

Yardi® Matrix

MULTIFAMILY REPORT

Sacramento Shows Potential

Winter 2020



Rent Gains Remains Above US Average

Education, Health Services Lead Job Growth

Healthy Demographics Boost Demand

Yardi® Matrix

Low Supply Keeps Rent Growth Steady

The market that has long been considered California's overlooked middle child has been enjoying more attention in recent quarters. In the context of ongoing low supply, the aftershock of the Bay Area's tech boom is still strongly felt in Sacramento's multifamily sector, where the average rent rose 5.3% year-over-year through November, outpacing the national rate of growth by 220 basis points. That ranked Sacramento third across all major U.S. metros, following Phoenix (7.5%) and Las Vegas (6.0%).

Employment growth moderated, with the expansion rate at 1.8% year-over-year through September, on par with the national average. The state capital gained 18,500 jobs, with education and health services (6,200 positions) in the lead, followed by the mining, logging and construction sector, which added 5,700 jobs. Accounting for expansions of health-care companies and a handful of major projects under development, both sectors are likely to continue expanding, slowly diversifying the city's government-centric workforce. The government sector, in fact, lost 900 positions in the 12 months ending in September.

Deliveries remained tepid, with only 629 units coming online in 2019 through November. Meanwhile, more than \$900 million in multifamily assets traded last year through October, as investors continued to mainly target value-add plays in the absence of significant newer stock.

Market Analysis | Winter 2020

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Recent Sacramento Transactions

Miramonte/Trovas



City: Sacramento, Calif.
Buyer: Jackson Square Properties
Purchase Price: \$104MM
Price per Unit: \$236,364

Shore Park at Riverlake



City: Sacramento, Calif.
Buyer: Sequoia Equities
Purchase Price: \$97 MM
Price per Unit: \$247,328

The Creek at 2645



City: Sacramento, Calif.
Buyer: Bridge Investment Group
Purchase Price: \$72 MM
Price per Unit: \$195,652

Natomas Park

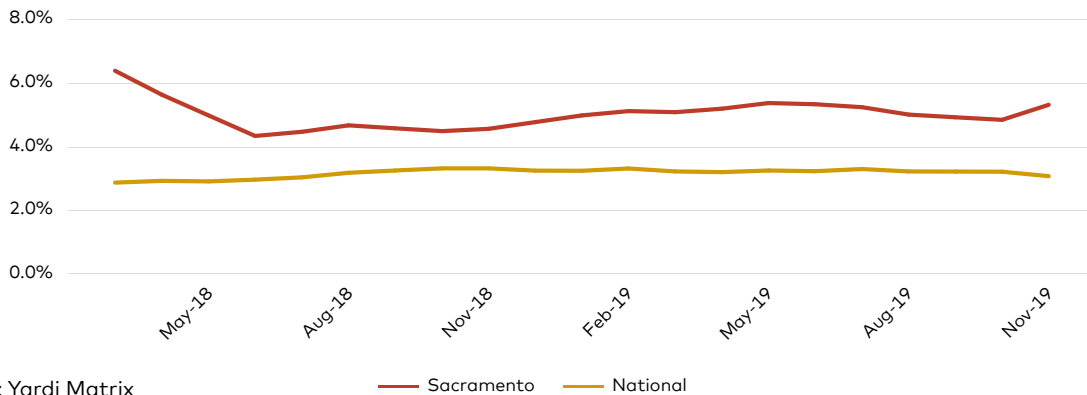


City: Sacramento, Calif.
Buyer: Jackson Square Properties
Purchase Price: \$37 MM
Price per Unit: \$174,528

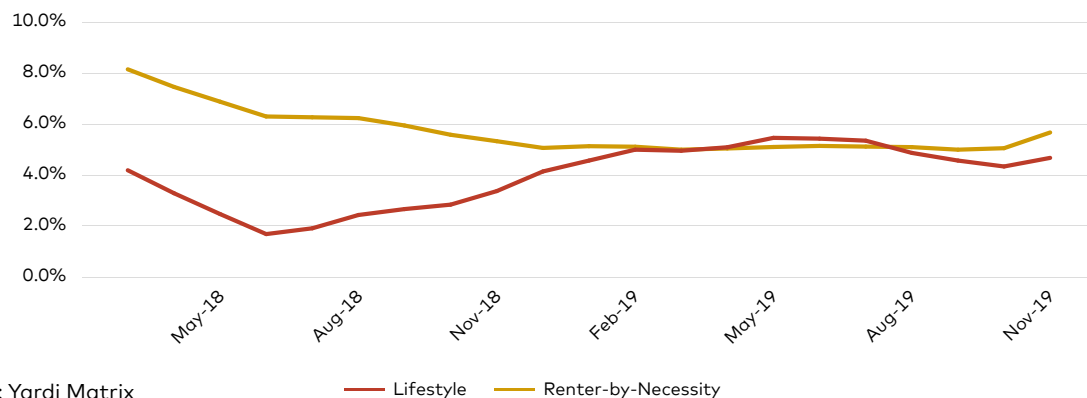
RENT TRENDS

- Sacramento rents rose 5.3% year-over-year through November, 220 basis points above the national figure and remaining in the third spot nationwide, after Phoenix (7.5%) and Las Vegas (6.0%). The average rent reached \$1,543, above the \$1,473 national average.
- Demand remained high across the board, leading to continued strong gains. Rents in the working-class Renter-by-Necessity segment led growth, up 5.7% year-over-year through November to \$1,377. Meanwhile, Lifestyle rates were up 4.9% to \$1,854.
- Sacramento's occupancy rate in stabilized properties slid 10 basis points to 96.1% in the 12 months ending in October, but remained well above the 95.0% national average. The metro's 10-basis-point drop was caused by the rate for RBN properties, which slid 20 basis points to 96.4%, while the Lifestyle rate remained flat at 95.5%.
- The metro's predominantly workforce submarkets registered some of the largest spikes, including East Greenhaven/South Land Park (10.0% to \$1,480), Arden Manor/Sierra Oaks Vista (10.0% to \$1,380) and Northeast Carmichael/West Fair Oaks (9.3% to \$1,343). Meanwhile, three submarkets posted average rates above the \$2,000 threshold as of November: Midtown (8.0% to \$2,280), Central Davis (8.5% to \$2,208) and Greater Davis (5.7% to \$2,164).

Sacramento vs. National Rent Growth (Sequential 3 Month, Year-Over-Year)



Sacramento Rent Growth by Asset Class (Sequential 3 Month, Year-Over-Year)



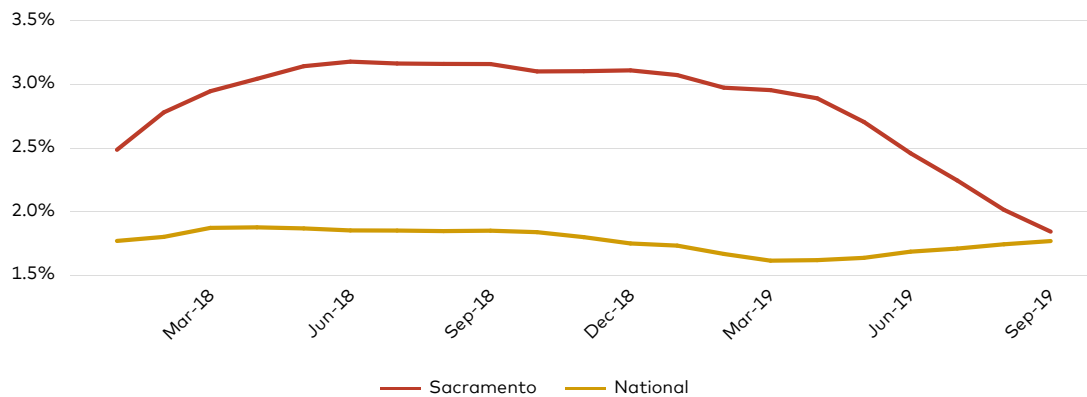
ECONOMIC SNAPSHOT

- Sacramento gained 18,500 jobs in the 12 months ending in September for a 1.8% expansion, on par with the national figure but down 140 basis points from just one year ago. Although faring better than a number of major metros, Sacramento's employment expansion has not been this low since 2012. Even so, the unemployment rate stood at 3.0% as of September, 50 basis points below the national figure.
- Education and health services remained the top sector, gaining 6,200 jobs. Expansions of large health-care companies will likely maintain this trend. Kaiser Permanente has a 210,000-square-foot project underway in Roseville, slated to generate up to 550 jobs. Sutter Health, one of

the region's largest employers, has acquired a 14-acre property next to its headquarters in Natomas; once the building is renovated, the expanded campus will house about 700 employees.

- With several major projects under development, the construction sector gained 5,700 jobs for an 8.4% expansion. California's Department of General Services is working on its \$274 million O Street office building, set to become the country's first large-scale urban Zero-Net Energy/ LEED Platinum-certified project. Construction is also underway at the \$520 million P Street development—the new headquarters for the State of California Natural Resources Agency—slated to come online in 2021.

Sacramento vs. National Employment Growth (Year-Over-Year)



Sources: Yardi Matrix, 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	167	16.4%	6,200	3.9%
15	Mining, Logging and Construction	74	7.3%	5,700	8.4%
70	Leisure and Hospitality	108	10.6%	2,500	2.4%
60	Professional and Business Services	138	13.5%	1,500	1.1%
40	Trade, Transportation and Utilities	162	15.9%	1,500	0.9%
30	Manufacturing	38	3.7%	1,400	3.8%
55	Financial Activities	54	5.3%	800	1.5%
80	Other Services	35	3.4%	400	1.2%
50	Information	12	1.2%	-600	-4.9%
90	Government	232	22.8%	-900	-0.4%

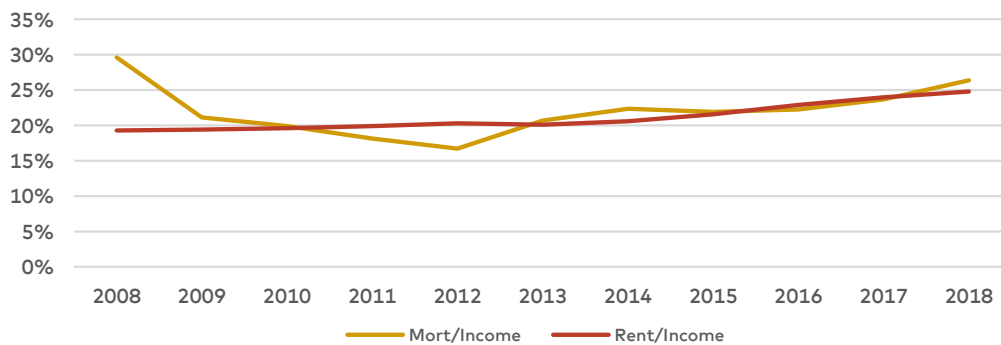
Sources: Yardi Matrix, Bureau of Labor Statistics

DEMOGRAPHICS

Affordability

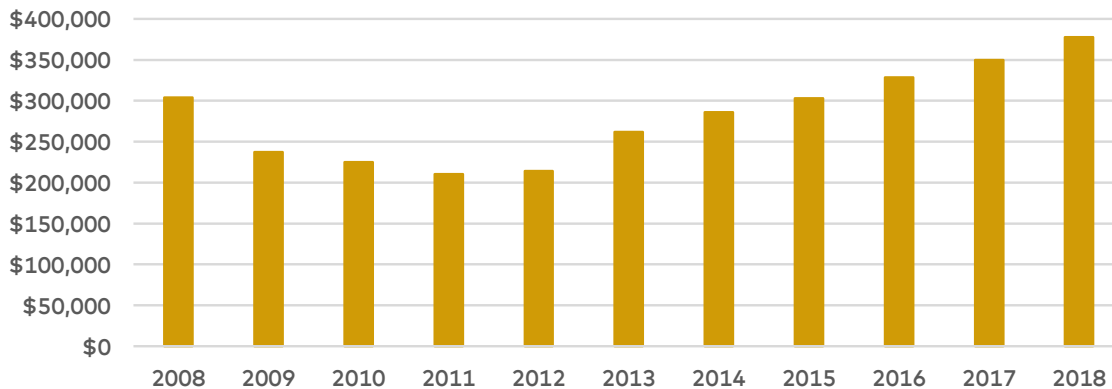
- Sacramento's median home price reached \$377,796 in 2018, up 8.0% in one year and a whopping 80.0% from the 2011 trough. Even so, the state capital remained much more affordable than other major California metros. For comparison, Silicon Valley's median home price has surpassed the \$1 million threshold, while the San Francisco area stood at \$948,919.
- As of 2018, renting and owning accounted for 25% and 26% of the area median income, respectively. Sacramento's very slow pipeline is adding to the area's housing issues: In 2019 through November, only 58 units in one fully affordable property came online and an additional 232 such units were underway.

Sacramento Rent vs. Own Affordability as a Percentage of Income



Sources: Yardi Matrix, Moody's Analytics

Sacramento Median Home Price



Source: Moody's Analytics

Population

- Sacramento gained 24,829 residents in 2018, a 1.1% expansion and nearly double the 0.6% national figure.
- The metro's demographic expansion is mostly boosted by domestic net migration.

Sacramento vs. National Population

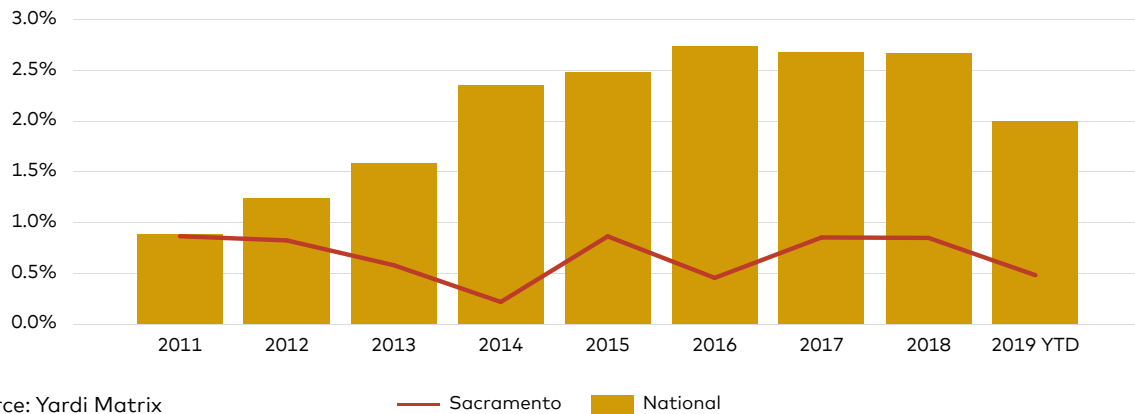
	2015	2016	2017	2018
National	320,742,673	323,071,342	325,147,121	327,167,434
Sacramento Metro	2,749,827	2,807,211	2,851,848	2,888,227

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

SUPPLY

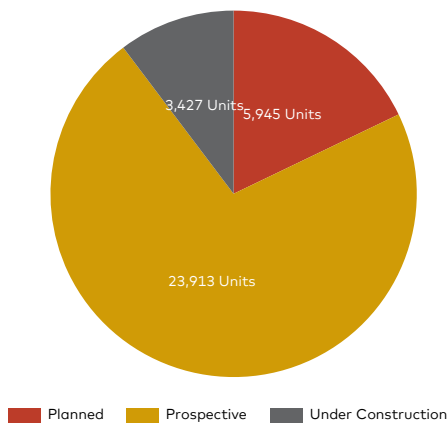
- Continuing its tepid construction pace, Sacramento had 3,427 units underway as of November 2019. Developers brought only 629 units online across the metro in 2019 through November. That accounted for 0.5% of total stock, a quarter of the national average. Of the five properties delivered during that period, only one was fully affordable, while the remaining four catered to Lifestyle renters.
- Metro Sacramento's slow multifamily pipeline has been apparent for the better part of this cycle. The metro added roughly 5,900 units between 2012 and 2018, with the current five-year average still below 1,000 units per year. The metro's lagging supply is mostly related to high construction costs and restrictive regulations.
- The Greater Folsom/El Dorado Hills/Shingle Springs submarket led construction activity as of November with 834 units underway. The Central Business District followed with 717 units across five projects. The largest community under construction in the CBD was SKK Developments' The Press at Midtown Quarter, a 277-unit ground-up development located at the corner of 21st and Q streets. The property, which broke ground in the third quarter of 2018, is situated at the former location of the *Sacramento Bee* parking facility.

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



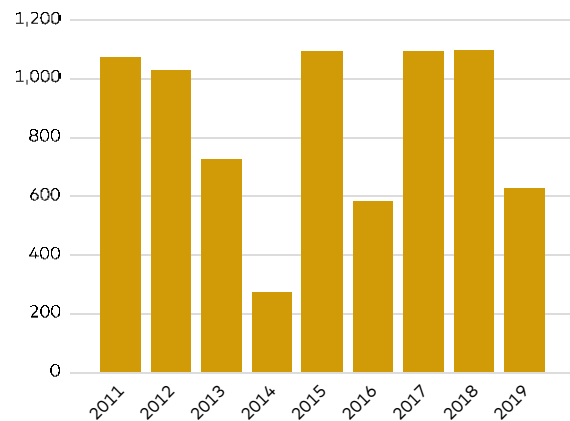
Source: Yardi Matrix

Development Pipeline (as of November 2019)



Source: Yardi Matrix

Sacramento Completions (as of November 2019)

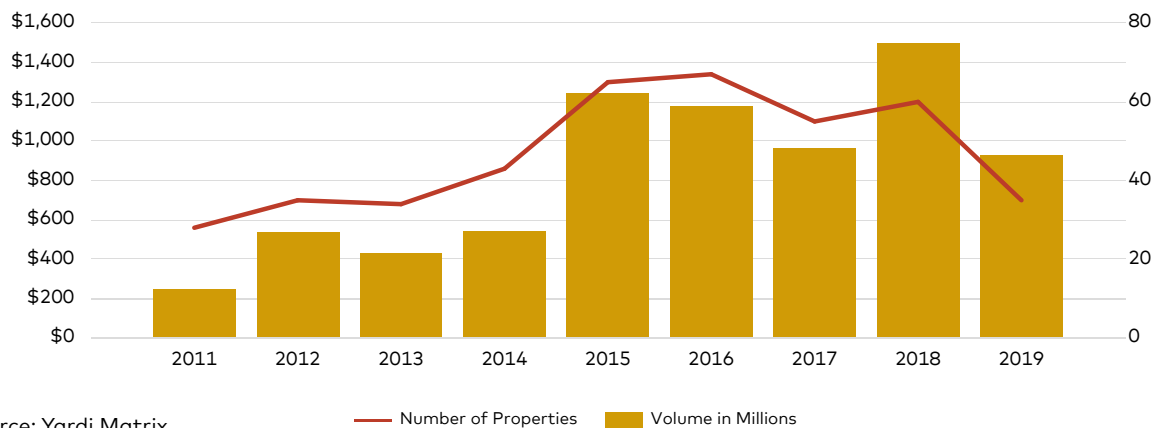


Source: Yardi Matrix

TRANSACTIONS

- Appetite for Sacramento multifamily properties remained relatively high, especially for value-add plays, with \$928 million in assets changing ownership in 2019 through October.
- Three-quarters of the communities traded last year through October were Renter-by-Necessity assets, going for an average per-unit price of \$148,260, up 8.6% over the 2018 figure. The overall average price per unit, however, remained almost flat, up just 0.8% to \$172,734. This was due to a decline at the high end of the quality spectrum: Lifestyle properties traded at an average per-unit price of \$217,554, down 19% over 2018.
- Jackson Square Properties and Sequoia Equities were two of the biggest investors in Sacramento last year, each acquiring two assets and spending \$141 million and \$134 million, respectively.

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



Source: Yardi Matrix

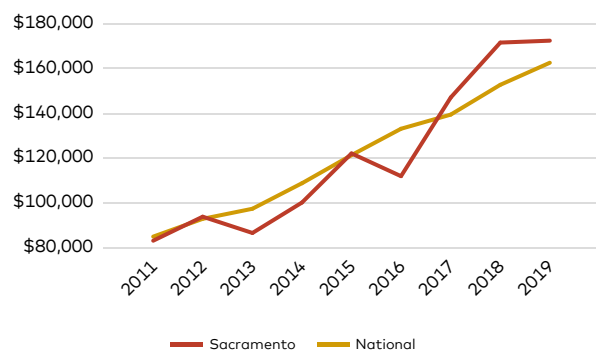
Top Submarkets for Transaction Volume¹

Submarket	Volume (\$MM)
Laguna West	183
Natomas	141
Pocket/West Greenhaven	124
North Sacramento	90
South Rancho Cordova/Rosemont	86
Central Citrus Heights	80
Greater Davis	76
Encina/Ethan/Woodside	66

Source: Yardi Matrix

¹ From November 2018 to October 2019

Sacramento vs. National Sales Price per Unit



Source: Yardi Matrix



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OpenPath Investments Expands Portfolio

The company financed the acquisition of a 104-unit asset through a \$15.5 million loan.



Regency Apartments Commands \$16M

The 130-unit community traded to a Bay Area-based private investor. The acquisition was financed with nearly \$13 million.



Aegon's Opportunity Zone Platform

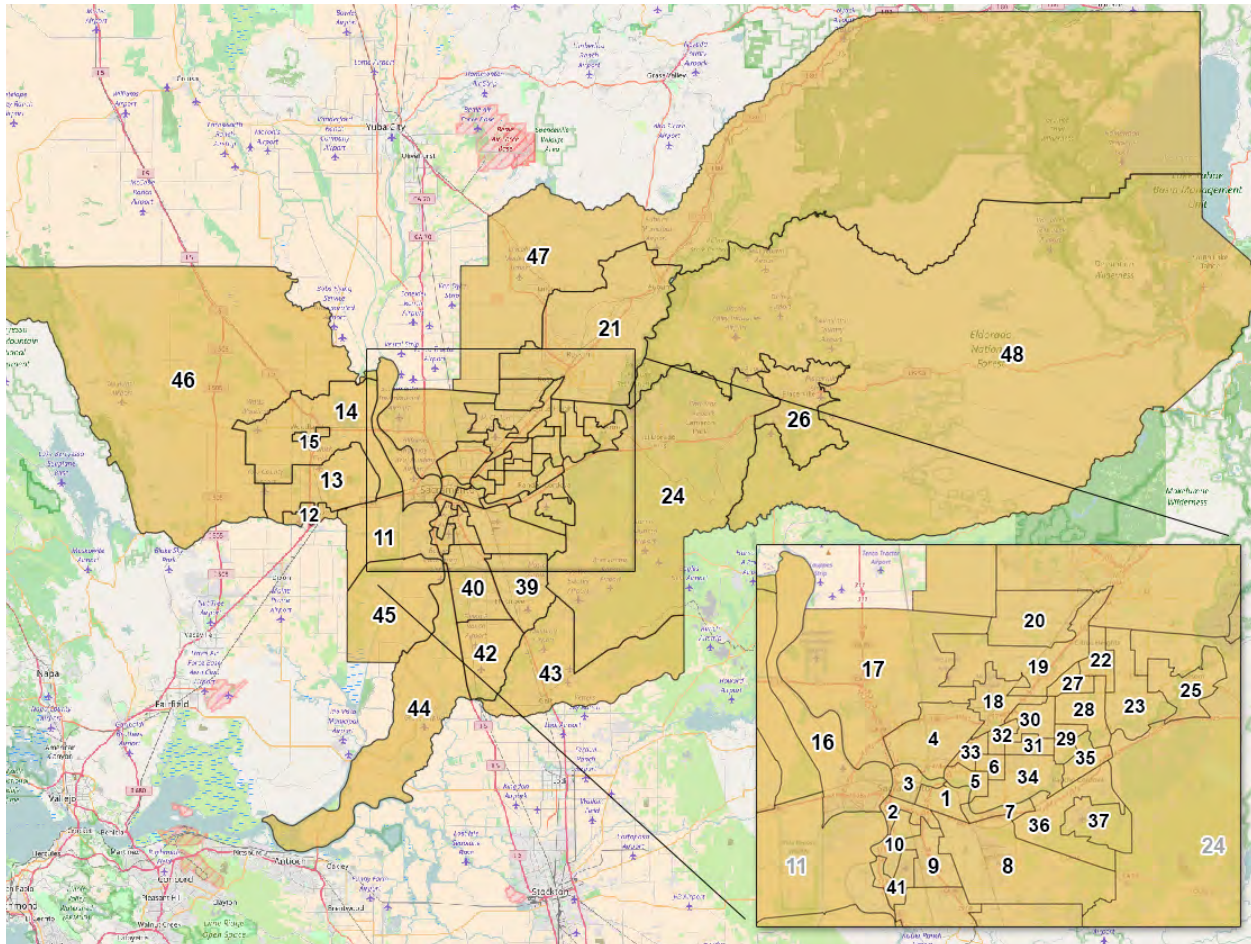
The firm formed a joint venture with a subsidiary of Kemper Corp. to develop a \$60 million project.



Pathfinder Partners Buys Rental Complex

The 170-unit Rosemont Park, situated 10 miles east of downtown, traded for \$28.8 million.

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 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

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 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.

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