

Sacramento's Mixed Bag

March 2024



Deliveries Hit New High

Affordable Pipeline Swells

Occupancy Drops in RBN Segment

SACRAMENTO MULTIFAMILY



Pipeline Up Again Following Record Supply

Despite fluctuating performance, Sacramento multifamily rental demand remained fairly robust. Following record supply expansion, rent growth decreased just 0.2% on a trailing three-month basis through January, to \$1,905. That was on par with the national rate, which clocked in at \$1,710. Occupancy in stabilized properties decreased just 40 basis points in the 12 months ending in January, to 94.5%.

Sacramento unemployment climbed to 4.7% in December, trailing the U.S. (3.7%) but surpassing the 5.1% California rate, according to data from the Bureau of Labor Statistics. In the 12 months ending in November, job expansion slowed to 2.3%, or 23,300 net positions, 10 basis points above the U.S. rate. During this time, three sectors lost 3,700 jobs combined—financial activities, professional and business services and information. Employment growth was led by education and health services, which accounted for nearly half of the net gains.

As of January, Sacramento had 9,119 units underway, with a surprising number of these in fully affordable projects. Additionally, 2023 marked a record for deliveries (2,956 units) in an otherwise low-supply market. And even as the national pipeline began shrinking, multifamily starts in Sacramento actually accelerated. Meanwhile, transactions nearly came to a halt, with just \$125 million in rental assets trading in 2023.

Market Analysis | March 2024

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Recent Sacramento Transactions

Hellenic Seniors



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

The Savannah at Southport



City: West Sacramento, Calif.
Buyer: Alliant Strategic Development
Purchase Price: \$20 MM
Price per Unit: \$89,029

Rosemont Terrace



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

Woodland Oaks

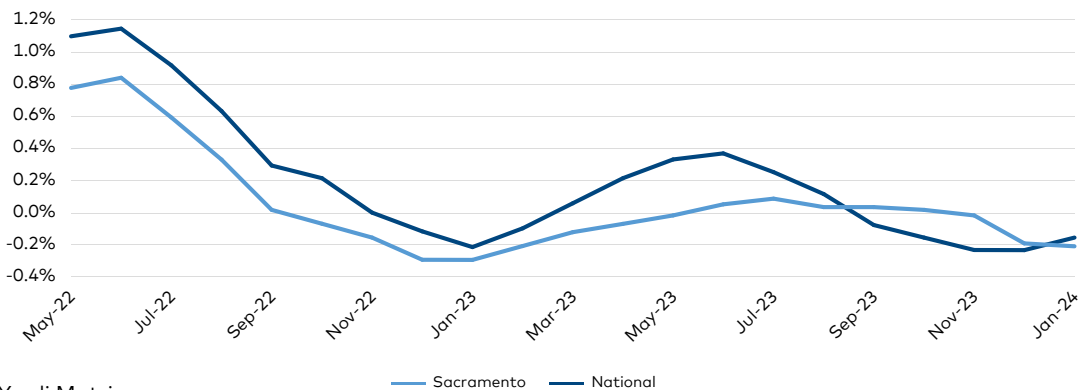


City: Woodland, Calif.
Buyer: Montgomery Partners
Purchase Price: \$13 MM
Price per Unit: \$166,250

RENT TRENDS

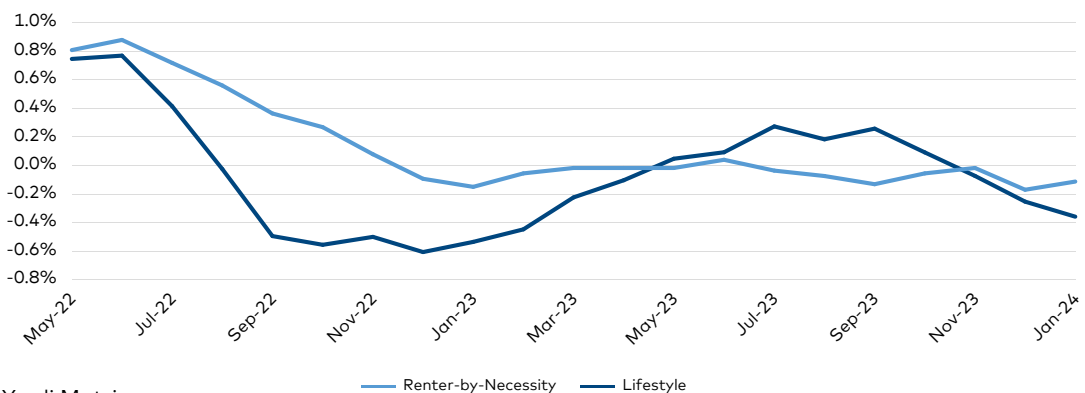
- ▶ Sacramento rents decreased 0.2% on a trailing three-month (T3) basis through January, to \$1,905, marking the second consecutive month of declines after four straight months of staying flat. The national rate was also down 0.2% on a T3 basis, to \$1,710. Year-over-year, however, the average asking rent in Sacramento contracted 0.5%, while the U.S. rate rose 0.5%.
- ▶ Rates in the upscale Lifestyle segment contracted the most, with the average sliding 0.4% on a T3 basis through January, to \$2,202. Meanwhile, working-class Renter-by-Necessity rates declined 0.1%, to \$1,740. Even so, demand remained elevated, especially at the higher end of the quality spectrum. The occupancy rate in stabilized properties inched down just 40 basis points in the 12 months ending in January, to 94.5%. RBN occupancy was the culprit, down 90 basis points, to 94.2%. Lifestyle occupancy gained 30 basis points, to 95.0%, despite the outside upscale pipeline.
- ▶ Year-over-year, rents declined in 23 of the 48 submarkets tracked by Yardi Matrix but continued to increase in Sacramento's most expensive areas: Greater Davis (2.1% to \$2,595), Central Davis (2.5% to \$2,419) and Greater Folsom/El Dorado Hills/Shingle Springs (0.9% to \$2,247). Moreover, 12 submarkets had average rents above the \$2,000 mark as of January, slightly down from 13 a year ago.
- ▶ Single-family rentals in Sacramento mirrored multifamily for the most part. Rents decreased 1.0% year-over-year through January, to \$2,815, while occupancy inched up 0.1%, to 97.0%.

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 rose to 4.7% in December, the highest rate since January 2022, according to data from the BLS. The metro's jobless rate trailed the U.S. (3.7%) but outperformed the state (5.1%). Among major California metros, Sacramento unemployment was on par with Los Angeles, but trailed San Diego (4.3%), San Jose (4.0%) and San Francisco (4.0%).
- In the 12 months ending in November 2023, Sacramento job growth slowed to a 2.3% expansion, or 23,300 net jobs gained, slightly above the 2.2% national rate.
- Three sectors lost jobs: financial activities (-2,300 jobs), professional and business services (-800 jobs) and information (-600 jobs). Meanwhile, gains were led by education and health services (11,200 positions) and mining, logging and construction (5,200 jobs).
- Sacramento's life sciences sector has been steadily growing in the past five years. In West Sacramento, a 1.4 million-square-foot waterfront mixed-use project is underway. Dubbed BioSpace at The Bridge District, the project's first phase will include a 430,000-square-foot purpose-built lab and is slated for completion in the second quarter of 2025.

Sacramento Employment Share by Sector

Code	Employment Sector	Current Employment	
		(000)	% Share
65	Education and Health Services	192	17.3%
15	Mining, Logging and Construction	80	7.2%
90	Government	255	23.0%
70	Leisure and Hospitality	113	10.2%
80	Other Services	40	3.6%
40	Trade, Transportation and Utilities	175	15.8%
30	Manufacturing	41	3.7%
50	Information	10	0.9%
60	Professional and Business Services	151	13.6%
55	Financial Activities	50	4.5%

Sources: Yardi Matrix, Bureau of Labor Statistics

Population

- While many California metros took hits between 2019 and 2022, Sacramento gained 78,593 residents. That was a 3.4% expansion, well above the 2.0% U.S. rate.
- In 2022 alone, Sacramento gained 15,305 residents, the equivalent of a 0.6% uptick.

Sacramento vs. National Population

	2019	2020	2021	2022
National	324,697,795	326,569,308	329,725,481	331,097,593
Sacramento	2,315,980	2,338,866	2,379,368	2,394,673

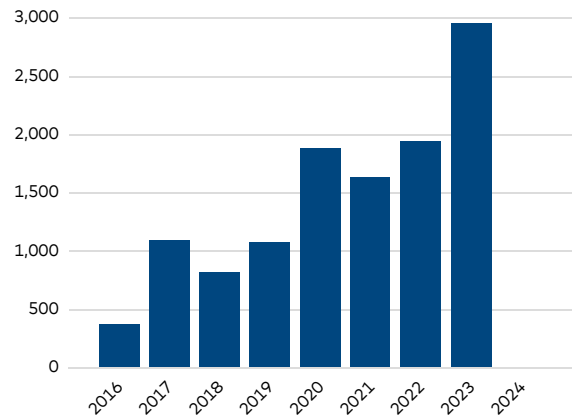
Source: U.S. Census

SUPPLY

- Sacramento saw its best year for new supply in 2023, when 2,956 rental units came online, a record going back at least a decade. Even in its best year, California's capital remains an infamously undersupplied market. The new units are the equivalent of 2.2% of inventory, lagging the 2.6% U.S. rate. Four out of five properties added in 2023 were in the upscale Lifestyle segment, with the remaining new stock divided between fully affordable and RBN assets.
- Developers had 9,119 apartments under construction as of January 2023, and another 43,000 units in the planning and permitting stages. A big shift occurred in the pipeline composition in the past few years, with fully affordable communities now accounting for 41% of units under construction, while the Lifestyle component declined to 54%.
- Despite all the well-known challenges, Sacramento is one of the few markets where new construction actually increased in 2023. However, that came with a twist. While both 2022 and 2023 each saw 21 new projects breaking ground, last year's number of units was 4,166, compared to the previous year's 3,156.
- Nearly half the pipeline was clustered in just three submarkets: The Central Business Dis-

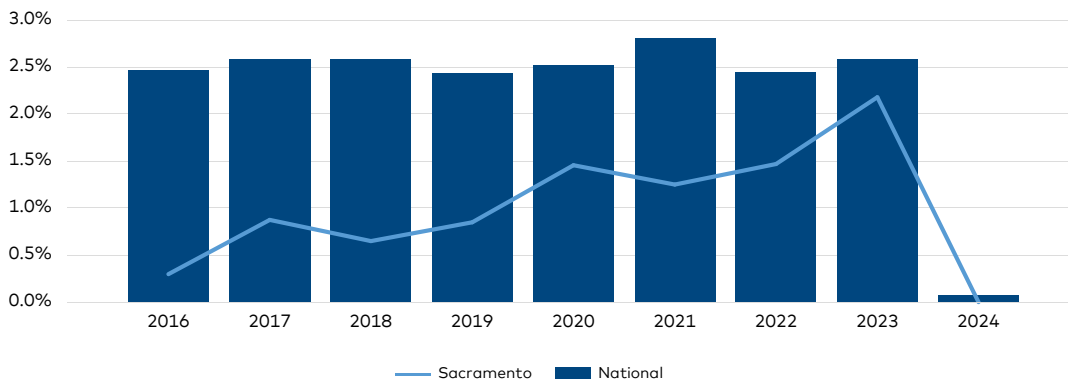
trict (1,997 units), Natomas (1,355) and Laguna West (1,086). The average rents in these submarkets fell between \$1,929 and \$2,151 as of January. The six largest projects under construction were also all located in these three areas. The largest project underway is a 487-unit, mostly affordable community being developed by the Sacramento Housing & Redevelopment Agency, McCormack Baron Salazar and RBC Community Investments.

Sacramento Completions (as of January 2024)



Source: Yardi Matrix

Sacramento vs. National Completions as a Percentage of Total Stock (as of January 2024)



Source: Yardi Matrix

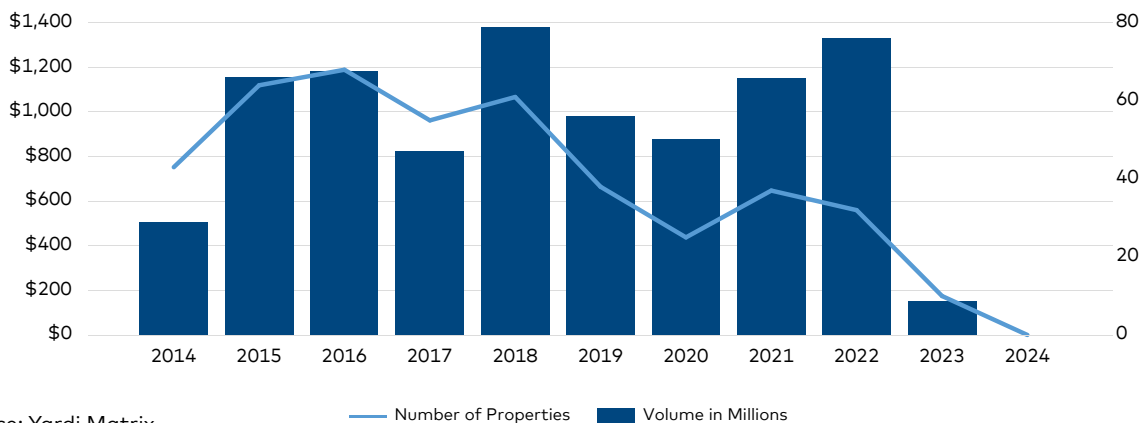
TRANSACTIONS

- ▶ Deals nearly halted in Sacramento in 2023, as investors traded just \$125 million in multifamily assets, the lowest volume of the past decade. In January 2024, sales were muted, with no single transaction of more than 50 units recorded.
- ▶ Nine of the 10 transactions registered in 2023 involved Renter-by-Necessity properties, which contributed to a steep 37% year-over-year drop in the average price per unit, to \$172,356. This price was below the \$185,563 U.S. figure.

The last time Sacramento's per-unit price was lower than the U.S. average was in 2016.

- ▶ The Greek Orthodox Church of the Annunciation sold the 70-unit Hellenic Seniors last year for \$28 million. The fully affordable, age-restricted housing asset sold for \$400,000 per unit, marking the highest per-unit price paid in 2023 for an asset. For this acquisition, Dawson Holdings took out a \$26.5 million loan originated by East West Bank.

Sacramento Sales Volume and Number of Properties Sold (as of January 2024)



Source: Yardi Matrix

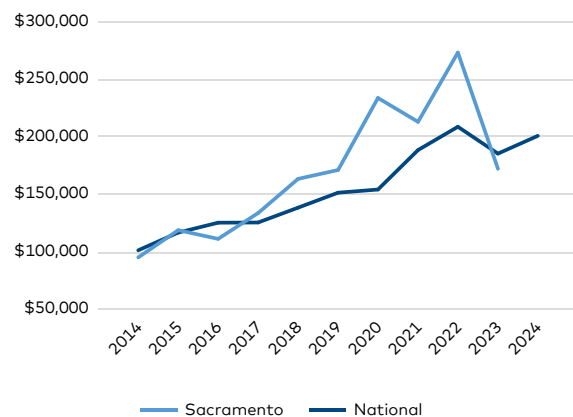
Top Submarkets for Transaction Volume¹

Submarket	Volume (\$MM)
Pocket/West Greenhaven	48
South Rancho Cordova/Rosemont	18
Florin/Southeast Sacramento	16
North Woodland	13
Mira Loma/Marconi	11

Source: Yardi Matrix

¹ From February 2023 to January 2024

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., talks about overcoming difficulties in one of the most supply-constrained affordable housing markets in the country.

What are the main challenges affordable housing property managers in California have?

The challenge today is simply the lack of attainable affordable housing, given how long it takes to build. The common challenges we've seen for years have been people losing their jobs, not having an income that stacks up against housing costs and, of course, the lack of subsidies for the properties. We also often face the challenge when trying to find people to manage sites—due to budget restrictions—which are all driven by the rents that are controlled by California state agencies.

What can be done to alleviate the housing crisis? Can managers help in any way?

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 and property managers maintain affordable 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.

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

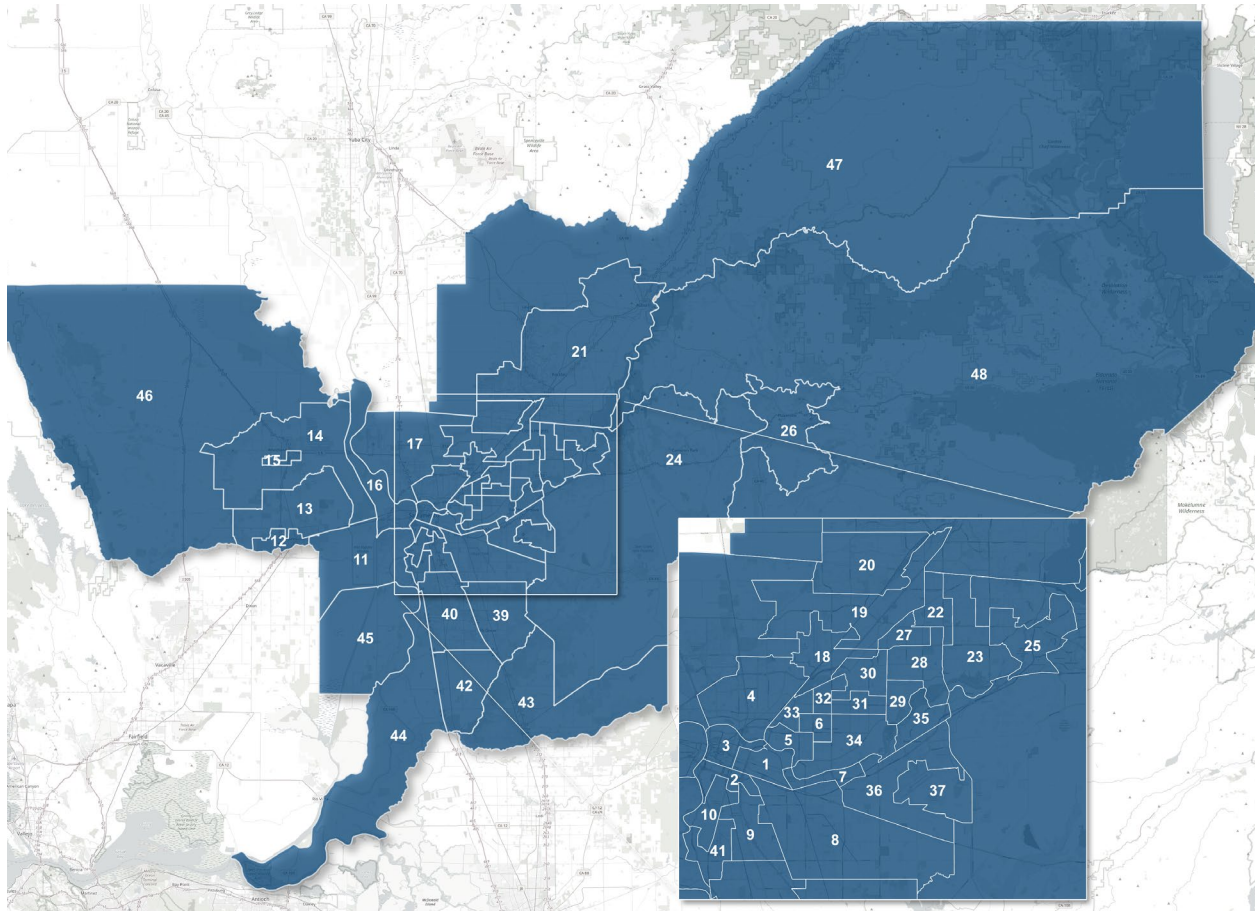
Unfortunately, as things stand, it will get worse before it gets better. It's essential that the state develops permanent sources of funding, in order to help organizations like ours develop and sustain multifamily affordable housing for as many people as possible.

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. However, that's only half the equation. Longer term, the resident experience is primary.

(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 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.



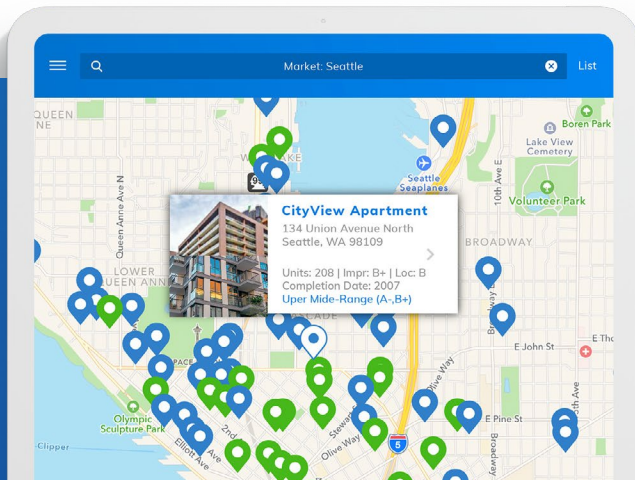
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