



Yardi® Matrix

Capital Composure

Multifamily Report Spring 2019

Limited Supply Sustains Rent Growth

Healthy Demographics Elevate Demand

Transaction Volume Hits Cycle Peak

Market Analysis

Spring 2019

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Weak Supply Benefits Rent Growth

Sacramento's multifamily market continued to benefit from the Bay Area's exodus, while maintaining a limited apartment supply. The average rent in the metro rose 4.6% year-over-year through March to \$1,474, outpacing the national rate by 140 basis points.

Employment growth in California's capital was robust: The expansion rate was 3.0% year-over-year as of February, well above the 1.7% national average. The metro added 27,800 jobs, with education and health services (7,500 jobs) leading growth. The accelerated activity in the sector will likely continue, supported by Centene's new 43-acre campus in suburban Natomas, which is expected to hire about 5,000 employees. Leisure and hospitality added 6,200 jobs and is poised to expand further, considering the robust development underway that includes the six-story Fort Sutter Hotel, the overhaul of the former Marshall Hotel into a boutique Hyatt with 11 stories, as well as the \$300 million expansion of the convention center.

Deliveries totaled 1,046 units in 2018, followed by the completion of two properties in the first quarter of 2019. Transaction activity marked a new cycle high, with more than \$1.4 billion in assets trading in the metro in 2018, at an average per-unit price of \$173,489. With only 1,000 units projected for delivery in 2019, we expect rents to rise 6.5% by year-end.

Recent Sacramento Transactions

Somerfield at Lakeside



City: Elk Grove, Calif.
Buyer: MG Properties Group
Purchase Price: \$64 MM
Price per Unit: \$238,806

BDX at Capital Village



City: Rancho Cordova, Calif.
Buyer: Oakmont Properties
Purchase Price: \$58 MM
Price per Unit: \$288,945

Madison Hills



City: Orangevale, Calif.
Buyer: Benedict Canyon Equities
Purchase Price: \$45 MM
Price per Unit: \$178,150

The Crossing at Wyndham

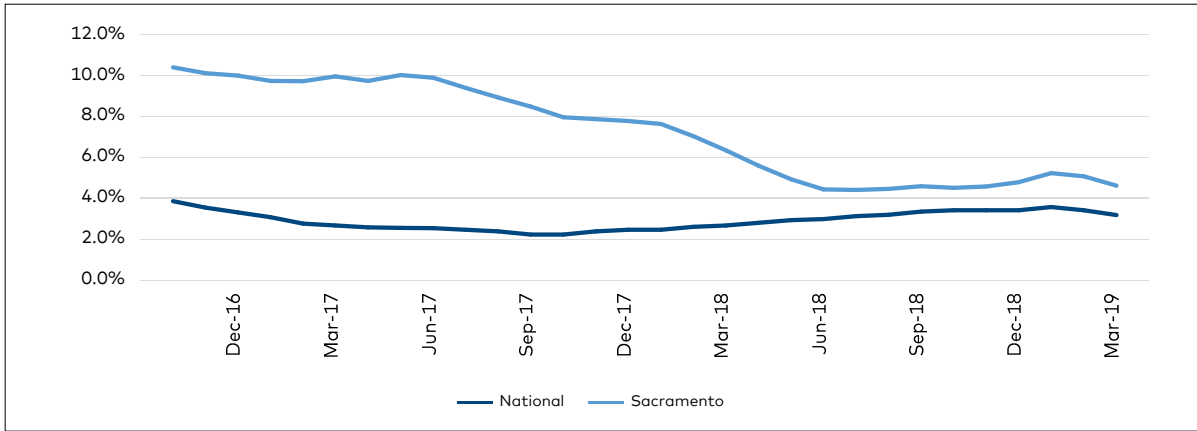


City: Sacramento, Calif.
Buyer: OpenPath Investments
Purchase Price: \$43 MM
Price per Unit: \$144,295

Rent Trends

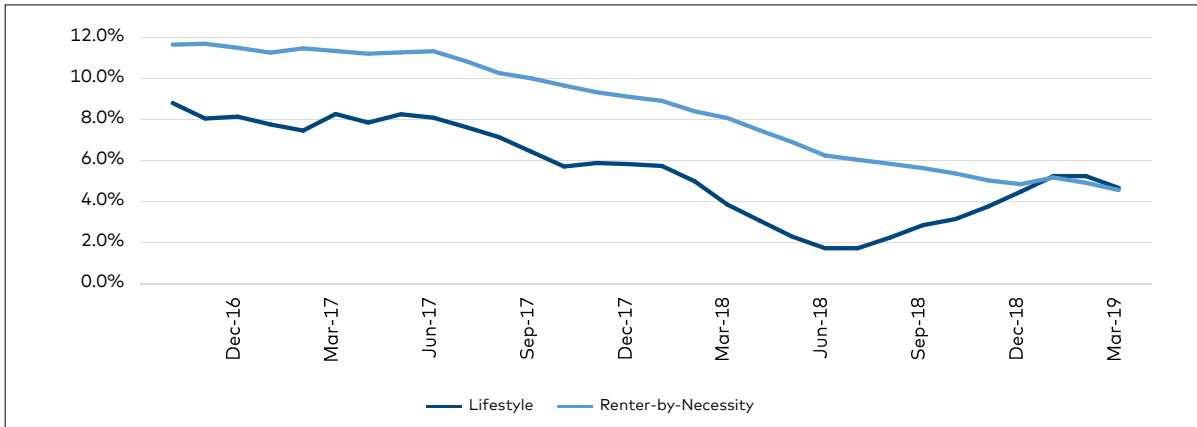
- Sacramento's elevated pace of rent growth has softened to a simmer, rising 4.6% year-over-year through March, 140 basis points ahead of the national average. The average overall rate increased to \$1,474, \$44 above the U.S. figure.
- The metro's healthy demographics coupled with its low multifamily inventory have maintained an elevated rental demand and put pressure on both the working-class Renter-by-Necessity segment and Lifestyle properties: Rents for RBN assets rose 4.6% to \$1,331, while the Lifestyle segment registered a 4.7% boost to \$1,751. However, demand is higher for RBN assets, and will likely remain raised, as the under-construction pipeline in Sacramento consists mostly of Lifestyle properties.
- Rent growth was relatively even, with rents contracting in only one submarket: Land Park inched down by 0.4% to \$1,069. Distant Galt, with an inventory of mostly affordable properties, has the metro's least expensive units and also registered the biggest price jump, with the average rent increasing by 9.1% year-over-year through March to \$962. Three submarkets post rents above the \$2,000 mark, led by Midtown (up 1.7% to \$2,123), Greater Davis (up 5.1% to \$2,115) and Central Davis (up 5.0% to \$2,109). With this year's inventory expansion set to mirror the one in 2018, we expect rent growth to accelerate to 6.5% in 2019.

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)

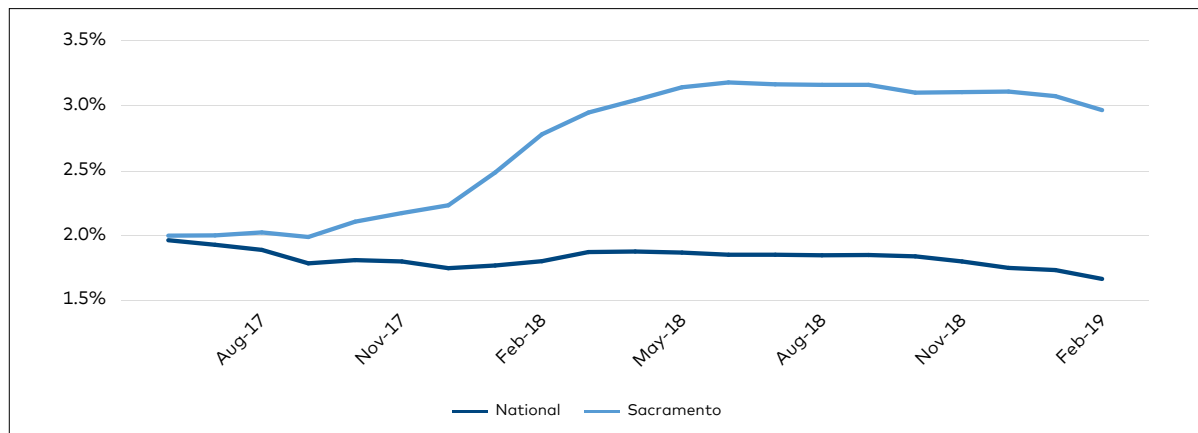


Source: YardiMatrix

Economic Snapshot

- Sacramento added 27,800 jobs in the 12 months ending in February, up 3.0% year-over-year, nearly double the 1.7% U.S. growth rate. All sectors registered positive growth except information, which lost 300 positions. The unemployment rate stood at 4.3% as of January.
- Education and health services, one of the metro's strongest economic drivers, grew at the highest rate among all employment sectors, adding 7,500 positions. The sector is poised to grow further following the announcement that health insurance company Centene is building a 68-acre, LEED-certified campus in suburban Natomas that will include five four-story buildings. The project is anticipated to create some 5,000 jobs, many of which are gray-collar positions, with wages around the \$60,000 mark. Completion of the first phase of construction is scheduled for the late summer of 2020, with employees moving in during the fourth quarter.
- Trade, transportation and utilities, up by 4,200 positions, could see some changes since PG&E, California's largest utility company, declared bankruptcy in the wake of the destruction caused by the 2014 to 2018 wildfires in Northern California.

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	165	16.3%	7,500	4.8%
70	Leisure and Hospitality	111	11.0%	6,200	5.9%
40	Trade, Transportation and Utilities	161	15.9%	4,200	2.7%
15	Mining, Logging and Construction	63	6.2%	2,500	4.1%
30	Manufacturing	37	3.7%	2,500	7.2%
55	Financial Activities	56	5.5%	2,100	3.9%
60	Professional and Business Services	134	13.2%	1,400	1.1%
80	Other Services	35	3.5%	1,300	3.9%
90	Government	239	23.6%	400	0.2%
50	Information	12	1.2%	-300	-2.4%

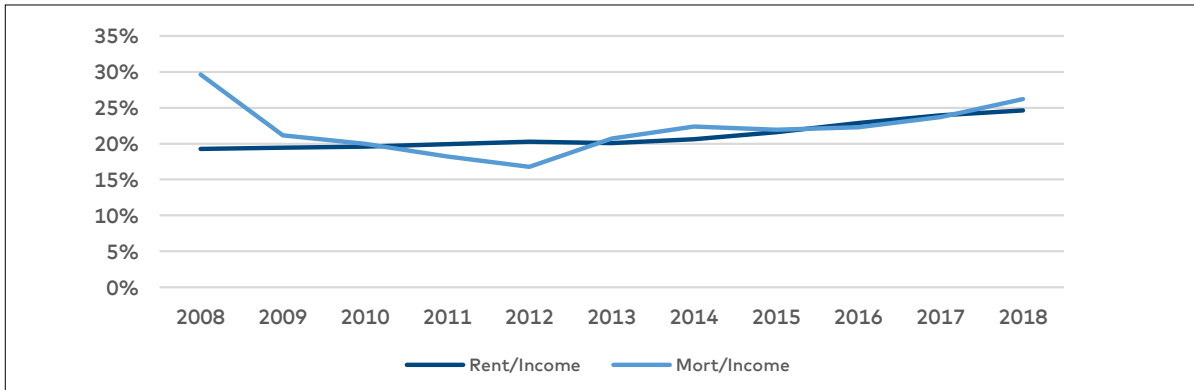
Sources: YardiMatrix, Bureau of Labor Statistics

Demographics

Affordability

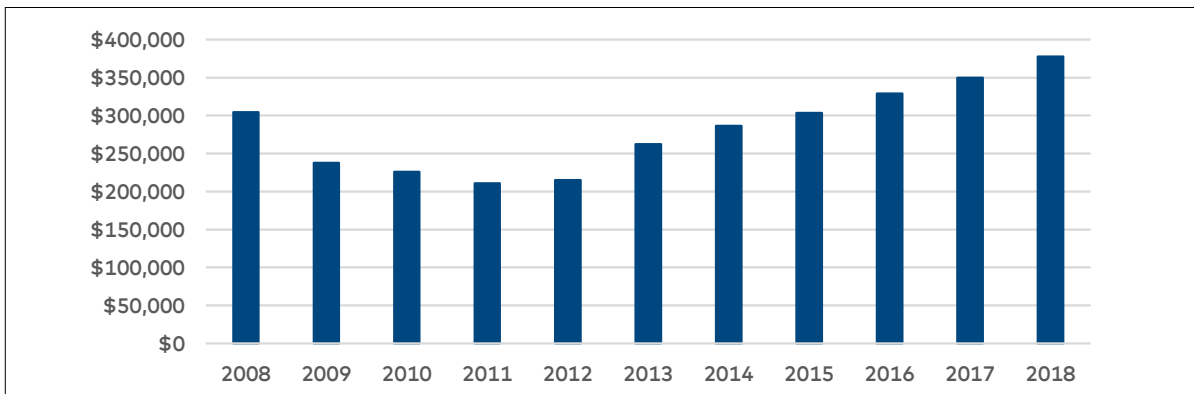
- The median home value in Sacramento swelled to a new cycle peak of \$377,814 in 2018, an 8.0% year-over-year increase and 79% higher than in 2011. This sustained appreciation puts further strain on homebuyers, the average mortgage payment accounting for 26% of the median income, up 200 basis points year-over-year. The metro's average rent of \$1,474, affordable by coastal cities' standards, accounted for 25% of the median income, 100 basis points above what it was in 2017.
- A temporary rent control proposal called 3-3-3 is out, while Gov. Gavin Newsom unveiled a \$1.8 billion budget proposal to confront the state's housing cost crisis.

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 grew at one of the fastest rates in the state of California in 2017, up 1.3% and nearly double the 0.7% national growth rate.
- The state capital has grown by 29,651 residents in 2017, and by 111,320 since 2013.

Sacramento vs. National Population

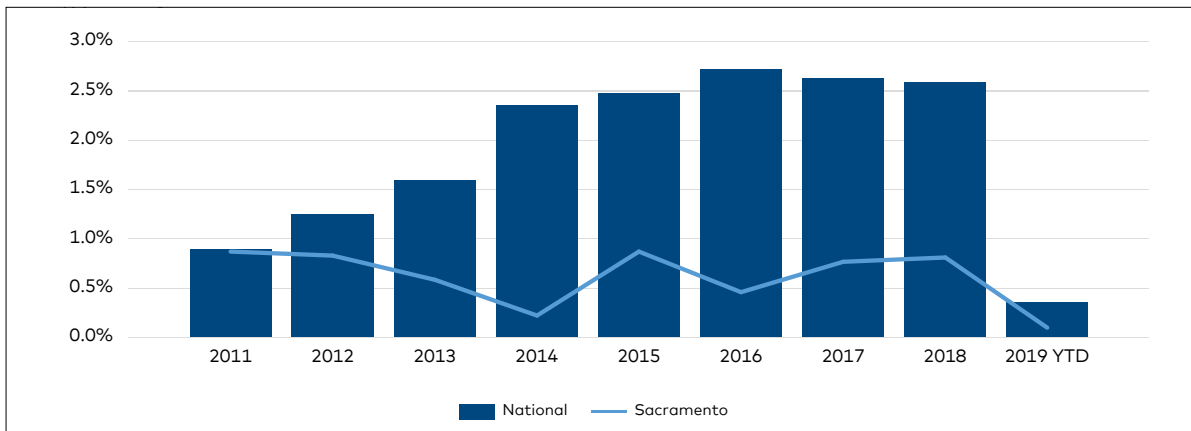
	2013	2014	2015	2016	2017
National	316,234,505	318,622,525	321,039,839	323,405,935	325,719,178
Sacramento Metro	2,213,564	2,239,455	2,266,892	2,295,233	2,324,884

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

Supply

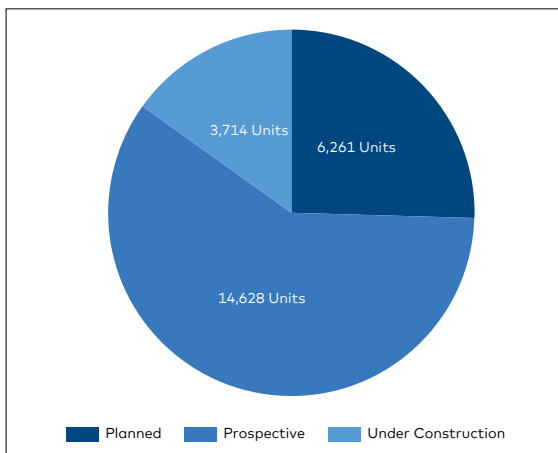
- Developers added 1,046 units in six properties across Sacramento in 2018, 0.8% of total stock. While the rate is well below the 2.6% national average growth figure, in Sacramento it marked the third-best delivery total of the cycle. By March 2019, 126 units in two properties had come online—one Lifestyle asset and one fully affordable community.
- Strong demand has done little to boost construction activity. As of March 2019, 3,714 units were underway, most of them in core submarkets, while an additional 21,000 units were in the planning and permitting stages. The supply-demand balance has kept occupancy in stabilized properties above the 96% mark for 16 consecutive months (including a drop of 20 basis points year-over-year to 96.1% in February), highlighting the metro's stable demand.
- The Central Business District leads construction activity in Sacramento, with 840 units underway, but suburban regions appeal to developers, as well: Greater Folsom/El Dorado Hills/Shingle Springs follows closely with 620 units under construction, while Rocklin/Roseville and Central Folsom each have some 370 units underway. Yardi Matrix expects 1,000 units to come online in 2019.

Sacramento vs. National Completions as a Percentage of Total Stock (as of March 2019)



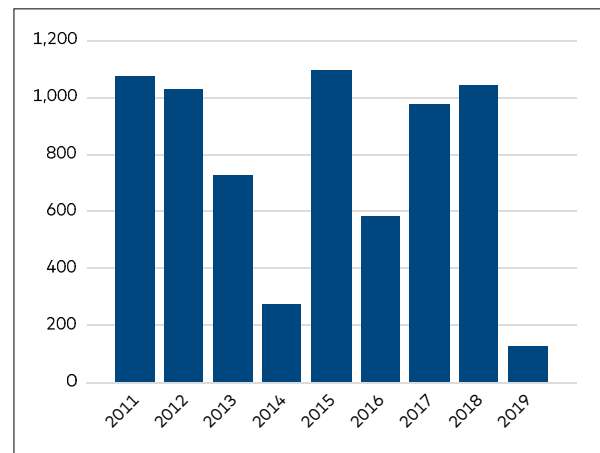
Source: YardiMatrix

Development Pipeline (as of March 2019)



Source: YardiMatrix

Sacramento Completions (as of March 2019)

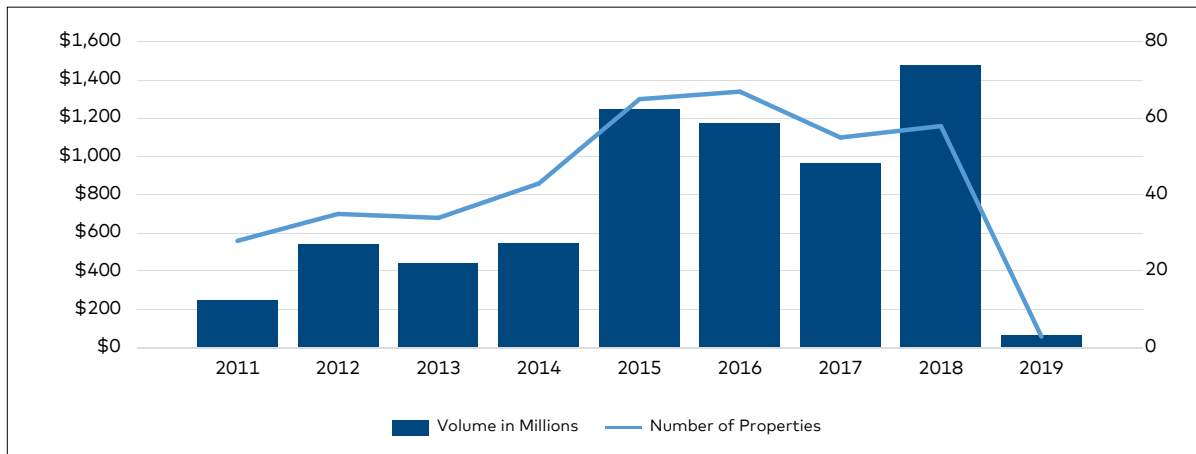


Source: YardiMatrix

Transactions

- In the first three months of 2019, three properties were acquired for a combined \$63 million. The Bay Area exodus continues to benefit Sacramento's multifamily market, with investors trading more than \$1.4 billion in apartment communities in 2018, 53% above 2017's total volume and a new cycle high.
- The bulk of the properties that traded were in the Renter-by-Necessity segment. Sustained investment activity in value-add assets maintained acquisition yields for Class B communities above the 5% mark in Sacramento.
- Investor interest in value-add assets pushed up the price per unit by 17% in 2018, to \$173,489. Three of the metro's submarkets posted sales of more than \$100 million in the 12 months ending in March: Laguna West (\$182 million), Rocklin/Roseville (\$149 million) and Natomas (\$114 million).

Sacramento Sales Volume and Number of Properties Sold (as of March 2019)



Source: YardiMatrix

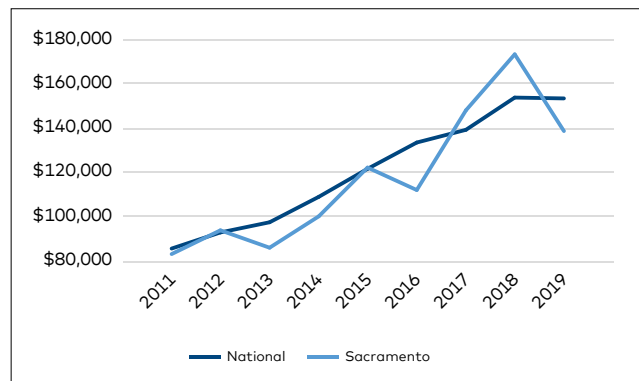
Top Submarkets for Transaction Volume¹

Submarket	Volume (\$MM)
Laguna West	182
Rocklin/Roseville	149
Natomas	114
La Riviera	93
South Rancho Cordova/ Rosemont	82
Greater Davis	76
Pocket/West Greenhaven	72
Encina/Ethan/Woodside	56

Source: YardiMatrix

¹ From April 2018 to March 2019

Sacramento vs. National Sales Price per Unit



Source: YardiMatrix

News in the Metro

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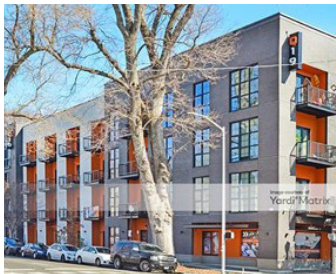
South Coast Commercial Buys NorCal Community

The firm financed the acquisition of the fully occupied Class B asset with a 15-year, \$7 million mortgage from Banc of California.



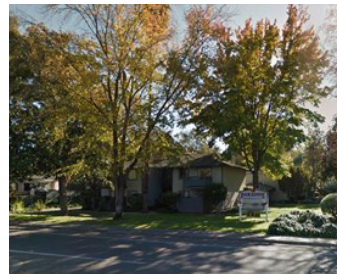
Largest US Student Housing Project Breaks Ground

Developed by the Michaels Organization and designed by Stantec, the \$575 million UC Davis West Village community will have a total of 3,300 beds, with 1,000 scheduled for delivery by fall 2020.



SKK Developments, Grupe Complete Q19

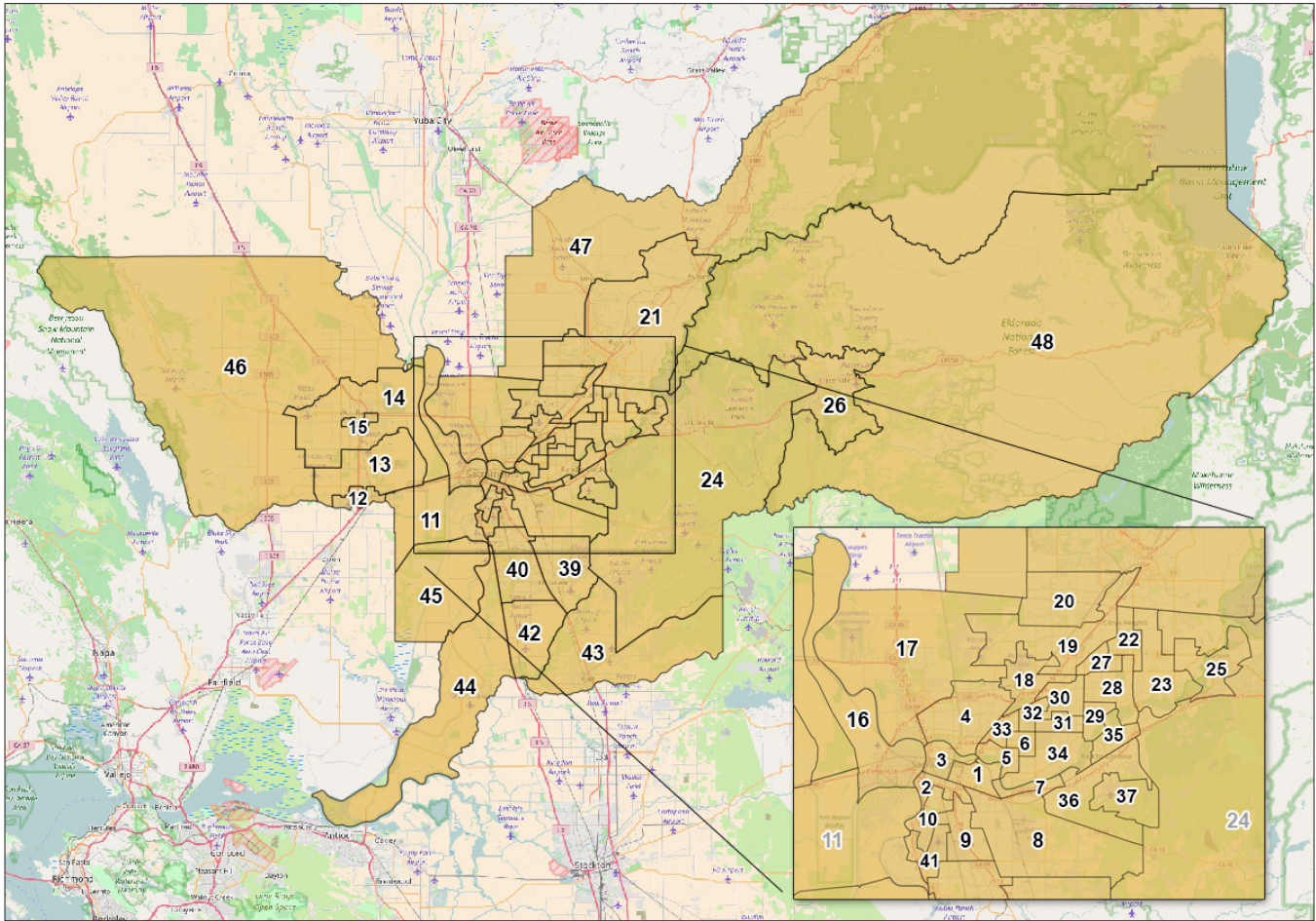
The newly completed property is located in the heart of Sacramento, near major thoroughfares such as Interstate 80 and Freeway 50.



NorCal Asset Trades for \$18M

Paradise Apartments in Chico changed hands for \$110,976 per unit. The Mogharebi Group worked on behalf of both parties in the transaction.

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.

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