



Yardi® Matrix

# Moderation Is Key In Sacramento

Multifamily Report Winter 2019

**Rent Growth Decelerates**

**Inventory Gains Remain Modest**

**Value-Add Opportunities Draw Investors**

## Market Analysis

Winter 2019

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## Rent Growth Still Strong, Not Dazzling

Sacramento has experienced decelerating but steady rent growth, due to a continued influx of new residents from pricier Bay Area markets and a limited multifamily supply. The metro's average rent rose to \$1,454 as of October, slightly above the national rate. Despite becoming less affordable, Sacramento remains an accessible living option among the region's metro areas. The market's strong appeal to investors has maintained a high transaction volume, which is expected to surpass the 2017 level.

Employment gains were led by the state capital's public sector, which added 5,300 jobs year-over-year. The University of California, Davis, is undergoing a large expansion project, which will generate further growth for the education and health services sector, where 4,200 jobs were added in the 12 months ending in September. Trade, transportation and utilities also gained a large number of jobs during the interval, with a total of 4,900.

As the spillover effect from the nearby Bay Area continues, the metro's suburban markets have seen occupancy rates rise dramatically, along with rents. Transactions have stayed strong, with 90% of deals being completed for assets that present a value-add opportunity. As new development remains limited, rent growth is likely to continue at a good pace, although a return to past highs is unlikely.

## Recent Sacramento Transactions

### Villagio Luxury Apartments



City: Sacramento, Calif.  
Buyer: Oakmont Properties  
Purchase Price: \$70 MM  
Price per Unit: \$257,352

### River Blu



City: Sacramento, Calif.  
Buyer: 29th Street Capital  
Purchase Price: \$61 MM  
Price per Unit: \$146,634

### Portofino on the Lake



City: Sacramento, Calif.  
Buyer: Benedict Canyon Equities  
Purchase Price: \$40 MM  
Price per Unit: \$200,000

### Waterford Cove

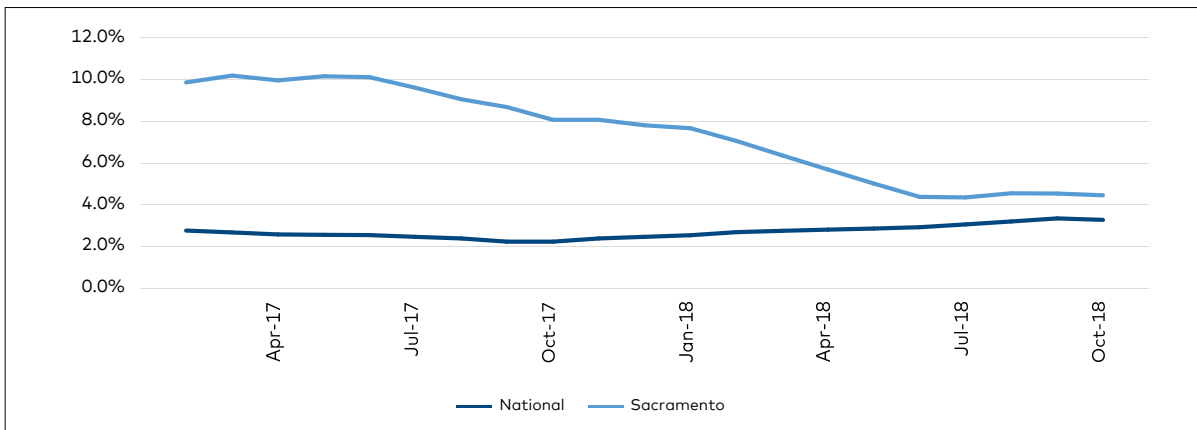


City: Sacramento, Calif.  
Buyer: Bridge Partners  
Purchase Price: \$34 MM  
Price per Unit: \$179,787

## Rent Trends

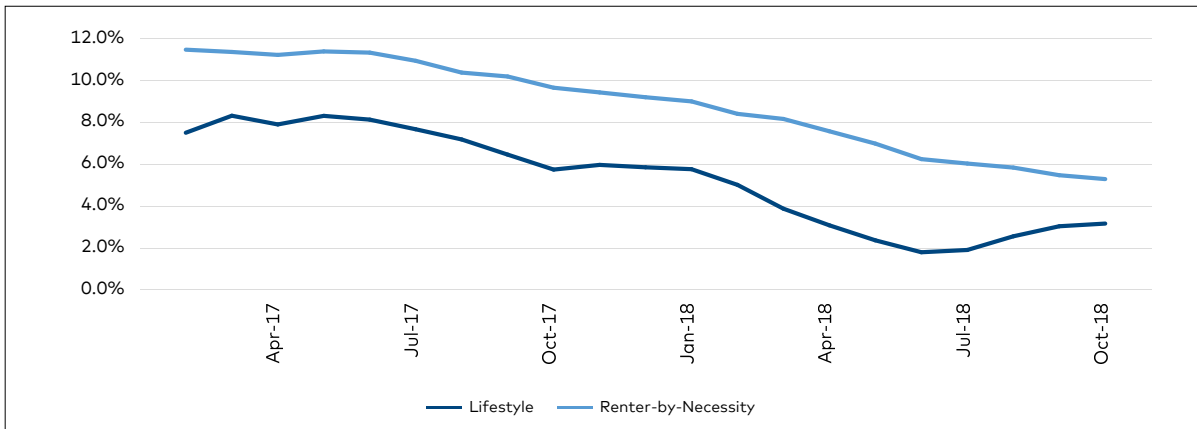
- The average monthly rent in Sacramento rose to \$1,454 as of October, up 4.5% year-over-year, outpacing the national 3.3% rate, partly due to a lack of new multifamily product being delivered. However, the metro saw a slowdown in rent growth, which halved over the past 12 months.
- Rates in the Renter-by-Necessity asset class rose 5.3%, reaching an average of \$1,315, while rents in the Lifestyle segment improved 3.2%, to an average of \$1,730. The metro's limited development pipeline, along with its above-average population growth, will likely continue to steadily drive rents up across all product types. The average occupancy rate in stabilized assets was 96.3% as of September, down 40 basis points year-over-year, but remained relatively high compared to the national average.
- Rents in Elk Grove (12.0%), Parkway/South Sacramento (11.8%), Northeast Carmichael/West Fair Oaks (9.5%) and Greater Davis (8.6%) led growth. Rates increased at the fastest pace in areas outside the urban core, as Sacramento slowly catches up to gateway market trends.
- Sacramento's rental growth rate has led the nation for big chunks of 2016 and 2017, with a slowdown dampening gains for the better part of 2018. However, continued limited completions and a steady job market continue to drive rent growth well above national levels, a trend that should hold going forward.

### 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)

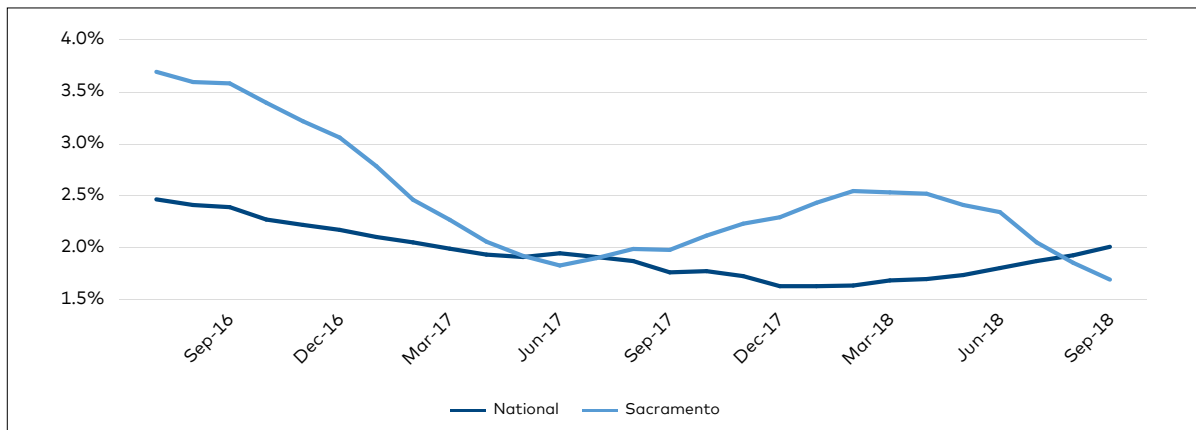


Source: YardiMatrix

## Economic Snapshot

- Sacramento added 11,000 jobs in the 12 months ending in September. This reflects a downward trend compared to the first half of 2018, with the employment growth rate at 1.7% year-over-year—30 basis points behind the national average. Gains were led by the public sector, which added 5,300 jobs.
- Trade, transportation and utilities added 4,900 jobs through the interval. Several Sacramento agencies, including the Sacramento Regional Transit District, collaborated with an Urban Land Institute advisory panel to outline a plan for two southern neighborhoods. Its purpose will be to identify potential private-public partnerships for new transit-oriented developments, including new multifamily properties, as well as public parks and bike lanes.
- Education and health services gained 4,200 jobs. The University of California, Davis, is expanding its faculty facilities, including a 20,000-square-foot addition to its activities and recreation center, along with other improvements. The expansion is expected to add a substantial amount of jobs, according to the Sacramento City Council.
- As of October, Sacramento's unemployment rate stood at 3.7%, on par with the national figure and down 40 basis points from October 2017.

### 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	%
90	Government	239	24.3%	5,300	2.3%
40	Trade, Transportation and Utilities	159	16.2%	4,900	3.2%
65	Education and Health Services	158	16.1%	4,200	2.7%
70	Leisure and Hospitality	103	10.5%	300	0.3%
55	Financial Activities	53	5.4%	300	0.6%
30	Manufacturing	37	3.8%	100	0.3%
15	Mining, Logging and Construction	62	6.3%	-300	-0.5%
50	Information	12	1.2%	-400	-3.3%
80	Other Services	32	3.3%	-1,400	-4.2%
60	Professional and Business Services	130	13.2%	-2,000	-1.5%

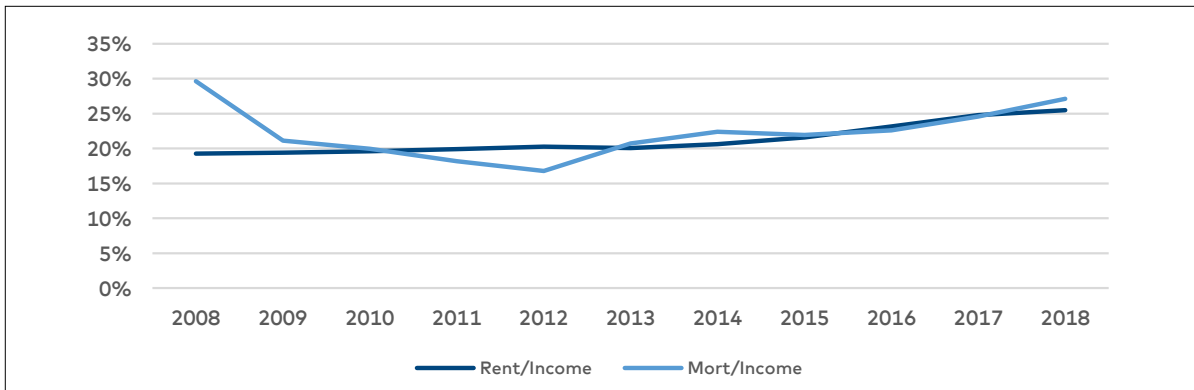
Sources: YardiMatrix, Bureau of Labor Statistics

## Demographics

### Affordability

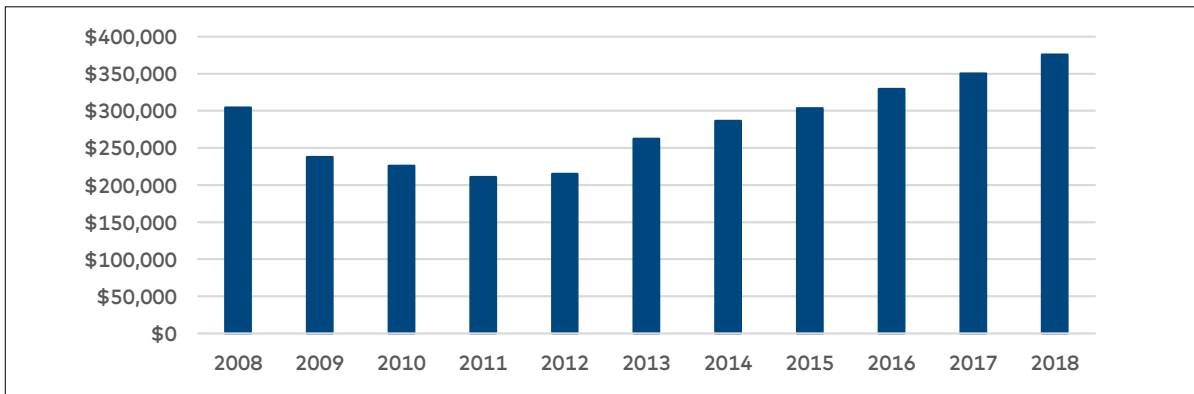
- The median home value in Sacramento rose to a cycle peak of \$376,000 in 2018, due to a variety of factors, including a spillover effect from the high-priced coastal markets and a fairly limited multifamily construction pipeline. The average rent accounted for 25% of the median income, unchanged from 2017, while the average mortgage payment comprised 27% of income.
- Sacramento remains an alternative to higher-priced coastal cities, although repeated rent hikes are putting a strain on renters. As the population grows, demand is poised to rise, as well. At this rate, property prices will continue to inflate across asset classes, unless new development accelerates.

### 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's population grew by more than 111,300 residents since 2013, a 5% increase.
- California's capital is expected to continue its growth, as residents migrate from higher-priced coastal cities.

### Sacramento vs. National Population

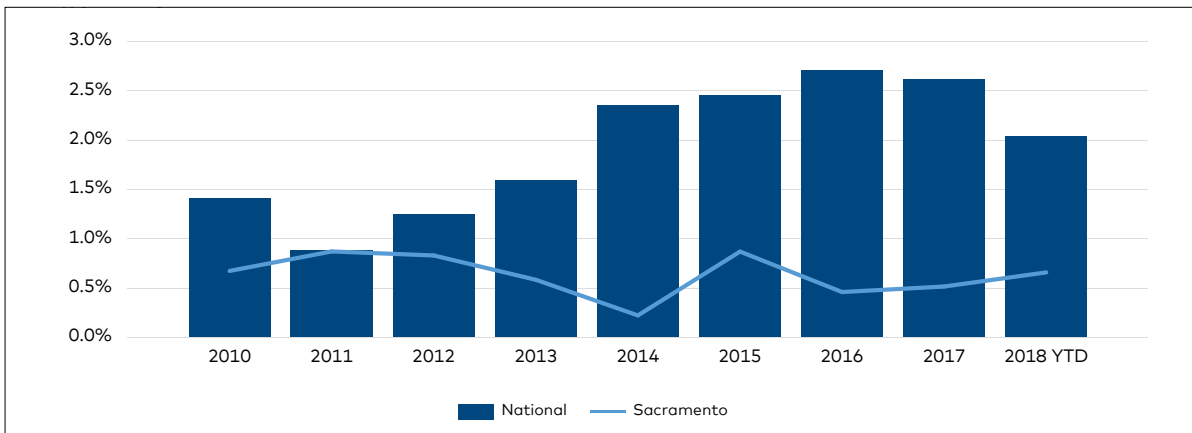
	2013	2014	2015	2016	2017
National	316,234,505	318,622,525	321,039,839	323,405,935	325,719,178
Sacramento Metro	2,213,564	2,239,455	2,266,892	2,295,233	2,324,884

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

## Supply

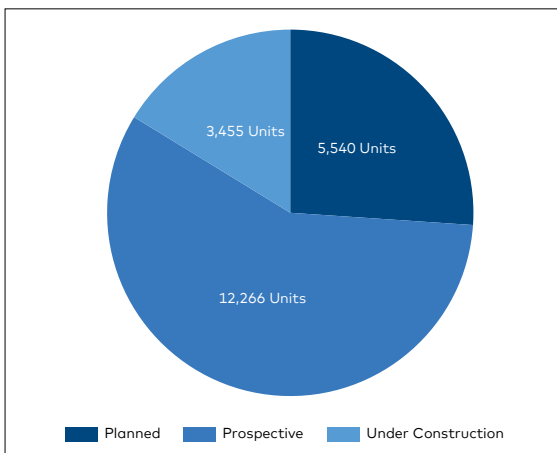
- Sacramento added five properties totaling 844 units as of October, with the market showing signs of an uptick that's trending toward the 2015 cycle peak, when 1,096 units came online. Deliveries only accounted for 0.7% of total stock, well below the 2.0% national average but roughly in line with how the market has evolved throughout the cycle.
- The metro had 3,455 units under construction as of October, while another 17,806 units were in the planning and permitting stages. Of the total properties underway, 90% will cater to Lifestyle renters, largely mirroring the national trend. The CBD, which commands some of the metro's highest rents, was the most active submarket, with 688 units under construction.
- Occupancy in stabilized properties reached 96.3% this year through September, above the national rate (95.5%) after a 40-basis-point slide year-over-year. Submarkets in the northern and central areas of the metro experienced the strongest absorption rates, with a total of 821 units occupied year-to-date. South Sacramento and Sierra Oaks Vista lost the most residents.

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



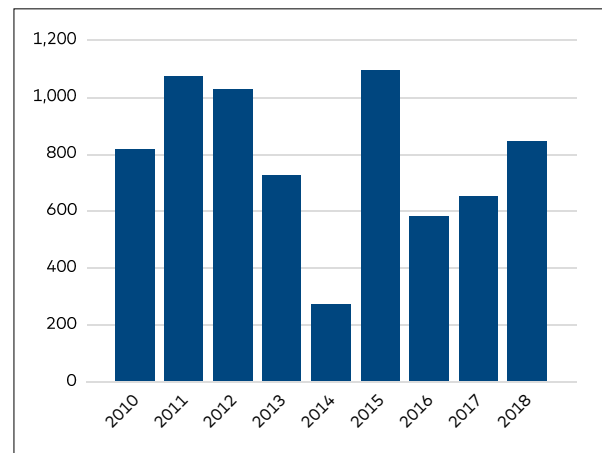
Source: YardiMatrix

**Development Pipeline** (as of October 2018)



Source: YardiMatrix

**Sacramento Completions** (as of October 2018)

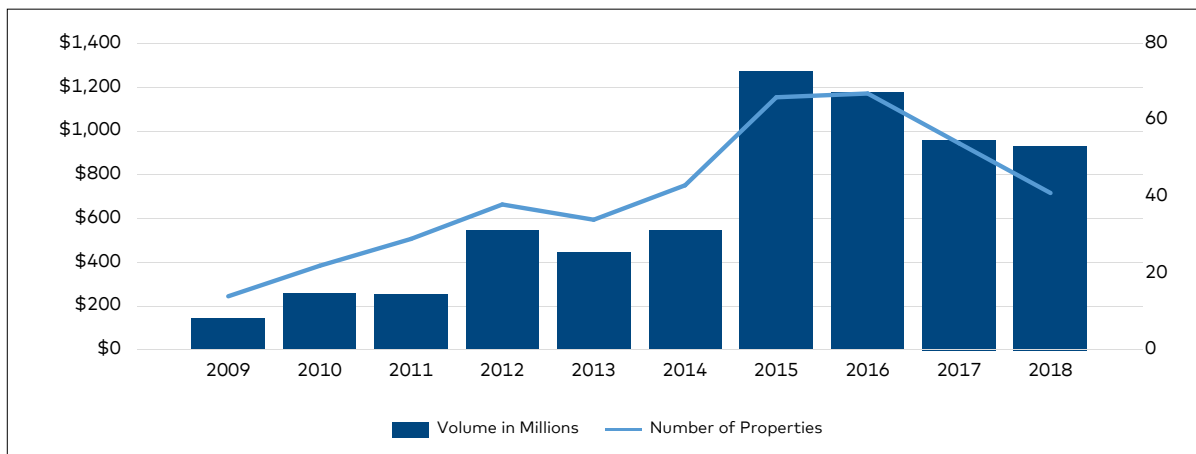


Source: YardiMatrix

## Transactions

- Multifamily investors in Sacramento sold 41 assets totaling more than \$930 million in the first 10 months of 2018. The average price per unit rose to \$156,649 as of October, surpassing the \$152,579 national average. Increased investment activity in value-add assets compressed acquisition yields in the metro, leading rates for Class B and Class C assets in the 5.5% to 6.0% range.
- The Rocklin/Roseville submarket saw a deal volume of \$148.7 million, coming from a single transaction that the Blackstone Group closed in May, when the company acquired the 612-unit Slate Creek community from Kennedy Wilson. JCM Partners sold three properties in the La Riviera submarket, in three separate transactions, for a combined \$93 million. The company sold the assets for roughly double the amounts that it had originally acquired them for, which reflects the market's penchant for profitable value-add opportunities.

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



Source: YardiMatrix

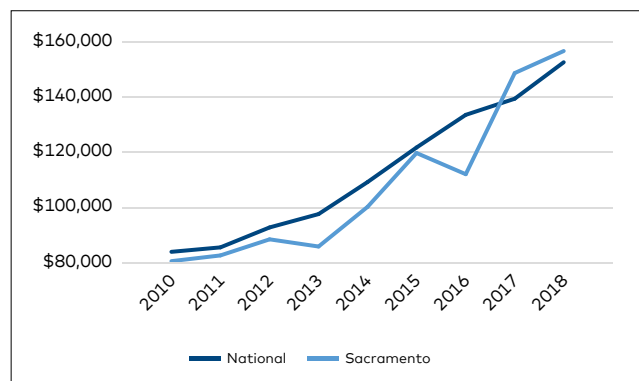
**Top Submarkets for Transaction Volume<sup>1</sup>**

Submarket	Volume (\$MM)
Rocklin/Roseville	149
Pocket/West Greenhaven	132
Florin/S.E. Sacramento	100
La Riviera	93
Encina/Ethan/Woodside	90
Natomas	70
Foothills Farms/W. Citrus Heights	64
Arcade Village/Mission	52

Source: YardiMatrix

<sup>1</sup> From November 2017 to October 2018

**Sacramento vs. National Sales Price per Unit**



Source: YardiMatrix

## News in the Metro

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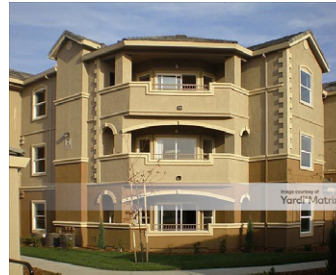


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### Pacific American Trades Sacramento Affordable Property

WNC & Associates partnered with the Foundation for Affordable Housing to purchase the 95-unit multifamily asset. The acquisition was funded with \$7.4 million in Freddie Mac financing.



### Sentinel Sells Sacramento Community

Oakmont Properties paid \$44 million for the 168-unit multifamily asset, with CBRE Capital Markets originating more than \$25 million in acquisition funding.



### The Element At Sacramento State University Changes Hands

The 216-unit student housing community was 100% occupied at the time of the sale to NB Private Capital. The property underwent major renovations in 2016.



### Sacramento Multifamily Asset Commands \$14M

JCM Partners sold the 76-unit community to IDS Real Estate Group, which landed an HFF-originated, \$7.6 million Freddie Mac loan to finance the acquisition.



### JCM Partners Sells Sacramento Community for \$61M

The buyer, 29th Street Capital, financed the acquisition of the 417-unit multifamily asset with a nearly \$47 million Freddie Mac loan.



### GSP Arranges \$17M Loan for Sacramento Community

The current financing package replaces an existing agency securitization. The loan, provided by GSP, represents a 65% LTV ratio and is structured to offer assumption rights in the case of a sale.



# Top 5 Communities Under Construction In Sacramento



By Corina Stef

data by  
**Yardi® Matrix**

Sacramento is fresh off its stint as the national leader in rent growth, as a strong demand and limited completions have pushed the average rent beyond the national rate over the past couple of years. Despite continued growth, the metro is seen as an affordable option to pricey San Francisco. A stable job market and good demographic trends have kept demand for apartments strong, which will likely push rental rates higher.

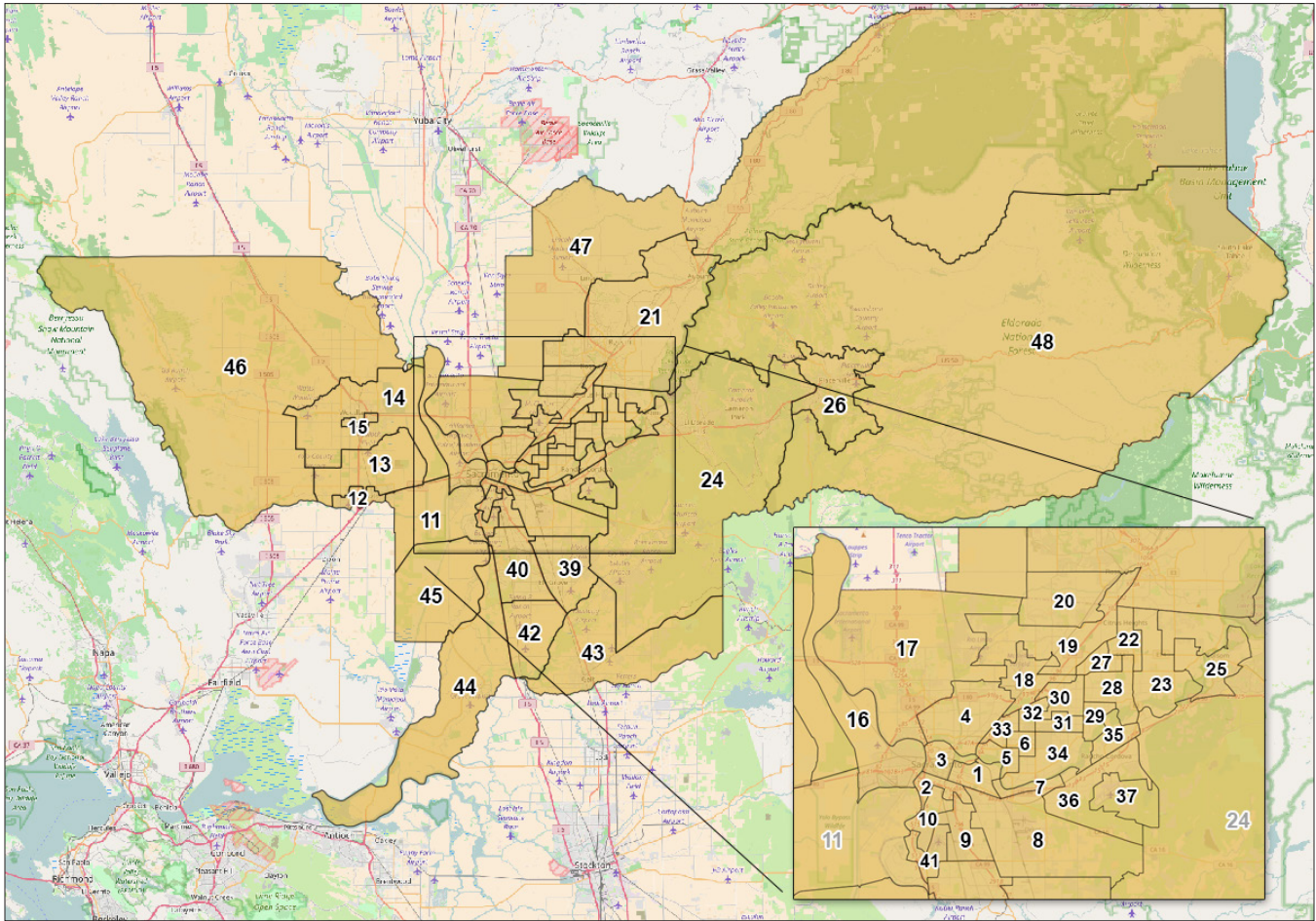
Property Name	Owner	City	Address	Units	Imprvmt Rating	Location Rating
Fiddymont Ranch	USA Properties Fund	Roseville	1900 Blue Oaks Blvd.	300	A (Prelim.)	A-
Talavera Ridge	USA Properties Fund	Folsom	2796 Broadstone Pkwy	293	B+ (Prelim.)	A-
The Press @ Midtown Quarter	SKK Developments	Sacramento	20th Street & Q Street	277	A- (Prelim.)	C+
Sutter Green	Demmon Partners	Sacramento	2250 Natomas Park Drive	248	A- (Prelim.)	B
HUB	Cresleigh Homes	Folsom	Iron Point Road & Willard Drive	230	A (Prelim.)	A

## THE PRESS @ MIDTOWN QUARTER

The Press @ Midtown Quarter, a 277-unit building with a retail component, is Sacramento's largest new multifamily development in decades. SKK Development started construction in June 2018, while completion is slated for April 2020. The community is shaping up at the corner of 20th Street and Q Street in the central business district and will encompass 32 detached townhomes ranging in size between 1,700 and 1,900 square feet. Various retailers, eateries, entertainment options and civic amenities are all nearby.



## 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

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## 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.

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