

MARKET REPORT

MULTIFAMILY

Sacramento Metro Area

IPA
INSTITUTIONAL
PROPERTY
ADVISORS

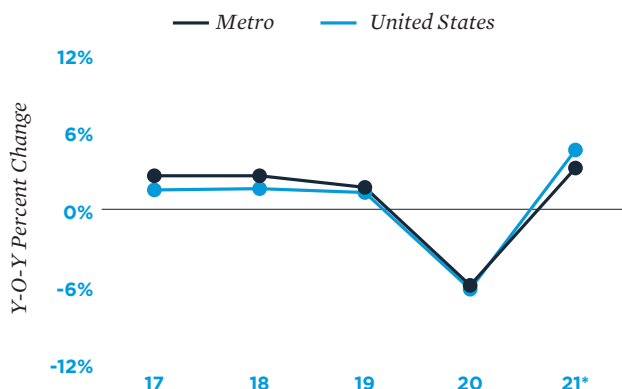
3Q/21

Sacramento Registering Record Rent Growth; Construction Coming to Downtown in 2022

Most parts of Sacramento experiencing strong renter demand. Despite the ongoing health crisis, apartment fundamentals are steadily advancing across the market. Vacancy in June was at its lowest level in nearly two decades, fostering record annual rent growth of nearly 13 percent. As more jobs are added back, especially in the hard-hit leisure and hospitality sector, new households are forming. This is driving demand in some of Sacramento's more affordable submarkets, including North Sacramento-North Highlands. Households not tied to daily commutes are looking in Roseville-Rocklin as well as the Folsom-Orangevale-Fair Oaks area, which includes part of Lake Tahoe. Davis, where the university closure prompted students to not renew leases, stands out as the main pocket of weakness. An anticipated return to full capacity in-person classes this fall should help improve fundamentals.

Upcoming supply may weigh on CBD in 2022. Sacramento's central business district observed a drawback in rental demand last year, although not as severe as in some other markets. Apartment absorption picked up in the second quarter as businesses reopened. Vacancy contracted 90 basis points between March and June, while the average rent grew by 3.2 percent. Fundamentals were aided by a dearth of completions; less than 50 units have been delivered through the first half of 2021. That dynamic will change beginning next year, however, with over 2,100 rentals due to arrive in the core by mid-2023.

Employment Trends



* Forecast

Sources: BLS; CoStar Group, Inc.; RealPage, Inc.

Multifamily 2021 Outlook



**31,000
JOBS**

will be created

EMPLOYMENT:

Sacramento employers have hired 16,900 personnel through the first half of the year, setting the stage for a 3.2 percent rate of job growth in 2021. Last year the metro's employment base contracted 5.9 percent, slightly below the national measure of 6.2 percent.



**1,400
UNITS**

will be completed

CONSTRUCTION:

Total apartment deliveries for this year will fall just short of the 1,474 units opened in 2020. The scheduled arrivals will expand overall market inventory by a modest 0.9 percent, with most completions slated for Natomas and Roseville-Rocklin.



**20
BASIS POINT**

decrease in vacancy

VACANCY:

Counter to the national trend, apartment vacancy contracted last year, dropping below the 3 percent threshold for the first time since 2002. Operations will build on that downward movement in 2021, with vacancy dipping to 2.4 percent.



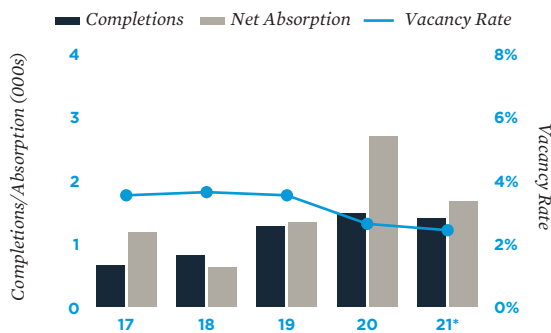
**9.6%
INCREASE**

in effective rent

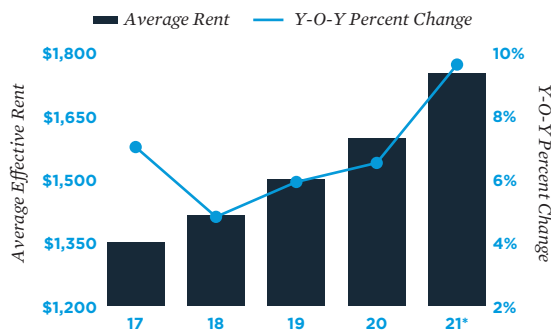
RENT:

Historically limited availability will propel Sacramento rents up by their widest margin in five years in 2021. The average effective rate will climb to \$1,750 per month. Even then, the measure still trails nearby Bay Area rents by \$500 to \$1,000 on average.

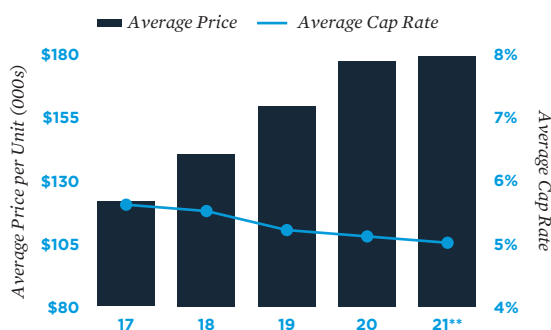
Supply and Demand



Rent Trends



Sales Trends



* Forecast; ** Through 2Q

Sources: CoStar Group, Inc.; Real Capital Analytics; RealPage, Inc.

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Price: \$250

2Q21 – 12-Month Period

CONSTRUCTION 1,069 units completed

- The pace of development slowed down over the 12-month period ending in June as approximately 700 fewer rentals were delivered than over the prior annual span.
- Natomas led all other submarkets in construction activity with the completion of 480 rentals, a 3.8 percent increase to local supply.

VACANCY 110 basis point decrease in vacancy Y-O-Y

- Vacancy contracted across all three rental tiers over the past four quarters, led by a 190-basis-point drop in the Class B rate to 1.9 percent.
- North Sacramento-North Highlands had the lowest vacancy rate at 1.3 percent, while availability fell the most, 310 basis points to 2.3 percent, in Folsom-Orangevale-Fair Oaks.

RENT 12.8% increase in the average effective rent Y-O-Y

- The market's average effective rent climbed by a double-digit margin over the past year ending in June to \$1,708 per month, led by growth rates of over 15 percent in the northeastern quadrant of the metro.
- Monthly rents advanced the most for Class A units, up 10.8 percent, followed by gains of 8.5 percent and 7.2 percent for Class B and C rentals.

Investment Highlights

- Although still below pre-pandemic levels, transaction velocity for the first half of 2021 was up about 40 percent versus the second half of 2020. Buyer competition contributed to a 7 percent increase in the average sale price year over year in June to \$178,700 per unit. That gain is nevertheless about half the annual jump seen over the past five years, as the investor pool in the market has expanded substantially since 2014. The average cap rate has compressed markedly in that time, down about 220 basis points to 5 percent as of the second quarter of 2021.
- Investor activity in El Dorado County tripled over the past year, likely due to changing demographics. Working remotely, many Bay Area employees relocated to Lake Tahoe last year, drawing buyers' attention to the city of South Lake Tahoe. Sub-30-unit properties changed hands in the area for initial yields in the low-5 percent to mid-6 percent range.
- Despite disruptions to renter demand, Central Sacramento continued to lead trading activity over the past four quarters. Entry costs can exceed \$200,000 per unit, with cap rates under 5 percent. Interested buyers are generally local to the market.

The information contained in this report was obtained from sources deemed to be reliable. Every effort was made to obtain accurate and complete information; however, no representation, warranty or guarantee, express or implied, may be made as to the accuracy or reliability of the information contained herein. Note: Metro-level employment growth is calculated based on the last month of the quarter/year. Sales data includes transactions sold for \$1 million or greater unless otherwise noted. This is not intended to be a forecast of future events and this is not a guaranty regarding a future event. This is not intended to provide specific investment advice and should not be considered as investment advice. Sources: IPA Research Services; Bureau of Labor Statistics; CoStar Group, Inc.; Real Capital Analytics; RealPage, Inc.

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