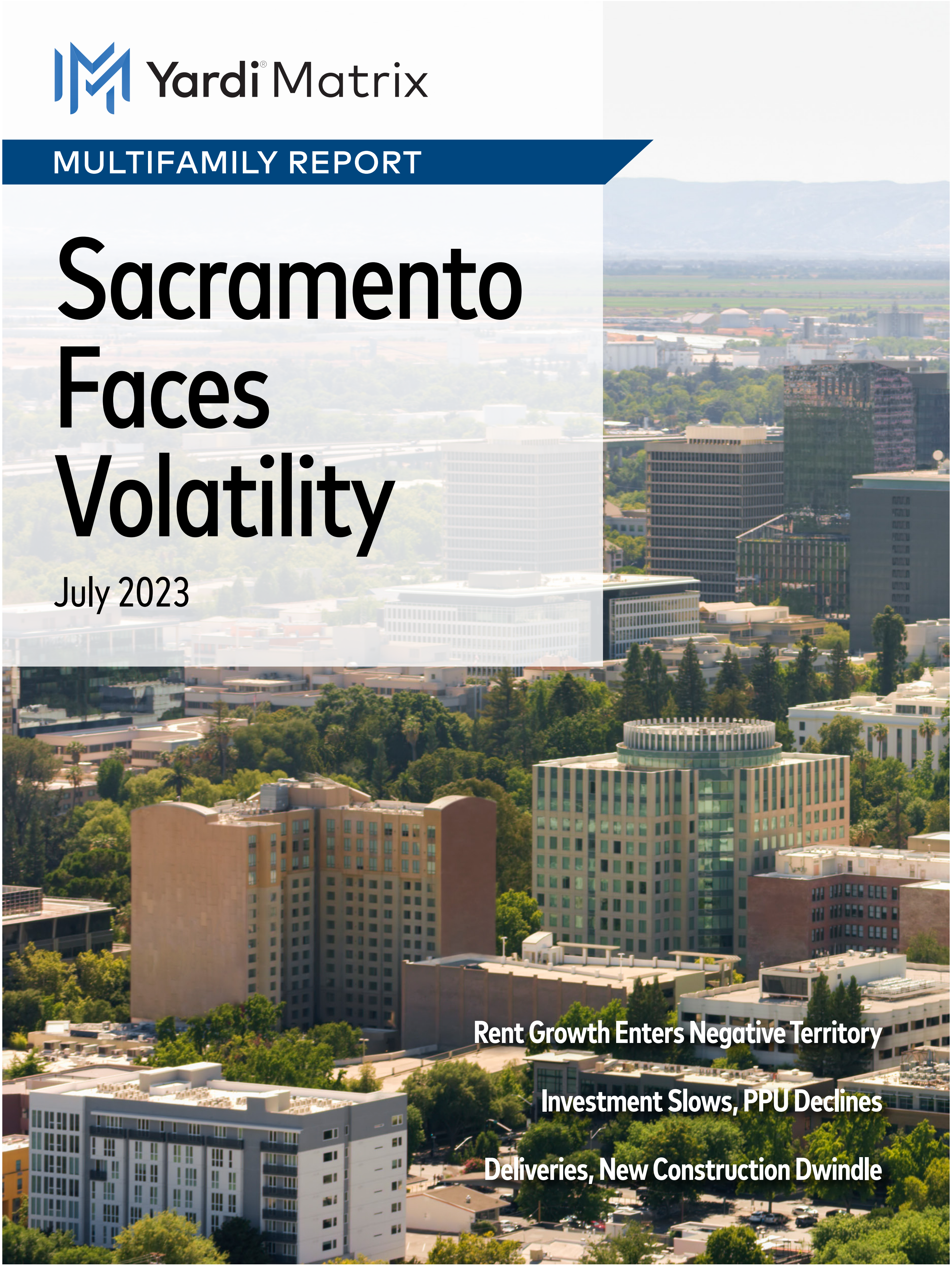
Yardi Matrix

MULTIFAMILY REPORT

Sacramento Faces Volatility

July 2023



Rent Growth Enters Negative Territory

Investment Slows, PPU Declines

Deliveries, New Construction Dwindle

SACRAMENTO MULTIFAMILY

Yardi Matrix

Rent Gains Shrink, Development Stalls

Sacramento's multifamily industry has yet to fully recover from the economic volatility that has shadowed the nation for the past year. Rent growth fell into negative territory yet again, down 0.1% on a trailing three-month basis through May, to $1,905. On a year-over-year basis, the average asking rent contracted 0.4%, while the U.S. rate was up 2.6%, to $1,716. The metro's occupancy rate in stabilized properties also decreased, down 150 basis points in the 12 months ending in April, to 94.9%.

Unemployment dipped below the 4.0% mark for the first time this year, in April, clocking in at 3.8%, trailing the U.S. rate but ahead of the 4.5% state figure. Across all major California markets, Sacramento only outperformed Los Angeles (4.2%). Employment expanded 2.9%, or 21,800 jobs, in the 12 months ending in March, trailing the 3.1% national rate. Furthermore, three sectors lost 7,900 jobs combined. Job growth was led by education and health services (10,800 jobs), which accounted for about half of the positions gained. With several health-care developments underway, the sector is poised for an additional boost.

Development remained tepid, with 445 units coming online in 2023 through May and 330 units breaking ground during this time, bringing the pipeline to 7,621 units under construction. Investment also plummeted. Confirmed sales amounted to just $73 million, for a price per unit that decreased 38.4% since last year.

Recent Sacramento Transactions

Courtyard at Artisan Square

City: Sacramento, Calif.
Buyer: Trion Properties
Purchase Price: $24 MM
Price per Unit: $226,923

El Macero Village

City: Davis, Calif.
Buyer: Bridge Partners
Purchase Price: $23 MM
Price per Unit: $216,962

Market Analysis | July 2023

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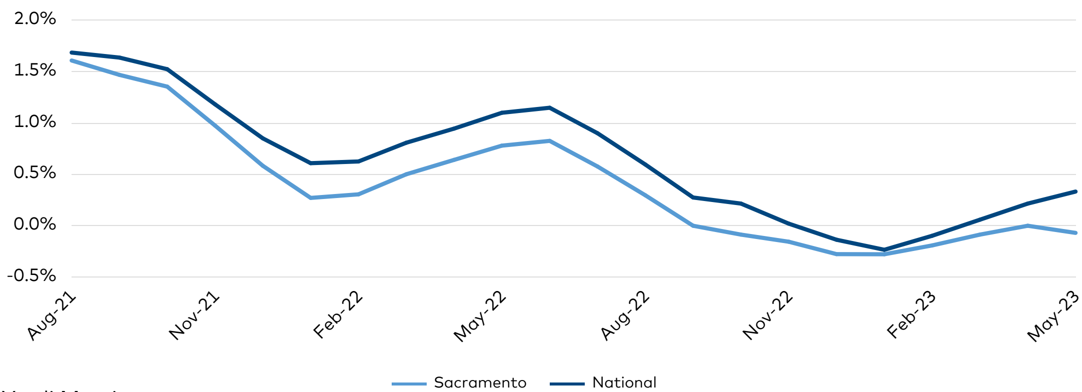
On the cover: Photo by simonkr/iStockphoto.com

RENT TRENDS

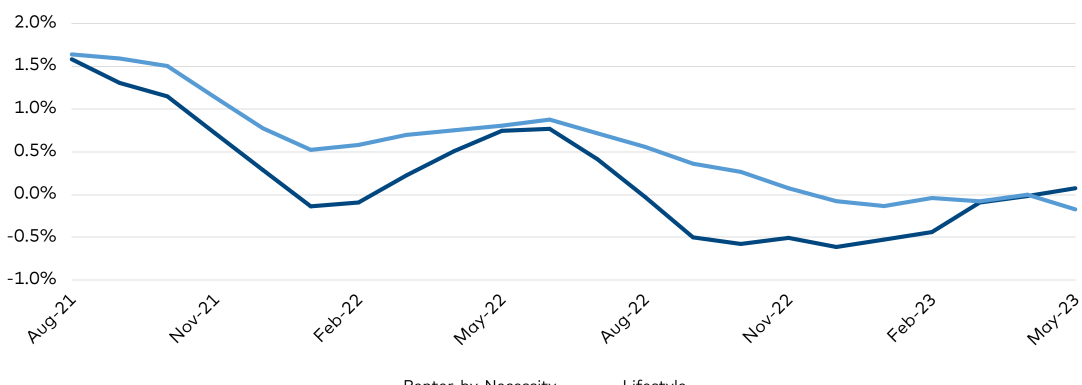
- Sacramento rents contracted 0.1% on a trailing three-month (T3) basis through May, to $1,905. Rates slid for eight consecutive months on a T3 basis, through April, after which they remained flat. Meanwhile, the U.S. figure rose 0.3% on a T3 basis, to $1,716. Year-over-year, the average asking rent in Sacramento declined 0.4%, while the national average appreciated 2.6%.
- Rent growth was positive in the Lifestyle segment, up 0.1% on a T3 basis through May to $2,205, while working-class Renter-by-Necessity figures decreased 0.2%, to $1,744. The RBN segment lagged in occupancy as well, with the rate down 180 basis points in the 12 months ending in April, to 95.1%. Meanwhile, Lifestyle occupancy declined 100 basis points, to 94.6%. Overall, the occupancy rate in stabilized properties clocked in at 94.9% in April, following a 150-basis-point year-over-year drop.
- Rent performance was spotty, with the average asking rent contracting in 18 of the 42 submarkets tracked by Yardi Matrix. Yet in some of the metro's most expensive areas, rates continued to rise. Areas include Greater Davis (4.1% year-over-year to $2,545), Central Davis (5.1% to $2,358) and Greenhaven/South Land Park (4.5% to $1,917). Overall, the average rent in Sacramento was above the $2,000 mark in 13 submarkets, remaining unchanged from a year ago.
- The single-family rental niche stood strong in Sacramento, with rents up 5.7% year-over-year through May, to $2,785. Occupancy also rose, up 220 basis points in the 12 months ending in April.

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 unemployment stood at 3.8% in April, according to data from the Bureau of Labor Statistics, marking this year's first month below the 4.0% mark. While California's capital outperformed the state (4.5%), it trailed the U.S. (3.4%). Moreover, compared to other major California markets, the metro outperformed Los Angeles (4.2%) but trailed San Diego (3.3%), San Francisco (3.1%) and San Jose (3.0%).
- Employment growth continued to decelerate, with the job market expanding just 2.9%, or 21,800 jobs, in the 12 months ending in March, trailing the U.S. figure by 20 basis points. The metro's economic expansion tapered off faster than the nation's. Three sectors lost jobs during the period—mining, logging and construction (-6,800 jobs), financial activities (-1,000 jobs) and information (-100 jobs).
- Education and health services led gains, adding 10,800 positions, and is expected to benefit from continued growth. UC Davis Health will expand its footprint in Elk Grove, where it acquired 20 acres, while it continues work on the 1 million-square-foot California Tower, slated for completion in 2030.
- In 2024, work will commence on Sacramento International Airport's $1.3 billion expansion, scheduled for completion in 2030.

Sacramento Employment Share by Sector

		Current Employment	
Code	Employment Sector	(000)	% Share
65	Education and Health Services	183	17.0%
90	Government	254	23.6%
60	Professional and Business Services	150	14.0%
70	Leisure and Hospitality	110	10.2%
80	Other Services	37	3.4%
30	Manufacturing	40	3.7%
40	Trade, Transportation and Utilities	169	15.7%
50	Information	10	0.9%
55	Financial Activities	51	4.7%
15	Mining, Logging and Construction	70	6.5%

Sources: Yardi Matrix, Bureau of Labor Statistics

Population

- California's capital has posted steady population gains since the 2010 Census, marking a 12.0% expansion through 2021. Meanwhile, the U.S. population increased by 7.3%. In 2021, Sacramento's population marked a 0.5% rise, well ahead of the 0.1% national rate.

Sacramento vs. National Population

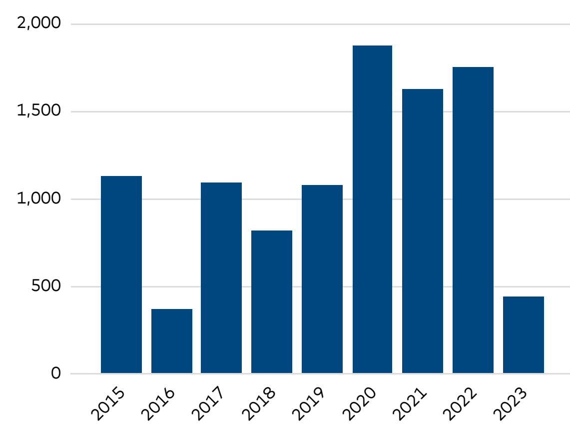
	2018	2019	2020	2021
National	326,838,199	328,329,953	331,501,080	331,893,745
Sacramento	2,343,292	2,363,654	2,399,351	2,411,428

Source: U.S. Census

SUPPLY

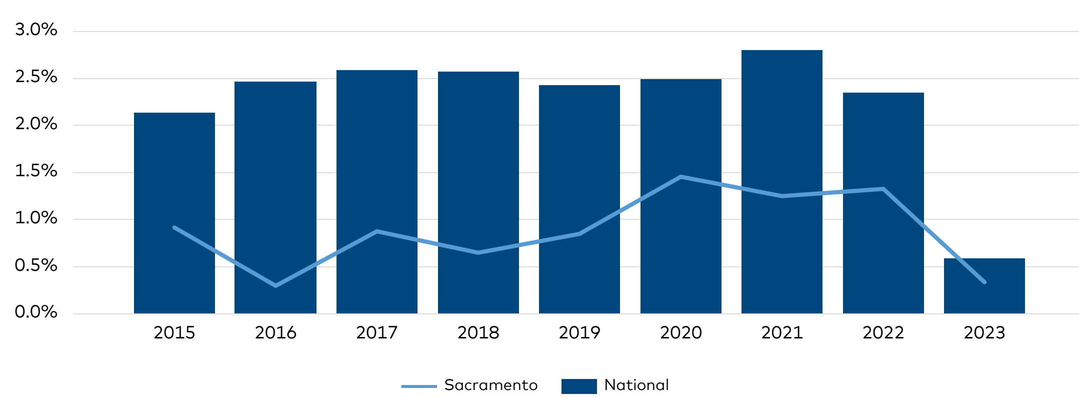
- Sacramento's multifamily inventory expanded by 445 units during the year's first five months, the equivalent of 0.3% of existing stock and half the national expansion rate. Except for one 58-unit fully affordable community in the CBD, all deliveries were Lifestyle units.
- The construction pipeline had 7,621 units underway, as of May, and 49,000 units in the planning and permitting stages. Unlike most of the country, the pipeline composition was fairly balanced between asset classes, slightly tilted toward Lifestyle units (54%). Moreover, fully affordable projects accounted for 37% of the entire volume of units under construction. Yardi Matrix anticipates that developers will bring 3,750 units online across Sacramento this year, which would mark a new decade high.
- Construction starts dropped to just 330 units in the first five months of the year, from 633 units in 2022 through May. Overall, 2,811 units broke ground in the metro in 2022, a decline from the 3,350 units that started construction in 2021.
- As of May, developers had projects under construction in 15 of the 42 submarkets tracked by Yardi Matrix, with Natomas (1,914 units) and the Central Business District (1,699 units) leading by volume. The latter houses the metro's largest project underway, the 487-unit Mirasol Village, slated for completion in 2023. The asset is owned by the Sacramento Housing and Redevelopment Agency, McCormack Baron Salazar and RBC Community Investments, and is being built with aid from three construction loans totaling $57 million, issued by the Sacramento Housing and Redevelopment Agency and the California Department of Developmental Services.

Sacramento Completions (as of May 2023)



Source: Yardi Matrix

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

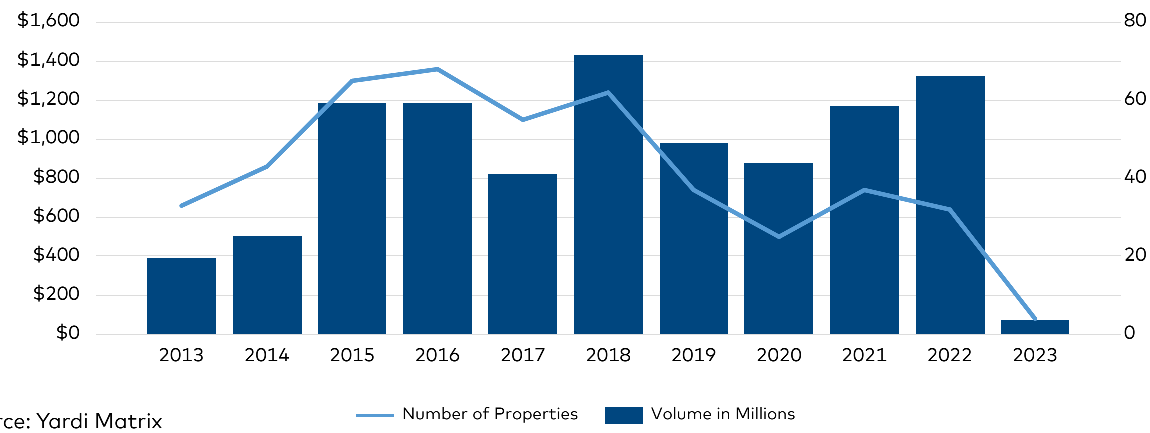


Source: Yardi Matrix

TRANSACTIONS

- Investment activity nearly came to a halt in 2023 in Sacramento, with just $73 million in multifamily assets trading in the metro through May. During the same interval last year, multifamily sales in California's capital amounted to $540 million.
- The average price per unit plummeted to $179,468 year-to-date through May, virtually on par with the $179,358 U.S. rate. The value marked a significant 38.4% decrease year-over-year. Factors contributing to the decline include the combination of unstable interest rates and inflation, as well as the metro's sales composition, which, this year through May, consisted entirely of Renter-by-Necessity assets.
- The largest transaction registered in 2023 through May was Trion Properties' acquisition of Courtyard at Artisan Square from a private investor. The new owner paid $23.6 million, or $226,923 per unit, with aid from a $12 million CMBS loan issued by CBRE Capital Markets.

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



Source: Yardi Matrix

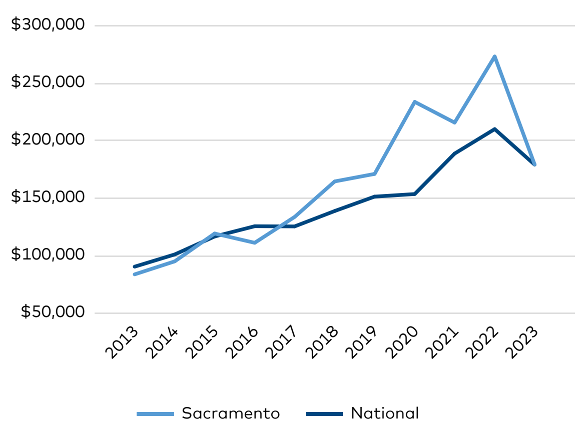
Top Submarkets for Transaction Volume[1]

Submarket	Volume ($MM)
Greater Folsom/El Dorado Hills/ Shingle Springs	226
Pocket/West Greenhaven	148
Encina/Ethan/Woodside	143
North West Sacramento	58
Antelope	48
Central Davis	48
Bellview/Howe Edison	43

Source: Yardi Matrix

[1] From June 2022 to May 2023

Sacramento vs. National Sales Price per Unit



Source: Yardi Matrix

Building Affordable in California, Hawaii: High Demand, High Hurdles

By Anda Rosu

The cost of housing in Hawaii is among the highest in the U.S. and California is also among the most expensive housing markets in the country, with a high concentration of cost-burdened renters. EAH Housing Chief Real Estate Development Officer Welton Jordan talks about the nonprofit's plans to cater to the ever-growing need for low-income housing in both California and Hawaii, highlighting the differences and similarities in these states' housing markets.

What do you see as the top challenges in developing affordable housing communities across California and Hawaii?

We are faced with several immediate challenges. In Hawaii, these include the availability of land and infrastructure, limited funding resources and legislative concerns, such as the permitting processes and zoning restrictions, which all create obstacles to timely and cost-effective development.

Similarly, in California, the key challenges revolve around highly competitive funding, competing political priorities, and the rising costs of labor and materials.

In what ways are Hawaii and California's markets similar, and what sets them apart?

Both states face significant challenges in meeting the demand for affordable housing, and this shortage is particularly concerning in the low- and very low-income sectors. Lastly, both states experience difficulties and complexities in the process

of building new housing, due to regional regulations and permit procedures.

There are also notable differences between the two states. In California, there is currently a firm commitment from the government to address the housing crisis by taking steps to fund housing and holding localities responsible for the lack of housing in their areas.

How do you plan to develop more affordable properties over the next five years than you did over the past 25?

Our plan to develop more affordable properties at a greater pace than in the past 25 years involves several key strategies. First, we prioritized building a strong team of professionals with both expertise and a shared commitment to our mission.

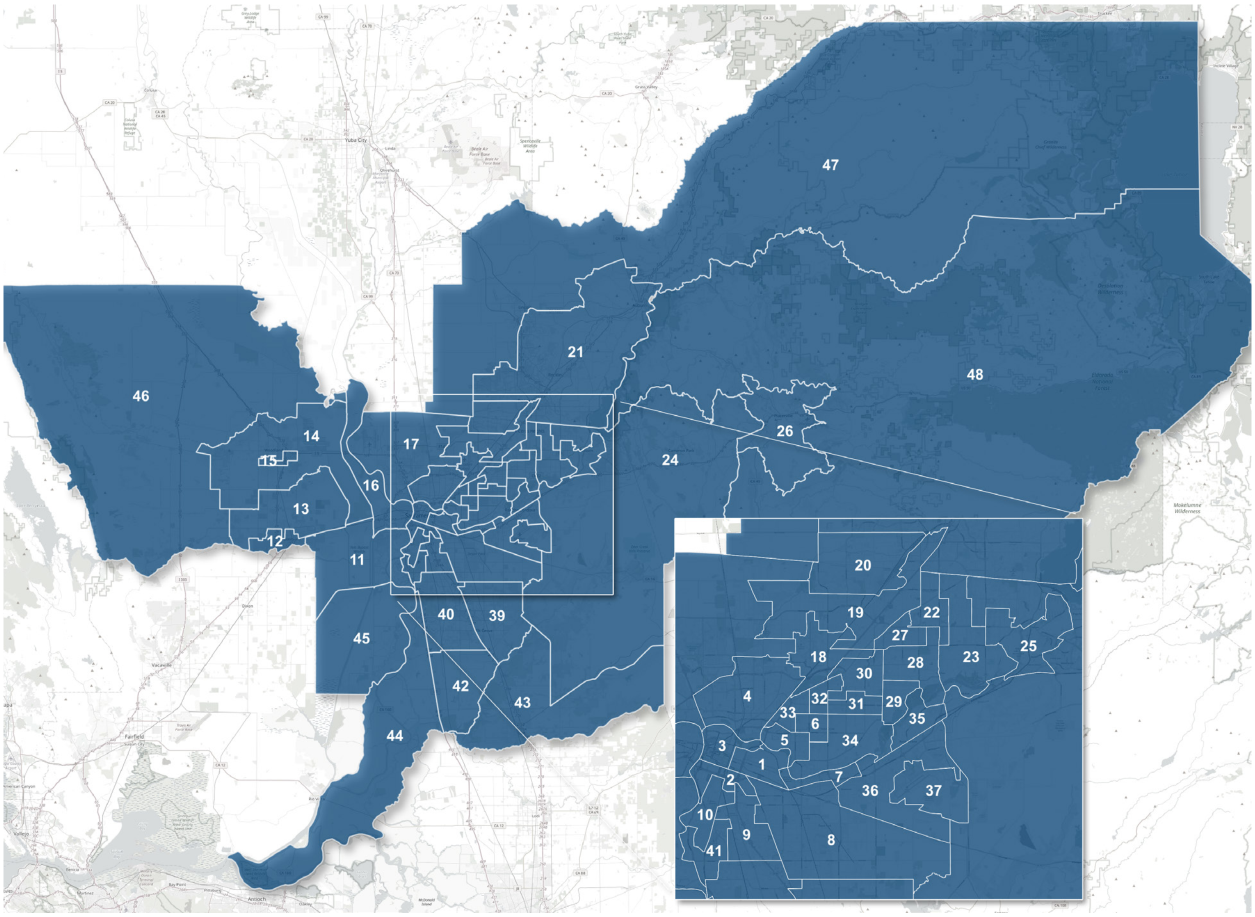
We also had to make the hard decision of doubling down on new development. While we recognize the importance of preserving existing properties, we've found we can drive greater impact when focused on new construction, as we can create greater density, at a much faster pace.

Tell us more about some of the projects you have in the works.

In California, we're working on On Broadway, which will encompass 140 units specifically designed for large families. This development is extremely exciting as it will represent EAH Housing's first development in the City of Sacramento.

(Read the complete interview on multihousingnews.com.)

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.

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

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MULTIFAMILY KEY FEATURES

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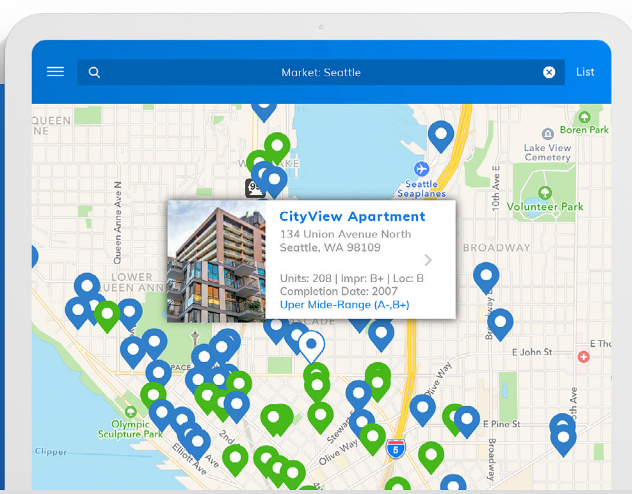
- Gain complete new supply pipeline information from concept to completion
- Find acquisition prospects based on in-place loans, maturity dates, lenders and originators
- Access aggregated and anonymized residential revenue and expense comps



Yardi Matrix Multifamily provides accurate data on **19.7+ million units**, covering over **92% of the U.S. population.**

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