



Yardi® Matrix

Capital City, Capital Growth

Multifamily Report Summer 2018

**Investors Stay Focused
On Value-Add Assets**

**Rent Growth Slows,
But Stays Healthy**

**Inventory Expansion
Remains Tepid**

Market Analysis

Summer 2018

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

Rent Growth Slows, Employment Doesn't

After a long stint as the poster child for the spillover effect driving up rates in smaller metros, Sacramento yielded its position as multifamily rent growth leader to Orlando earlier in the year. However, rents are still growing at an above-average rate: 4.0% year-over-year as of May, which is double the U.S. figure. With inventory expansion slated to stay limited in the near future and occupancy of stabilized properties well above the 94.9% national rate, Sacramento is poised to remain a strong and stable multifamily market going forward.

Sacramento employment growth continued to shine in 2018: The expansion rate was 2.5% year-over-year as of March, bettering the national average by 80 basis points. As the state capital of California, Sacramento has traditionally been anchored by its state government jobs, but surges in a number of other sectors have significantly diversified the metro's economy. Health services improved at a quick rate, with large-scale projects such as Kaiser Permanente's Railyards medical center paving the way for sustained improvement.

The city's multifamily market continued to gain investor interest, especially for its value-add opportunities. Development is likely to stay along the lines established during the cycle's recent years, further fostering rent growth.

Recent Sacramento Transactions

The Element



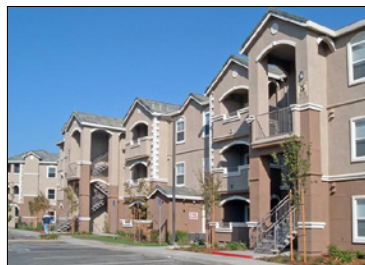
City: Sacramento, Calif.
Buyer: Nelson Brothers
Purchase Price: \$82 MM
Price per Unit: \$248,322

The Eleven Hundred



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

Sycamore Terrace



City: Sacramento, Calif.
Buyer: Security Properties
Purchase Price: \$57 MM
Price per Unit: \$235,245

The Artisan Apartment Homes

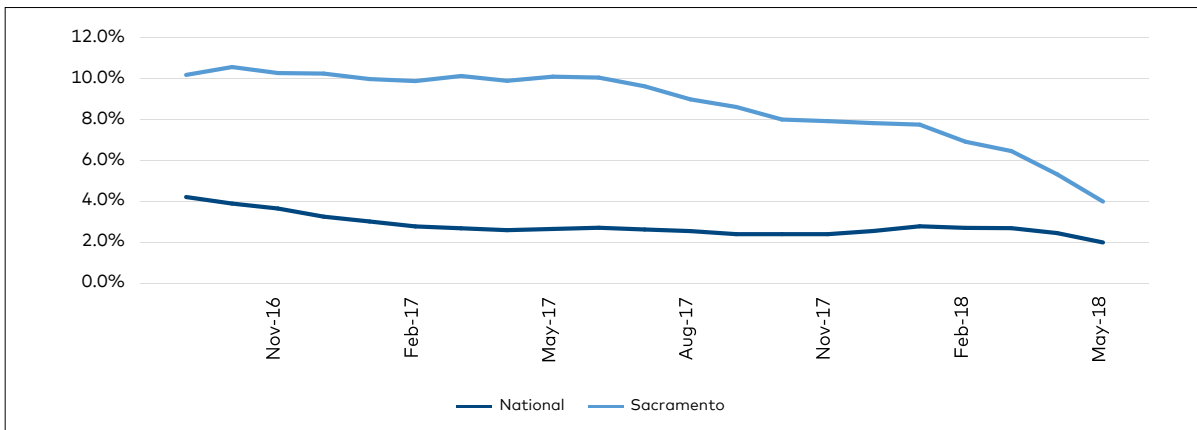


City: Sacramento, Calif.
Buyer: Sequoia Equities
Purchase Price: \$53 MM
Price per Unit: \$201,808

Rent Trends

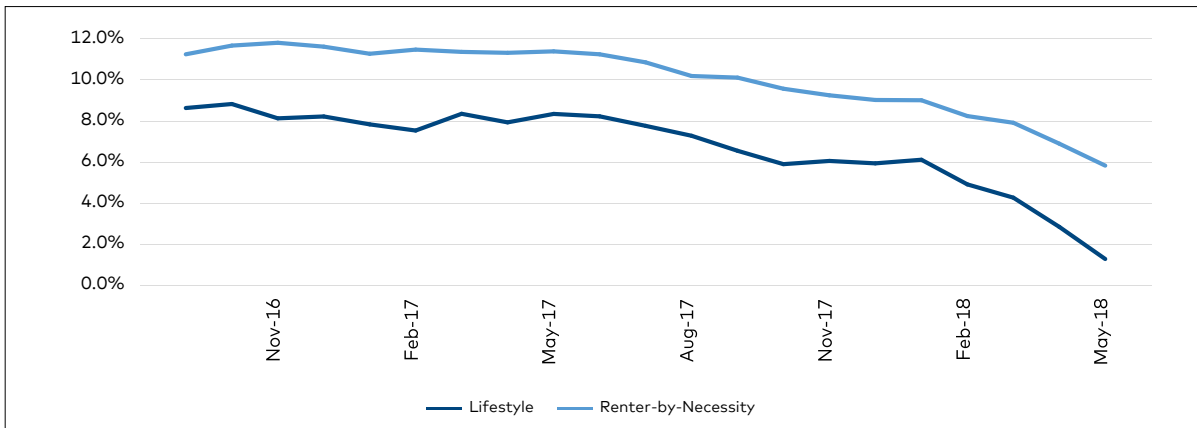
- Sacramento rents rose 4.0% year-over-year through May, double the national rate. The average overall rent reached \$1,405, just \$24 over the national figure. A strong second half of the current cycle has considerably increased rents, which were \$200 higher in May than they were 24 months prior. That extended run began tapering in 2018, as Sacramento yielded its position as the major U.S. metro with the fastest-growing multifamily rent to Orlando.
- The working-class Renter-by-Necessity segment grew the fastest, as incoming inventory is skewed toward upscale units. The average RBN rent increased by 5.8% year-over-year, to \$1,272. Upscale Lifestyle rents rose at a more moderate rate, up 1.3% year-over-year, to an average of \$1,670. Although a very high rate for the metro, rents in the Lifestyle segment are still relatively affordable compared to other major cities in California.
- Rents grew fastest in fringe submarkets, where rates are well below the metro average. The list includes Parkway/South Sacramento (up 12.9% year-over-year, to \$992), Northeast Carmichael/West Fair Oaks (10.1%, \$1,167), North Highlands (8.7%, \$1,105) and North Rancho Cordova (8.7%, \$1,150). With the metro's economy still going strong and adding jobs at an above-average rate, we expect rents to advance at a strong pace, with growth reaching 6.5% for the year.

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)

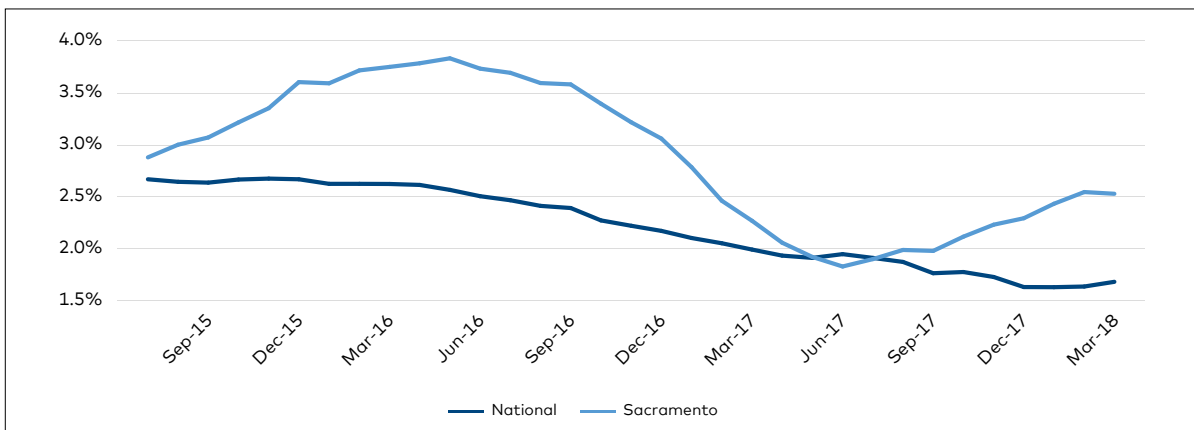


Source: YardiMatrix

Economic Snapshot

- Sacramento added 20,000 jobs in the 12 months ending in March for a 2.5% expansion. That's 80 basis points above the U.S. growth rate, as employment in the metro continues to improve across most industries. The education and health services sector led growth, having added 6,400 jobs year-over-year through March.
- Construction grew at the highest rate among all employment sectors, adding 3,600 jobs for a 6.5% yearly improvement. With an increasing number of commercial and residential projects in the city's pipeline, further growth is expected for the sector. The sheer amount of development opportunities available in the city's Railyards district continues to present growth potential; as the city's economy continues to do well, so will urban infill projects.
- Sacramento's office market is also expanding and continued economic improvement has pushed vacancy in the market down to 13.6%, roughly 60 basis points below the October 2017 rate, Yardi Matrix data shows. Due to a slight decrease in completions, this trend has stayed true for the better part of the cycle. As of May, there were four properties underway in Sacramento, totaling 680,000 square feet. Another 6.3 million square feet of office space across the metro was in the planning and permitting stages.

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	157	16.1%	6,400	4.3%
90	Government	243	24.9%	5,600	2.4%
40	Trade, Transportation and Utilities	155	15.9%	3,700	2.5%
15	Mining, Logging and Construction	59	6.0%	3,600	6.5%
70	Leisure and Hospitality	105	10.7%	1,400	1.4%
55	Financial Activities	53	5.4%	800	1.5%
30	Manufacturing	35	3.6%	500	1.4%
60	Professional and Business Services	128	13.1%	-500	-0.4%
50	Information	12	1.2%	-600	-4.8%
80	Other Services	31	3.2%	-1,000	-3.1%

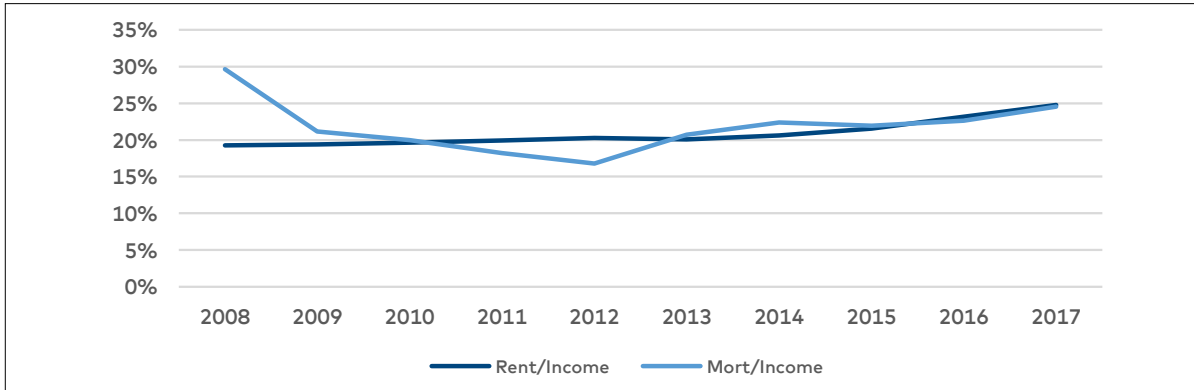
Sources: YardiMatrix, Bureau of Labor Statistics

Demographics

Affordability

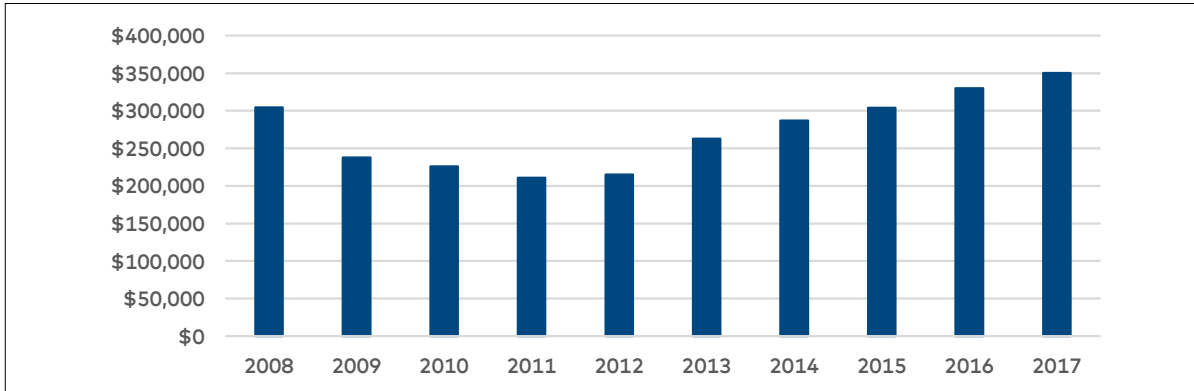
- Property values have continued their climb in the metro, as the median home price reached \$350,407 in 2017. Homes are now worth considerably more than they were in 2008, while rents have increased at some of the highest rates throughout the second half of the current expansion. As a result, both owning and renting account for about a quarter of the area's median income.
- In spite of ballooning property values and rents, the metro remains an affordable option when compared to neighboring San Francisco. Demand coming from the metro's strong job growth, as well as from commuters looking for cheaper housing, will likely continue to push values higher.

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 added 110,000 residents since 2013, for a 5.0% demographic expansion.
- The capital of California is one of the fastest-growing metros in the state through the second half of the current cycle.

Sacramento vs. National Population

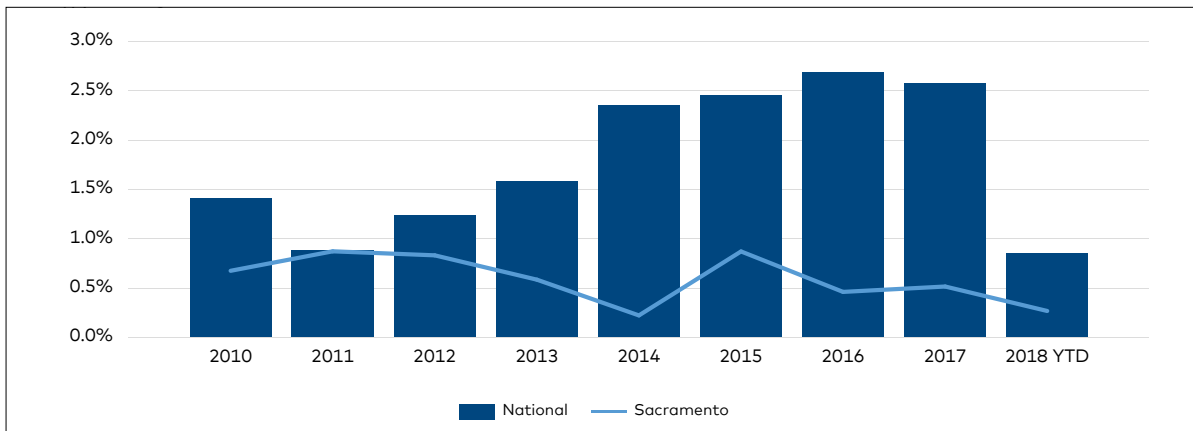
	2013	2014	2015	2016	2017
National	316,234,505	318,622,525	321,039,839	323,405,935	325,719,178
Sacramento Metro	2,213,564	2,239,455	2,266,892	2,295,233	2,324,884

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

Supply

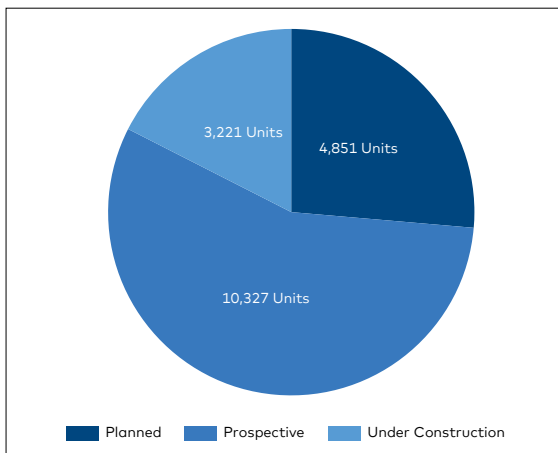
- Developers added 340 units to Sacramento's multifamily stock, 0.3% of total inventory, through the year's first five months. The metro has had a notoriously limited development pipeline during this cycle, which has also led to rapidly increasing per-unit prices across asset classes.
- Roughly 3,200 units were underway as of May, while another 15,000 units were in the planning and permitting stages. Although occupancy is on a downward trend, the average rate in stabilized properties—at 96.3% as of April—is still well above the 94.9% national average. With limited inventory expansion on the horizon and continued improvement in employment, the market is fairly insulated from further steep drops in occupancy, as demand will likely continue at a good rate.
- The bulk of development activity is concentrated in submarkets including the Central Business District (453 units underway), Florin/Southeast Sacramento (439 units) and Laguna West (379 units). The 260-unit Garnet Creek in Rocklin/Roseville is the largest of only two communities delivered in the metro this year through May. The Cresleigh Homes-owned asset was financed through a \$32.5 million construction loan from Bank of the West.

Sacramento vs. National Completions as a Percentage of Total Stock (as of May 2018)



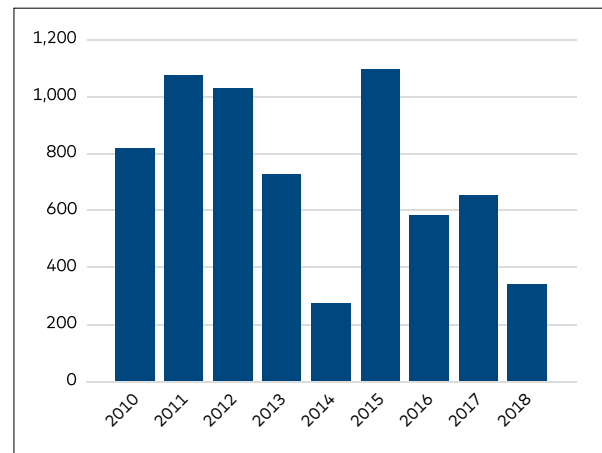
Source: YardiMatrix

Development Pipeline (as of May 2018)



Source: YardiMatrix

Sacramento Completions (as of May 2018)

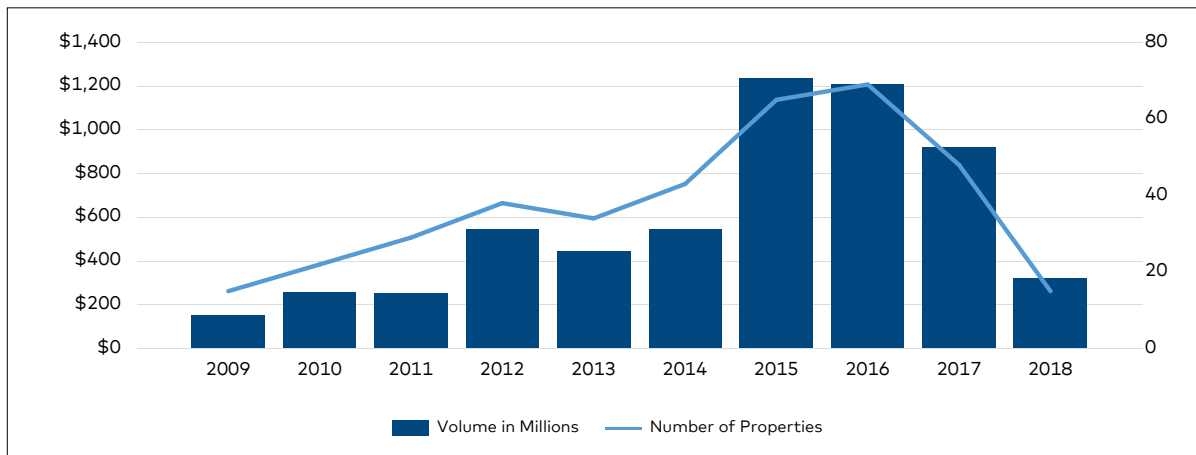


Source: YardiMatrix

Transactions

- A total of 15 multifamily assets traded in Sacramento this year through April for a collective \$323 million. That's one-third of 2017's overall figures for both number of transactions and sales volume. Per-unit prices slid by \$17,000 this year to \$132,242, as 14 of these transactions were completed for Renter-by-Necessity assets, with investors targeting value-add opportunities in the metro.
- Investment activity was highest in Laguna West (\$139 million), Encina/Ethan/Woodside (\$124 million), Pocket/West Greenhaven (\$117 million), the Central Business District (\$107 million) and Florin/Southeast Sacramento (\$100 million). Investors targeted assets from a diverse spectrum, with both core submarkets and fringe areas seeing consistent interest in value-add assets. With acquisition yields compressing further, transaction activity is slowly decreasing, as more limited returns and peaking prices are becoming prohibitive to small-scale investors.

Sacramento Sales Volume and Number of Properties Sold (as of April 2018)



Source: YardiMatrix

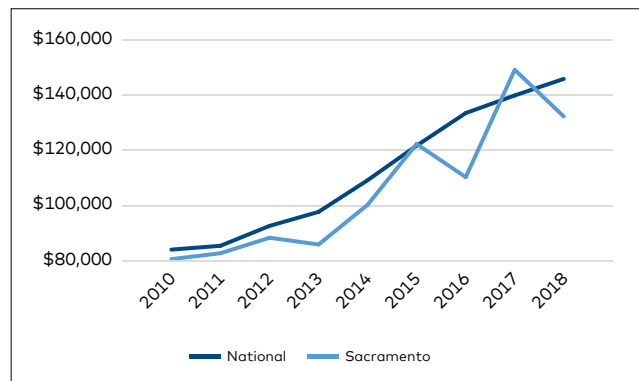
Top Submarkets for Transaction Volume¹

Submarket	Volume (\$MM)
Laguna West	139
Encina/Ethan/Woodside	124
Pocket/West Greenhaven	117
Central Business District	107
Florin/Southeast Sacramento	100
Elk Grove	69
Central Davis	50

Source: YardiMatrix

¹ From May 2017 to April 2018

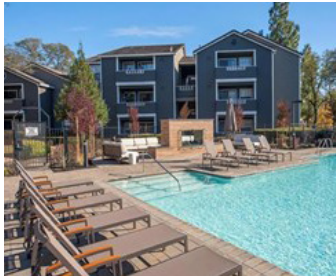
Sacramento vs. National Sales Price per Unit



Source: YardiMatrix

News in The Metro

Brought to you by:



Kennedy Wilson Sells \$422 Portfolio

The six communities, which comprise a total of 2,199 units, are located across California, Nevada, Washington and Oregon.



Greystone Provides \$29M for Sacramento Acquisition

Carmel Pointe is a 332-unit garden-style community that includes a dog park, spa and five laundry rooms.



Demmon Partners Snaps Up Sacramento Asset For \$33M

Walker & Dunlop provided nearly \$16 million in Fannie Mae financing for the acquisition of the five-story community, which comprises 50 one- and two- bedroom units.



JV to Open Sacramento Student Housing

GMH Capital Partners and AGC Equity Partners are developing The Academy on 65th, which will serve students at California State University.



ABI Expands Local Team With New VP

With a background in both tech and finance, Tyler Justesen most recently worked as director of marketing at United Capital Investments.

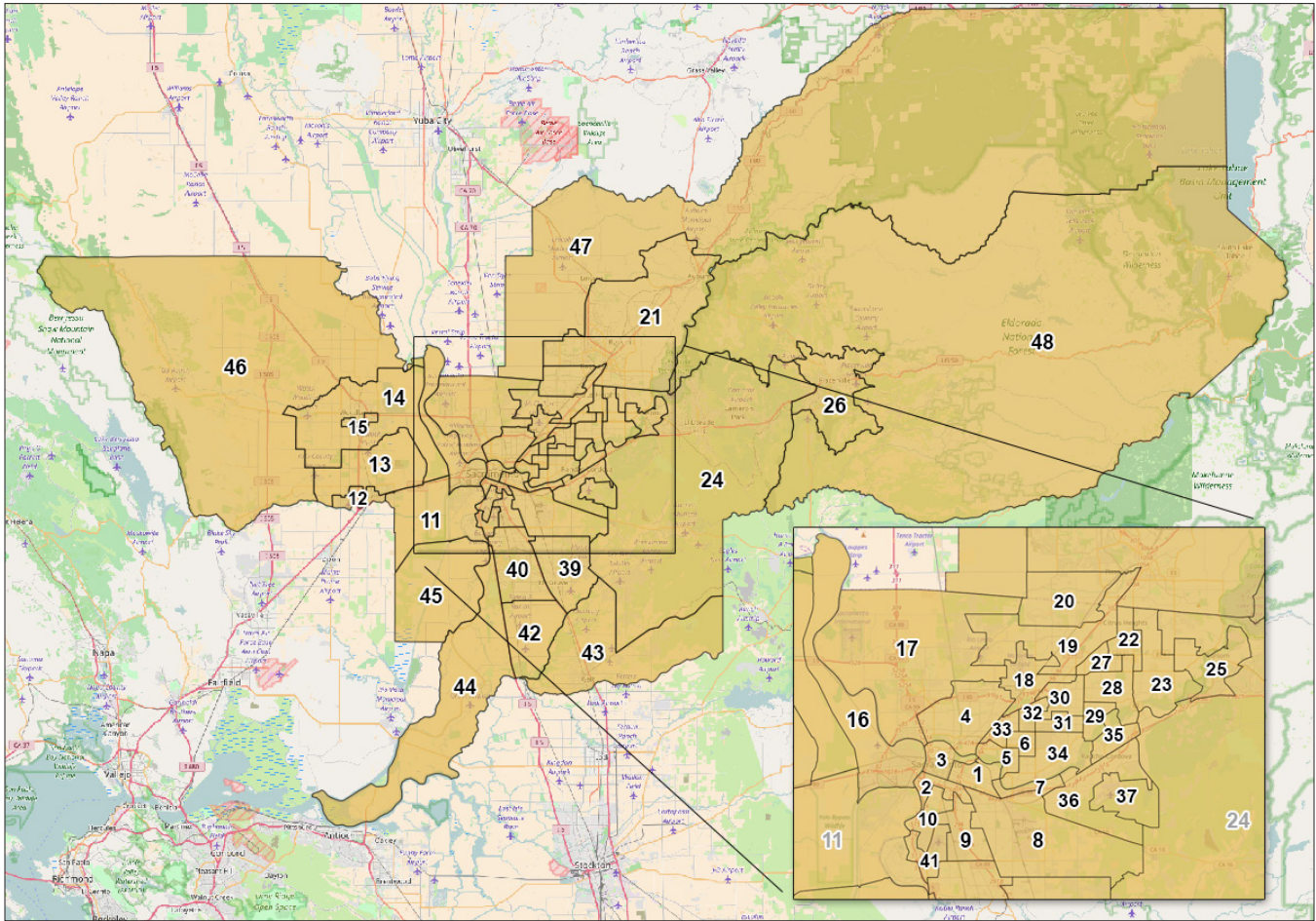


MG Properties Buys 312-Unit Sacramento-Area Community

CBRE arranged a \$56 million Freddie Mac acquisition loan for North Pointe Apartments at 6801 Leisure Town Road in Vacaville.

Log on to Multi-HousingNews.com to get the latest metro-specific news.

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 He
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
29	Southeast Carmichael
30	West Carmichael
31	Arcade Village/Mission
32	Mira Loma/Marconi

Area #	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 West
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 or call Ron Brock, Jr., at 480-663-1149 x2404.

Fogelman drives deals with Yardi® Matrix



"Yardi Matrix is a major contributor to our profitable investments and informed property management."

Mark Fogelman
President
Fogelman Properties

800.866.1144
YardiMatrix.com



Energized for Tomorrow

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.

© 2018 Yardi Systems, Inc. All Rights Reserved.