

Rents Stall In Sacramento

December 2023



Deliveries Reach Annual Record

Investment Volume Down

T3 Rates At Standstill



SACRAMENTO MULTIFAMILY



Record Supply, Rate Growth Flat

Sacramento's multifamily fundamentals posted mixed results at the start of the fourth quarter. Rent growth remained flat for the third consecutive month in October, despite record supply expansion. At \$1,916, the metro's average rate remained above the \$1,718 U.S. figure. The occupancy rate in stabilized properties fell 70 basis points to 94.7% in the 12 months ending in September, solely due to a drop in the Renter-by-Necessity segment.

The jobless rate in California's capital stood at 4.3% in September, according to the Bureau of Labor Statistics, trailing the U.S. (3.8%) but surpassing the state (4.7%) and Los Angeles (5.3%). The job market expanded 2.5% year-over-year as of August, on par with the national average. During the period, three sectors lost jobs—financial activities, information and manufacturing—for a total of 1,900 jobs combined. Meanwhile, half of the 25,700 new positions were added to Sacramento's second largest economic driver, education and health services. Supporting the sector's growth, California Northstate University's plans for a new medical campus at the site of the Sleep Train Arena were approved.

Deliveries through October marked a new annual record, expanding the stock by 2,200 units, with another 42,500 units under construction. Heavily impacted by the financing landscape, investment volume totaled just \$119 million through October, for a price per unit that declined 24.8% year-over-year, to \$206,188.

Market Analysis | December 2023

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Recent Sacramento Transactions

Hellenic Seniors



City: Sacramento, Calif.
Buyer: Dawson Holdings
Purchase Price: \$28 MM
Price per Unit: \$400,000

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

Rosemont Terrace

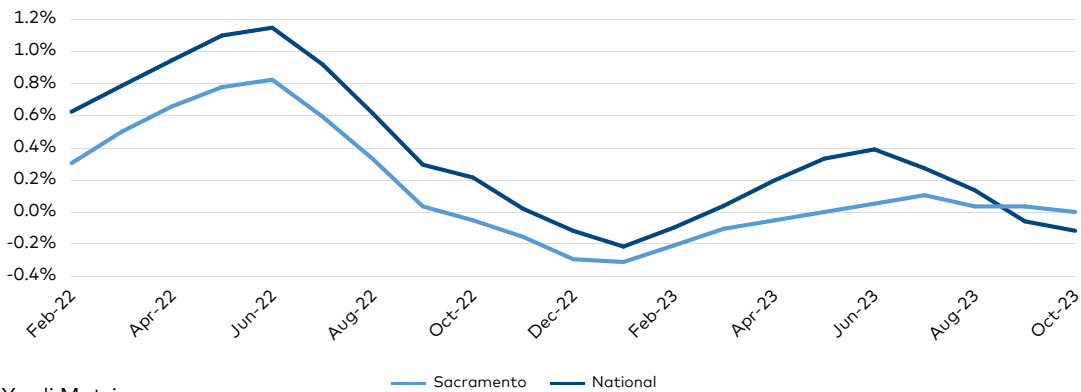


City: Sacramento, Calif.
Buyer: Redwood Property Investors
Purchase Price: \$18 MM
Price per Unit: \$179,000

RENT TRENDS

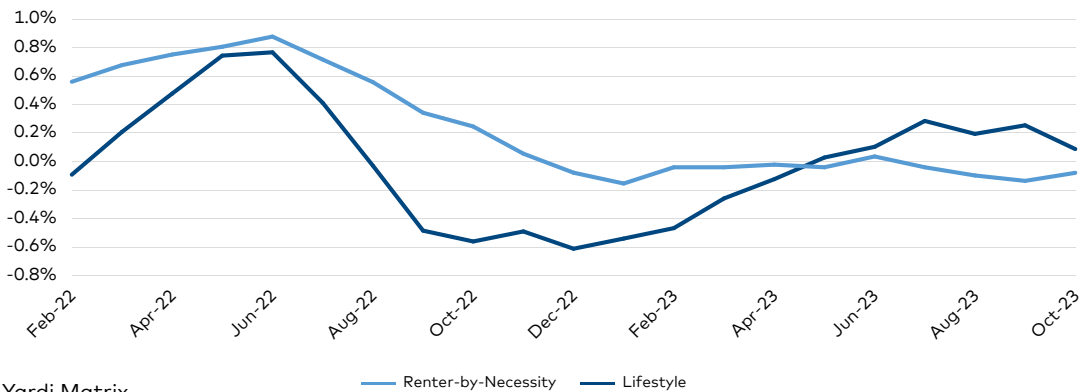
- Sacramento rents remained flat for the third consecutive month, at \$1,916, as of October. Meanwhile, the U.S. rate declined 0.1% on a trailing three-month (T3) basis through October, to \$1,718. On a year-over-year basis, the average asking rent in California's capital contracted 0.8%, while the national rate increased 0.4%.
- Bucking the national trend, rent growth was positive in the Lifestyle segment, up 0.1% on a T3 basis through October, to \$2,226, while working-class Renter-by-Necessity rents decelerated 0.1%, to \$1,744. Healthy demand for upscale apartments pushed the occupancy rate in stabilized properties up by 10 basis points, to 95.1%, year-over-year as of September in the Lifestyle segment, while in the RBN component occupancy decreased by 110 basis points, to 94.4%. Sacramento's overall occupancy stood at 94.7% in September, following a 70-basis-point decline.
- At the submarket level, rents were down year-over-year in 22 of the 48 submarkets tracked by Yardi Matrix, including the Central Business District (-5.9% to \$2,132), which also had the second largest pipeline in the metro as of October. Strong rent gains were registered in the metro's most-sought-after submarkets, Greater Davis (4.1% to \$2,615) and Central Davis (3.4% to \$2,351). Overall, the average rent was above the \$2,000 mark in 13 submarkets, down from 15 a year ago.
- The single-family rental segment's performance softened, decreasing 2.4% year-over-year in October, to \$2,861, while occupancy rose 1.7% in the 12 months ending in September, to 97.5%.

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 posted a 20-basis-point gain on a month-over-month basis, to 4.3% in September, according to preliminary BLS data. This positioned the metro behind the U.S. (3.8%) and ahead of the state (4.7%). The rate spent most of the year in the 4.0% to 4.4% band, except in April when it fell to 3.8%. Among major California markets, Sacramento outperformed only Los Angeles (5.3%), while trailing San Francisco (3.5%) and San Jose (3.3%).
- Sacramento's employment market expanded 2.5% year-over-year, on par with the U.S. average. Three sectors lost jobs—financial activities (-1,400 jobs), information (-400 jobs) and manufacturing (-100 jobs).
- Of the 25,700 jobs gained during the 12 months ending in August, half were added in the education and health services sector (13,000 jobs). The sector's future looks promising, with California Northstate University's plans for a new medical hub with a school and a 13-story teaching hospital approved. The 400-room center and campus will replace the former Sleep Train Arena. Meanwhile, the timeline for the 30-acre Dignity Health hospital in Elk Grove has been pushed back.
- Next in line for job growth was the government sector, which gained 5,600 positions.

Sacramento Employment Share by Sector

Code	Employment Sector	Current Employment	
		(000)	% Share
65	Education and Health Services	189	17.3%
90	Government	250	22.9%
70	Leisure and Hospitality	113	10.3%
80	Other Services	39	3.6%
60	Professional and Business Services	151	13.8%
40	Trade, Transportation and Utilities	170	15.6%
15	Mining, Logging and Construction	80	7.3%
30	Manufacturing	41	3.8%
50	Information	10	0.9%
55	Financial Activities	50	4.6%

Sources: Yardi Matrix, Bureau of Labor Statistics

Population

- Demographic growth was positive every year between 2010 and 2021, for an overall 12.0% expansion, well ahead of the 7.3% national rate.
- Aided by rebounding immigration, Sacramento was one of three major California metros to gain residents in 2022, per the California Department of Finance.

Sacramento vs. National Population

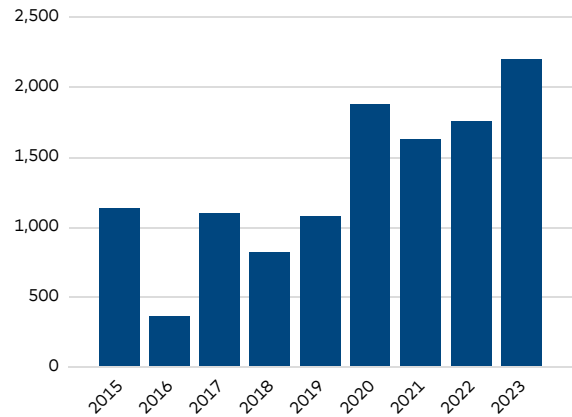
	2018	2019	2020	2021
National	326,838,199	328,329,953	331,501,080	331,893,745
Sacramento	2,343,292	2,363,654	2,399,351	2,411,428

Source: U.S. Census

SUPPLY

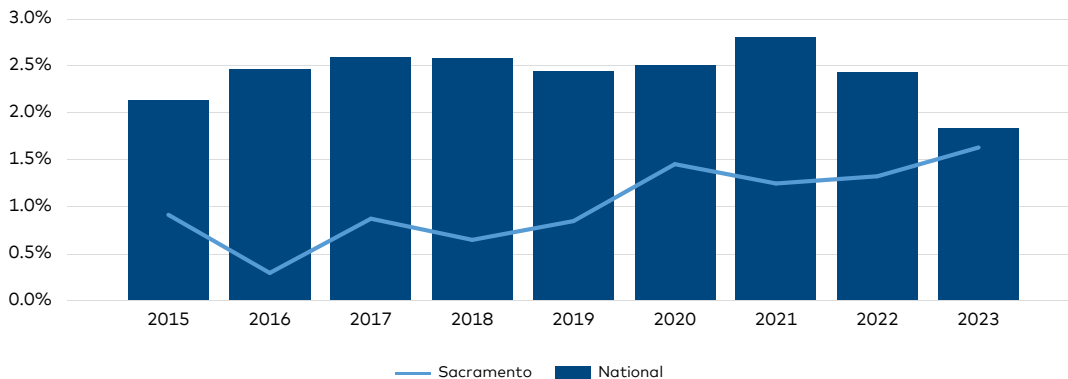
- ▶ Developers delivered 2,200 units in 2023 through October, 1.6% of existing stock. Notorious for its limited inventory expansion, Sacramento's rate trailed the 1.8% national figure. The volume of deliveries through October has already surpassed the year-end total of every year in the past decade. The composition of the newly added stock comprised 10.6% units in fully affordable communities, while the remaining majority were upscale Lifestyle apartments. Yardi Matrix estimates that another 988 units will be delivered by year-end, pushing the total close to the 3,200 mark.
- ▶ The construction pipeline had 8,563 units underway and another 42,500 units in the planning and permitting stages. The pipeline composition was in more balanced between asset classes, with nearly 40% of projects designated as fully affordable, while 55.7% were in Lifestyle communities.
- ▶ By volume of construction starts, developers slightly increased their activity in Sacramento, with 3,532 units across 17 properties breaking ground in 2023 through October. During the same period last year, 3,277 units across 25 projects had started construction.
- ▶ Development activity remained spotty across the map, with three submarkets having more than 1,000 units underway—Natomas (1,546 units), Central Business District (1,396 units) and Laguna West (1,086 units).
- ▶ The largest project delivered in 2023 was Capitol Towers Apartment Homes - Mid-Rise. The Weidner Investment Services' 436-unit property includes 5,890 square feet of retail space and is located in the CBD.

Sacramento Completions (as of October 2023)



Source: Yardi Matrix

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

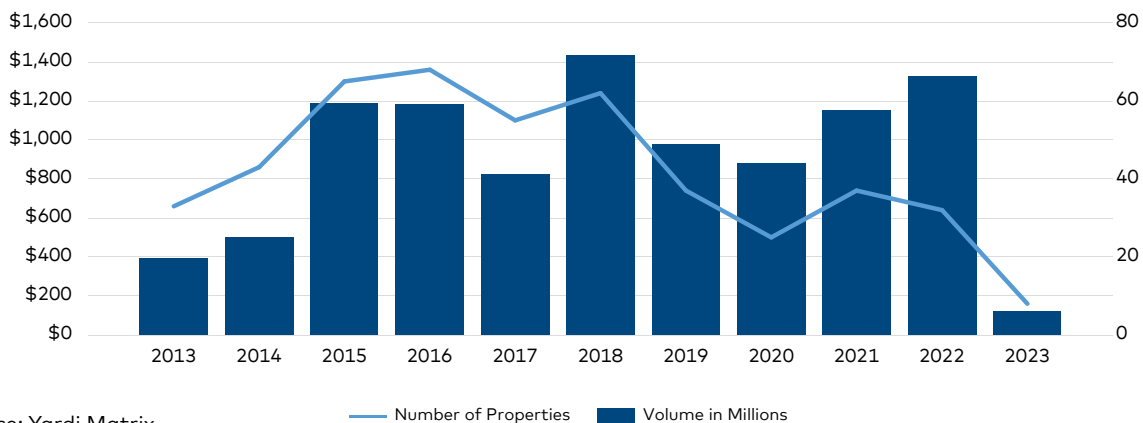


Source: Yardi Matrix

TRANSACTIONS

- ▶ Transaction activity nearly came to a halt in Sacramento, with just \$119 million in multifamily assets trading in 2023 through October. With persisting volatility in the financing space making investors more cautious, it is likely that 2023 will be the slowest year for sales in a decade.
- ▶ The sales composition through October consisted entirely of RBN assets, which, combined with high interest rates, caused a hefty 24.8% year-over-year decline in the average price per unit, to \$206,188 in October, narrowing the gap to the \$187,497 U.S. figure.
- ▶ Hellenic Seniors, a 70-unit, fully affordable, age-restricted community sold for the highest price through October. The asset was acquired from the Greek Orthodox Church of the Annunciation by a joint venture comprising Dawson Holdings, Community Resident Services and R4 Capital for \$28 million, or \$400,000 per unit, with aid from a \$26.5 million loan originated by East West Bank.

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



Source: Yardi Matrix

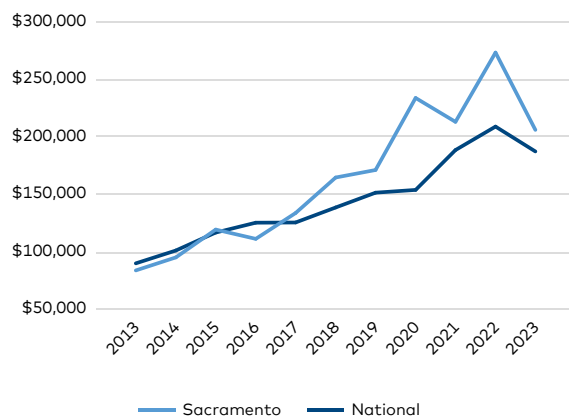
Top Submarkets for Transaction Volume¹

Submarket	Volume (\$MM)
Pocket/West Greenhaven	51
North Highlands	25
Encina/Ethan/Woodside	24
South Rancho Cordova/Rosemont	18
Florin/Southeast Sacramento	16
Mira Loma/Marconi	11

Source: Yardi Matrix

¹ From November 2022 to October 2023

Sacramento vs. National Sales Price per Unit



Source: Yardi Matrix



It Will Get Worse Before It Gets Better, a California Property Manager Warns

By Diana Firtea

As California continues to battle high living costs, stubborn inflation and rising insurance expenses, providing sustainable and affordable housing solutions is proving very challenging. Kevin Grani, president of Sterling Asset Management Co., the property management arm of Community Housing Opportunities Corp., expands on overcoming difficulties in one of the most supply-constrained affordable housing markets in the country.

What can be done to alleviate the housing crisis? Can affordable housing managers help?

There are so many different components to resolving this crisis but what it comes down to is supply and demand, and simply building more. It's less of a management question and more about the development of housing and providing supportive services to residents, which is where management can help. Things like financial literacy, guidance with finding food and rental assistance. You start with basic needs and then move to financial literacy and, eventually, self-sufficiency.

How can organizations such as CHOC and its property managers maintain affordable rental rates when costs rise, particularly in a market like California?

Frankly, it's incredibly difficult. Many in our industry are of the mind that it's not possible to keep rental rates lower as costs rise. As a property manager, CHOC does not set rental rates. The rates are set by state and federal agencies.



Despite that, our hope is that we can develop more affordable housing to counteract this issue and, ideally, house as many people as we possibly can.

Tell us more about an affordable housing property that has effectively navigated challenges, achieving positive outcomes for both residents and owners.

One example is the work we completed at our Walnut Windmere community in Davis, Calif. We'd begun renovating the property's 134 units just before the pandemic began, utilizing tax credit funding; we had a 2-year window to complete the work or we'd need to return these tax credits. As such,

we worked efficiently to repair siding, replace windows and repair roofs for these units.

What are your short- and medium-term goals at Sterling?

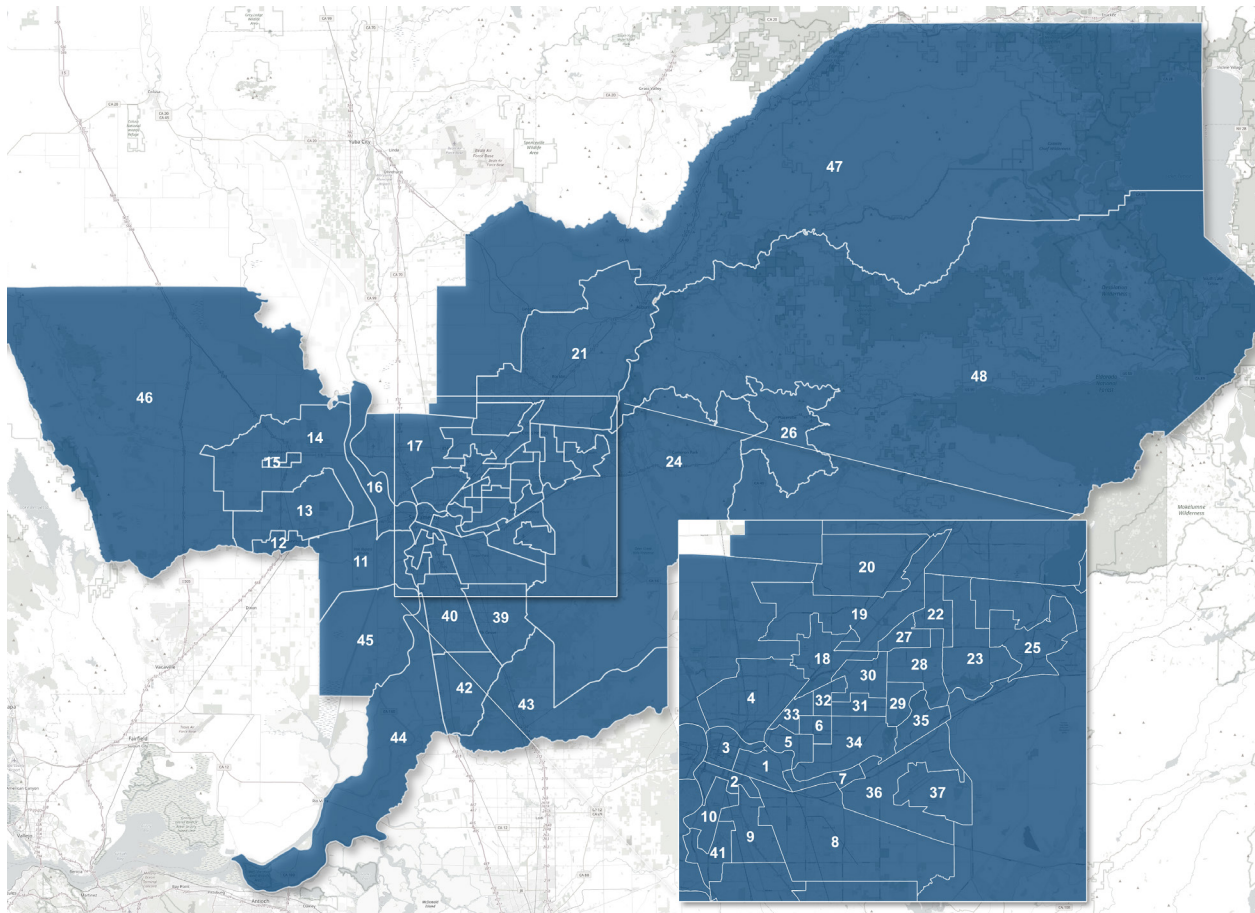
Our short-term goals include the ongoing development and investment in our property management team, across our portfolio, maximizing efficiencies wherever possible. Longer term, the resident experience is primary, so we'll be seeking opportunities to bring high-value resident services, energy services, construction and solar to our base property management offering.

How do you expect the state's affordable housing crisis to evolve?

Unfortunately, as things stand, it will get worse before it gets better. It's essential that the state develops permanent sources of funding, in order to help organizations like ours develop and sustain multifamily affordable housing for as many people as possible.

(Read the complete interview at www.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 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.



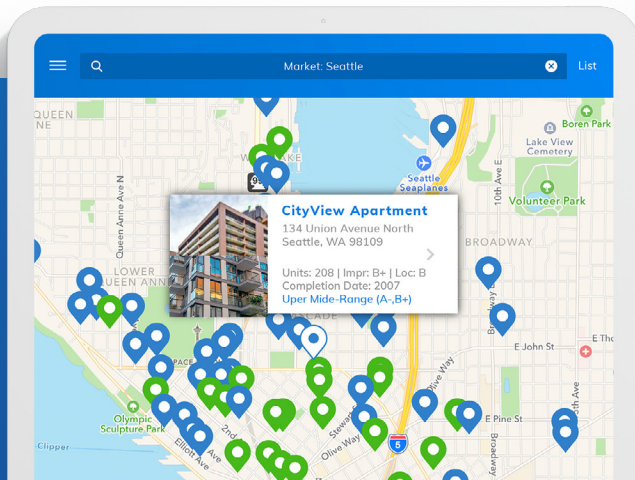
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