

Yardi® Matrix

# Sacramento: Still The Top Dog

Multifamily Report Fall 2017

**Rent Growth Leads Nation**

**Deliveries Stay Very Limited**

**Multifamily Investment Slows**

## Market Analysis

Fall 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

## Market Maintains Robust Rent Growth

Amid a strong stint of unrelenting growth, Sacramento's average rent as of August was \$12 higher than the U.S. average. While investment activity has slightly tempered in 2017, property values have skyrocketed, leading average per-unit prices to \$160,000. Meanwhile, deliveries remain extremely limited, helping to maintain occupancy at one of the highest levels among major metros and putting more pressure on rents.

The metro's economy continues to be driven by improvements in leisure and hospitality and education and health services, while the information and manufacturing sectors are being affected by the contraction of the *Sacramento Bee* newspaper and the relocation of most of the 1,400 employees of defense contractor Aerojet Rocketdyne. The continued development of the mixed-use project at the Sacramento Railyards will continue to spur commercial construction activity in the metro.

New supply remains limited, as only 900 units will be added to the market in 2017. However, with 2,000 units underway and another 11,000 in the planning and permitting stages, construction activity may pick up in coming years, something that is needed to meet the strong demand. For the time being, though, rents are expected to lead the nation in growth for the second straight year. Our forecast calls for an increase of 8.2% in 2017.

## Recent Sacramento Transactions

Capitol Towers and Villas



City: Sacramento, Calif.  
Buyer: Weidner Investment Services  
Purchase Price: \$92 MM  
Price per Unit: \$224,938

The Foundation



City: Sacramento, Calif.  
Buyer: Scion Group  
Purchase Price: \$71 MM  
Price per Unit: \$333,333

The Eleven Hundred



City: Sacramento, Calif.  
Buyer: OpenPath Investments  
Purchase Price: \$69 MM  
Price per Unit: \$122,123

The Artisan Apartment Homes



City: Sacramento, Calif.  
Buyer: Sequoia Equities  
Purchase Price: \$53 MM  
Price per Unit: \$201,808

### To Subscribe

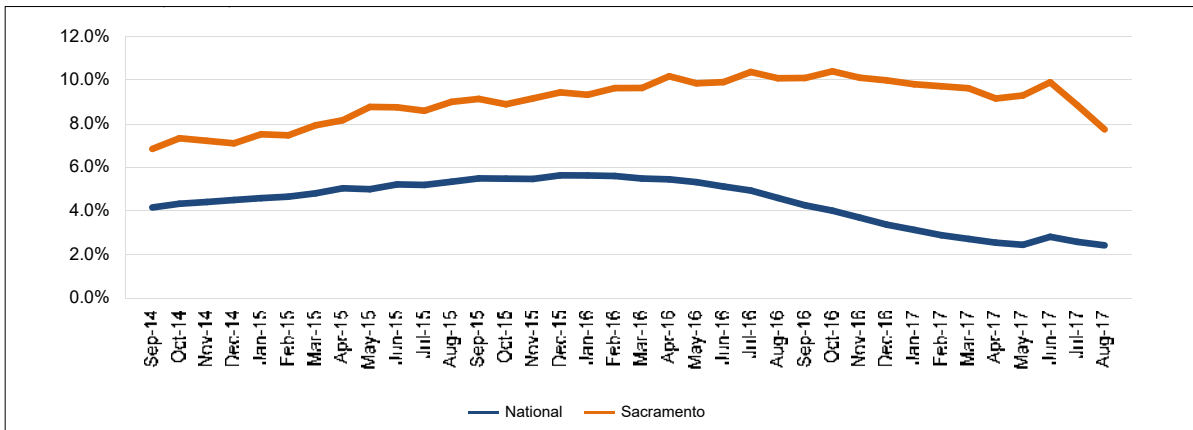
#### Hollie Zepke

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

## Rent Trends

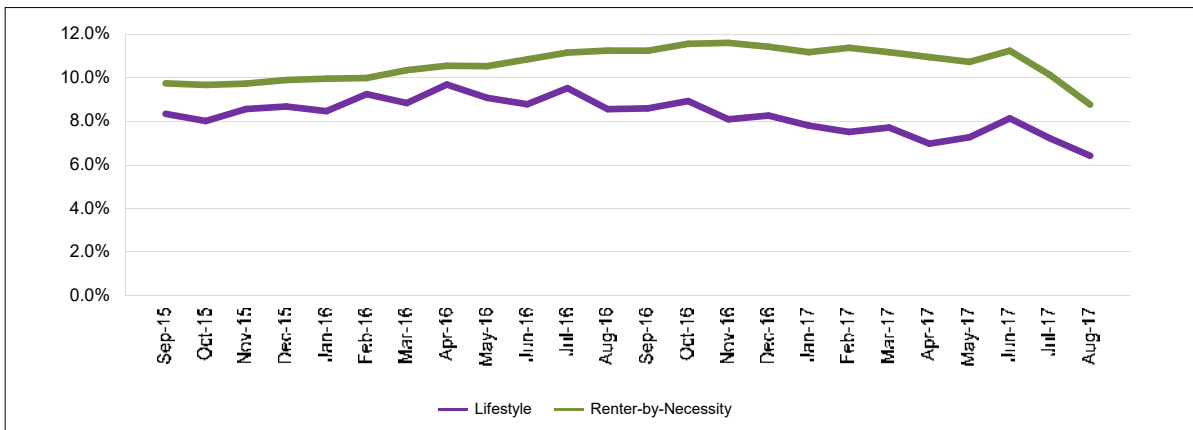
- Sacramento rents were up 7.7% year-over-year through August, rising three times faster than the national growth rate over that same timeframe, and continuing to lead major metros. The average rent stood at \$1,364, \$12 higher than the national average. Rents in Sacramento, on average, have increased by nearly \$100 over the past 12 months, highlighting the intensity of demand.
- Growth was strong across the board. The working-class Renter-by-Necessity segment rose 8.8% year-over-year to \$1,215, remaining the primary driver for rent growth in Sacramento. The Lifestyle segment improved 6.4% to \$1,672, as limited supply continues to push asking rents higher.
- Submarkets with the most substantial rent growth have multifamily inventories that consist mostly of Renter-by-Necessity properties: West Carmichael (17.8%), Southeast Carmichael (15.4%), Bellview/Howe Edison (15.2%), Arden Gardens/Arden Terrace (14.8%) and Mira Loma/Marconi (14.6%). Three of the five submarkets had average rents of under \$900.
- Limited supply will continue to put pressure on rental household creation in Sacramento, leading to an 8.2% rent growth 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)

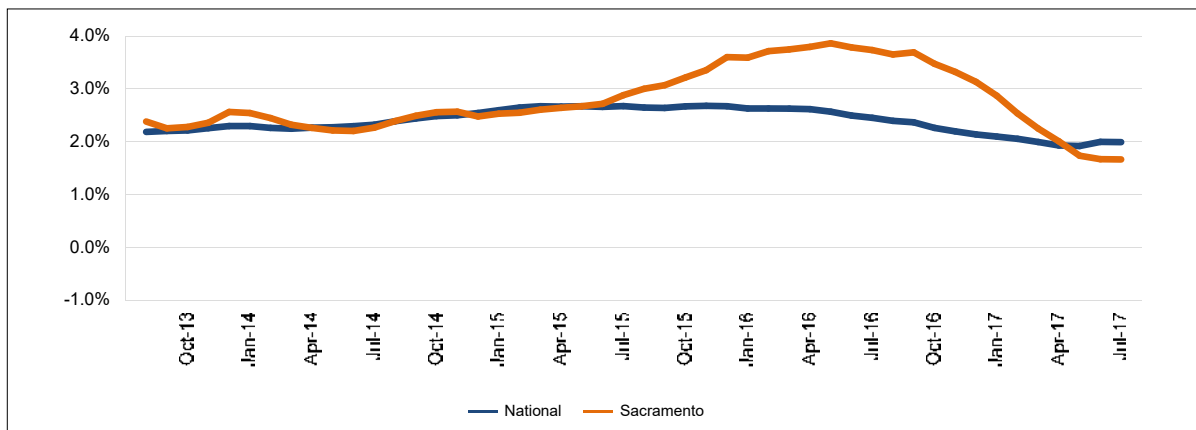


Source: YardiMatrix

## Economic Snapshot

- Sacramento added 17,100 jobs in the 12 months ending in July, up 1.7% year-over-year. That's 30 basis points below the national rate, following a year-long stint when employment growth in Sacramento had been significantly higher than the national average. Although the unemployment rate is still in line with the state average, high-profile cuts at companies such as defense firm Aerojet Rocketdyne, which is relocating 1,100 of its 1,400 workers to Alabama and Southern California, have led to a contraction in manufacturing positions (-1,200). The information, government and mining and construction sectors also shed jobs.
- The sprawling Sacramento Railyards district will lead economic development going forward. Located on a 244-acre site at the western end of the First Transcontinental Railroad, the urban infill project is the largest of its kind to be located in a market's core. Plans call for roughly 12,000 housing units, 2.9 million square feet of office space and 1.9 million square feet of retail, hotel and other commercial uses in the area. A new Sacramento Republic FC soccer stadium and a Kaiser Permanente campus are also lined up.
- The city's office market improved, as vacancy continued to drop in 2017, nearing the 10% mark. Net absorption remained positive throughout the year's first two quarters, pushing the average asking rent to \$1.80 per square foot, although Class A space fetches upwards of \$3 per square foot.

### 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	152	15.7%	8,500	5.9%
70	Leisure and Hospitality	108	11.2%	5,800	5.7%
60	Professional and Business Services	134	13.9%	4,800	3.7%
55	Financial Activities	54	5.6%	1,800	3.4%
40	Trade, Transportation and Utilities	153	15.8%	1,300	0.9%
50	Information	13	1.3%	-400	-2.9%
80	Other Services	32	3.3%	-800	-2.4%
30	Manufacturing	35	3.6%	-1,200	-3.3%
90	Government	227	23.5%	-1,200	-0.5%
15	Mining, Logging and Construction	57	5.9%	-1,500	-2.6%

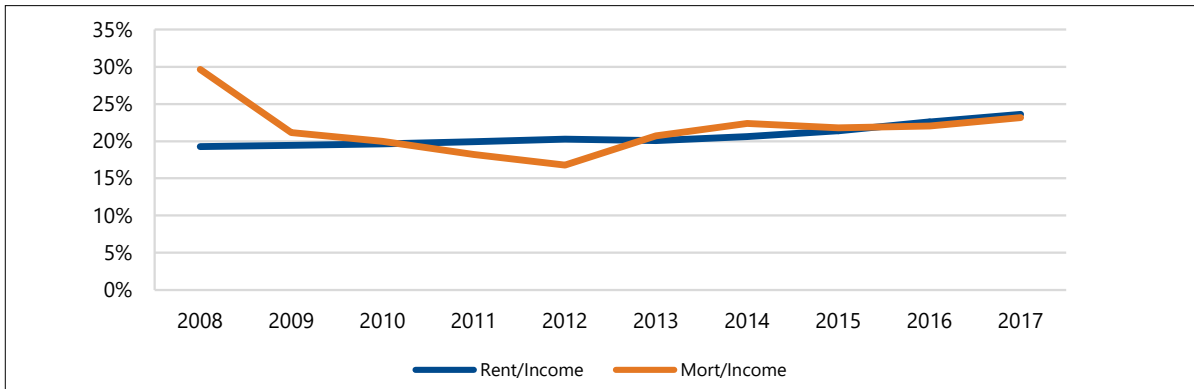
Sources: YardiMatrix, Bureau of Labor Statistics

## Demographics

### Affordability

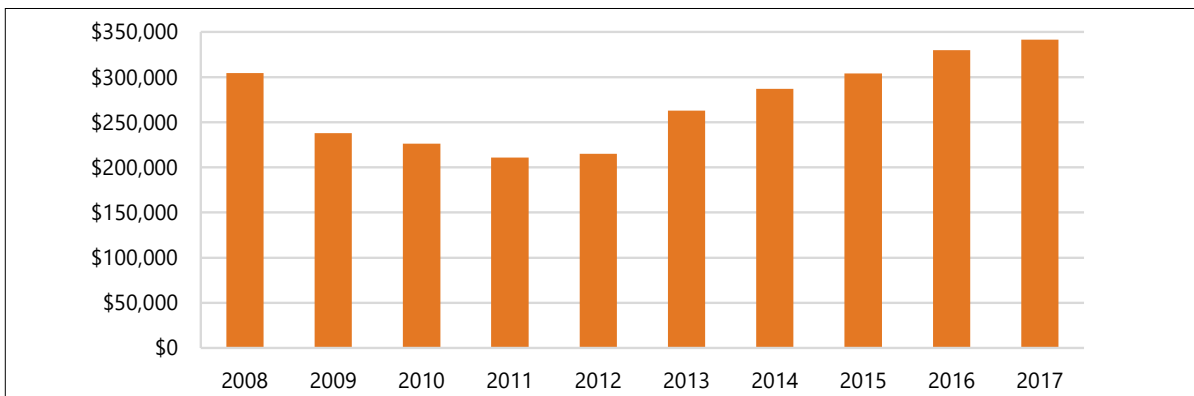
- Sacramento's median home price has steadily risen since 2011, reaching \$341,429 in mid-2017. That's 62% higher than its lowest point during the current cycle. The constant rise in rents has led to a shift in the renting versus owning dynamic. With average rents at \$1,364 at the end of August, mortgages accounted for slightly less than rents, at 21% of median income as of June.
- Over the past five years, the average rent has grown by \$390 in Sacramento, pushing the metro average beyond the national value for the first time. With cost of living metrics rising for both owning and renting, and rents rising at the current rate, affordability may very well become an issue in Sacramento.

### 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 gained 29,000 residents in 2016. The city has added more than 100,000 residents since 2012.
- The rate of population growth between 2015 and 2016 was 1.3%, twice the national rate.

### Sacramento vs. National Population

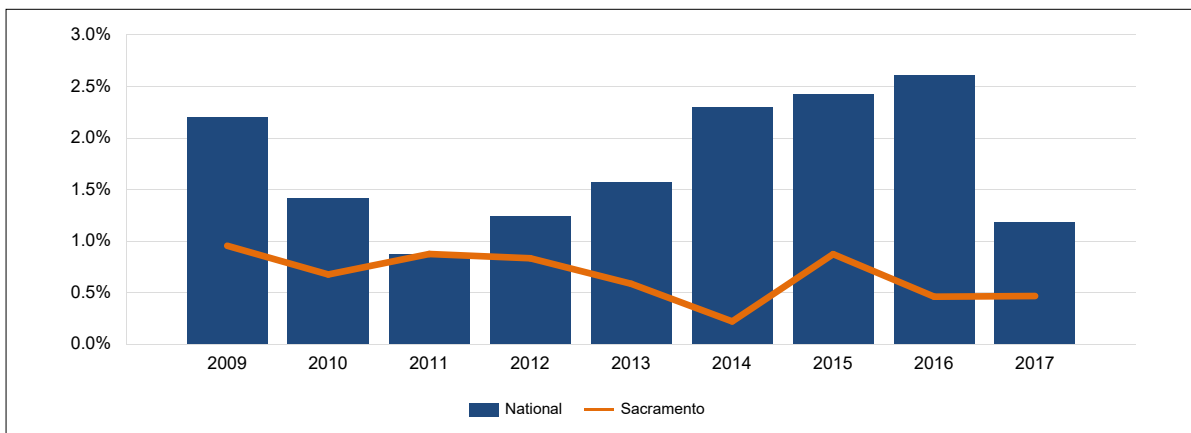
	2012	2013	2014	2015	2016
National	313,998,379	316,204,908	318,563,456	320,896,618	323,127,513
Sacramento Metro	2,193,741	2,214,570	2,240,391	2,267,588	2,296,418

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

## Supply

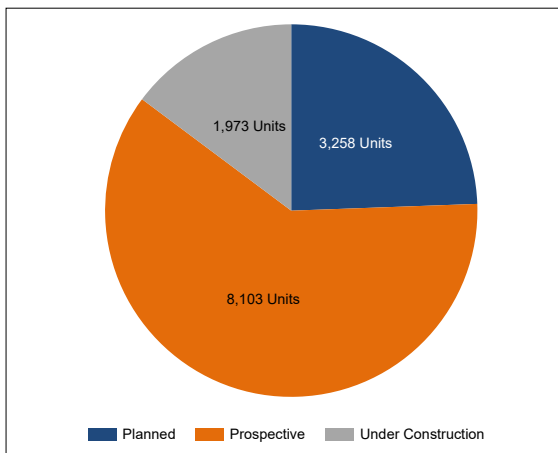
- Developers added roughly 350 units year-to-date through August, as completions continue to lag. Only 2,000 apartments have come online in Sacramento since 2015, contributing to the rapid appreciation of rents in the area. With fewer than 1,000 units projected to come online this year due to lagging construction activity and the national labor shortage, 2017 likely won't buck this cycle's trend of very low deliveries.
- Roughly 2,000 units were underway in August, with another 11,000 units in the planning and entitlement stages. The average occupancy rate in stabilized properties was 96.9% in July, virtually unchanged since July 2016, a direct result of limited inventory growth.
- Developers are targeting suburban areas of the metro with Rocklin/Roseville (446 units under construction) and Laguna West (324 units) leading the way. As projects are slowly added to the Railyards district, completions should pick up downtown. Condominiums are a big component of the city's construction pipeline, which in turn contributes to the low number of deliveries in rental units.
- The largest project underway as of August was Vasari in Laguna West. Developer LandCap Investment Partners is building a 324-unit community at 8151 Sheldon Road in Elk Grove.

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



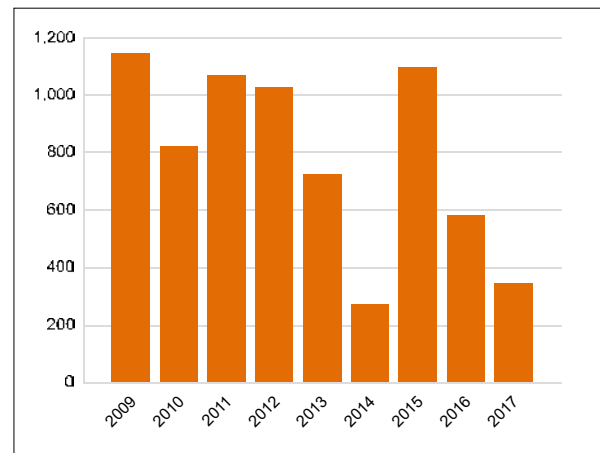
Source: YardiMatrix

### Development Pipeline (as of August 2017)



Source: YardiMatrix

### Sacramento Completions (as of August 2017)

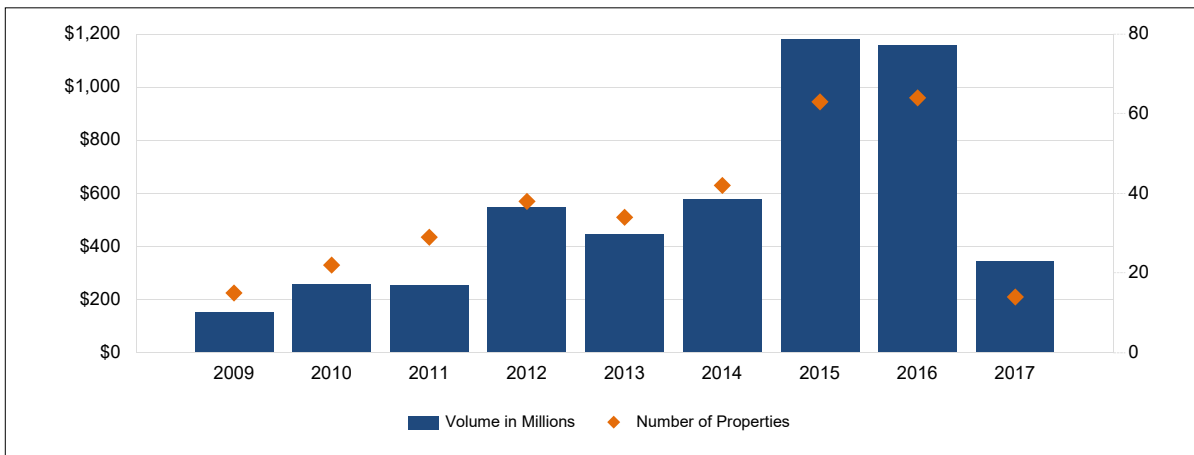


Source: YardiMatrix

## Investment Transactions

- Investment activity slightly tapered during the first seven months of 2017, with just over \$300 million of transactions completed. This reflects a national trend of reduced multifamily trading, and the growing disconnect between sellers that want top dollar and buyers that are worried that prices have peaked.
- The average per-unit price stood at \$160,962 through July, \$27,000 above the national per-unit price through that interval and \$50,000 above last year's average. Acquisition yields for stabilized Class A properties in Sacramento range between 4.3% and 5%, largely in line with what investors could expect in more established markets like Denver, Seattle and Austin.
- Investors focused on the city's central business district, where more than \$114 million in multifamily properties traded over the past 12 months. Interest is growing in the city's core as new projects surge in the area.

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



Source: YardiMatrix

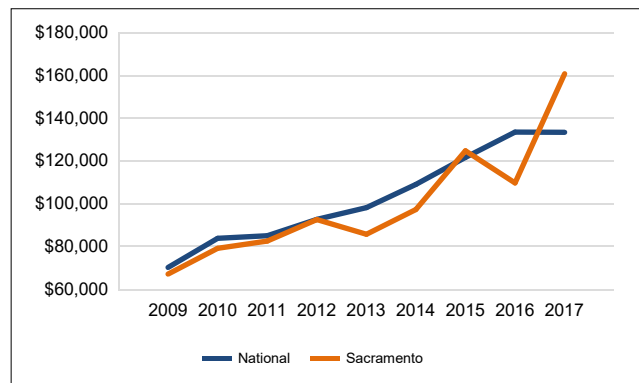
**Top Submarkets for Transaction Volume<sup>1</sup>**

Submarket	Volume (\$MM)
Central Business District	114
Encina/Ethan/Woodside	94
South Rancho Cordova/Rosemont	77
Florin/Southeast Sacramento	71
Elk Grove	65
Foothills Farms/West Citrus Heights	50
Central Davis	42

Source: YardiMatrix

<sup>1</sup> From August 2016 to July 2017

**Sacramento vs. National Sales Price per Unit**



Source: YardiMatrix

# Read All About It!



Security Properties  
Acquires \$43M  
Sacramento Community



Sacramento Republic FC  
Brings it Home



Eviva Midtown Trades  
For Record Price



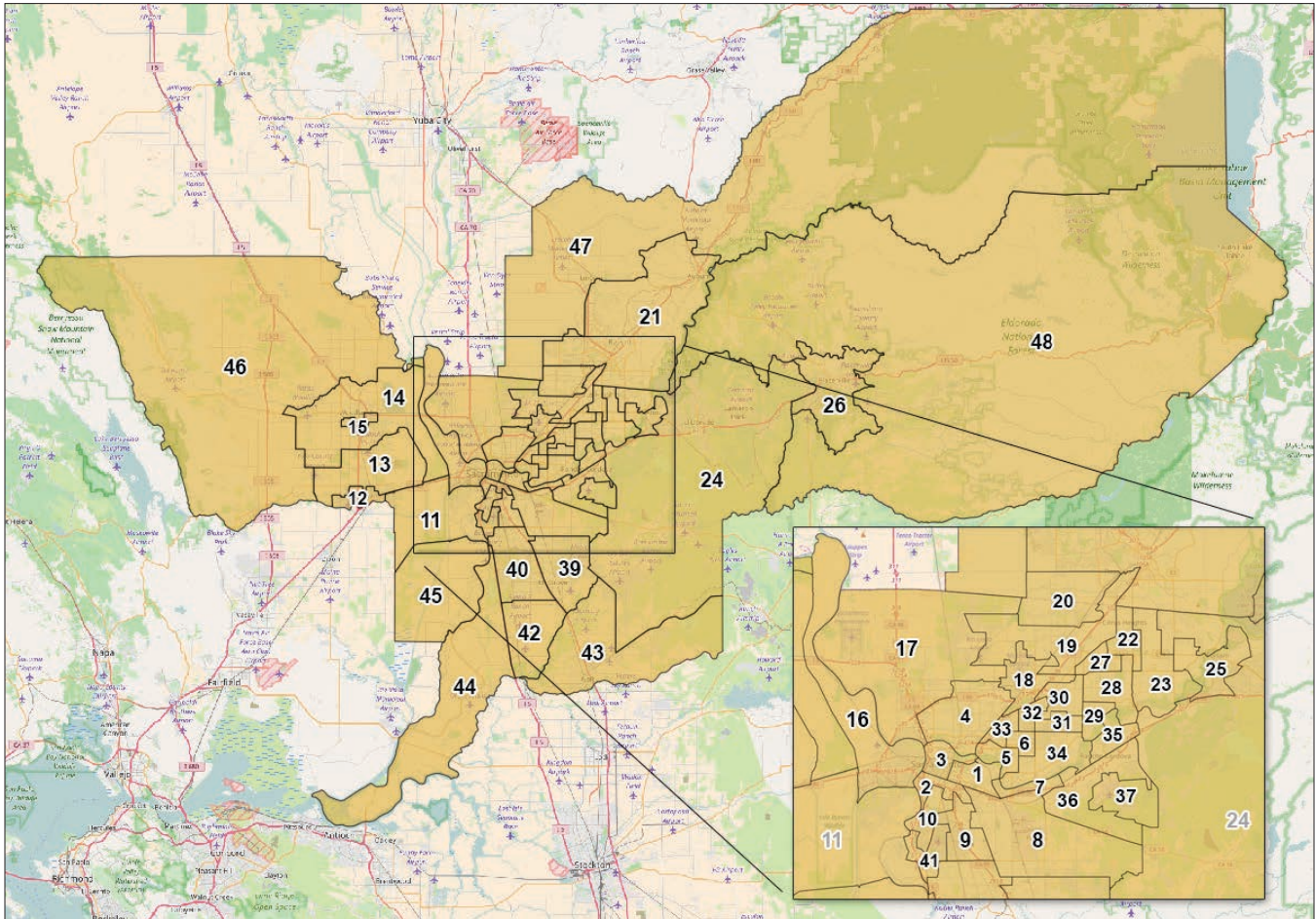
Sacramento-Area  
Walmart Central  
Trades for \$40M

Get the latest Sacramento real estate  
news at





# 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](http://www.yardimatrix.com) or call Ron Brock, Jr., at 480-663-1149 x2404.

# What's the best choice for CRE news & views?



With so much information out there, selecting the best source can be daunting. Keep it simple. *Commercial Property Executive* and *Multi-Housing News* will keep you up-to-date on real estate news, data, trends and analysis—daily, weekly or monthly. Trust the leading integrated industry information resource to help you make informed decisions and achieve your business goals.



[cpexecutive.com](http://cpexecutive.com)



[multi-housingnews.com](http://multi-housingnews.com)

Visit our websites and sign up for our free emailed newsletters at [cpexecutive.com/subscribe](http://cpexecutive.com/subscribe) and [multi-housingnews.com/subscribe](http://multi-housingnews.com/subscribe).

---

#### DISCLAIMER

ALTHOUGH EVERY EFFORT IS MADE TO ENSURE THE ACCURACY, TIMELINESS AND COMPLETENESS OF THE INFORMATION PROVIDED IN THIS PUBLICATION, THE INFORMATION IS PROVIDED "AS IS" AND YARDI MATRIX DOES NOT GUARANTEE, WARRANT, REPRESENT OR UNDERTAKE THAT THE INFORMATION PROVIDED IS CORRECT, ACCURATE, CURRENT OR COMPLETE. YARDI MATRIX IS NOT LIABLE FOR ANY LOSS, CLAIM, OR DEMAND ARISING DIRECTLY OR INDIRECTLY FROM ANY USE OR RELIANCE UPON THE INFORMATION CONTAINED HEREIN.

#### COPYRIGHT NOTICE

This document, publication and/or presentation (collectively, "document") is protected by copyright, trademark and other intellectual property laws. Use of this document is subject to the terms and conditions of Yardi Systems, Inc. dba Yardi Matrix's Terms of Use (<http://www.yardimatrix.com/Terms>) or other agreement including, but not limited to, restrictions on its use, copying, disclosure, distribution and decompilation. No part of this document may be disclosed or reproduced in any form by any means without the prior written authorization of Yardi Systems, Inc. This document may contain proprietary information about software and service processes, algorithms, and data models which is confidential and constitutes trade secrets. This document is intended for utilization solely in connection with Yardi Matrix publications and for no other purpose.

Yardi®, Yardi Systems, Inc., the Yardi Logo, Yardi Matrix, and the names of Yardi products and services are trademarks or registered trademarks of Yardi Systems, Inc. in the United States and may be protected as trademarks in other countries. All other product, service, or company names mentioned in this document are claimed as trademarks and trade names by their respective companies.

© 2017 Yardi Systems, Inc. All Rights Reserved.