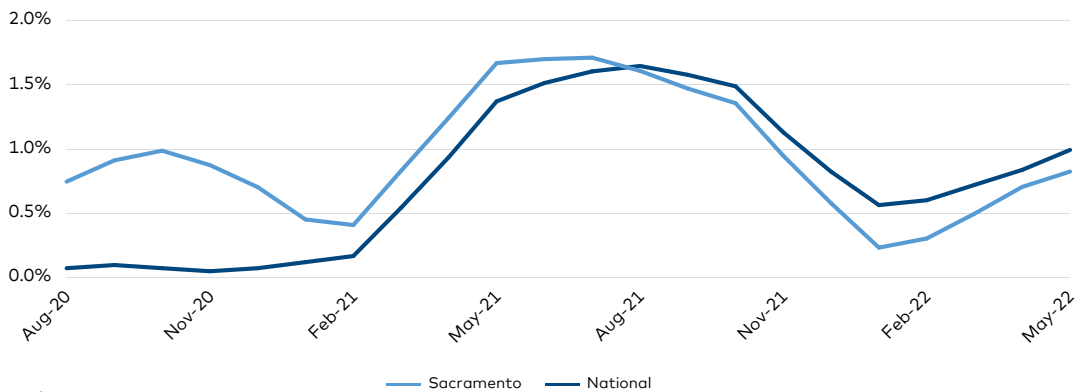


City: Sacramento, Calif.
Buyer: Bridge Investment Group
Purchase Price: \$60 MM
Price per Unit: \$248,958

RENT TRENDS

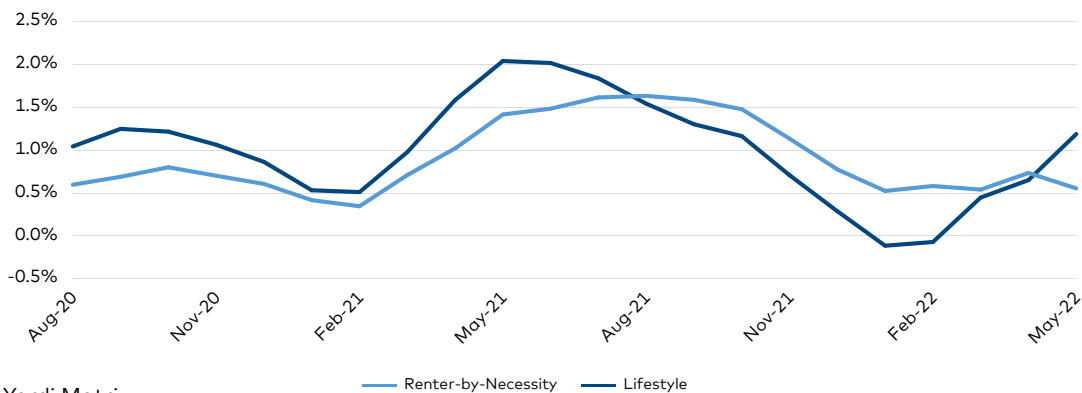
- ▶ Sacramento rents rose 0.8% on a trailing three-month (T3) basis as of May, 20 basis points behind the national rate of improvement. A longtime national leader in rate gains, Sacramento's overall average rent reached \$1,936, now well above the \$1,680 U.S. figure. Sacramento rates have risen consistently throughout the past decade, considering that the metro's average was still below the national figure as recently as the fall of 2016. Growth on a year-over-year basis was 11.6%, 230 basis points lower than the U.S. figure.
- ▶ Growth was driven by assets in the Lifestyle segment, where rents grew 1.2% on a T3 basis, to an average of \$2,332. The working-class Renter-by-Necessity segment saw average figures improve 0.6%, to \$1,715.
- ▶ No Sacramento submarkets recorded rent losses on a year-over-year basis. North Rancho Cordova (up 17.4% year-over-year), Central Folsom/South Orangevale (17.1%), Southwest Citrus Heights (17.0%) and North Sacramento (17.0%) led gains. The top four submarkets are all located in the Northeastern part of the metro.
- ▶ Sacramento's single-family rental sector saw stronger rate hikes, with 12.4% improvement year-over-year, but still slightly trailed the national rate, at 12.7%. The overall average rent in the metro for SFR assets was \$2,487 in May, while the U.S. average was \$2,038.

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 employment market is recovering at a quicker rate than the nation's, having added 53,000 jobs in the 12 months ending in March, for a 5.0% rate of growth. That's 30 basis points over the U.S. rate.
- No employment sectors recorded losses through the interval, with the hardest-hit sector in 2020, leisure and hospitality, leading the way with 17,600 positions, or 20.8% improvement year-over-year. With new hotel projects emerging in both downtown and East Sacramento, the sector is gearing up for full recovery and expansion.
- As the capital of California, Sacramento's largest job sector is government, accounting for nearly a quarter of all nonfarm employment in the metro. Some 6,600 jobs were added, for a 2.8% expansion.
- Sacramento also has a very significant development anchor in its Railyards district. As one of the largest urban infill development districts in the nation, the area has several cornerstone projects including a new Kaiser Permanente hospital, a new county courthouse and a soccer stadium project that recently suffered a downgrade in capacity. As Republic FC's MLS ambitions have shifted, so has the size of the project. However, the option for expansion is being built into the updated project.

Sacramento Employment Share by Sector

Code	Employment Sector	Current Employment	
		(000)	% Share
70	Leisure and Hospitality	102	9.8%
40	Trade, Transportation and Utilities	169	16.2%
90	Government	245	23.5%
65	Education and Health Services	174	16.7%
60	Professional and Business Services	141	13.5%
15	Mining, Logging and Construction	77	7.4%
80	Other Services	35	3.4%
30	Manufacturing	38	3.6%
55	Financial Activities	52	5.0%
50	Information	10	1.0%

Sources: Yardi Matrix, Bureau of Labor Statistics

Population

- Sacramento bucked the statewide trend of contracting population, adding 12,077 residents in 2021 for a 0.5% expansion, far outpacing the 0.1% national trend. The only other major California metro to see positive demographic movement was the Inland Empire, at 1.0%.

Sacramento vs. National Population

	2018	2019	2020	2021
National	326,838,199	328,329,953	331,501,080	331,893,745
Sacramento	2,343,292	2,363,654	2,399,351	2,411,428

Source: U.S. Census

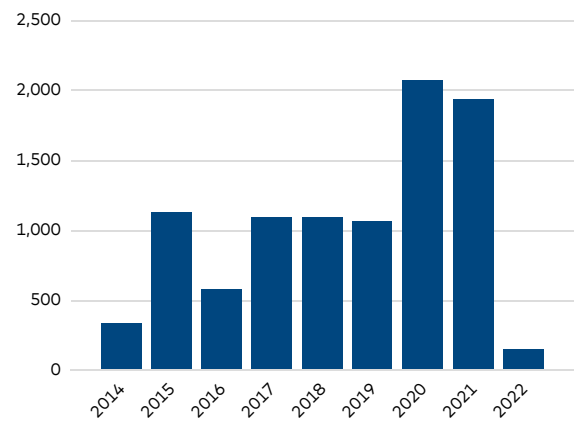
SUPPLY

- Sacramento had 8,744 units under construction as of May, while another 50,000 apartments were in the planning and permitting stages. The metro's notoriously slow development pipeline has failed to even come close to national completion rates and 2022 looks no different, as just one asset totaling 162 units was delivered through the first five months.
- The metro's average annual rate of deliveries as a percentage of existing stock over the past five years was just 1.1%, a far cry from the 2.6% U.S. rate. Cost and land constraints have limited the amount of new rental inventory, keeping occupancy in stabilized assets high, at 96.7% as of April. However, the rate was down 60 basis points year-over-year.
- Roughly 4,900 units in 20 Lifestyle projects were under construction in Sacramento as of May, accounting for more than half of the rental pipeline, while 1,830 units were in fully affordable developments. The supply imbalance has increased demand for Renter-by-Necessity assets, with occupancy in the quality segment at 97.1%.
- The Central Business District (2,018 units under construction) and Natomas (1,754 units under

construction) submarkets jointly accounted for 43% of the overall construction pipeline. North West Sacramento rounded out the top three, with 928 units underway.

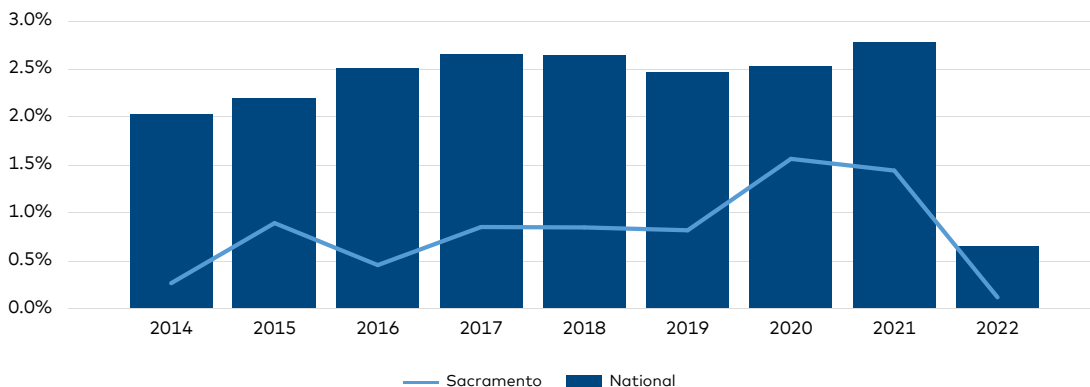
- The Mirasol Village project is the largest asset scheduled for completion in 2022. The 487-unit development will feature an affordable housing component and is being built using extensive local government funding.

Sacramento Completions (as of May 2022)



Source: Yardi Matrix

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



Source: Yardi Matrix

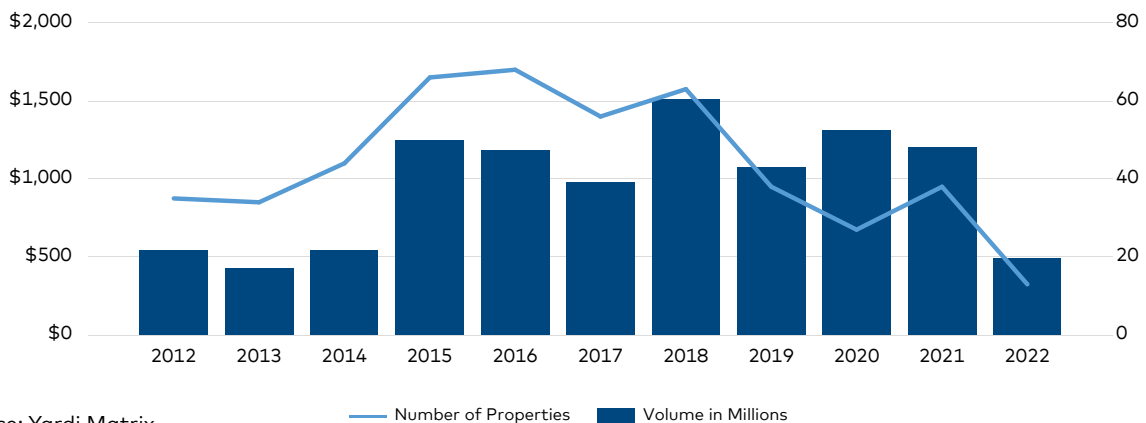
TRANSACTIONS

- ▶ Through the first five months of 2022, some \$489 million in multifamily assets traded in Sacramento. While a slowdown in the number of deals has emerged since the start of the COVID-19 pandemic, annual sales totals have consistently stayed above the \$1 billion mark since 2018, with the trend very likely to continue in 2022.
- ▶ The 13 multifamily transactions completed this year through May had an average per-unit price

of \$308,633, a 39% increase compared to 2021's average price per unit. The figure was also nearly \$100,000 higher than the national figure of \$213,724. Investors continued to favor value-add plays, as 10 of the deals were for Renter-by-Necessity assets.

- ▶ The Shidler Group's \$103 million purchase of The Core Natomas is the year's largest multifamily deal so far in Sacramento. The asset fetched a per-unit price of \$343,583.

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



Source: Yardi Matrix

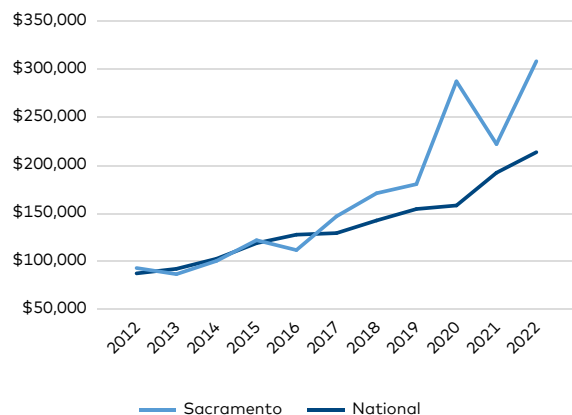
Top Submarkets for Transaction Volume¹

Submarket	Volume (\$MM)
Southwest Citrus Heights	174
Encina/Ethan/Woodside	123
Pocket/West Greenhaven	122
Bellview/Howe Edison	113
Outlying Placer County	111
Laguna West	108
Natomas	103

Source: Yardi Matrix

¹ From June 2021 to May 2022

Sacramento vs. National Sales Price per Unit



Source: Yardi Matrix

Top States for LEED-Certified Multifamily Properties in 2021

By Lucia Morosanu

The multifamily sector has experienced significant growth in the past year, as constant demand for space pushed new supply. The health crisis reinforced the need for clean air within both apartments and communal areas at multifamily properties, while the prevalence of remote work made residents more mindful of their energy consumption. Sustainable multifamily communities are treated more and more as a requirement rather than an exception.

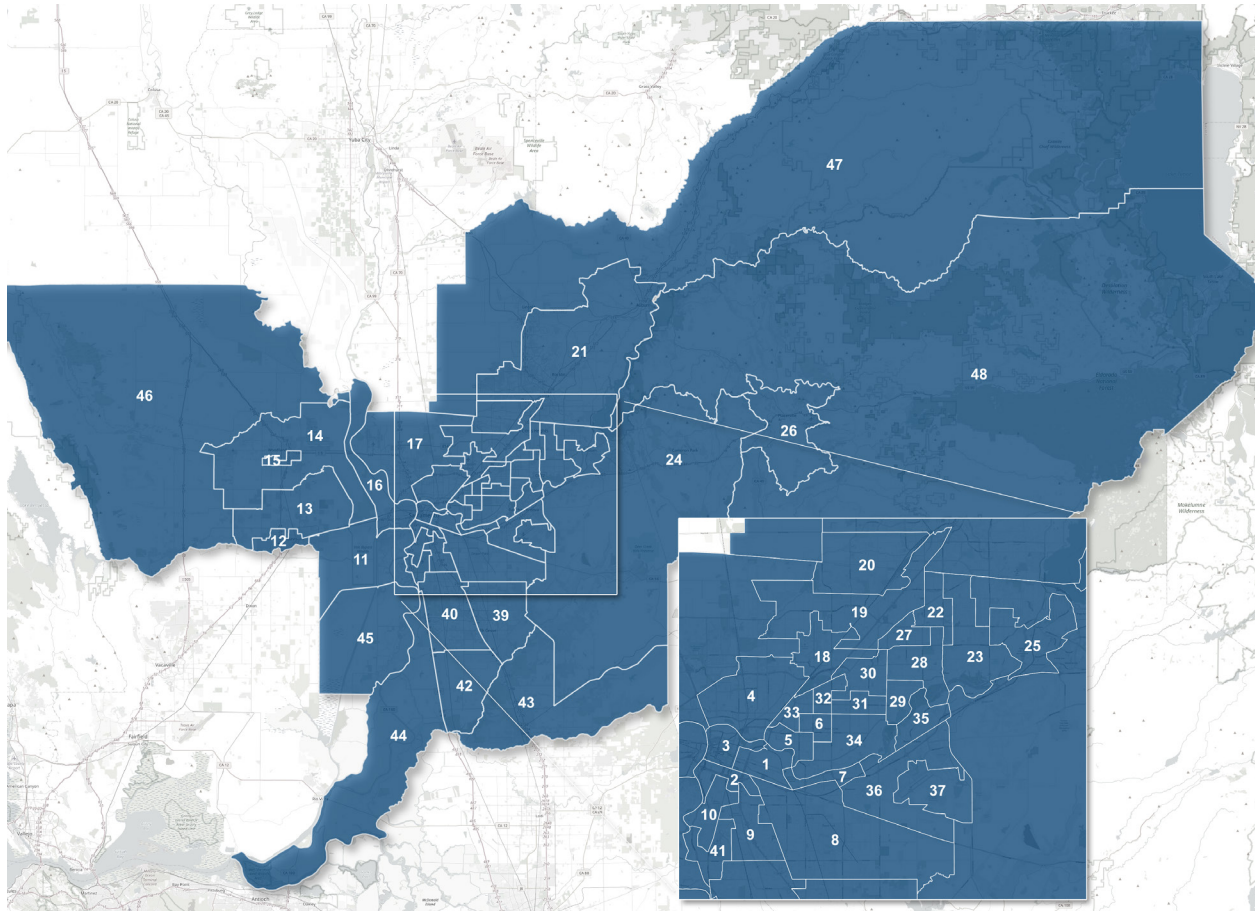
Rank	State	Number of Communities
1	California	47
2	Washington, D.C.	20
3	New York	18
4	Massachusetts	12
5	Maryland	10

California

The Golden State topped the list with twice as many certified communities than any other entry on the list. From the total 47 communities to be certified in 2021, one earned basic LEED certification, 11 communities became LEED-Silver certified, 20 became LEED-Gold certified and 15 received LEED Platinum certification.



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 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 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, 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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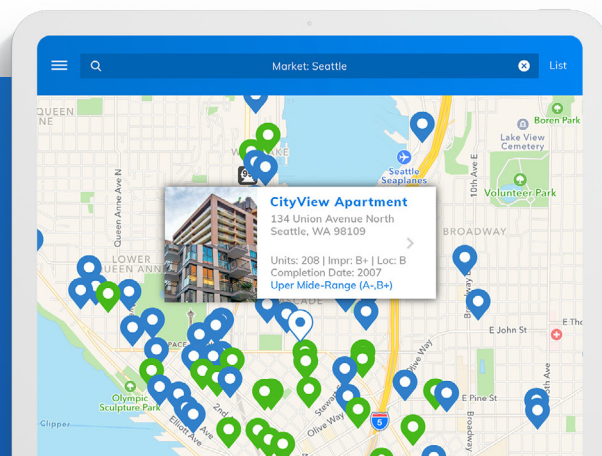
Yardi Matrix

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with the industry's
leading data provider



MULTIFAMILY KEY FEATURES

- Pierce the LLC every time with true ownership and contact details
- Leverage improvement and location ratings, unit mix, occupancy and manager info
- Gain complete new supply pipeline information from concept to completion
- Find acquisition prospects based on in-place loans, maturity dates, lenders and originators
- Access aggregated and anonymized residential revenue and expense comps



Yardi Matrix Multifamily
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