

Sacramento's Moderate Growth

December 2022



Rent Development Declines, Trails U.S.

Construction Starts Slow Down

YOY Occupancy Decreases

SACRAMENTO MULTIFAMILY



Occupancy Drop Softens Fundamentals

Sacramento's multifamily market posted a steady run in 2022, with robust investment activity and a construction pipeline above pre-pandemic levels. Yet at the start of the fourth quarter, rents declined 0.1% on a trailing three-month basis, while the national rate inched up 0.2%. Signs of a cooldown came from occupancy—the rate in stabilized properties dropped 110 basis points in the 12 months ending in September—but at 96%, Sacramento remains a tight rental market.

Unemployment declined to pre-pandemic values for most of 2022, clocking in at 3.3% in September, a 170-basis-point increase since the start of the year, according to preliminary data from the Bureau of Labor Statistics. California's capital outperformed the state (3.9%) and the U.S. (3.5%), but trailed San Francisco (2.5%) and San Jose (2.2%). The job market expansion softened to 4.1% growth, or 29,200 jobs, in the 12 months ending in August, 20 basis points above the national rate. All sectors expanded except financial services, which lost 100 jobs.

Developers delivered 1,588 units through October, 1.2% of existing stock and already above pre-pandemic levels, which never surpassed 1.0%. Another 7,498 units were underway, with a notable decline in the number of construction starts. Meanwhile, investment volume surpassed \$1.3 billion, for a price per unit that rose 27.6% year-over-year, to \$274,216.

Market Analysis | December 2022

Contacts

Jeff Adler

Vice President & General
Manager of Yardi Matrix
Jeff.Adler@Yardi.com
(303) 615-3676

Ron Brock, Jr.

Industry Principal, Matrix
JR.Brock@Yardi.com
(480) 663-1149 x2404

Doug Ressler

Media Contact
Doug.Ressler@Yardi.com
(480) 695-3365

Author

Anca Gagiuc

Senior Associate Editor

Recent Sacramento Transactions

The Falls at Willow Creek



City: Folsom, Calif.
Buyer: Prime Group
Purchase Price: \$149 MM
Price per Unit: \$348,826

The Eleven Hundred



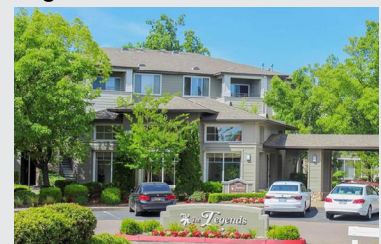
City: Sacramento, Calif.
Buyer: KF Properties
Purchase Price: \$119 MM
Price per Unit: \$210,619

Waterford Cove



City: Sacramento, Calif.
Buyer: Crown Capital
Purchase Price: \$62 MM
Price per Unit: \$329,255

Legends at Willow Creek



City: Folsom, Calif.
Buyer: Prime Group
Purchase Price: \$61 MM
Price per Unit: \$295,192

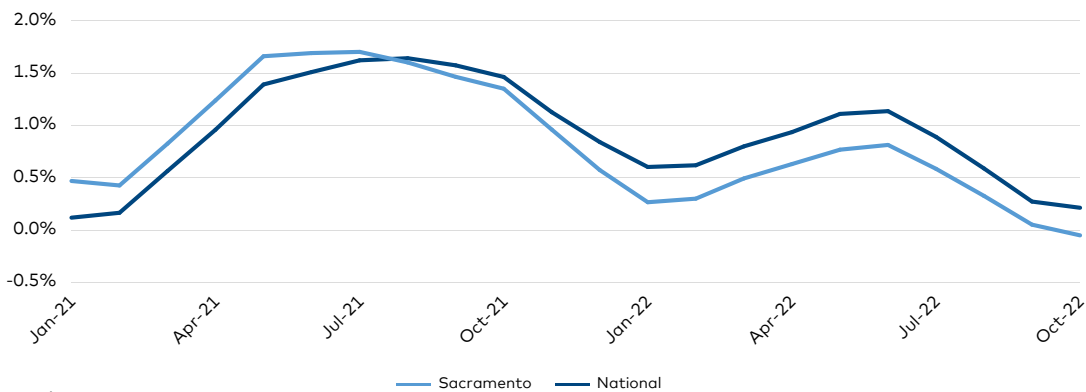
RENT TRENDS

- ▶ Rent growth turned negative in Sacramento, down 0.1% on a trailing three-month (T3) basis through October, to \$1,958, while the U.S. rate rose 0.2% to \$1,727. The metro's rate performance has been on a downward trend since the 1.7% high in July 2021, which also marked the last time rent growth in the metro outperformed the U.S. figure. On a year-over-year basis, Sacramento rates rose just 4.4%, posting one of the weakest performances among major metros. The U.S. figure rose 8.2% year-over-year.
- ▶ The drop in average rent was primarily caused by cooling demand for Lifestyle apartments, where rates decreased 0.5% on a T3 basis through October, to \$2,291. Meanwhile, Renter-by-Necessity figures rose 0.3% to \$1,767. Even so, the occupancy rate in stabilized properties

revealed a still-tight rental market, which clocked in at 96%, despite declining 1.1% in the 12 months ending in September. The drop was even across quality segments, both down by 1.1%—RBN to 96.3% and Lifestyle to 95.5%.

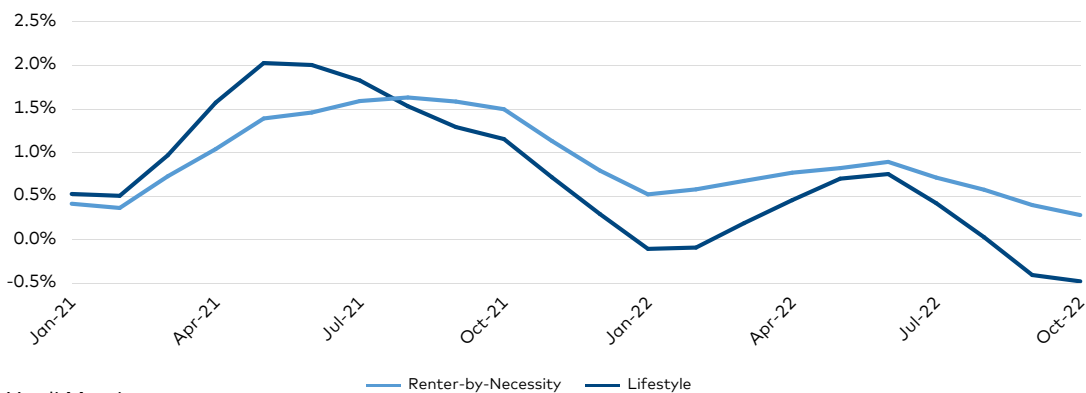
- ▶ Rent expansion was uneven across the metro, declining in two submarkets and posting double digit increases in eight others. In October, 16 submarkets had an average asking rent above the \$2,000 mark, from 12 a year ago. Greater Davis (6.9% to \$2,606) and Central Davis (3.3% to \$2,504) remained the most expensive areas.
- ▶ Rents in the SFR market posted the second-largest increase among major metros, up 17.2% year-over-year. On the other hand, occupancy declined 1.5% year-over-year through September.

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 returned to pre-pandemic values for most of 2022, at 3.3% in September, a slight increase from the 2.9% May rate, but an overall 170 basis-point improvement since January, according to preliminary data from the BLS. California's capital outperformed both the state (3.9%) and the U.S. (3.5%), but trailed San Francisco (2.5%) and San Jose (2.2%).
- Although on a softening trend, the job market in Sacramento maintained a slight advantage over the U.S., expanding by a tepid 4.1% in the 12 months ending in August. Growth was the equivalent of 29,200 jobs and 20 basis points higher than the U.S. rate. Financial activities was the only sector to lose jobs (100 positions), and leisure and hospitality continued to lead gains, up 7,200 jobs. Education and health services followed with 6,100 jobs, proving its resilience during and after the pandemic, as it progressed through projects such as Aggie Square, a \$1.1 billion UC Davis science research park slated for completion in 2024.
- By May this year, Sacramento had recovered all jobs lost during the pandemic, marking the first time in 30 years that the metro recovered faster than California, according to the Federal Reserve Bank of St. Louis. With low-income households hit particularly hard by rising inflation, Gov. Newsom allocated an additional \$1.4 billion for overdue utility bills.

Sacramento Employment Share by Sector

| Code | Employment Sector | Current Employment | |
|------|-------------------------------------|--------------------|---------|
| | | (000) | % Share |
| 70 | Leisure and Hospitality | 108 | 10.3% |
| 65 | Education and Health Services | 175 | 16.7% |
| 40 | Trade, Transportation and Utilities | 169 | 16.1% |
| 90 | Government | 240 | 22.8% |
| 60 | Professional and Business Services | 141 | 13.4% |
| 80 | Other Services | 36 | 3.4% |
| 15 | Mining, Logging and Construction | 80 | 7.6% |
| 30 | Manufacturing | 40 | 3.8% |
| 50 | Information | 10 | 1.0% |
| 55 | Financial Activities | 52 | 4.9% |

Sources: Yardi Matrix, Bureau of Labor Statistics

Population

- One of the few California metros to grow during the pandemic, Sacramento gained 12,077 residents in 2021, for a 0.5% increase and well above the 0.1% U.S. rate.
- Since the 2010 Census, Sacramento's population has expanded by 12%, outperforming the 7.3% U.S. rate.

Sacramento vs. National Population

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

Source: U.S. Census

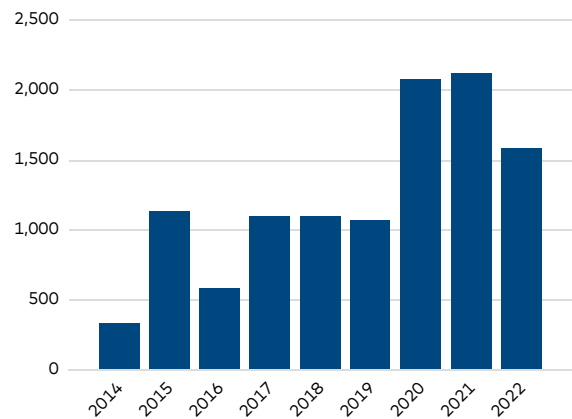
SUPPLY

- Sacramento had 7,498 units under construction as of October, and another 47,000 units were in the planning and permitting stages. Deliveries amounted to 1,588 units, the equivalent of 1.2% of existing stock, trailing the U.S. rate by 60 basis points, almost on par with last year's volume, when 1,735 units were added to the inventory through the same interval.
- Despite robust in-migration, development activity is tapering in California's capital, with just 1,214 units starting construction in 2022 through October, far below the 3,759 units that had broken ground during the same period last year. Adding to the existing construction challenges in Sacramento—high costs and limited land availability—rising interest rates will further reduce developer activity, especially if financing is involved.
- Deliveries through October consisted of 80% Lifestyle projects. The bulk of the construction pipeline consisted of Lifestyle assets (60%).
- Construction activity was spotty across the map, with the top two submarkets accounting

for nearly half of the pipeline—Natomas (1,914 units underway) and Central Business District (1,717 units).

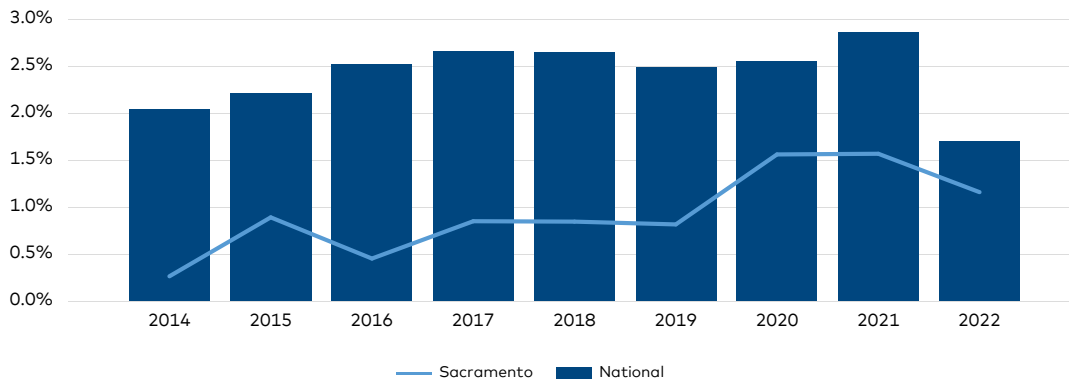
- The largest project delivered through October was The Strand, MBK Real Estate's 408-unit property in North West Sacramento. Finalized in July, the suburban asset is located in an Opportunity Zone.

Sacramento Completions (as of October 2022)



Source: Yardi Matrix

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

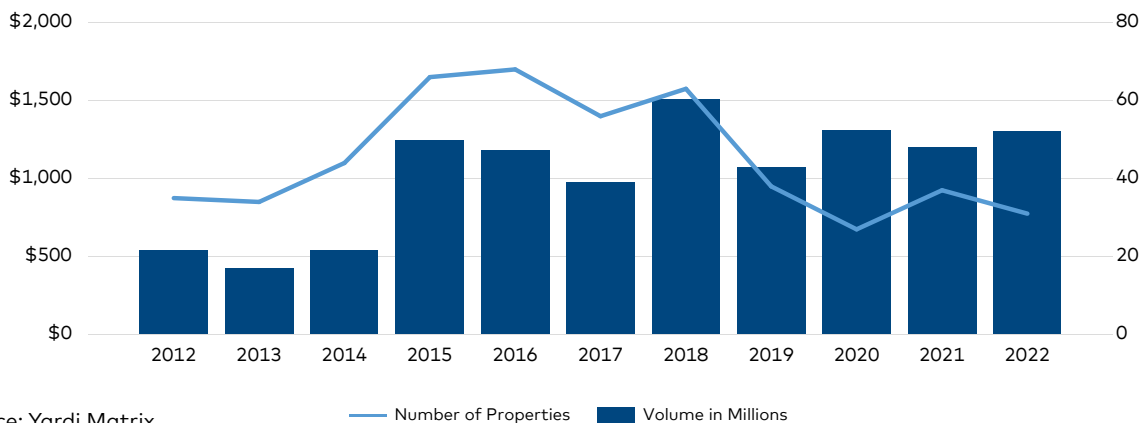


Source: Yardi Matrix

TRANSACTIONS

- ▶ Investors traded \$1.3 billion in multifamily assets through October, already surpassing 2021's \$1.2 billion total. Looking at transactions by quarter, Sacramento had the highest activity during the third quarter, when nearly \$615 million in apartments changed hands.
- ▶ By sales composition, investor focus was on value-add plays, which accounted for two-thirds of the transaction volume. Robust competition among investors pushed the per-unit price up by 27.6% this year, to \$274,216, widening the gap to the \$215,939 national average.
- ▶ The asset that sold for the highest price through October was The Falls at Willow Creek, a 426-unit property located in Folsom. Prime Group acquired it from Gerson Bakar & Associates for \$148.6 million, or \$348,826 per unit, with aid from an \$89 million loan originated by Prudential Financial.

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



Source: Yardi Matrix

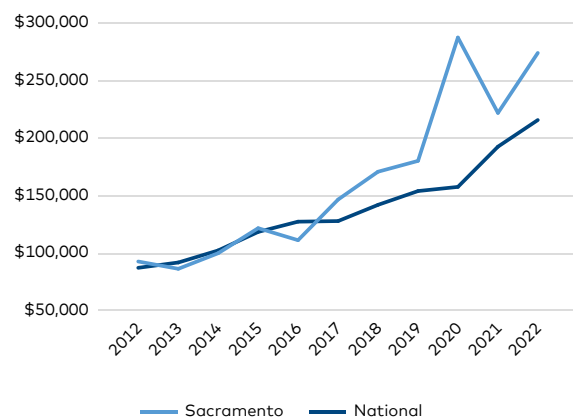
Top Submarkets for Transaction Volume¹

| Submarket | Volume (\$MM) |
|--|---------------|
| Greater Folsom/El Dorado Hills/Shingle Springs | 312 |
| Encina/Ethan/Woodside | 257 |
| Pocket/West Greenhaven | 247 |
| Natomas | 103 |
| Rocklin/Roseville | 80 |
| Central Business District | 80 |
| North West Sacramento | 74 |

Source: Yardi Matrix

¹ From November 2021 to October 2022

Sacramento vs. National Sales Price per Unit



Source: Yardi Matrix

Top California Markets for Multifamily Construction Activity

By Anda Rosu

While metros such as Dallas, Austin and Phoenix have seen rental market performance increase since the onset of the health crisis, most California markets are still in a housing crisis. California has recovered at a slower pace, with developers struggling to meet the demand for housing, especially in the affordable segment.

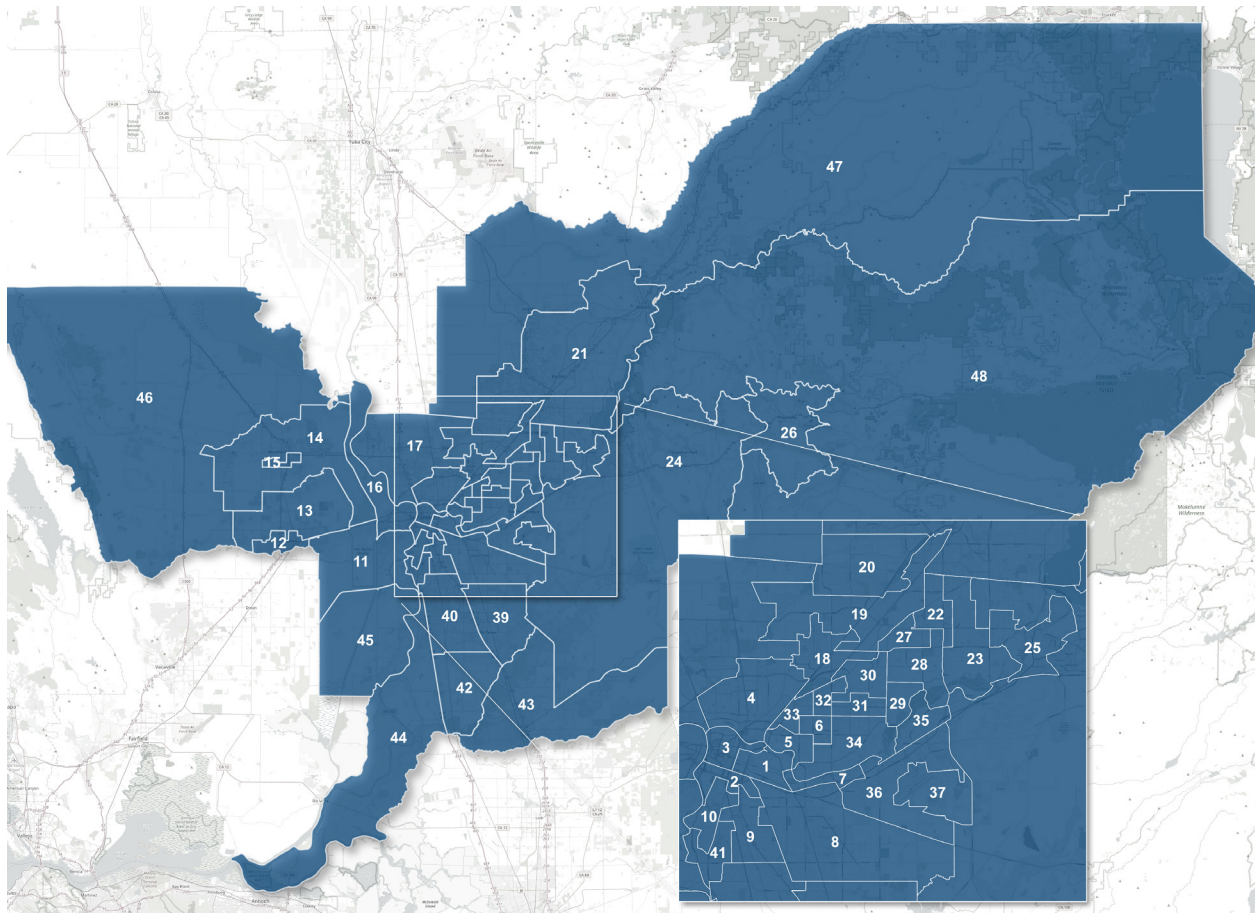
| Rank | Metro | Units Under Construction | Units Delivered 2022 YTD | Units Delivered 2022 YTD | Projects Under Construction 2022 YTD |
|------|--------------------|--------------------------|--------------------------|--------------------------|--------------------------------------|
| 1 | Los Angeles | 33,114 | 6,487 | 13,037 | 236 |
| 2 | San Francisco | 20,244 | 5,740 | 10,820 | 108 |
| 3 | Bay Area–South Bay | 8,908 | 1,124 | 7,230 | 34 |
| 4 | Orange County | 8,407 | 1,497 | 2,616 | 24 |
| 5 | San Diego | 7,138 | 2,862 | 3,417 | 29 |
| 6 | Sacramento | 7,104 | 1,588 | 2,120 | 30 |
| 7 | Inland Empire | 4,737 | 404 | 2,136 | 23 |
| 8 | Central Valley | 3,851 | 1,071 | 2,780 | 31 |
| 9 | Central Coast | 1,467 | 254 | 728 | 14 |

Sacramento

With a strong population growth trajectory, Sacramento's job market is still rebounding, showing a rate of growth of 5 percent, with the government, education and leisure and hospitality sectors having the largest shares of employment, expanding by 30 basis points over the national average, according to Yardi Matrix data.



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 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.

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



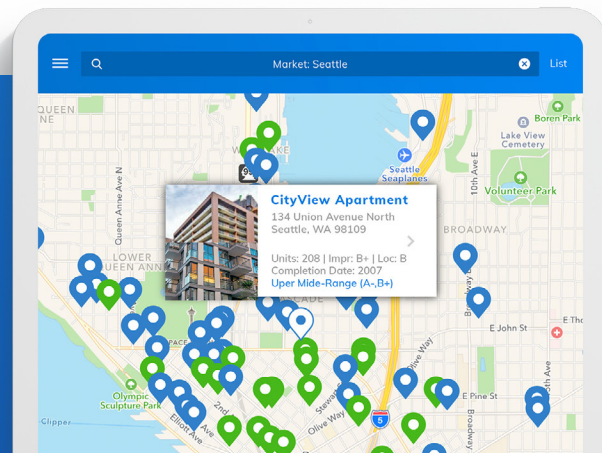
Yardi Matrix

Power your business
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
provides accurate data on
**19.7+ million units, covering over
92% of the U.S. population.**



(800) 866-1144

Learn more at yardimatrix.com/multifamily

Contact
US



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.

© 2022 Yardi Systems, Inc. All Rights Reserved.