



YARDI® Matrix

Sacramento's Hot Market

Multifamily Summer Report 2016

Rent Growth Leads U.S.

Demand Far Outpaces Supply

Sales Volume Hits Cycle Peak

Market Analysis

Summer 2016

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Sacramento's Rent Growth Leads the U.S.

Spurred by an improving job market and extremely low levels of new supply, Sacramento rents are growing at the fastest rate in the nation. Low vacancy and a weak completion rate will keep pushing rents higher. However, the job market is less robust than in other major California metros, signaling that renters may have difficulty keeping up with the cost of living.

The capital of California continues to rely heavily on its government job sector, which is rebounding, while growth is also strong in construction, health care and education. The Golden 1 Center multi-purpose arena is slated to open this fall, and city officials hope that it will help to drive growth in the city's core, along with the Downtown Commons mixed-use development. Opportunities also await just north of Sacramento's central business district. The Railyards master-planned project is one of the largest undeveloped urban sites in the U.S.

Going forward, supply growth is expected to pick up, with roughly 9,000 units in the planning and permitting stages. Until inventory expansion catches up to demand, investors will remain active. Nearly \$1.6 billion worth of multifamily assets have traded during the last 18 months and prices have rebounded to pre-recession levels. With occupancies high, we expect robust rent growth to continue, but affordability issues will moderate gains to 8.8% for the full year.

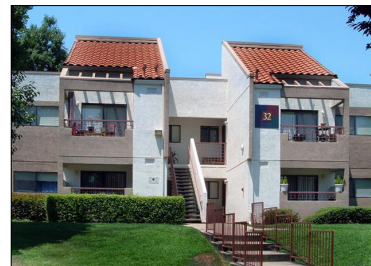
Recent Sacramento Transactions

The Woodlands



City: Sacramento, Calif.
Buyer: Jackson Square Properties
Purchase Price: \$85 MM
Price per Unit: \$106,156

Montage



City: Citrus Heights, Calif.
Buyer: JRK Property Holdings
Purchase Price: \$74 MM
Price per Unit: \$116,352

The Palms



City: Sacramento, Calif.
Buyer: Robert C. Kopple
Purchase Price: \$67 MM
Price per Unit: \$133,800

The Element

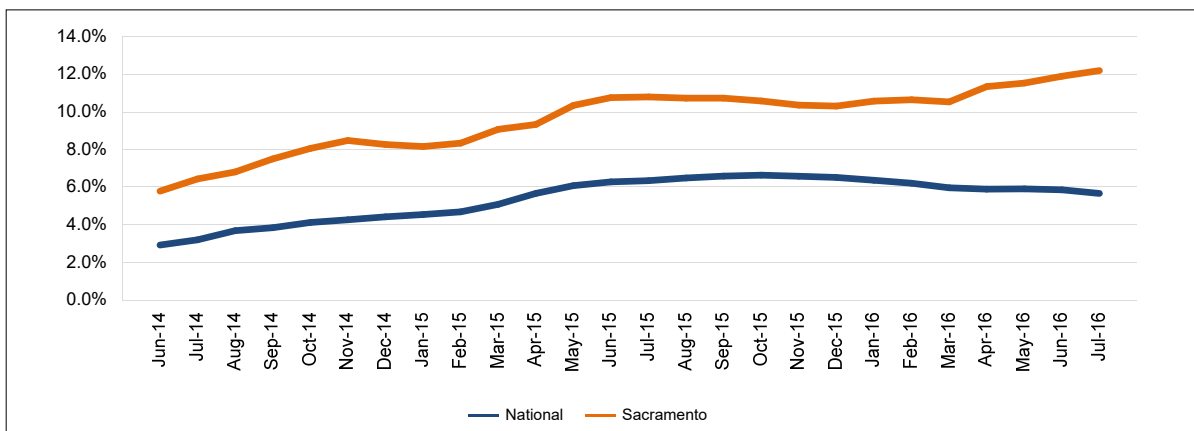


City: Sacramento, Calif.
Buyer: Vermilion Development
Purchase Price: \$59 MM
Price per Unit: \$204,861

Rent Trends

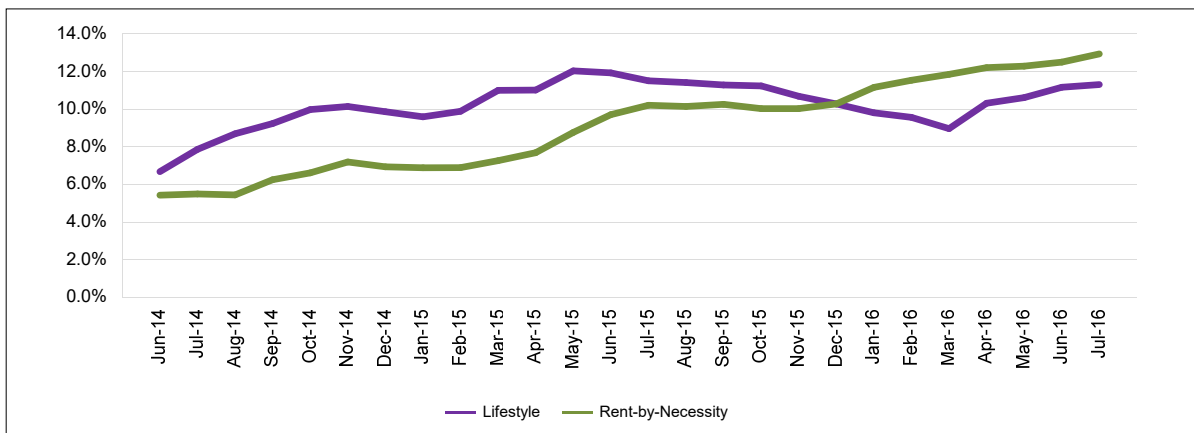
- Rents in Sacramento rose 13.5% year-over-year through July, the highest growth rate among major metros and more than double the 5.5% national average. The average rent of \$1,269 is \$52 above the U.S. average. Growth was strong in all quality segments, but it was led by Renter-by-Necessity units, which rose 14.2% year-over-year through July to \$1,103. Lifestyle properties rose by 12.7% to \$1,550.
- The imbalance between demand and supply is driving the explosive increases. Sacramento has consistently trailed in producing new supply during the cycle, adding less than 1% to total stock for seven straight years. At the same time, demand is steady, driven by strong job growth, household formations and immigration from people priced out of higher-rent areas of Northern California. The occupancy rate for stabilized properties of 97.3% as of June is among the highest in the nation.
- Submarkets leading rent growth with double-digit rates included North Rancho Cordova (15.6%), South Rancho Cordova/Rosemont (15.2%), Arden Gardens/Arden Terrace (15%), and Southwest Citrus Heights (14.2%). In absolute numbers, rents in 40% of the submarkets grew by at least \$100 year-over-year.
- We expect rent growth will moderate, but still produce a robust 8.8% increase in 2016.

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)

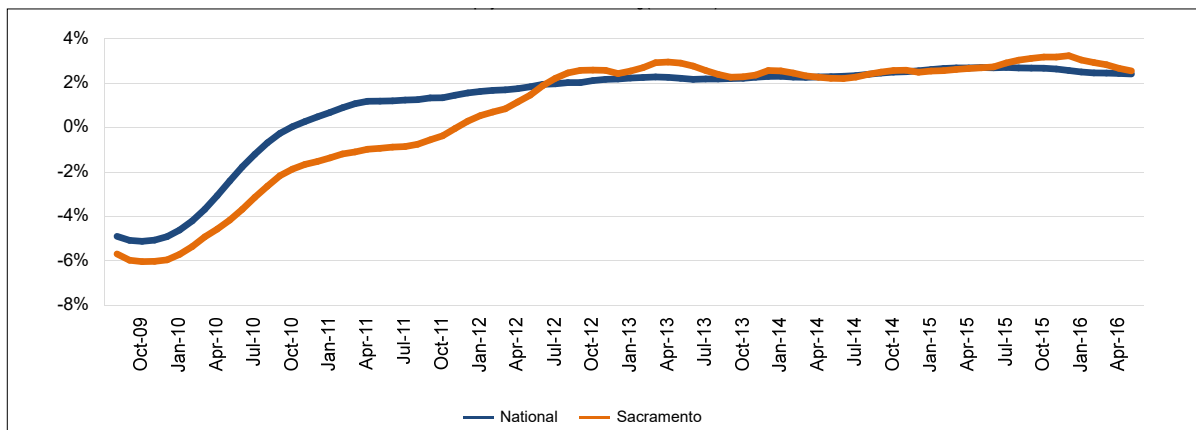


Source: YardiMatrix

Economic Snapshot

- Sacramento added roughly 18,000 jobs in the 12 months ending in May, a 2.0% increase year-over-year, slightly below the 2.4% national average through that same interval. Gains mostly took place in lower-paying job sectors, while information and manufacturing jobs slightly contracted.
- The metro's job market hit an important milestone earlier this year when total nonfarm employment once again reached its pre-recession peak. The metro lost a large number of jobs in the downturn, but since mid-2012 has grown at a rate above the national average.
- Job growth was led by construction, which added 5,500 jobs, an 11.1% increase. Construction has been in full swing on the Golden 1 Center in downtown Sacramento during the past year, while multifamily development is up modestly. With developers now gearing up to satisfy demand and turn a 10,000-unit pipeline into actual housing stock, gains in the sector are slated to continue.
- Education and health services added 4,000 jobs. With the University of California embarking on a campaign to increase enrollment, UC-Davis in Sacramento is preparing for growth. Government, which encompasses more than a quarter of all jobs in the metro, added 3,800 jobs during the period.

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)

Code	Employment Sector	Current Employment		Year Change	
		(000)	% Share	Employment	%
15	Mining, Logging, and Construction	55	5.9%	5,500	11.1%
65	Education and Health Services	145	15.5%	4,000	2.8%
90	Government	238	25.5%	3,800	1.6%
60	Professional and Business Services	121	13.0%	1,900	1.6%
70	Leisure and Hospitality	96	10.3%	1,300	1.4%
55	Financial Activities	52	5.6%	1,000	2.0%
80	Other Services	32	3.4%	900	2.9%
40	Trade, Transportation, and Utilities	146	15.6%	200	0.1%
50	Information	14	1.5%	-200	-1.4%
30	Manufacturing	36	3.9%	-400	-1.1%

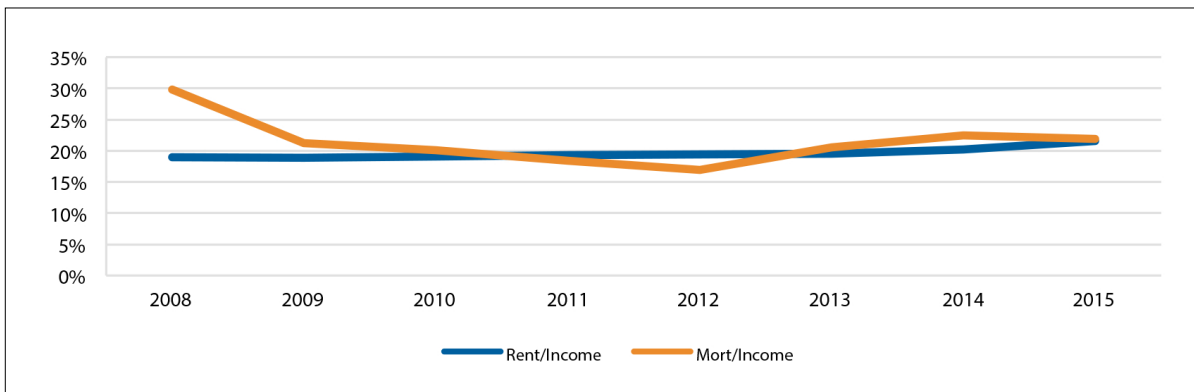
Sources: YardiMatrix, Bureau of Labor Statistics

Demographics

Affordability

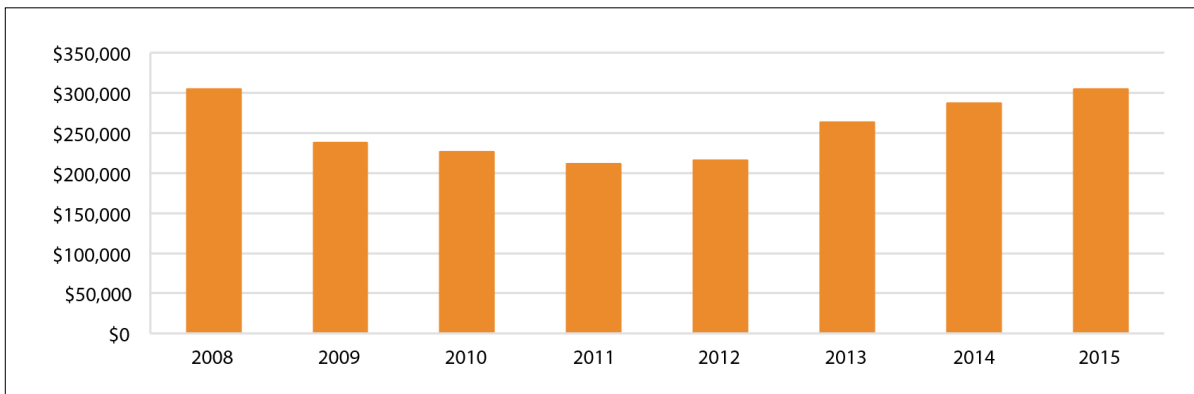
- Median home prices hit \$304,243 in 2015, the first time that values were above the \$300,000 mark since 2008. The job market is also back to its pre-downturn levels, and incomes are rising. As a result, homeownership is significantly more affordable than it was in 2008.
- With rents now at an average of \$1,269 following the fastest growth rate in the nation, Sacramento is becoming less affordable. Considering the profile of the jobs being created and the extreme spike in rents, affordability is increasingly an issue for renters.

Sacramento Rent vs. Own Affordability as a Percentage of Income



Sources: YardiMatrix, Moody's Analytics

Sacramento Median Home Price



Source: Moody's Analytics

Population

- The metro's population grew by 1.3% in 2015, well above the 0.8% U.S. average.
- Growth is likely to remain robust as the metro continues to be affordable compared to other northern California housing markets.

Sacramento vs. National Population

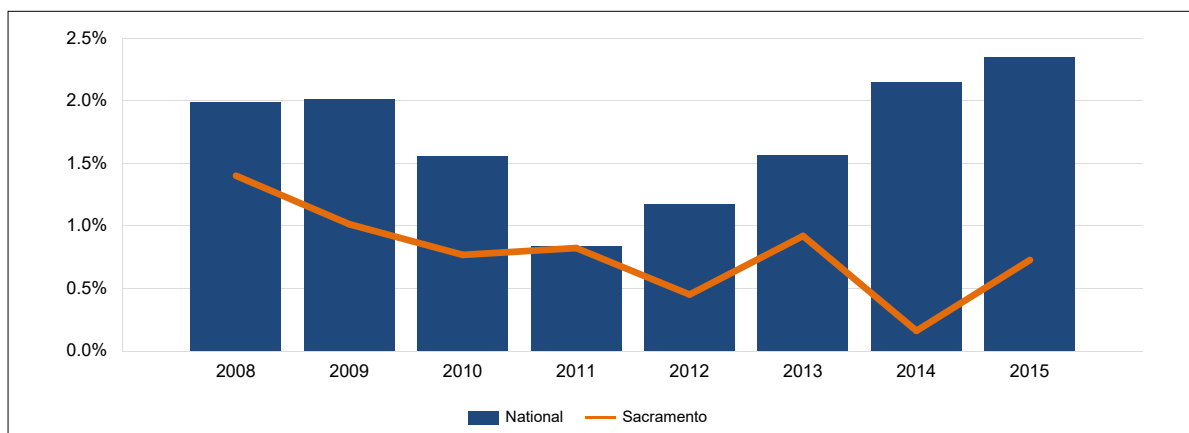
	2011	2012	2013	2014	2015
National	311,718,857	314,102,623	316,427,395	318,907,401	321,418,820
Sacramento-Roseville-Arden-Arcade, CA Metro	2,175,568	2,195,353	2,217,634	2,244,879	2,274,194

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

Supply

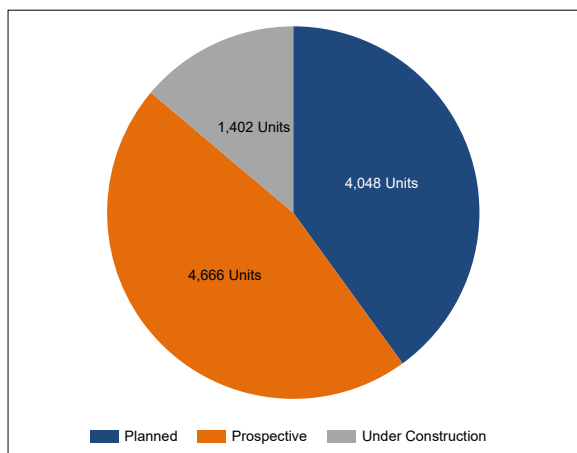
- Development continues to stall in Sacramento, with only 900 units being added in 2015, an inventory expansion rate of around 0.7%. Although dismal, that rate is still substantially higher than it was in 2014, when just 200 units were added to the stock.
- Despite being grossly underserved, the metro's development pipeline shows signs of strengthening. More than 10,000 units are currently in various phases of development, indicating that developers are looking to capitalize on the growth of the rental market. Focusing mainly on the market's core, new developments totaling roughly 1,400 units are underway.
- Submarkets located in and around the metro's core such as Central Business District, Florin/Southeast Sacramento, Arden Gardens/Arden Terrace and Land Park hold more than half of all the units that are under construction.
- The most substantial development project that's taking shape in Sacramento is The Landing at College Square at 7640 West Stockton Blvd. in the Laguna West submarket. Slated to add 270 units, the property will be completed during the fourth quarter of 2016.

Sacramento vs. National Completions as a Percentage of Total Stock (as of July 2016)



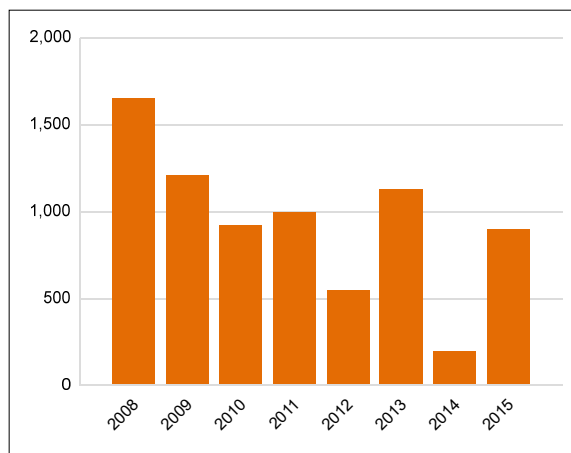
Source: YardiMatrix

Development Pipeline (as of July 2016)



Source: YardiMatrix

Sacramento Completions (as of July 2016)

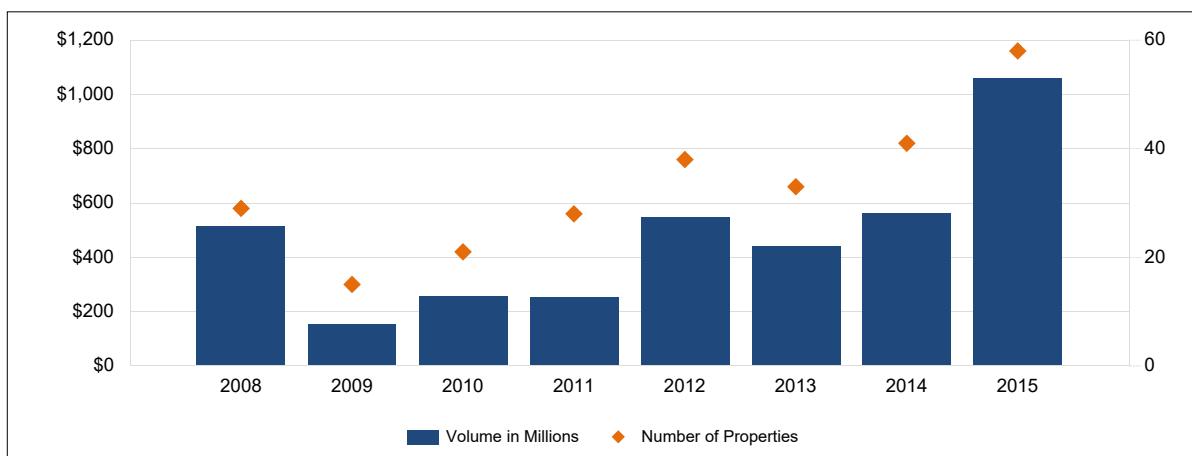


Source: YardiMatrix

Transactions

- Investment has risen significantly in Sacramento, crossing the \$1 billion mark for the first time ever in 2015, an 88% increase from 2014. Property values have rebounded as well. At the end of last year, per-unit prices essentially reached their pre-recession levels of roughly \$112,000.
- By the halfway point in 2016, investors continued to be bullish on the market, with roughly \$680 million worth of assets trading hands in Sacramento. As a result, 2016 is set to at least match the total investment volume reached last year.
- Rapid rent growth has whet the appetites of investors, pushing most asset classes to their highest per-unit prices in the current cycle. Low levels of new inventory and an improving job market will help serve to push prices higher, as cap rates hover around the 6% mark.

Sacramento Sales Volume and Number of Properties Sold (as of July 2016)



Source: YardiMatrix

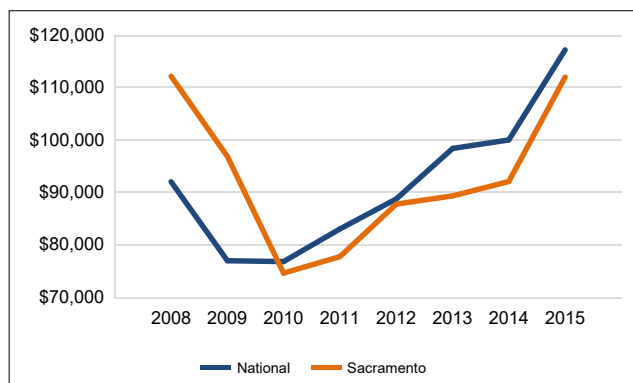
Top Submarkets for Transaction Volume¹

Submarket	Volume (\$MM)
North Sacramento	162
Greater Folsom/El Dorado/Shingle Springs	128
Encina/Ethan/Woodside	94
Florin/SE Sacramento	83
Central Citrus Heights	74
Laguna West	66
Central Folsom/South Orangeville	53
Natomas	47

Source: YardiMatrix

¹ From August 2015 to July 2016

Sacramento vs. National Sales Price per Unit



Source: YardiMatrix

Read All About It!



Greystone Provides Refi for Senior Housing Community in Greater Sacramento



American Healthcare REIT Buys in Sacramento



Five Cutting-Edge Initiatives in Affordable Housing

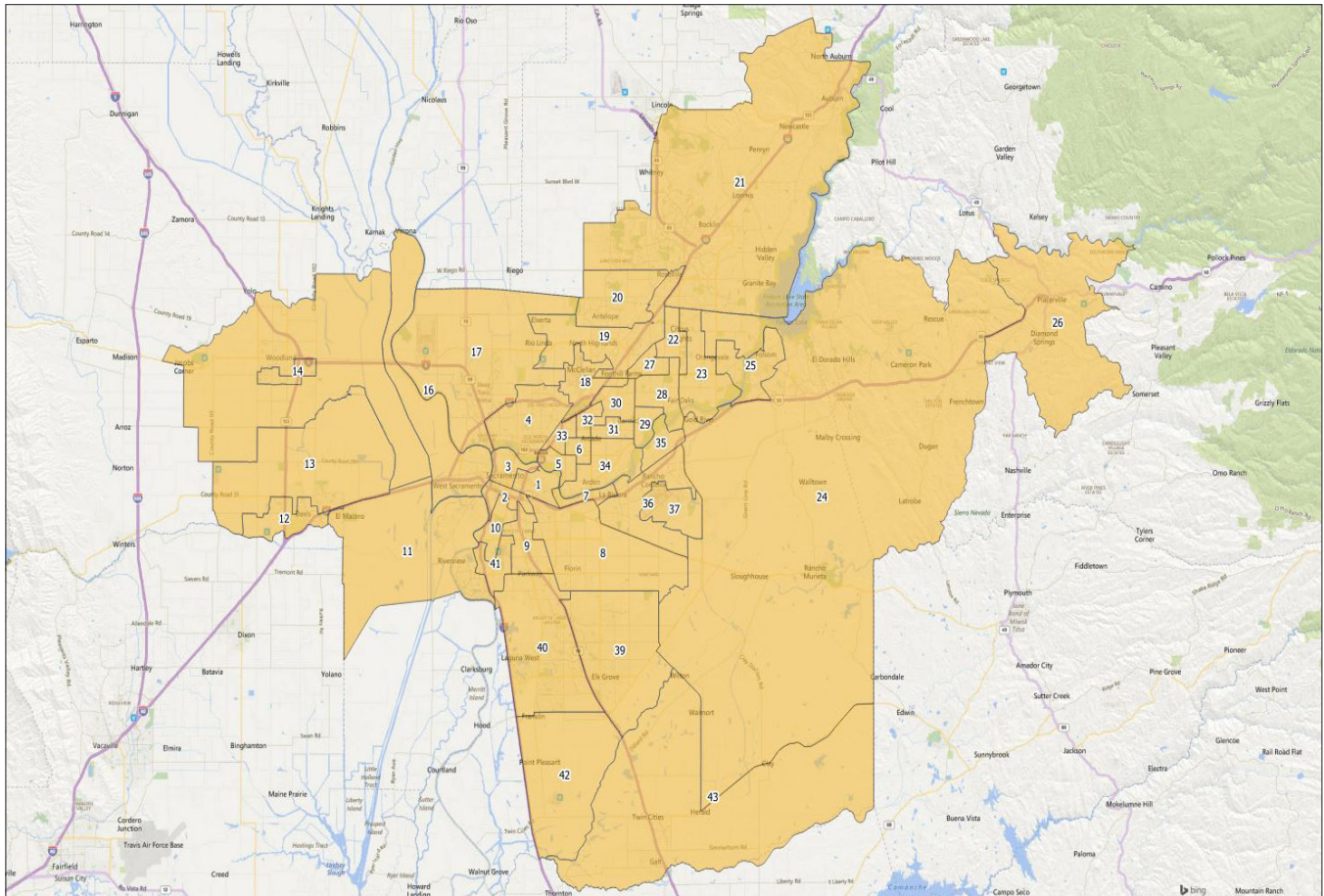


First Capital Lands Major Interest in Township Nine Project

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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

Area #	Submarket
20	Antelope
21	Rocklin/Roseville
22	Central Citrus Heights
23	Fair Oaks
24	Greater Folsom/El Dorado Hills/Shingle Springs
25	Central Folsom/South Orangevale
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
39	Elk Grove
40	Laguna West

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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