TRANSWESTERN

SACRAMENTO MULTIFAMILY MARKET

Q4 2022

WEAK DEMAND AND STRONG DELIVERIES SOFTEN RENT GROWTH IN Q4

After an exceptional start to the year, rental demand started to slow in the second quarter as inflation grew and interest rates rose, resulting in stalled household formation – the basis of all new housing demand. Net absorption finished Q4 in negative territory for the second consecutive quarter as renters favored staying put during uncertain economic times. Weak demand combined with a wave of new units being delivered to the market has pushed up the vacancy rate by 60 basis points (bps) over the quarter to 4.7%. Consequently, annual rent growth moderated to 3.4% from a blistering double-digit pace earlier in 2022, as effective rents reached a record $1,940 per month. While demand was assuredly weak, renters' diminished propensity to move due to recessionary fears suggests pent-up demand for apartments in 2023.

Sacramento's apartment sales cooled off to its weakest level since 2013, recording $60 million in deal activity – below the five-year average of $401 million. The rising cost of borrowing as well as weaker fundamentals have slowed deal activity. While the gap between buyer and seller expectations remains wide, buyers are still taking on deals with lower yields than they have seen over the last few years. The annual price per unit rose 2.8% to $289,249 from the previous quarter and was still up 35.2% year-over-year.

TRENDLINES

	Q4 2022	Q3 2022	Q4 2021	Q/Q CHANGE	Y/Y CHANGE
Nonfarm Jobs (Mil.)*	1.07	1.05	1.03	1.7%	3.3%
Unemployment Rate	3.7%	3.6%	4.7%	10 bps	-100 bps
Annual Completions (Units)	2,348	2,400	1,827	-2.2%	28.5%
Annual Absorption (Units)	(765)	1,131	2,319	-167.6%	-133.0%
Annual Permits (Units)	10,867	11,847	12,105	-8.3%	-10.2%
Vacancy Rate	4.7%	4.1%	1.9%	60 bps	278 bps
Effective Rent ($/Unit)	$1,940	$1,976	$1,877	-1.8%	3.4%
Annual Investment Volume ($ Bil.)	$1.8	$2.2	$1.6	-19.8%	11.6%
Annual Cap Rates	4.3%	4.3%	4.8%	0 bps	-47 bps

Source: Transwestern Research, CA EDD, RealPage, Real Capital Analytics, Q4 2022.
Note: Employment figures as of November 2022. Data not seasonally adjusted.

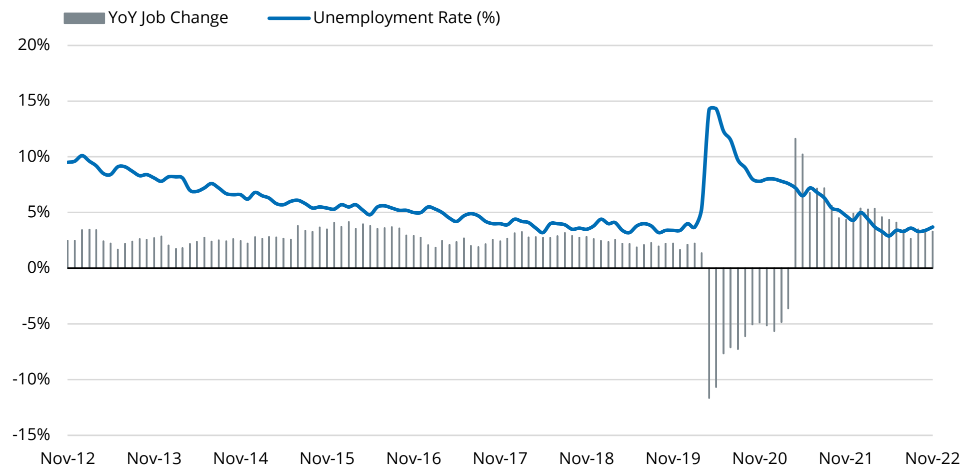
ECONOMY

Annual Job Growth Moderates to 3.3%

- The unemployment rate in Sacramento ticked up to 3.7% in November from a record low in May, but was down from 4.7% one year ago and 14.3% at the onset of the pandemic.
- The regional labor market has showed signs of strength despite cooling from a blistering pace earlier this year. Employers added 34,000 jobs annually, or 3.3% year over year, just above the national rate of 3.2%.
- Jobs gains were driven by a 9.9% rise in Transportation, Warehousing and Utilities employment, followed by a 7.0% increase in Leisure and Hospitality, the hardest hit sector during the pandemic. The construction industry slowed to 0.9% over the year.

UNEMPLOYMENT RATE AND NONFARM EMPLOYMENT

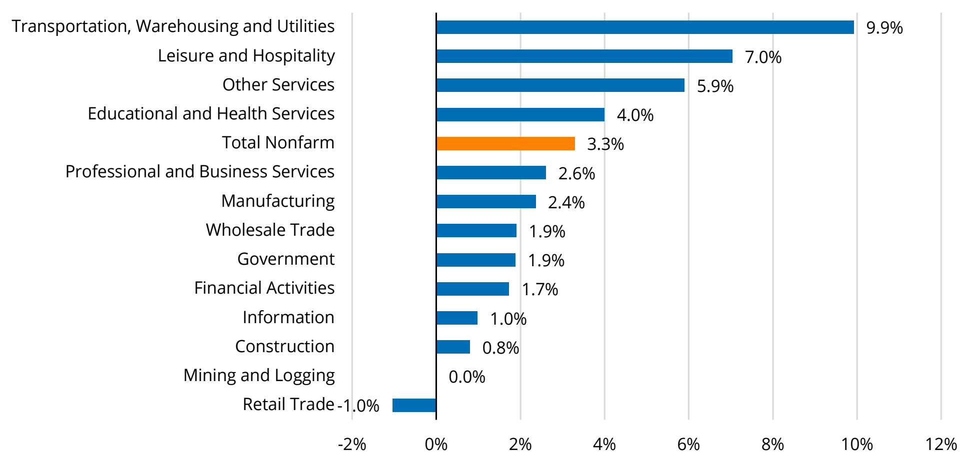
Sacramento MSA | November 2022



Source: Transwestern Research, CA EDD, November 2022.
Note: Data not seasonally adjusted.

EMPLOYMENT CHANGE BY INDUSTRY

Sacramento MSA | November 2022 Year-Over-Year



Source: Transwestern Research, CA EDD, November 2022.
Note: Data not seasonally adjusted.

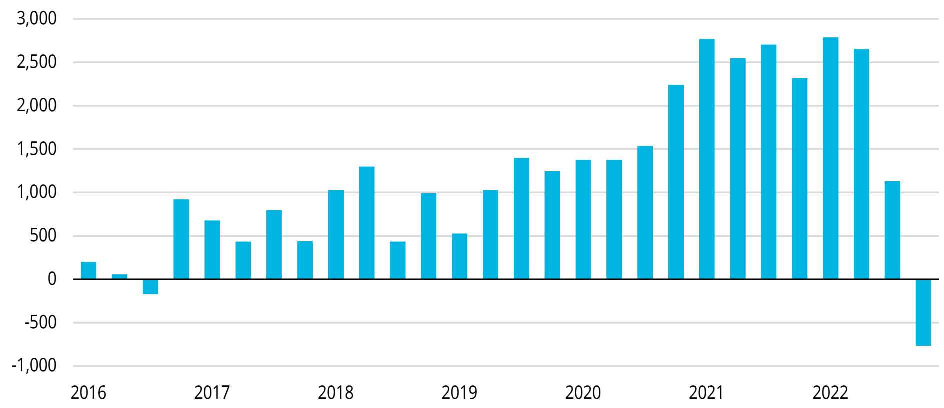
SUPPLY AND DEMAND FUNDAMENTALS

Economic Uncertainty Slows Rental Demand

- Net absorption was negative 980 units in Q4 after recording negative 642 units in the third quarter. Headwinds for the sector have included rising interest rates, high inflation and frozen household formation.
- The four-quarter total in Q4 was negative for the first time since 2016, posting a loss of 765 units and reflecting renters' diminished propensity to move due to recessionary fears, which suggests pent-up demand for apartments in 2023.
- Completions totaled 473 units in Q4, above the five-year average by 22.5%. For the year ending in Q4 2022 there were 2,348 units delivered to the market, the third highest on record, as a flurry of pandemic-era projects came online.
- The number of multifamily units authorized by building permits for the year ending in Q4 2022 trended down for the third quarter in a row, reaching a total of 10,867 units - 10.2% lower than one year ago. Development in Sacramento has been gradually trending higher since 2011 but the pipeline has reversed trend in the backdrop of rising costs of labor, construction and capital.

NET ABSORPTION

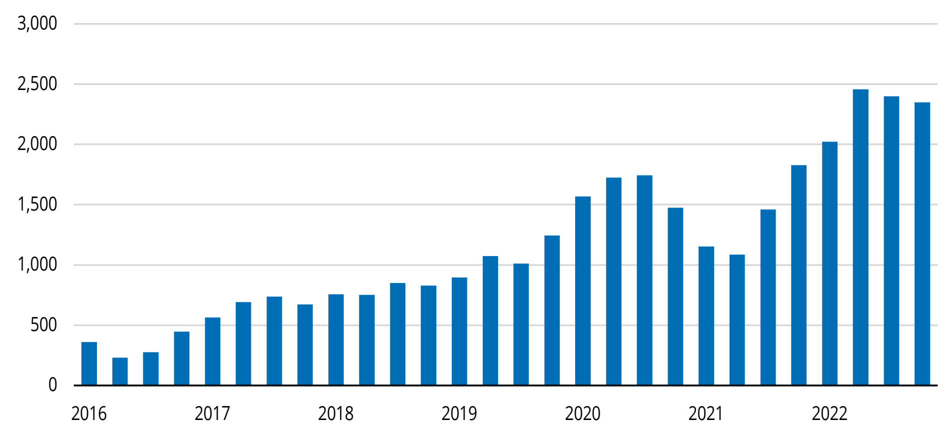
Sacramento | # Units (4-Quarter Total)



Source: Transwestern Research, RealPage, Q4 2022.

COMPLETIONS

Sacramento | # Units (4-Quarter Total)



Source: Transwestern Research, RealPage, Q4 2022.

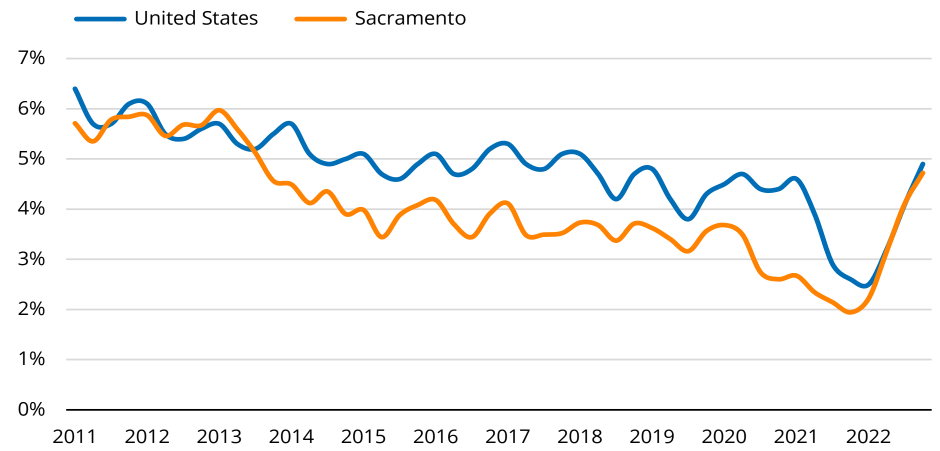
SUPPLY AND DEMAND FUNDAMENTALS

Vacancy Rate Rises Third Quarter in a Row but Still Low at 4.7%

- A large amount of new supply coupled with diminished rental demand has continued to push up the vacancy rate from a record low in Q4 2021. The vacancy was up 60 bps from Q3 but was still low at 4.7% in the fourth quarter.
- The vacancy rate widened across all class segments on a quarterly basis. Class C vacancy had the largest increase, by 130 bps to finish Q4 at 3.1%. Class B rose 70 bps to 5.1% and Class A was up 10 bps to 4.9%.

VACANCY RATE

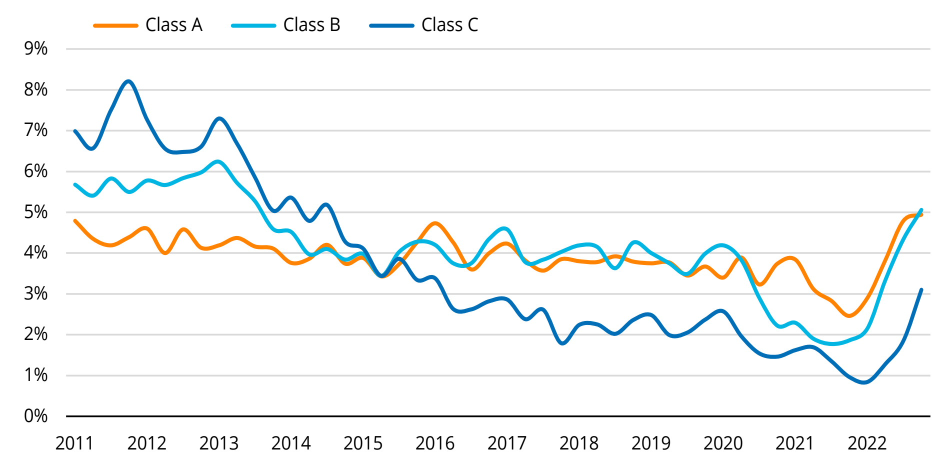
Sacramento | Overall Vacancy Rate (%)



Source: Transwestern Research, RealPage, Q4 2022.

VACANCY RATE BY CLASS

Sacramento | Overall Vacancy Rate (%)



Source: Transwestern Research, RealPage, Q4 2022.

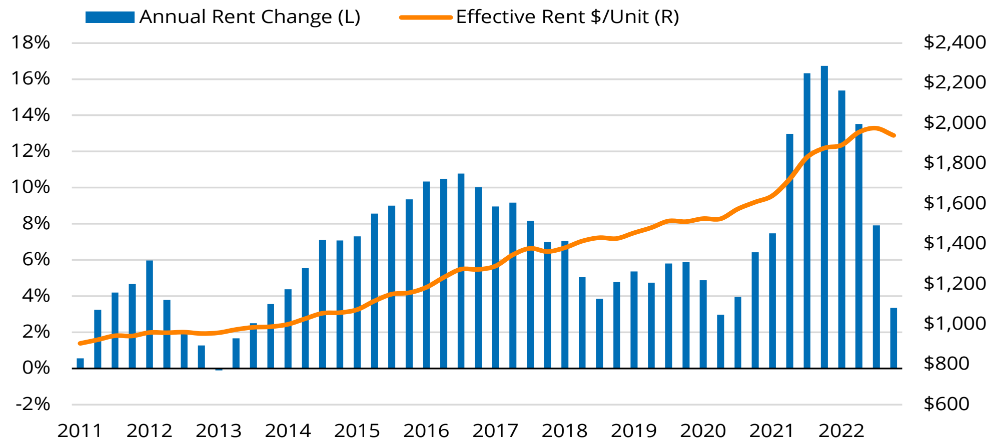
SUPPLY AND DEMAND FUNDAMENTALS

High Mortgage Rates Helping Multifamily Rent Growth

- Low vacancy rates have enabled landlords to keep raising rents. The average monthly effective rent moderated to 3.4% year-over-year and declined 1.8% on a quarterly basis to $1,940 per unit.
- Year-over-year, Class C had the sharpest rise at 9.7%, followed by Class B (8.1%) and Class C (3.0%), reflecting still-strong but moderating demand across all class types.
- The average rate on a 30-year fixed rate mortgage was 6.4% at the end of the quarter. That is up from 3.2% at the start of the year but down from a peak of over 7% earlier in the quarter prior to lower inflation readings. The surge in mortgage rates, coupled with high home prices, is eroding affordability and discouraging select renters from buying a home, providing fuel for multifamily demand.

MULTIFAMILY RENTS

Sacramento | Monthly Rent $/Unit



Source: Transwestern Research, RealPage, Q4 2022.

30-YEAR FIXED RATE MORTGAGE

Source: Transwestern Research, California Association of Realtors, December 2022.
Note: Data not seasonally adjusted.

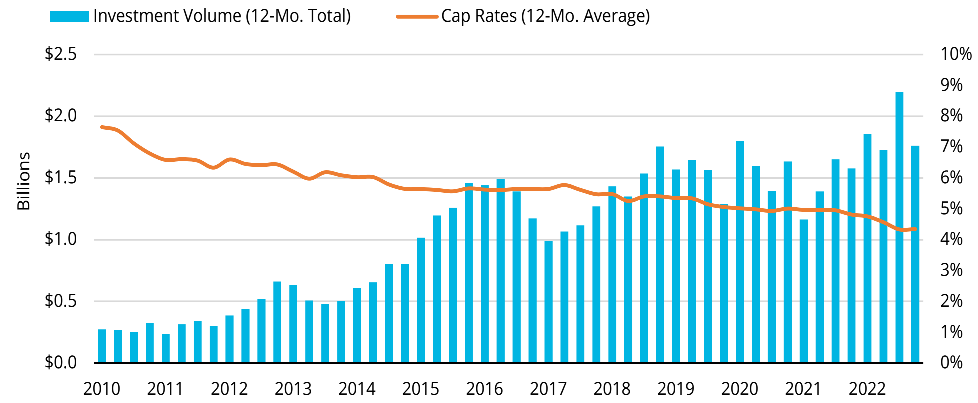
CAPITAL MARKETS

Pricing Continues Record Ascent as Cap Rates Move Up

- Sacramento apartment sales cooled off to its weakest level since 2013, recording $60 million in deal activity in Q4 – below the five-year average of $401 million. The rising cost of borrowing as well as weaker fundamentals have slowed deal activity.
- For the year ending in Q4 2022 there was nearly $1.8 billion in investment activity, a 11.6% increase year-over-year.
- Annual price growth has slowed to 11.6% with the average price per unit ending the quarter at $289,249, a record level.
- Cap rates in Q4 widened from one year ago to 5.1%. For the year ending in Q4 2022, cap rates ended the quarter at 4.3%, a 50-bp decline from Q4 2021, however it underestimates re-pricing on many deals. While the gap between buyer and seller expectations remains wide, buyers are still taking on deals with lower yields than they have seen over the last few years.
- Private buyers in search of value-add deals were the most active through the first three quarters of the year, responsible for 66.8% of investment volume. Institutional buyers were more active than in 2021, accounting for 33.2% of the annual total.

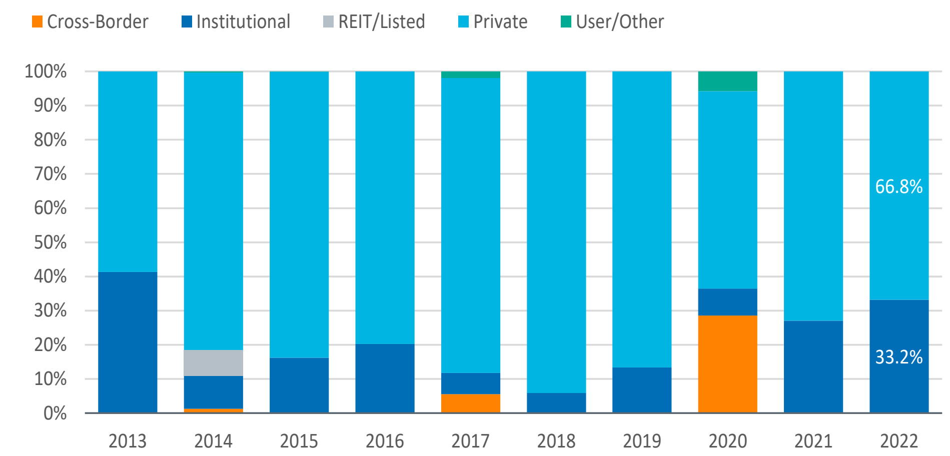
INVESTMENT VOLUME AND CAP RATES

Sacramento | Q2 2022



Source: Transwestern Research, Real Capital Analytics, Q4 2022.

INVESTOR COMPOSITION



Source: Transwestern Research, Real Capital Analytics, Q4 2022.

TOP SALES BY PRICE

ADDRESS	CITY	PRICE (MIL. $)	BUILDING SF	BUYER	SELLER
4924 POLK ST	North Highlands	$24.7	237,029	Tesseract Capital Group	OpenPath Investments
2320 GLEN HEATHER LN	Rancho Cordova	$8.5	424,750	FFAH	Tornatore Family Trust
10874 COLMA RD	Rancho Cordova	$7.5	187,500	Sushma Pant	Jeff Lynch
7700 COLLEGE TOWN DR	Sacramento	$7.3	72,277	Srcf Supporting Organization	AKT Development Corp
3544 AUBURN BLVD	Sacramento	$3.7	154,167	Unknown	SAC Lone Pine LLC

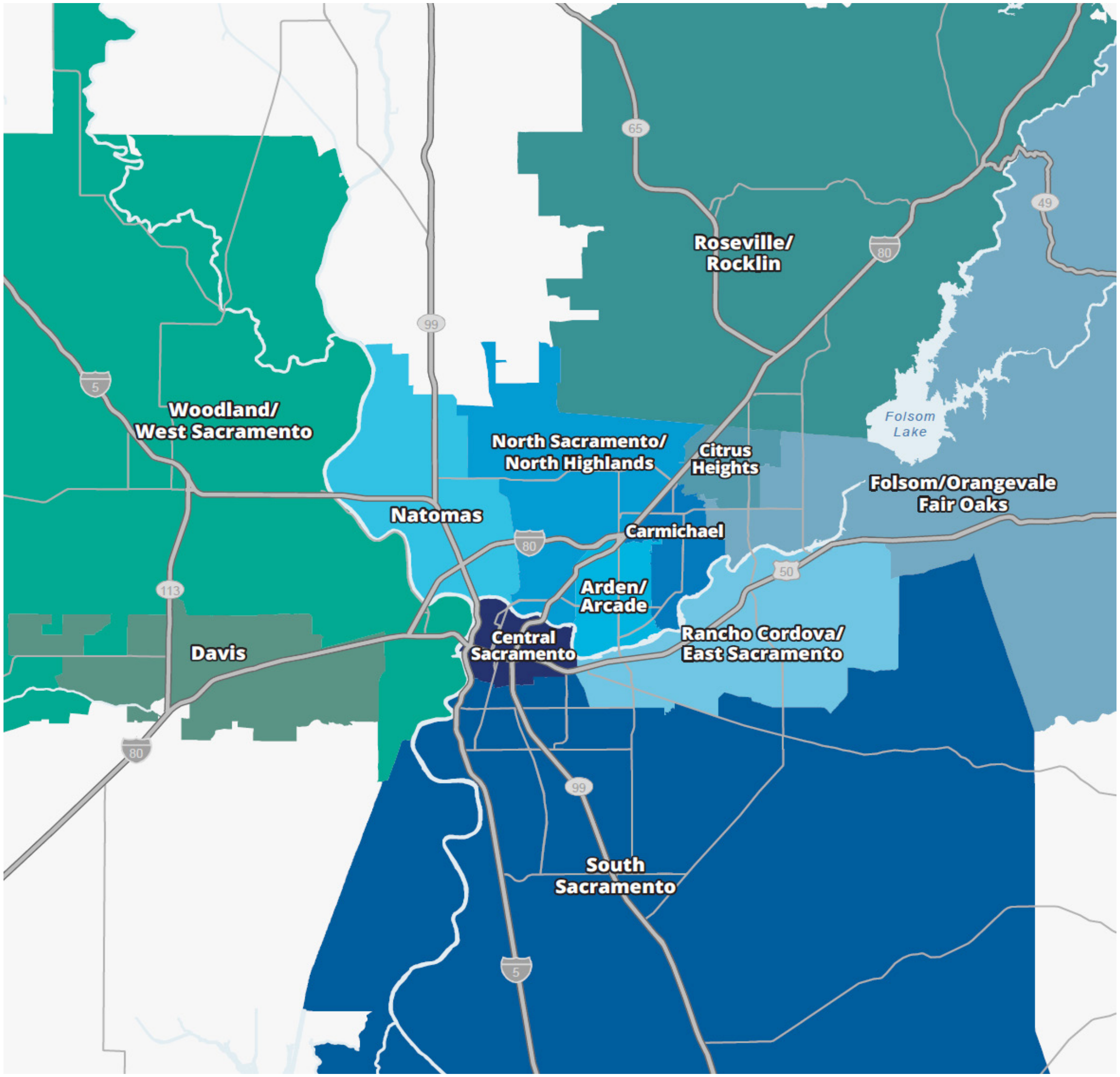
Source: Transwestern Research, RealPage, Real Capital Analytics, Q4 2022.

Q4 SUBMARKET FUNDAMENTALS

SUBMARKET	INVENTORY (UNITS)	EFFECTIVE RENT $/UNIT	ANNUAL CHANGE	VACANCY RATE	ABSORPTION (4-QUARTER)	COMPLETIONS (4-QUARTER)	ANNUAL CAP RATE	ANNUAL $/UNIT
ARDEN/ARCADE	13,891	$1,643	7.4%	4.5%	-377	2,348	3.8%	213,912
CARMICHAEL	9,187	$1,624	11.3%	3.7%	-198	0	4.4%	225,911
CENTRAL SACRAMENTO	18,883	$2,178	2.4%	8.5%	587	0	4.7%	405,452
CITRUS HEIGHTS	7,197	$1,750	3.7%	3.8%	-151	1,528	4.3%	180,447
DAVIS	8,883	$2,276	8.3%	0.7%	141	0	3.7%	438,000
FOLSOM/ORANGEVALE/FAIR OAKS	14,406	$2,114	1.2%	5.8%	-416	0	4.2%	326,965
NATOMAS	13,498	$1,999	1.2%	4.5%	-292	0	4.4%	490,833
NORTH SACRAMENTO/NORTH HIGHLANDS	10,602	$1,919	3.2%	5.2%	-161	81	4.2%	229,785
RANCHO CORDOVA/EAST SACRAMENTO	11,820	$1,821	3.7%	5.3%	-503	204	4.6%	104,965
ROSEVILLE/ROCKLIN	17,654	$2,139	-1.2%	5.0%	-378	0	3.9%	310,780
SOUTH SACRAMENTO	20,770	$1,861	0.4%	5.1%	-694	171	3.9%	274,841
WOODLAND/WEST SACRAMENTO	8,584	$1,798	10.6%	4.7%	67	0	--	434,305
SACRAMENTO TOTAL	155,375	$1,940	3.4%	4.7%	-2,081	2,348	4.3%	291,260

Source: Transwestern Research, RealPage, Real Capital Analytics, Q4 2022.

SUBMARKET MAP



FOR MORE INFORMATION

George Entis

Senior Research Manager
george.entis@transwestern.com
415 489 1759

RESEARCH METHODOLOGY

The information in this report is a compilation of multifamily properties located in the Sacramento-Roseville-Arden-Arcade MSA with at least five units and transactions of at least $2 million.

ABOUT TRANSWESTERN

The privately held Transwestern companies have been delivering a higher level of personalized service and innovative real estate solutions since 1978. Through an integrated, customized approach that begins with fresh ideas, the firm drives value for clients across commercial real estate services, development, and investment management. Operating from 33 U.S. office, Transwestern extends its platform capabilities globally through strategic alliance partners whose unique geographic, cultural, and business expertise fuels creative solutions. Learn more at transwestern.com.