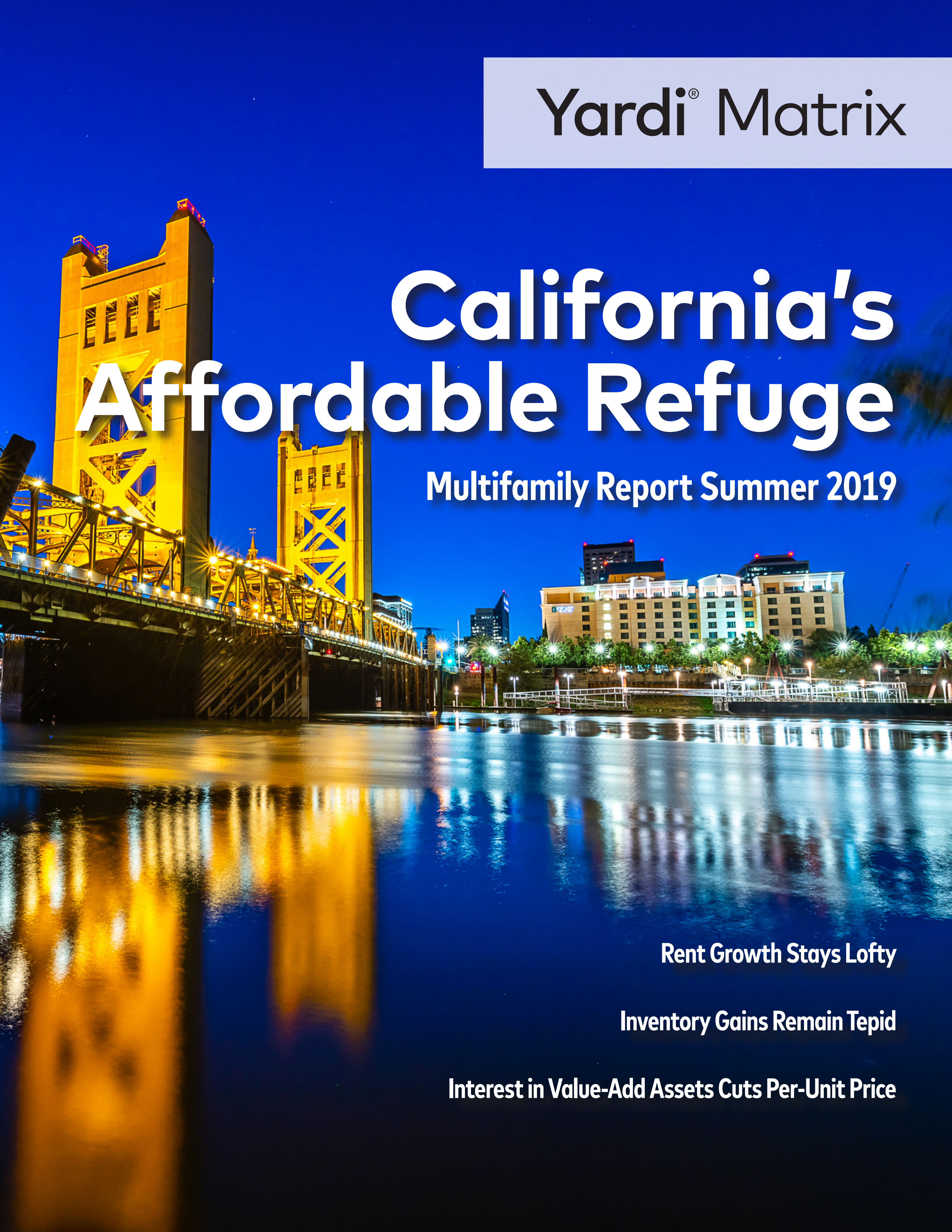
Yardi® Matrix

California's Affordable Refuge

Multifamily Report Summer 2019



Rent Growth Stays Lofty

Inventory Gains Remain Tepid

Interest in Value-Add Assets Cuts Per-Unit Price

Market Analysis

Summer 2019

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Rent Growth Derives From Thin Inventory

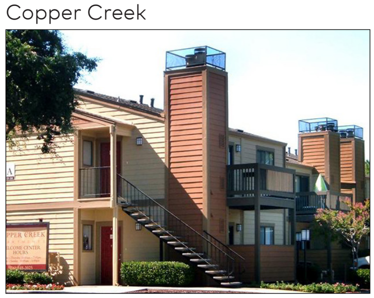
Sacramento is now largely a landlord's market due to limited inventory growth and the Bay Area's exodus. Pressured by a limited multifamily supply, the average rent in the metro rose 5.4% year-over-year through July to $1,524, posting the third-largest increase among major metros and outpacing the national rate by 200 basis points.

Employment growth in the metro moderated in the past 12 months but is still bettering the 1.7% national average by 80 basis points. Traditionally anchored by state government jobs, the Sacramento economy is slowly diversifying, with education and health services growing by 6,000 positions in the 12 months ending in June, followed by the mining, logging and construction sector, which added 3,000 jobs. Both are slated for sustained improvement in the foreseeable future, considering the various developments underway in the metro, including Centene's 68-acre campus in Natomas, the $520 million Natural Resources Building and the redevelopment of the Powerhouse Science Center.

Deliveries were scarce, totaling just 312 units by July. Transaction activity picked up pace in the second quarter, bringing the total investment value to $456 million, or an average per-unit price of $155,703. With less than 1,000 units projected for delivery in 2019, we expect rents to rise 3.8% by year-end.

Recent Sacramento Transactions

Copper Creek

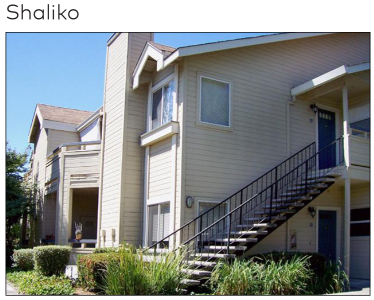


City: Sacramento, Calif.
Buyer: Bridge Partners
Purchase Price: $48 MM
Price per Unit: $179,104

Artisan Square

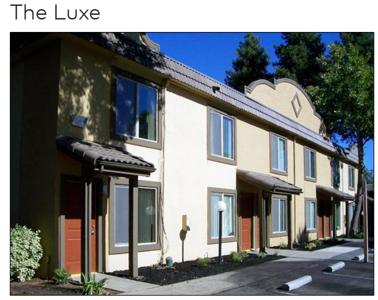
City: Sacramento, Calif.
Buyer: AHDC
Purchase Price: $37 MM
Price per Unit: $182,598

Shaliko



City: Rocklin, Calif.
Buyer: Sequoia Equities
Purchase Price: $37 MM
Price per Unit: $240,132

The Luxe

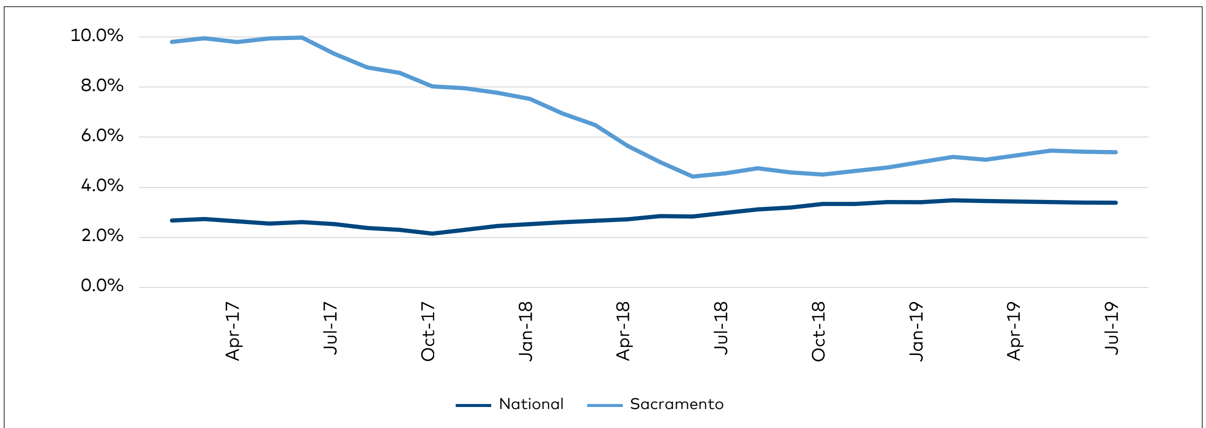


City: Sacramento, Calif.
Buyer: ColRich Multifamily
Purchase Price: $36 MM
Price per Unit: $164,773

Rent Trends

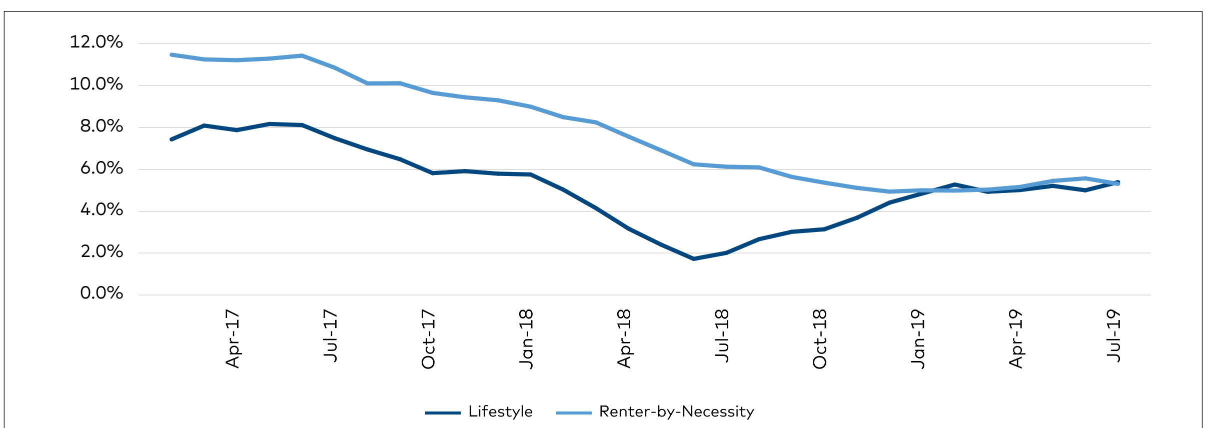
- Rents in Sacramento have hovered above the 5.0% mark since January, up by 5.4% year-over-year as of July, claiming the third position for rent growth among major metros. At $1,524, Sacramento's average rent is above the average national rent of $1,469, which rose 3.4% during the interval.
- The upscale Lifestyle segment led growth, but only by 10 basis points, yielding a 5.4% rent increase year-over-year, at $1,820 as of July. Renter-by-Necessity assets improved 5.3% year-over-year, reaching $1,369. The low spread between segments reflects both high demand for all asset classes and the tepid inventory growth in the metro.
- Rent rates contracted in two of Sacramento's submarkets, with both comprising mostly affordable housing communities—Placerville (-4.4% to $1,290) and Outlying El Dorado (-1.8% to $1,510). The highest gains were recorded in core submarkets. Arcade Village/Mission (up 10% to $1,228), Central Davis, which also posts the highest rents in the metro (up 9.3% to $2,212), and Elk Grove (up 9.1% to $1,660). In two other submarkets the average rent amount surpassed the $2,000 mark: In Midtown (up 1.2% to $2,183) and Greater Davis (up 5.4% to $2,167). The most affordable submarkets were in Galt (up 7.1% to $968), Mira Loma/Marconi (up 4.3% to $1,068) and Land Park (up 0.1% to $1,074). Considering the limited inventory expansion, we expect rents to rise by 3.8% by year-end.

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)

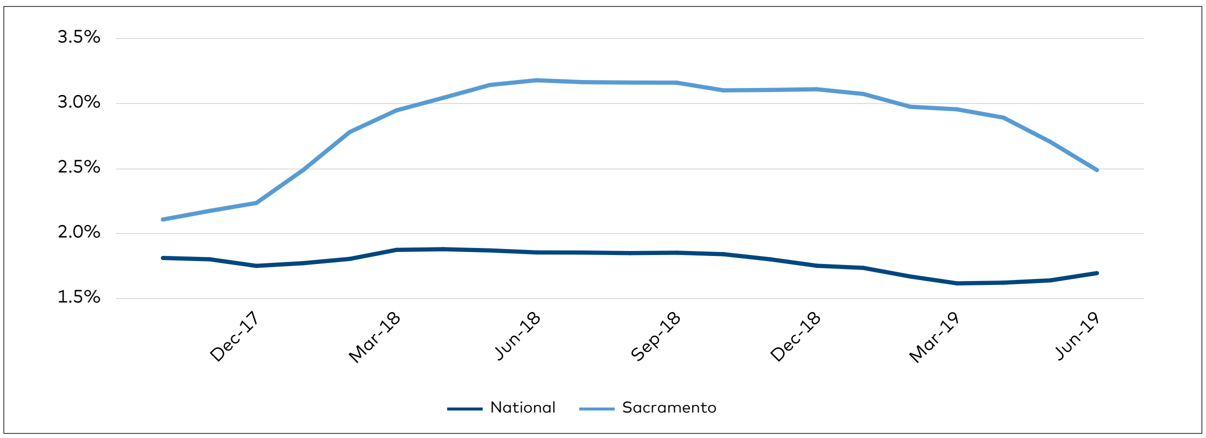


Source: YardiMatrix

Economic Snapshot

- Sacramento added 17,700 jobs in the 12 months ending in June, up 2.5% year-over-year, well above the 1.7% national growth rate. All sectors saw positive growth except information, which contracted by 300 positions. Unemployment dropped to 3.1% in May from 4.3% in January.
- Education and health services continued to lead growth, adding 6,000 positions. The sector will likely continue to expand, sustained by ongoing activity including Centene's 68-acre LEED-certified campus in Natomas, which will deliver the first phase in late summer 2020. Upon completion, the development will house 5,000 employees, of which 2,000 will be new hires.
- The mining, logging and construction sector added 3,000 jobs, boosted by various projects underway, such as the $520 million Natural Resources Building, which, at 20 stories high, will be the tallest building developed in the metro since 2009. Work is also ongoing at the Powerhouse Science Center, a $50 million public-private partnership slated for completion in 2021. However, the shortage of construction labor affecting California has had its effects in Sacramento, resulting in construction delays to an already limited rental pipeline.

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)

		Current Employment		Year Change	
Code	Employment Sector	(000)	% Share	Employment	%
65	Education and Health Services	164	16.0%	6,000	3.8%
15	Mining, Logging and Construction	69	6.7%	3,000	4.6%
40	Trade, Transportation and Utilities	161	15.7%	2,700	1.7%
70	Leisure and Hospitality	110	10.8%	2,700	2.5%
60	Professional and Business Services	138	13.5%	1,700	1.2%
30	Manufacturing	38	3.7%	1,300	3.6%
55	Financial Activities	54	5.3%	300	0.6%
90	Government	242	23.7%	300	0.1%
80	Other Services	35	3.4%	-	0.0%
50	Information	12	1.2%	-300	-2.4%

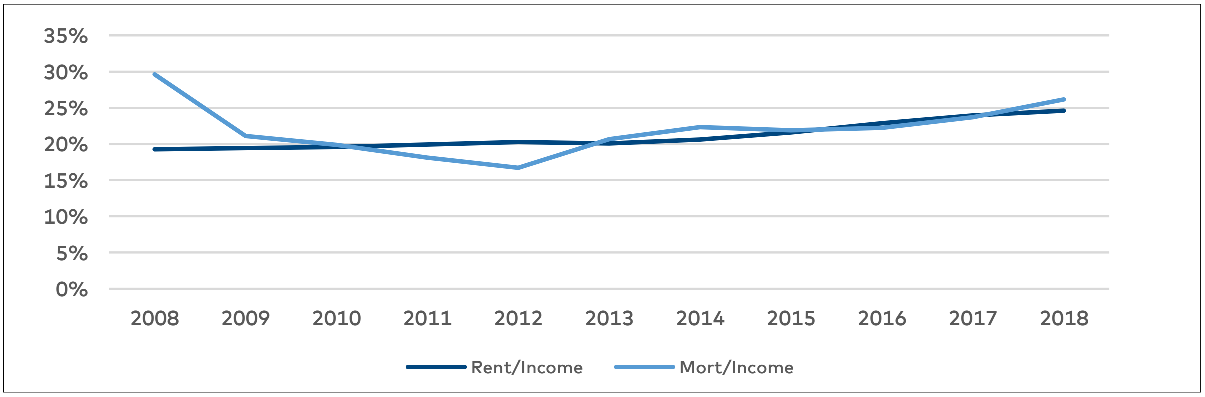
Sources: YardiMatrix, Bureau of Labor Statistics

Demographics

Affordability

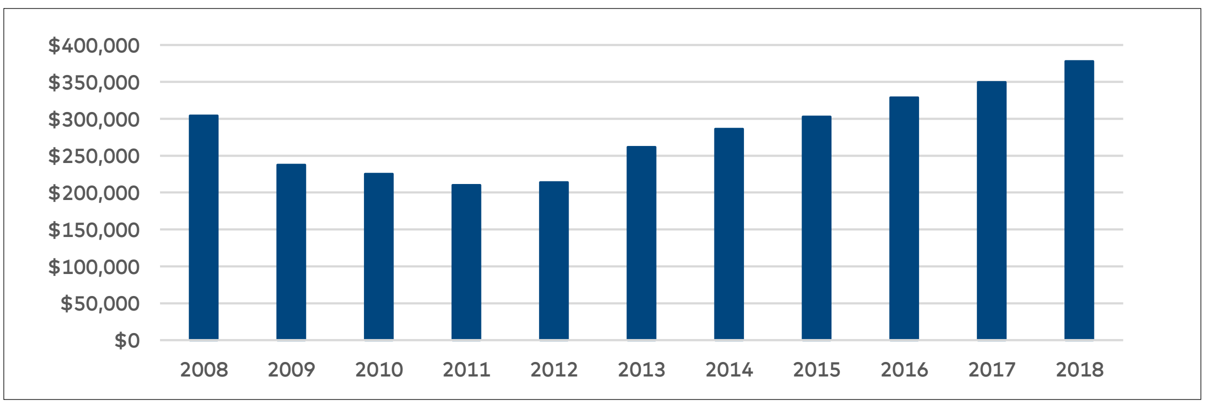
- The median home price in Sacramento rose 8.0% year-over-year in 2018 to $377,779, 24% higher than it was a decade ago. The peak resulted from the Bay Area residents relocating from an area struggling with affordability, as well as the capital's limited multifamily construction pipeline. This puts great pressure on homebuyers—the average mortgage payment encompasses 26% of incomes, while rents account for 25% of the median income.
- The corporate tax cuts passed in 2017 have delayed or terminated some 15,000 affordable housing units across the state. To compensate, a rent control measure will be voted in August.

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 29,651 residents in 2017, a 1.3% increase and nearly double the 0.7% national figure.
- California's capital is expected to continue expanding as residents relocate from neighboring San Francisco.

Sacramento vs. National Population

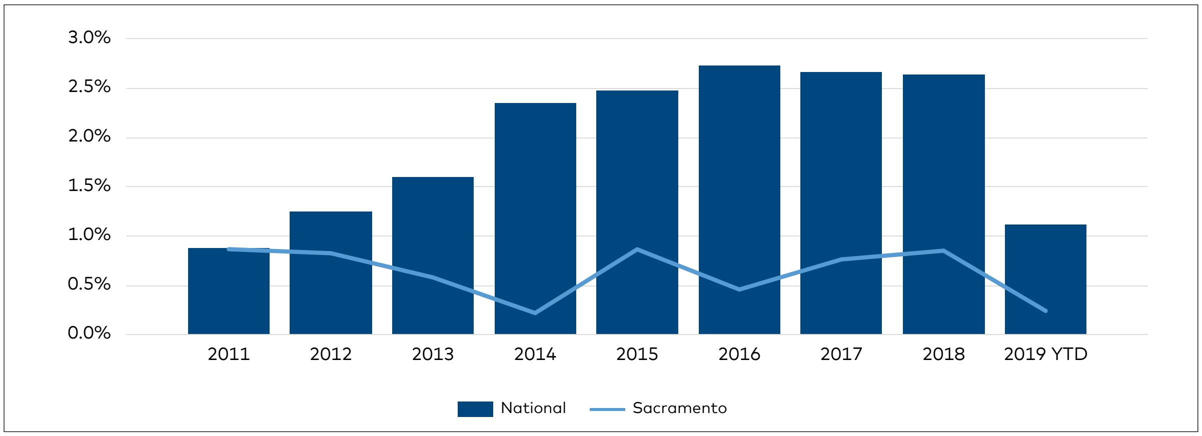
	2013	2014	2015	2016	2017
National	316,234,505	318,622,525	321,039,839	323,405,935	325,719,178
Sacramento Metro	2,213,564	2,239,455	2,266,892	2,295,233	2,324,884

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

Supply

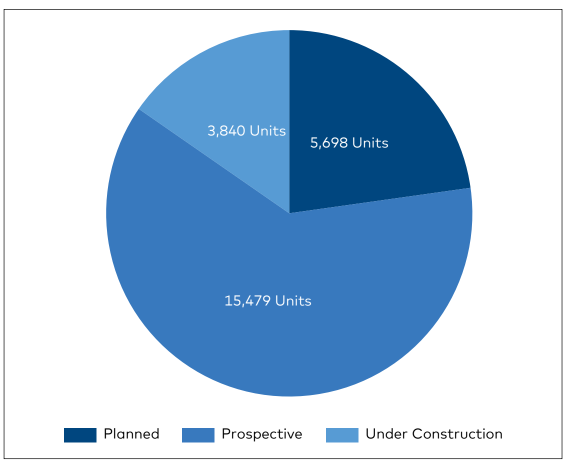
- Developers added three properties totaling 312 units across Sacramento by July, 0.2% of total stock and well below the 0.8% national average growth rate. Of these, one community is fully affordable and the other two cater to the Lifestyle segment. As a result, the average occupancy rate in stabilized properties inched up 10 basis points to 96.5% year-over-year through July.
- Despite steady demand, construction is tepid: There were 3,840 units underway in the metro as of July. The bulk of underway units are in core submarkets and designed for the upscale Lifestyle segment, with delivery dates extending into the first quarter of 2021. Of these, we expect some 987 units to be delivered by the end of the year. An additional 21,200 were in the planning and permitting stages.
- The Central Business District led construction activity with 840 units underway. The Greater Folsom/El Dorado Hills/Shingle Springs (620 units) and Central Folsom/South Orangevale (370 units) submarkets followed suit—both are in close proximity to Lake Tahoe. SKK Developments was the most active developer in the metro, with two projects—totaling 372 units—underway, both in the Central Business District.

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



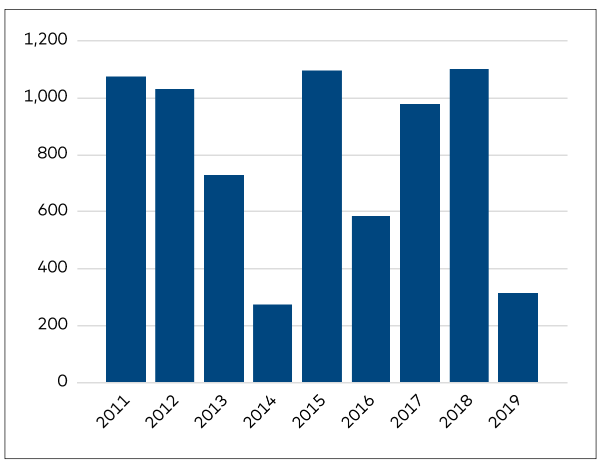
Source: YardiMatrix

Development Pipeline (as of July 2019)



Source: YardiMatrix

Sacramento Completions (as of July 2019)

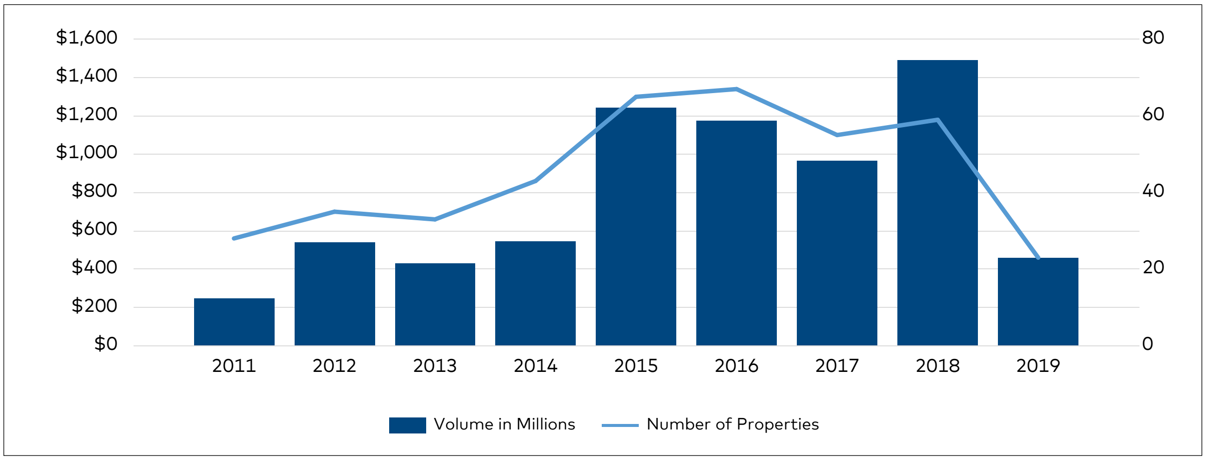


Source: YardiMatrix

Transactions

- Investment activity picked up in the second quarter of 2019. By July, 23 properties traded in the metro for a combined $456 million, a third of last year's total volume. Of the multifamily assets that were part of deals, 19 were Renter-by-Necessity communities, which lowered the average per-unit price by 9.9% to $155,703.
- While the price per unit for RBN assets rose 5% to $144,603, Lifestyle apartments traded for an average of $211,776, which is 10% below last year's figure, showcasing investor interest in value-add opportunities in the metro. Investment activity was highest along Interstate 5 and Highway 99, in Laguna West ($174 million) and Natomas ($114 million). The eastern part of Sacramento was also attractive to investors, with Arcade Village/Mission ($83 million), La Riviera ($82 million) and Central Citrus Heights ($80 million) rounding out the top five.

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



Source: YardiMatrix

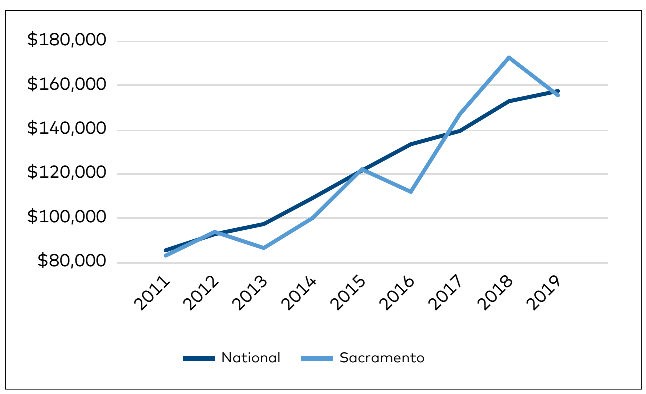
Top Submarkets for Transaction Volume[1]

Submarket	Volume ($MM)
Laguna West	174
Natomas	114
Arcade Village/Mission	83
La Riviera	82
Central Citrus Heights	80
Greater Davis	76
Encina/Ethan/Woodside	75
Pocket/West Greenhaven	67

Source: YardiMatrix

[1] From August 2018 to July 2019

Sacramento vs. National Sales Price per Unit



Source: YardiMatrix

News in the Metro

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JV Breaks Ground On Affordable Community

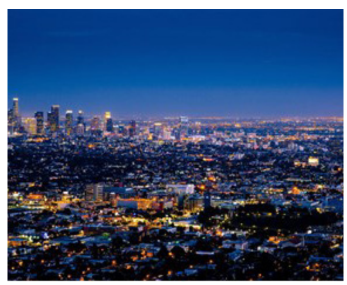
Two buildings totaling 65 units will serve veterans, low-income families and individuals with special needs in Roseville. The project is slated for completion in fall 2020.

Madison Marquette, GFH Financial Group Buy 6-Building Senior Housing Portfolio

The joint venture purchased properties located in California, Washington and Michigan totaling 509 units.

NKF Facilitates $36M Sacramento Sale

Managing Director Zachary LeBeouf and Senior Managing Director Anthony Pappageorge worked on behalf of the buyer. The transaction was a 1031 exchange.



California's Apartment Industry Eyes Wildfire Recovery Plan

As wildfire season approaches, state legislators are considering a comprehensive package.

Executive Insight

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The Key Factors Behind Sacramento's Growth

By Evelyn Jozsa

Substantial population and employment growth are the lifeblood of Sacramento's multifamily market, and as supply still lags demand, the metro is expected to continue flourishing in the foreseeable future.

Multi-Housing News reached out to Marc Ross, executive vice president of CBRE, to discuss the characteristics of the Sacramento multifamily market. Ross sheds light on the trends shaping the metro and reveals the most promising submarkets for investment.

How would you describe the current landscape of the Sacramento multifamily market?

The Sacramento multifamily market has been on fire for the past few years, and fundamentals remain healthy. While activity has moderated slightly, the region remains one of the top three markets nationally in terms of rent growth after having held the number one spot for the past several years. We are still seeing healthy rent growth across all submarkets and asset classes.

What sets Sacramento's multifamily market apart from other West Coast markets?

Sacramento remains a relatively affordable market despite its population growth—the city had the largest percentage gain in population (1.5 percent or 7,400 residents added, as of January 2019) of the ten largest cities in California, according to California's Department of Finance. The region is a late cycling market and recovered from the last recession much later than the rest of the

nation. Because of this, some other markets have oversupply issues, but Sacramento's multifamily demand still outstrips supply, signaling healthy rent growth for the foreseeable future.

The development pipeline consists mostly of lifestyle properties and rents continue to rise. How will this impact the market?

Lifestyle properties are largely what developers are focused on today as it's the only profile with rents that can justify the costs of new construction. Because the region's supply pipeline is modest at the moment, we don't expect the market to slow down in the near future.

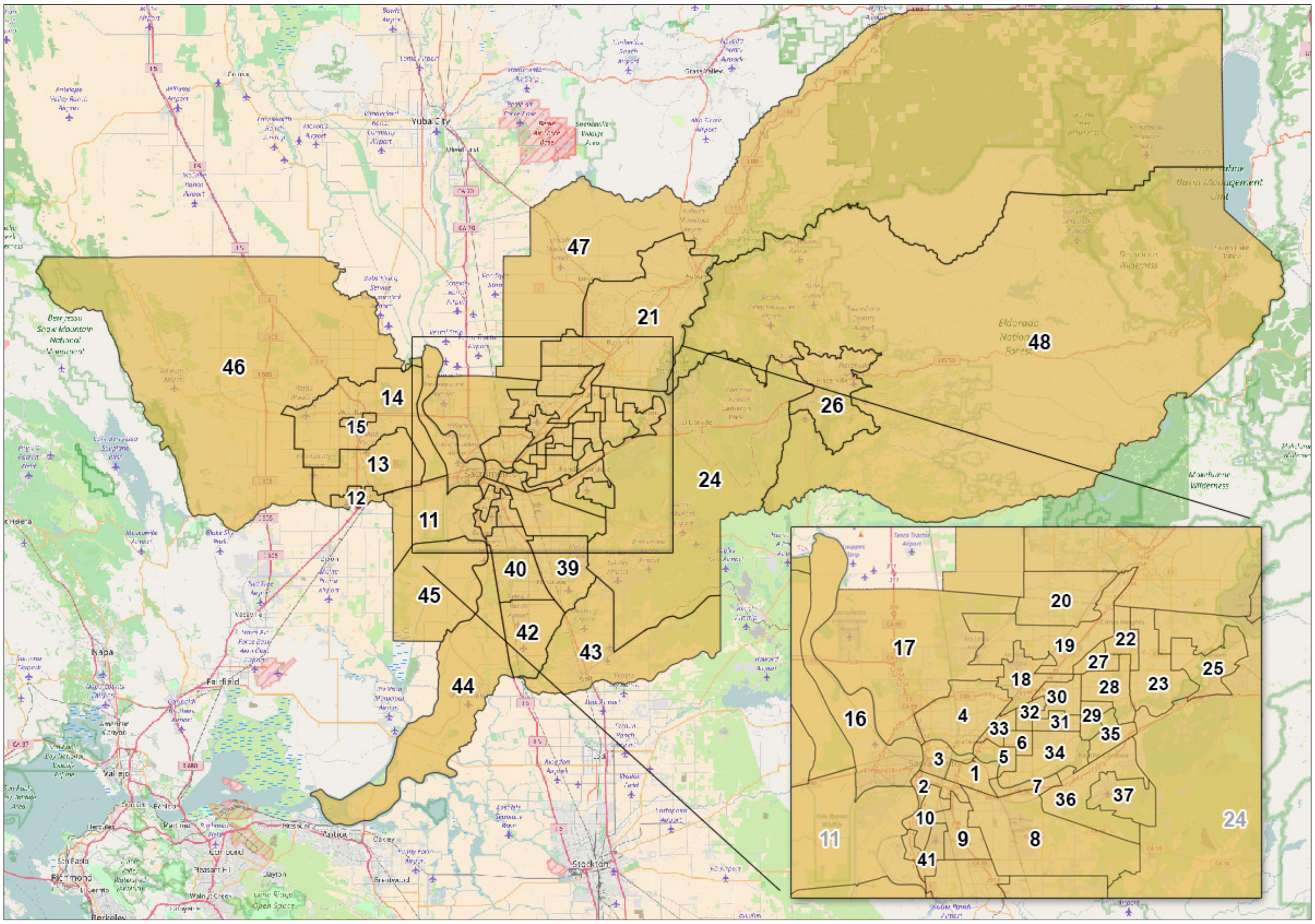
Which submarket do you see as the most promising for investment opportunities and why?

Sacramento's urban core, which includes the downtown and midtown submarkets, is home to just over a handful of great developments underway. Some of these new developments are coming online this year, but most are set to deliver in 2020.

Many new restaurants and other cultural attractions are changing the face of Sacramento's downtown, including the recently built Golden 1 Center and Downtown Commons. And now with the nation's largest infill development, the Railyards, which is directly north of downtown, this urban core area will grow significantly.

(Read the complete interview on multihousingnews.com.)

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
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 Orangeval
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
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 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 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.