



MULTIFAMILY REPORT

Sacramento Weathers Slowdown

March 2023



YoY Rent Gains Lag Nation

Investment Activity Still Solid

Construction Starts Contract

SACRAMENTO MULTIFAMILY



Weakening Demand Transforms Fundamentals

Sacramento's multifamily market experienced the effects of weakening demand, posting a negative absorption rate (-0.3%) and a 1.4% drop in the occupancy rate in stabilized properties year-over-year through December, to a still solid 95.4%. Meanwhile, the average rent contracted 0.3% on a trailing three-month basis through January, on par with the U.S. figure for the first time in 18 months. Sacramento's \$1,912 overall average rate led the \$1,701 national figure.

Unemployment improved to 3.3% in December, outperforming the U.S. (3.5%), state (4.1%) and Los Angeles (3.9%) rates, according to preliminary data from the Bureau of Labor Statistics. The job market expanded by 3.4%, or 34,000 positions, in the 12 months ending in November. Nearly half of the additions were in the metro's two largest sectors—education and health services (11,100 jobs) and government (4,600 jobs). In early 2023, the Sacramento International Airport announced a \$1.3 billion expansion project over the next five years to keep up with increasing passenger traffic.

Sacramento's stock expanded 1.3% year-over-year in December, which is above its five-year average. Developers had 6,695 units underway in January, with a considerable drop in construction starts. Meanwhile, investment surpassed \$1.3 billion in 2022, with the price per unit increasing by a strong 23.1% year-over-year to \$273,419, leading the \$211,873 U.S. figure.

Market Analysis | March 2023

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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

Legends at Willow Creek



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

Sierra Park Townhomes



City: North Highlands, Calif.
Buyer: Tesseract Capital Group
Purchase Price: \$25 MM
Price per Unit: \$237,029

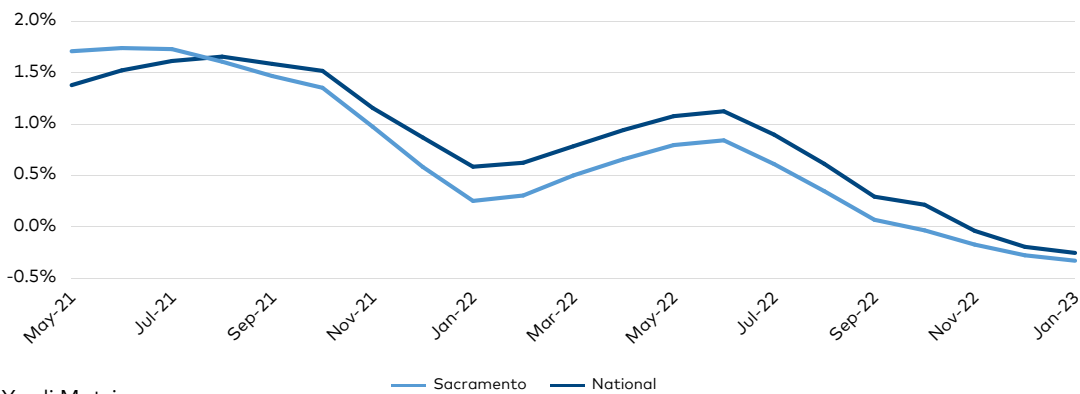
RENT TRENDS

- ▶ Sacramento rent growth was finally on par with the U.S. rate—both were down 0.3% on a trailing three-month (T3) basis through January. The metro’s growth rate had been trailing the U.S. average since August 2021, when they last switched positions. On a year-over-year basis, Sacramento’s rent growth was slow, ranking in the bottom four among major metros, up just 2.7%, lagging the 5.5% U.S. rate. At \$1,912, it remained above the \$1,701 national figure but is still affordable compared to other major markets in the state of California.
- ▶ Bucking the national trend, Sacramento’s rent declines were greater in the Renter-by-Necessity segment, down 0.4% on a T3 basis through January, to \$1,739, while the decrease in Lifestyle rates softened to -0.2%,

to \$2,231. The occupancy rate remained solid at 95.4% as of December, following a 1.4% year-over-year decline. Mirroring the rent trend, occupancy in the RBN segment declined further, down 1.7%, to 95.6%, while Lifestyle figures dipped 1.0%, to 95%.

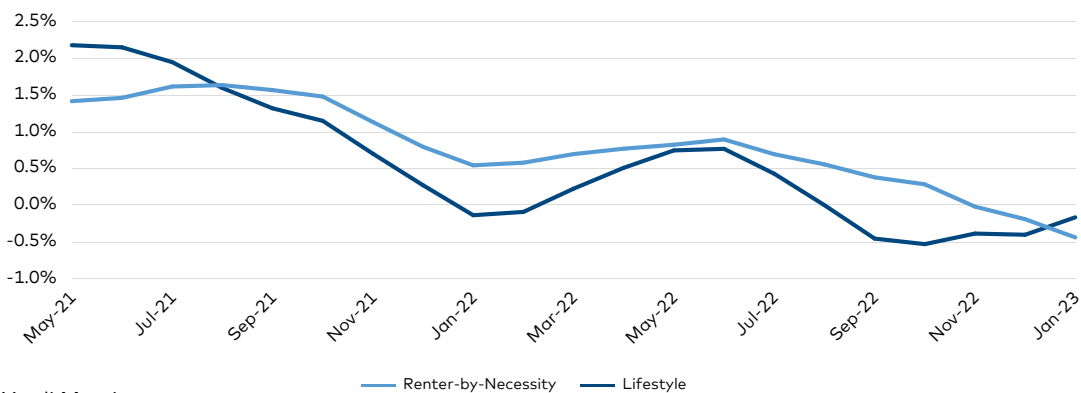
- ▶ Just five submarkets had an average rent below the \$1,500 mark in January, while in 12 others the rate surpassed the \$2,000 threshold. The most expensive submarkets were Greater Davis (5.1% to \$2,494) and Greater Folsom/El Dorado Hills/Shingle Springs (4.3% to \$2,280).
- ▶ The single-family rental market posted the strongest performance in both annual rent growth, up 22% in January, and occupancy, up 1.6% in December.

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 ended 2022 at 3.3%, according to data from the BLS, a 170-basis-point improvement over 12 months, surpassing the U.S. (3.5%) and state (4.1%) rates. Compared to the other major California metros, Sacramento outperformed only Los Angeles (3.9%) and trailed San Jose (2.1%), San Francisco (2.4%) and San Diego (2.9%). The rebound has been steady. The rate fell below the 4.0% mark in March and has remained there.
- Employment growth decelerated from the 8.1% peak in September 2021, to as low as 3.4%, or 34,000 jobs, in the 12 months ending in November 2022, trailing the U.S. rate by 50 basis points. Sacramento's economy relies on two major pillars—education and health services, and government—to hold steady through a recession. These two sectors—which also account for the largest share of the job market—were in the top three for job gains in the year ending in November, up by 11,100 and 4,600 jobs respectively. These figures will likely continue to climb, boosted by Kaiser Permanente's acquisition of the 37-acre Natomas Crossing and The Railyards project, the third investment in the area, which includes a 14-story hospital with 420 beds.
- Leisure and hospitality added 6,900 jobs and is also facing good prospects. Sacramento International Airport has a \$1.3 billion expansion slated to begin next year.

Sacramento Employment Share by Sector

Code	Employment Sector	Current Employment	
		(000)	% Share
65	Education and Health Services	182	17.1%
70	Leisure and Hospitality	105	9.8%
90	Government	250	23.5%
60	Professional and Business Services	142	13.3%
40	Trade, Transportation and Utilities	174	16.3%
80	Other Services	36	3.4%
30	Manufacturing	39	3.7%
55	Financial Activities	53	5.0%
15	Mining, Logging and Construction	76	7.1%
50	Information	10	0.9%

Sources: Yardi Matrix, Bureau of Labor Statistics

Population

- The go-to California metro at the peak of the pandemic, Sacramento gained 12,077 residents in 2021, up 0.5% and 40 basis points ahead of the national average.
- Still, in-migration slowed considerably from 2020, when Sacramento's population expanded 1.5%.

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

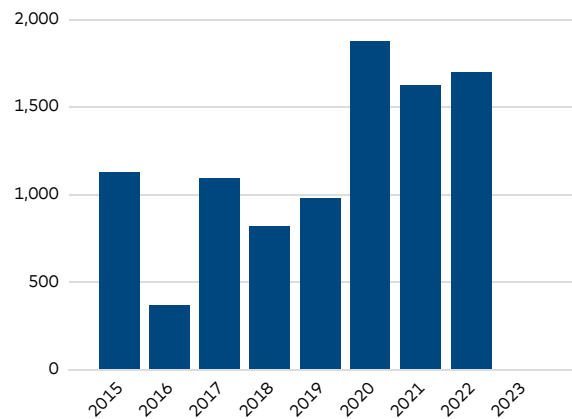
Source: U.S. Census

SUPPLY

- Sacramento's multifamily inventory gained 1,705 units in 2022, a 1.3% year-over-year expansion of its total stock and 20 basis points above its five-year average. However, the effects of rising interest rates have become visible in the number of construction starts recorded in the 12 months ending in January. Construction began on 1,594 units in 13 properties during the interval, down from 4,069 units in 16 properties in the previous 12-month interval.
- Developers had 6,695 units under construction as of January, and another 49,000 units in the planning and permitting stages. A substantial 80% of the construction pipeline is slated for completion by the end of 2023, but high inflation and the current severe financing options, among other challenges, will likely push delivery dates.
- Compared to many other major markets, Sacramento's pipeline composition in January was somewhat balanced between asset classes, consisting of 57% Lifestyle and 43% RBN units. In addition, more than half of RBN stock—the equivalent of 25% of the total pipeline—accounted for units in fully affordable communities.

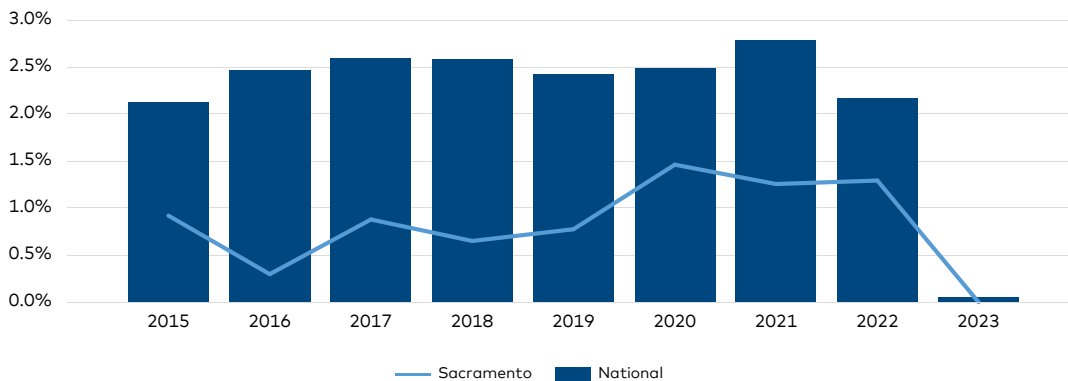
- High-rent submarkets the Central Business District and Natomas led by volume, each with close to 2,000 units underway as of January. These submarkets also house the largest projects under construction—the 487-unit Mirasol Village and the 483-unit Greenbriar, both scheduled for completion this year. The latter is fully affordable, while the former includes a substantial affordable component of 429 units.

Sacramento Completions (as of January 2023)



Source: Yardi Matrix

Sacramento vs. National Completions as a Percentage of Total Stock (as of January 2023)



Source: Yardi Matrix

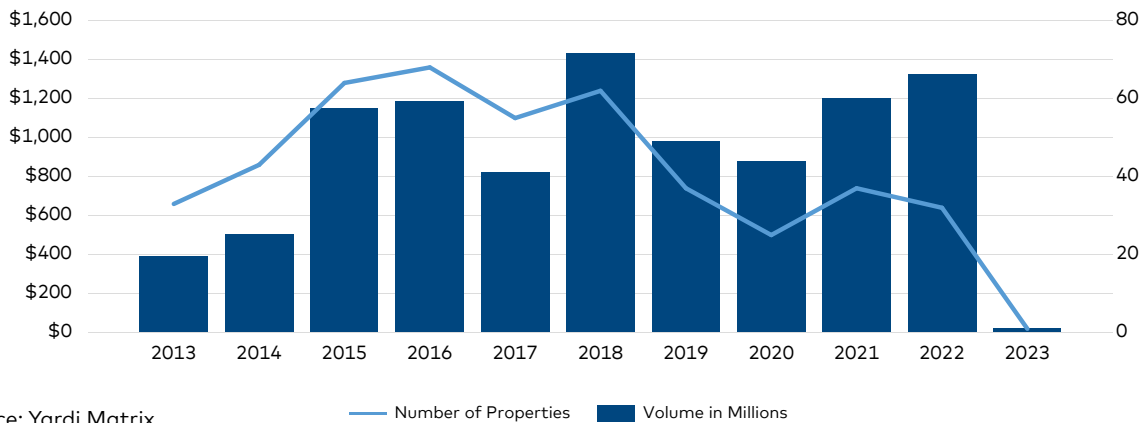
TRANSACTIONS

- ▶ Investors traded more than \$1.3 billion in multi-family assets in 2022—the metro's second-best year for transaction volume—surpassing 2021 (\$1.2 billion) and only trailing 2018 (\$1.4 billion). As of January 2023, just one Renter-by-Necessity asset changed hands, the 104-unit Courtyard at Artisan Square, valued at \$226,923 per unit.
- ▶ Property values rose 23.1% year-over-year in December, to \$273,419, although two-thirds of the sales composition involved RBN properties.

Meanwhile, the national average rose just 11.9%, to \$211,873. In the past decade, Sacramento's per-unit price increased by 225.6%.

- ▶ The largest transaction recorded in 2022 was Prime Group's acquisition of The Falls at Willow Creek, a 426-unit Lifestyle property in Folsom. Gerson Bakar & Associates received \$148.6 million for the asset, or \$348,826 per unit. At the time of the sale, a CMBS loan worth \$89 million was originated through Prudential Financial.

Sacramento Sales Volume and Number of Properties Sold (as of January 2023)



Source: Yardi Matrix

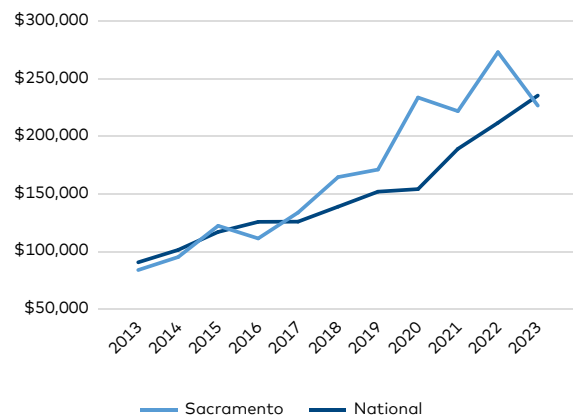
Top Submarkets for Transaction Volume¹

Submarket	Volume (\$MM)
Encina/Ethan/Woodside	280
Greater Folsom/El Dorado Hills/Shingle Springs	226
Pocket/West Greenhaven	194
Natomas	103
Central Business District	80
Rocklin/Roseville	74
North West Sacramento	58

Source: Yardi Matrix

¹ From February 2022 to January 2023

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 increased performance since the onset of the health crisis, most California markets are still in a housing crisis. California recovers at a slower pace, with developers struggling to meet the demand for housing, especially in the affordable segment. Combined, 94,970 units were under construction in California in 2022, accounting for a little over 9 percent of the units being built across the country.

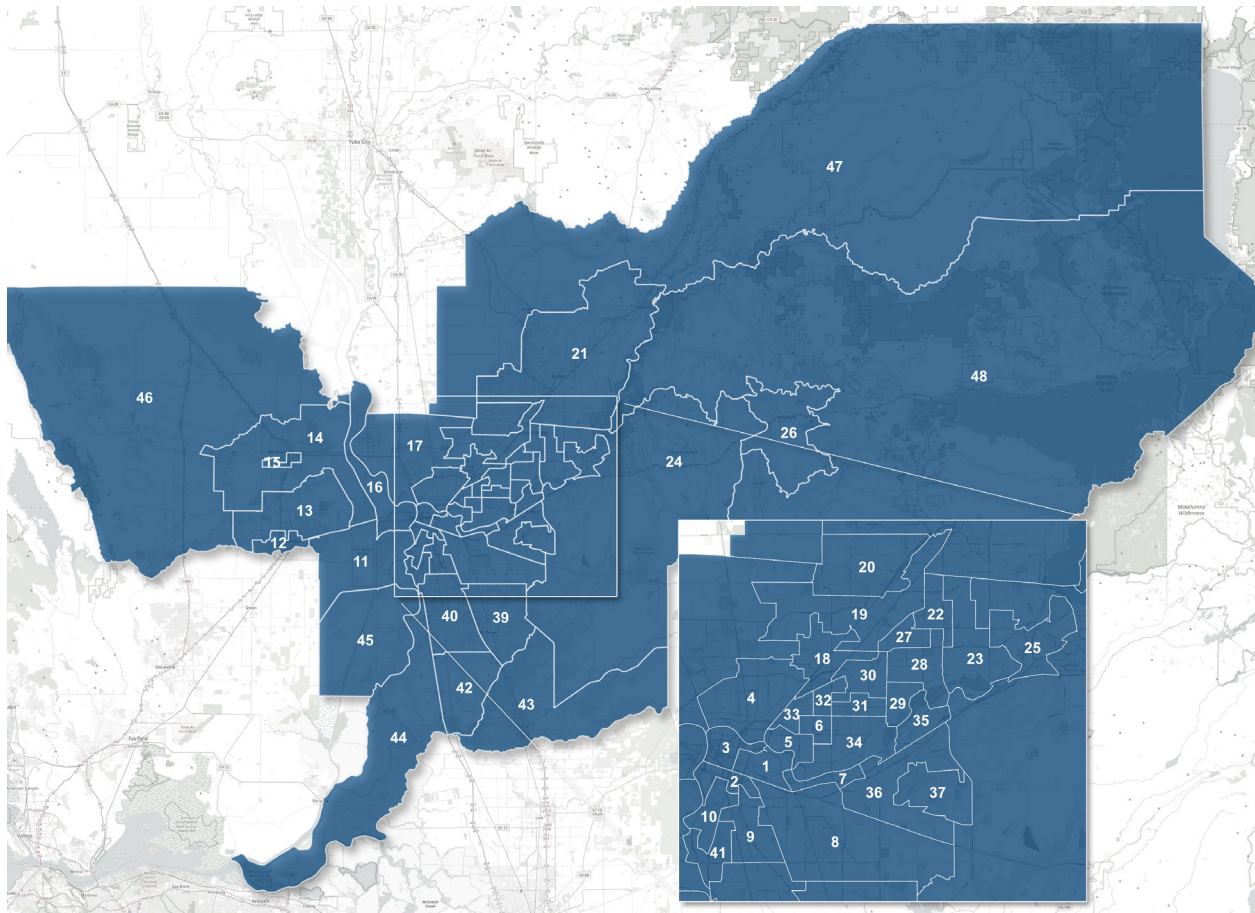
Rank	Metro	Units Under Construction	Units Delivered 2022 YTD	Units Delivered 2021
1	Los Angeles	33,114	6,487	13,037
2	San Francisco	20,244	5,740	10,820
3	Bay Area–South Bay	8,908	1,124	7,230
4	Orange County	8,407	1,497	2,616
5	San Diego	7,138	2,862	3,417
6	Sacramento	7,104	1,588	2,120
7	Inland Empire	4,737	404	2,136
8	Central Valley	3,851	1,071	2,780
9	Central Coast	1,467	254	728

Sacramento

With a strong population growth trajectory, Sacramento's job market is still rebounding, with 5% growth. The government, education, leisure and hospitality sectors account for the largest shares of employment, expanding by 30 basis points over the national average, according to Yardi Matrix data. The city's construction pipeline remains slow, with only 7,104 units under construction by October 2022 and 1,588 units delivered this year, less than half of last year's 2,120 delivered units.



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.

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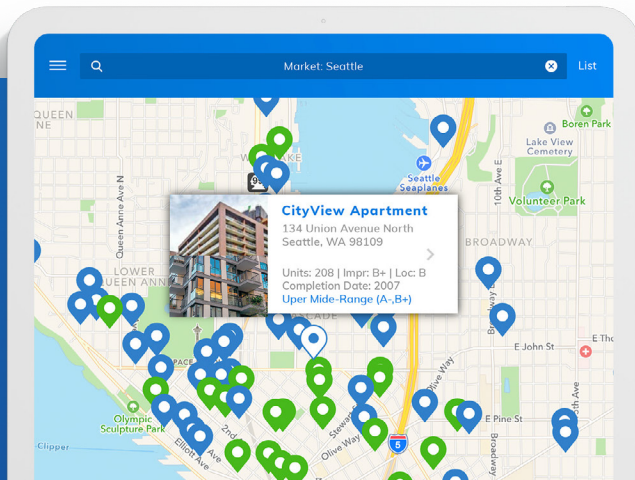
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