

MARKET REPORT

Multifamily

Sacramento Metro Area

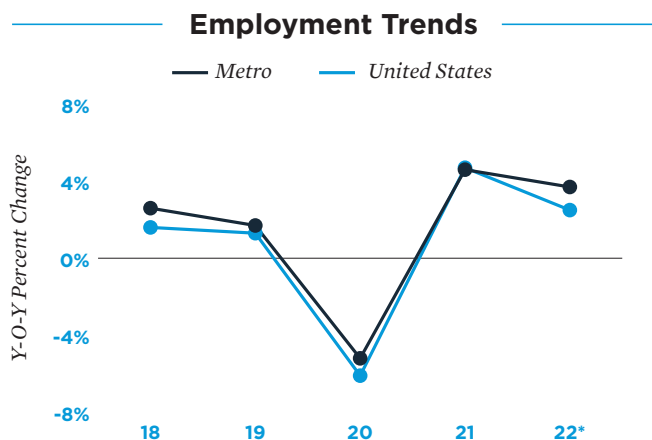
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ADVISORS

2Q/22

Class B and C Vacancy Among Lowest Nationally; Inventory Growth Awaits CBD

First-ring suburbs reflect market strength. Demand for lower cost apartments is historically strong in Sacramento entering the second quarter. All five submarkets with an average effective rent of \$1,500 to \$1,800 per month are home to sub-2 percent vacancy, following compression of 20 to 140 basis points over the past 12 months ending this March. The metro's above-average number of service and retail trade-related jobs relative to the total employment base is one driving factor behind rental demand in these locales, which feature sizable inventories of Class B and C complexes. Across Arden-Arcade, Carmichael, Citrus Heights, Rancho Cordova-East Sacramento and Woodland-West Sacramento, just 350 units are slated for delivery this year, suggesting tight conditions will remain in the coming quarters.

Urban projects highlight supply additions. A prolonged stretch of tight vacancy gives way to the largest annual delivery volume this century; however, most submarkets will be minimally impacted by the rise in completions. Instead, nearly half of the units finalized will be in Central Sacramento, where vacancy compressed 20 basis points over the past 12 months. While demand has improved in the CBD, these units will place near-term pressure on local vacancy and potentially increase concession usage. Elsewhere, no submarket adds more than 300 units this year, including South Sacramento and Roseville-Rocklin, which account for one-fourth of the metro's apartment stock.



* Forecast

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

Multifamily 2022 Outlook



**37,500
JOBS**

will be created

EMPLOYMENT:

Following the addition of nearly 45,000 positions last year, Sacramento employers expand the metro's job count by 3.7 percent during 2022. This annual rate of employment growth exceeds the national increase by more than 1 percent.



**3,000
UNITS**

will be completed

CONSTRUCTION:

Delivery volume rises by more than 1,000 units on an annual basis, increasing apartment stock by 2 percent. Projects in the city of Sacramento account for more than two-thirds of this year's completions, underscored by a collection of larger properties.



**40
BASIS POINT**

increase in vacancy

VACANCY:

Renters absorb more than 2,000 units for a third straight year; however, availability rises moderately amid a rise in supply additions. Still, Sacramento remains the tightest market in Northern California, with a year-end vacancy rate of 2.3 percent.



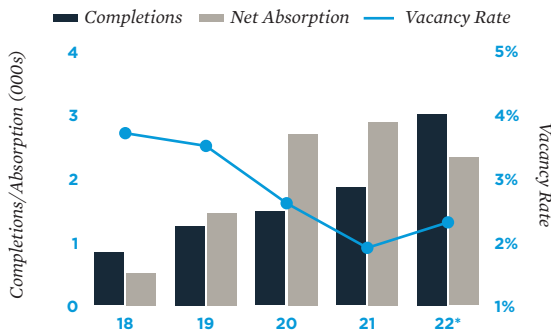
**9.2%
INCREASE**

in effective rent

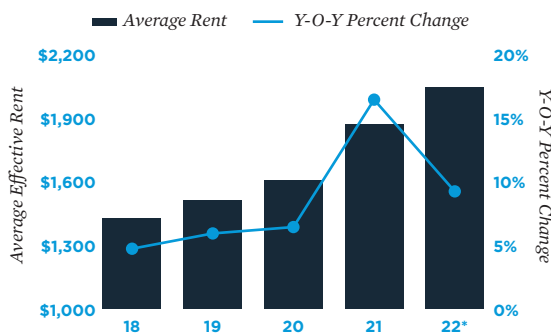
RENT:

Tight conditions support a second consecutive year of historically above-average rent growth that elevates the metro's mean effective rate to \$2,043 per month. This year-end figure is still at least \$180 below all other major California markets.

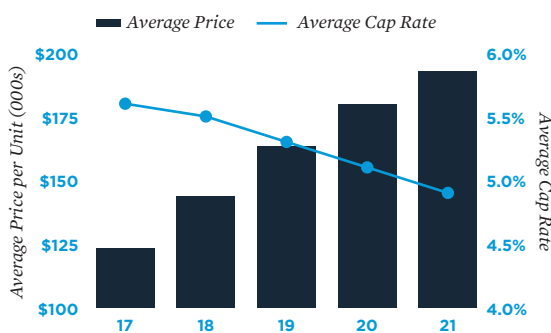
Supply and Demand



Rent Trends



Sales Trends



* Forecast

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

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Price: \$250

1Q 2022 - 12-Month Period

CONSTRUCTION

1,965 units completed

- Inventory grew by 1.3 percent over the past 12 months, with Woodland-West Sacramento adding the most units among submarkets.
- Nearly 70 percent of the metro's active pipeline is comprised of projects in the city of Sacramento, with an additional 700 apartments being built in Yolo County.

VACANCY

50 basis point decrease in vacancy Y-O-Y

- Renters absorbed 2,680 units over the past yearlong span, lowering vacancy to 2.2 percent in March. Availability is below this mark in eight submarkets.
- Davis notched a 580-basis-point reduction in vacancy over the past four quarters, as heightened demand for campus-adjacent housing coincided with the return of in-person learning at UC Davis.

RENT

15.1% increase in the average effective rent Y-O-Y

- Tight conditions across apartment tiers supported double-digit rent growth in all but one submarket over the past year. These sizable gains elevated the metro's average effective rent to \$1,886 per month.
- The average monthly rate in North Sacramento-North Highlands spiked by nearly 20 percent, the most pronounced gain among submarkets.

Investment Highlights

- The metro's average sale price has more than doubled over the past six years, reaching \$193,000 per unit in 2021, following a 7 percent annual boost. During that span, the mean cap rate compressed 120 basis points to 4.9 percent. These fluctuations have not deterred California-based investors and out-of-state buyers from pursuing local listings, as deal flow rose by about 15 percent last year.
- Class B/C assets are accounting for a significant number of closings, with many of these deals occurring in Central Sacramento and close-in suburbs proximate to major freeways. Smaller complexes in Arden-Arcade, as well as South and North Sacramento, are available at mean price points ranging from \$140,000 to \$170,000 per unit dependent on locale, with first-year returns often in the mid-5 to low-6 percent range. Similar assets are trading in downtown neighborhoods at low-4 to 6 percent returns, with average pricing around \$250,000 per unit.
- Institutional and regional buyers targeting properties with more than 100 units are finding value-add opportunities in Citrus Heights, as well as South and North Sacramento — areas of sub-2 percent vacancy where property upgrades could translate to notable NOI growth.

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. 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: Marcus & Millichap Research Services; Bureau of Labor Statistics; CoStar Group, Inc.; Real Capital Analytics; RealPage, Inc.

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