

MARKET REPORT

Multifamily
Sacramento Metro Area

IPA
INSTITUTIONAL
PROPERTY
ADVISORS

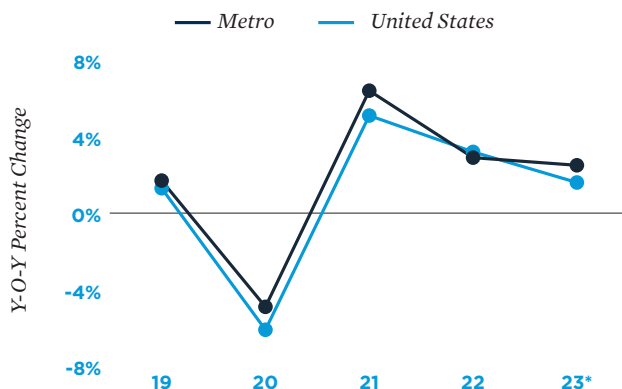
3Q/23

Net Absorption Rallied in the Spring, Still Trending Below New Supply and Seasonal Norms

Apartment demand returned to positive territory. Net absorption from April through June 2023 measured at roughly 600 units in Sacramento, the market's first positive quarterly reading since 2021. While this was an encouraging sign after the metric totaled negative 2,850 units across the prior five quarters, the springtime is traditionally a strong period for demand and the recent improvement still trailed historic averages. The long-term mean for second quarter apartment absorption in Sacramento is about 820 rentals, roughly 35 percent above 2023's tally. This indication of soft demand, with record amounts of supply scheduled to deliver during the second half, raises some concern. Vacancy elevation in the coming quarters will curb local rent growth as operators likely prioritize lease renewals at relatively modest adjustments, helping limit turnover costs.

Downtown renter dynamics shifting amid construction wave. As of August 2023, Sacramento developers were underway on more than 6,400 units, or 4 percent of existing stock. The largest share is concentrated in Central Sacramento, which had already registered 7 percent inventory growth year-over-year in June 2023. Rapid development is lifting local vacancy, with downtown's 7.1 percent rate in the second quarter ranking as the highest among Sacramento's submarkets. A byproduct of this supply wave, the average effective Class A rent downtown exceeded \$2,400 per month for the first time on record. This may have been a factor behind Class A vacancy rising over the past year, while the Class B rate fell locally.

Employment Trends



* Forecast

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

Multifamily 2023 Outlook



**27,000
JOBS**
will be created

EMPLOYMENT:

A net gain of about 20,500 jobs during the opening seven months of 2023 kept unemployment very low near 4 percent. Tight labor dynamics and a potential economic slowdown likely taper hiring in the coming months.



**3,100
UNITS**
will be completed

CONSTRUCTION:

Developers achieve a new annual record this year, surpassing the prior high set in 2002 by almost 800 units delivered. Inventory will expand by 1.9 percent in 2023, the fastest rise among major California metros.



**130
BASIS POINT**
increase in vacancy

VACANCY:

While not to the extent of last year's 280-basis-point vacancy increase, the rate continues to climb as inventory grows faster than demand. At year-end, vacancy is expected to hit 6.0 percent, the highest figure since 2009.

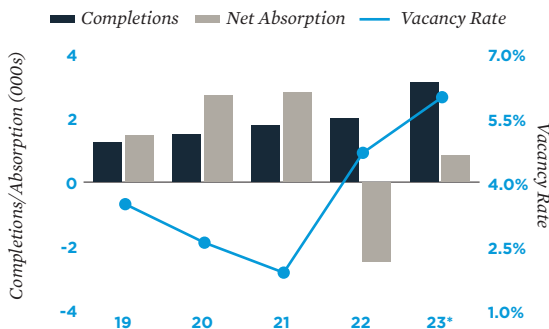


**1.3%
INCREASE**
in effective rent

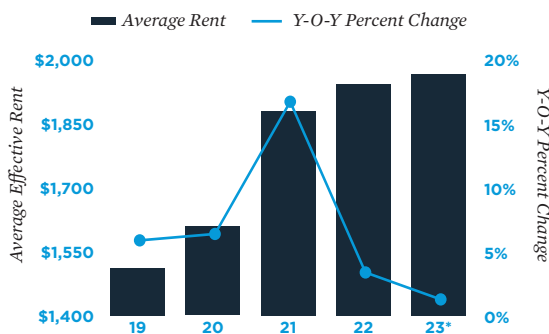
RENT:

Vacancy at a 14-year high encourages operators to focus on maintaining occupancy. This subdues the pace of average effective rent growth, yet the metric inches up to \$1,965 per month. Sacramento will remain the most affordable major market in the state.

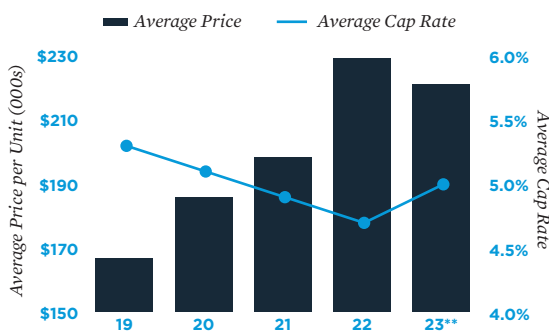
Supply and Demand



Rent Trends



Sales Trends



* Forecast ** Through 2Q

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

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Price: \$250

2Q 2023 - 12-Month Period

CONSTRUCTION

2,445 units completed

- Only five of 12 submarkets had supply growth over the past year, mostly confined to Central Sacramento, Davis, Natomas and Roseville-Rocklin. Groundbreakings in Folsom-Orangevale-Fair Oaks also escalated recently.
- South Sacramento, the metro's largest submarket by stock, lacked new supply over the past year and had only 300 units underway as of August.

VACANCY

230 basis point increase in vacancy Y-O-Y

- Class B and C vacancy rose by an identical 260 basis points over the past four quarters. The Class A rate, meanwhile, ticked up just 40 basis points. This combination lifted overall metro vacancy to 5.5 percent at midyear.
- Davis' 0.8 percent vacancy rate in June 2023 tied for the third-tightest of any submarket in the country with at least 5,000 units of local inventory.

RENT

0.1% decrease in the average effective rent Y-O-Y

- Accompanying its nationally prominent vacancy ranking, Davis also led Sacramento in rent growth. The average effective rate here surged 9 percent to \$2,438 per month, solidifying it as the metro's highest rent area.
- Local average effective rents fell beyond 2 percent annually in Natomas, Rancho Cordova-East Sacramento and Roseville-Rocklin.

Investment Highlights

- Sacramento entered last year's launch of interest rate hikes with a historically low average cap rate near 4.7 percent, challenging deal-making as investors struggled to achieve yield targets. As a result, trading velocity in the first half of 2023 was down about 50 percent from the same span last year. The average cap rate has, however, begun to drift up, hinting at buyers and sellers finding common ground. Additionally, returns in Sacramento are 60 basis points higher on average than in San Jose and San Francisco, attracting regionally-focused institutions unable to meet targets in the Bay Area.
- Many institutional groups remain sidelined, but the share of \$15 million-plus assets as a percent of total trades in Sacramento remained consistent between the first half of 2023 and the opening six months of last year. This deviation from the national trend can be partially attributed to a local interest level in larger-scale assets with age or income restrictions.
- Buyer appetite is fierce in the Davis submarket amid nationally distinguished vacancy and metro-leading rent growth. Area listings are scarce, however, and assets that do come to market command premium capital commitments. Price tags north of \$240,000 per unit are common here.

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.