



TRANSWESTERN

SACRAMENTO MULTIFAMILY MARKET

Q2 2023



POSITIVE DEMAND HINTS AT RETURN TO NORMAL; RENT GROWTH SLOWS TO -0.1%

Second quarter apartment demand in Sacramento made its way firmly back into positive territory in the strongest performance in six quarters. All types of housing experienced weak demand in the backdrop of high inflation and low consumer confidence. Renters chose to stay put in the face of economic uncertainty and recessionary fears but Q2 results show signs of normalization and some of that pent-up demand being unleashed.

The supply pipeline in Q2 continued to deliver a steady stream of new units to the market, putting downward pressure on rent growth, which registered a meager -0.1% year over year. Even so, the vacancy rate rose at its slowest pace in five quarters as improved demand offset the pressures of high supply. The vacancy rate rose from an all-time low of 2.0% in Q4 2021 to 5.5% in Q2 2023, showing signs of stabilizing property fundamentals. Though rent growth has substantially moderated, monthly effective rents still ended the quarter at \$1,953 per unit, not far below the all-time highs recorded last year.

Sacramento apartment sales remained at muted levels not seen since 2013, recording \$90 million in deal activity in Q2 – below the five-year average of \$379 million. 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 to \$258,104 from Q1 (+4.7%) and was up 4.7% year over year. Cap rates expanded by 10 basis points (bps) over the quarter to 4.5% although it underestimates re-pricing on many deals.

TRENDLINES

	Q2 2023	Q1 2023	Q2 2022	Q/Q CHANGE	Y/Y CHANGE
Nonfarm Jobs (Mil.)*	1.09	1.07	1.06	1.8%	2.7%
Unemployment Rate	4.0%	4.4%	3.1%	-40 bps	90 bps
Annual Completions (Units)	2,445	2,002	2,253	22.1%	8.5%
Annual Absorption (Units)	(1,414)	(2,780)	875	-49.1%	-261.6%
Annual Permits (Units)	10,714	11,793	12,105	-9.1%	-11.5%
Vacancy Rate	5.5%	5.2%	3.2%	29 bps	233 bps
Effective Rent (\$/Unit)	\$1,953	\$1,926	\$1,955	1.4%	-0.1%
Annual Investment Volume (\$ Bil.)	\$1.2	\$1.4	\$1.8	-16.0%	-34.1%
Annual Cap Rates	4.5%	4.4%	4.6%	14 bps	-11 bps

Source: Transwestern, CA EDD, RealPage, Real Capital Analytics, Q2 2023.

Note: Employment figures as of May 2023. Data not seasonally adjusted.



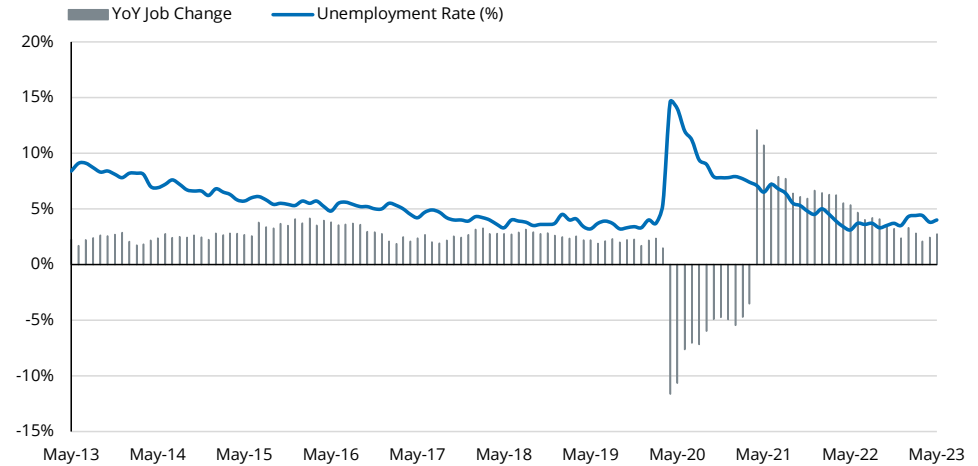
ECONOMY

Annual Job Growth Moderates to 2.7%

- The unemployment rate in Sacramento ticked up to 4.0% in May from a record low one year ago, but was down from 14.6% at the onset of the pandemic.
- The regional economy showed pockets of strength despite cooling from a blistering pace last year. Employers added 29,200 jobs annually, or 2.7% year over year, compared to a national rate of 2.6%.
- Jobs gains were driven by a 7.4% rise in Educational and Health Services (+12,900 jobs) followed by a 3.1% increase in Government employment (+7,800 jobs). Construction jobs slowed by 4.5% over the year (-3,500 jobs).

UNEMPLOYMENT RATE AND NONFARM JOBS

Sacramento-Roseville-Arden-Arcade MSA

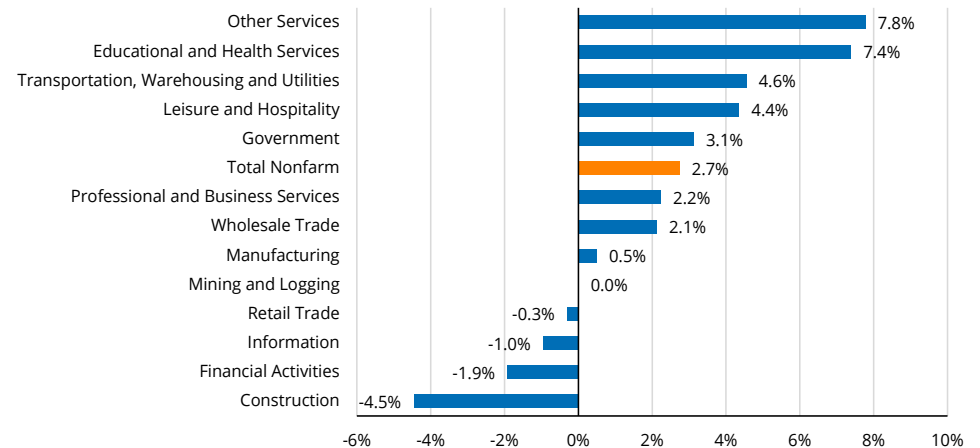


Source: Transwestern, CA EDD, May 2023.

Note: Data not seasonally adjusted.

YOY EMPLOYMENT CHANGE BY INDUSTRY

Sacramento-Roseville-Arden-Arcade MSA



Source: Transwestern, CA EDD, May 2023.

Note: Data not seasonally adjusted.

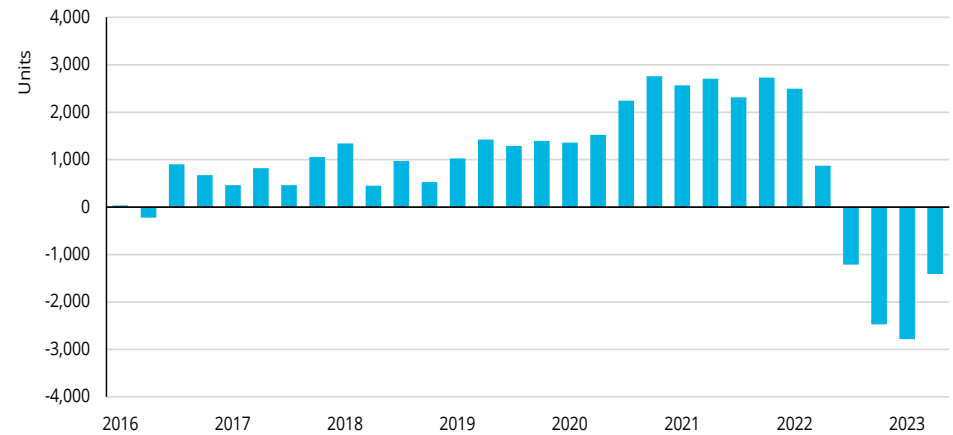


SUPPLY AND DEMAND FUNDAMENTALS

Rental Demand Shows Promising Sign of Recovery

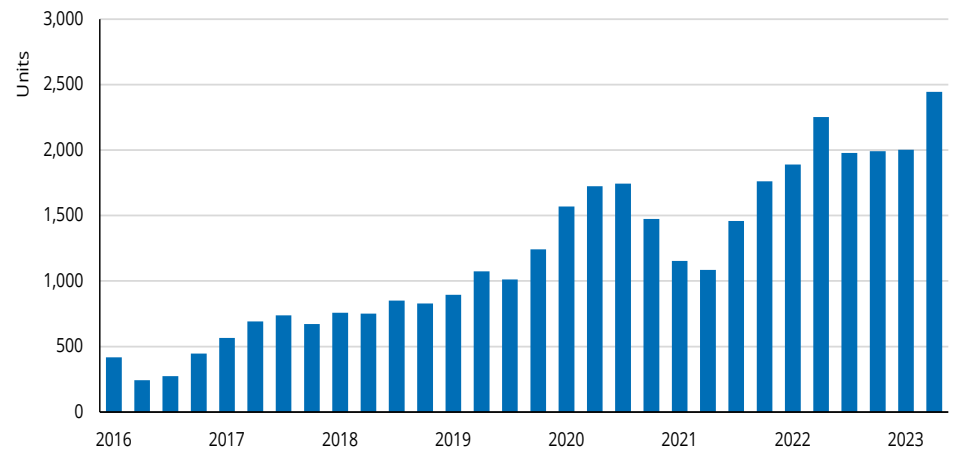
- Rental demand in Q2 reached its strongest level in six quarters with 616 units absorbed, showing signs of a normalizing market. High inflation, weak household formation and recessionary fears kept renters in place but some of that pent-up demand is now being unleashed.
- For the four quarters ending in Q2 2023, absorption was still negative (-1,414 units) but trending back toward positive territory.
- Completions totaled 1,197 units in Q2, the most active quarter on record. For the year ending in Q2 2023 there were 2,445 units delivered to the market as a flurry of pandemic-era projects continued to come online, both in the East Bay as well as in most major markets across the nation.
- The number of multifamily units authorized by building permits for the year ending in Q2 2023 reached 10,714, a 11.5% decline from one year ago. A saturated supply pipeline combined with a locked up capital markets environment will keep downward pressure on new permitting activity.

12-MONTH NET ABSORPTION



Source: Transwestern, RealPage, Q2 2023.

12-MONTH COMPLETIONS



Source: Transwestern, RealPage, Q2 2023.

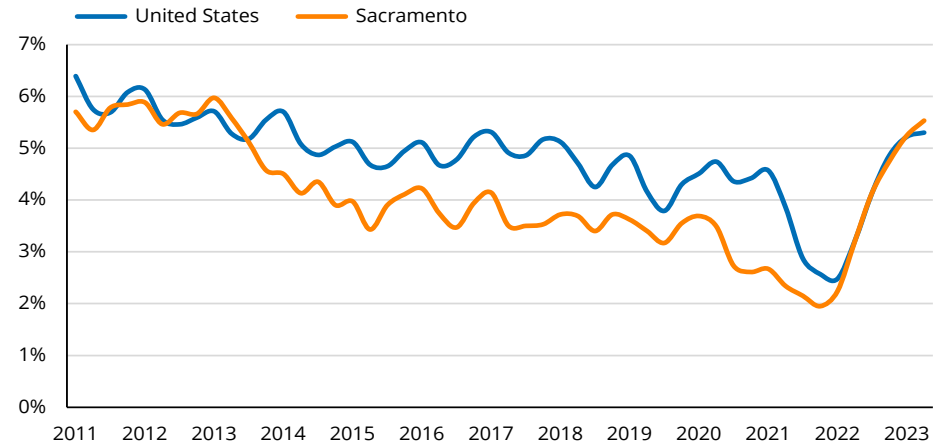


SUPPLY AND DEMAND FUNDAMENTALS

Slowing Vacancy Rate Increases as Market Stabilizes

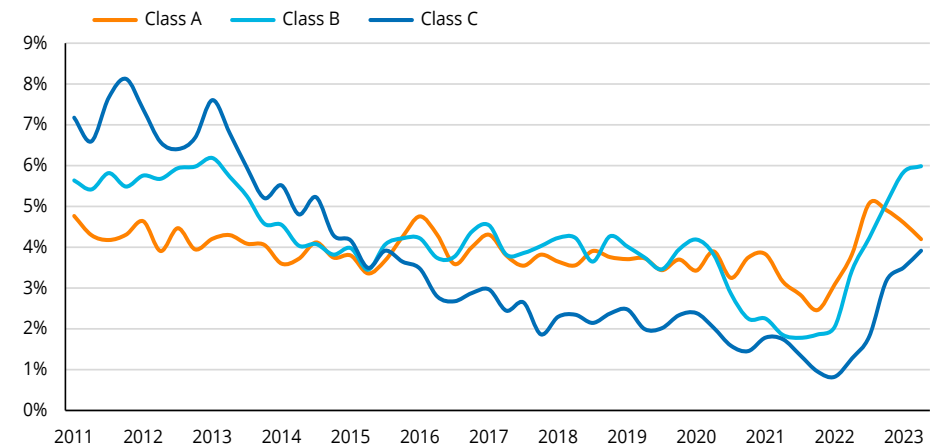
- A record amount of new supply coming online was offset by strengthening rental demand which helped slow the rise in vacancy rates. The vacancy rate rose by 30 bps from Q1 to end the second quarter at 5.5%, which would have been lower were it not for a deluge of Q2 deliveries.
- Class A was the only segment to tighten, falling 40 bps to 4.2%. Class B vacancy rose just 10 bps to 6.0% while Class C was up 40 bps to 3.9%.

VACANCY RATE



Source: Transwestern, RealPage, Q2 2023.

VACANCY RATE BY CLASS



Source: Transwestern, RealPage, Q2 2023.

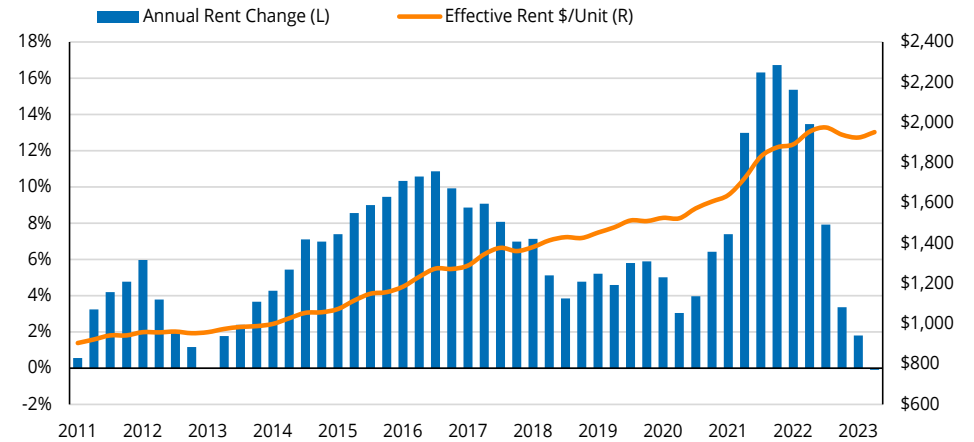


SUPPLY AND DEMAND FUNDAMENTALS

Rent Growth Moderates to -0.1% Year Over Year

- The average monthly effective rent rose for the first time in two quarters, reaching \$1,953 per unit following a record high in Q3 2022. Diminished demand coupled with rising supply has caused rent growth to moderate significantly to -0.1% year over year, however on a quarterly basis rents ticked up by 1.4%.
- Class A had the highest effective rents at a monthly average of \$2,492 and annual rent growth of 8.9%. Class B rents edged up by 2.2% (to \$1,924) and Class C had the weakest performance with 0.3% growth (reaching \$1,459).
- The average rate on a 30-year fixed rate mortgage was 6.7% at the end of the quarter. That is up from 3.2% at the start of last year but down from a peak of over 7% in the third quarter of last year. High mortgage rates are reducing the affordability of single-family homes and discouraging potential buyers from buying a home, and supporting multifamily demand.

MONTHLY EFFECTIVE RENT



Source: Transwestern, RealPage, Q2 2023.

30-YEAR FIXED RATE MORTGAGE



Source: Transwestern, FRED, June 2023.

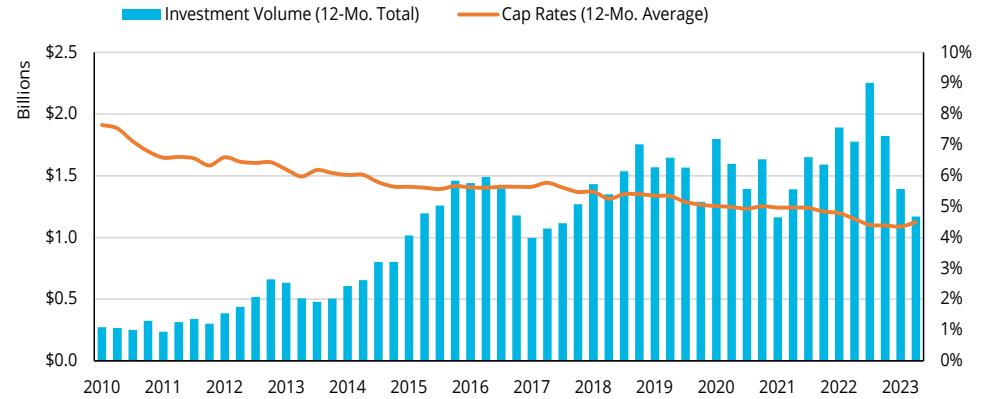


CAPITAL MARKETS

Deal Activity Slows as Cap Rates Hold Steady

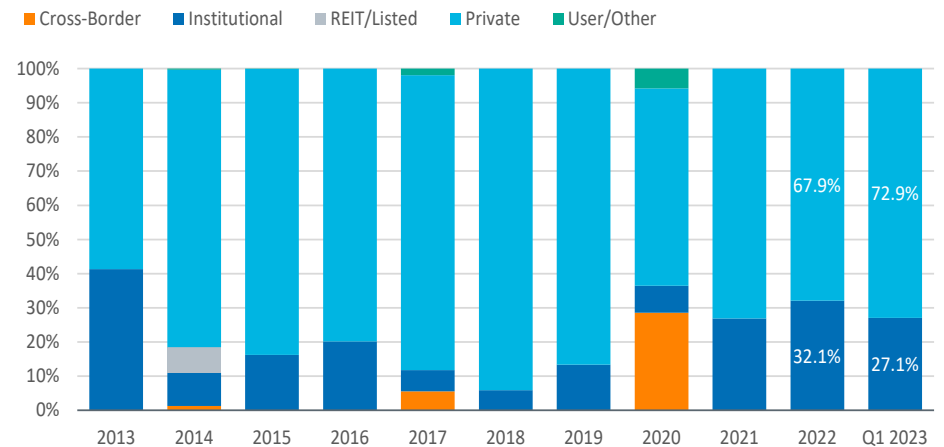
- Sacramento apartment sales remained at muted levels not seen since 2013, recording \$90 million in deal activity in Q2 - below the five-year average of \$379 million. Higher financing costs as well as soft fundamentals have slowed deal activity.
- For the year ending in Q2 2023 there was nearly \$1.2 billion in investment activity, a 34.1% decline from one year ago.
- Average price per unit ended the quarter at \$258,104, a 4.7% increase from both last quarter and one year ago.
- Annual cap rates in Q2 ticked up by 10 bps to 4.5% but remains near historic lows and 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 in the first half of 2023, responsible for 72.9% of investment volume. Institutional capital accounted for the remainder of activity with 27.1%.

INVESTMENT VOLUME AND CAP RATES



Source: Transwestern, Real Capital Analytics, Q2 2023.

INVESTOR COMPOSITION



Source: Transwestern, Real Capital Analytics, Q2 2023.



TOP SALES BY PRICE

ADDRESS	CITY	PRICE (MIL. \$)	BUILDING SF	BUYER	SELLER
7847 RUSH RIVER DR	Sacramento	\$20.0	45,949	Tim Fluetsch (CA)	Greek Orthodox Angelic Corp
750 DOROTHY ADAMO LN	West Sacramento	\$19.0		Avanath Cap Prtnrs	St. Anton Partners
6915 LEWISTON WAY	Sacramento	\$15.8	78,845	Jaswinder Shergill	Positive Investments
607 E 8TH ST	Davis	\$7.3	20,424	Enduravest Partners	Connolly Family LP
4725 MARCONI AVE	Sacramento	\$6.4	29,496	Ara Karamanoukian	Pong & NG Investments LLC

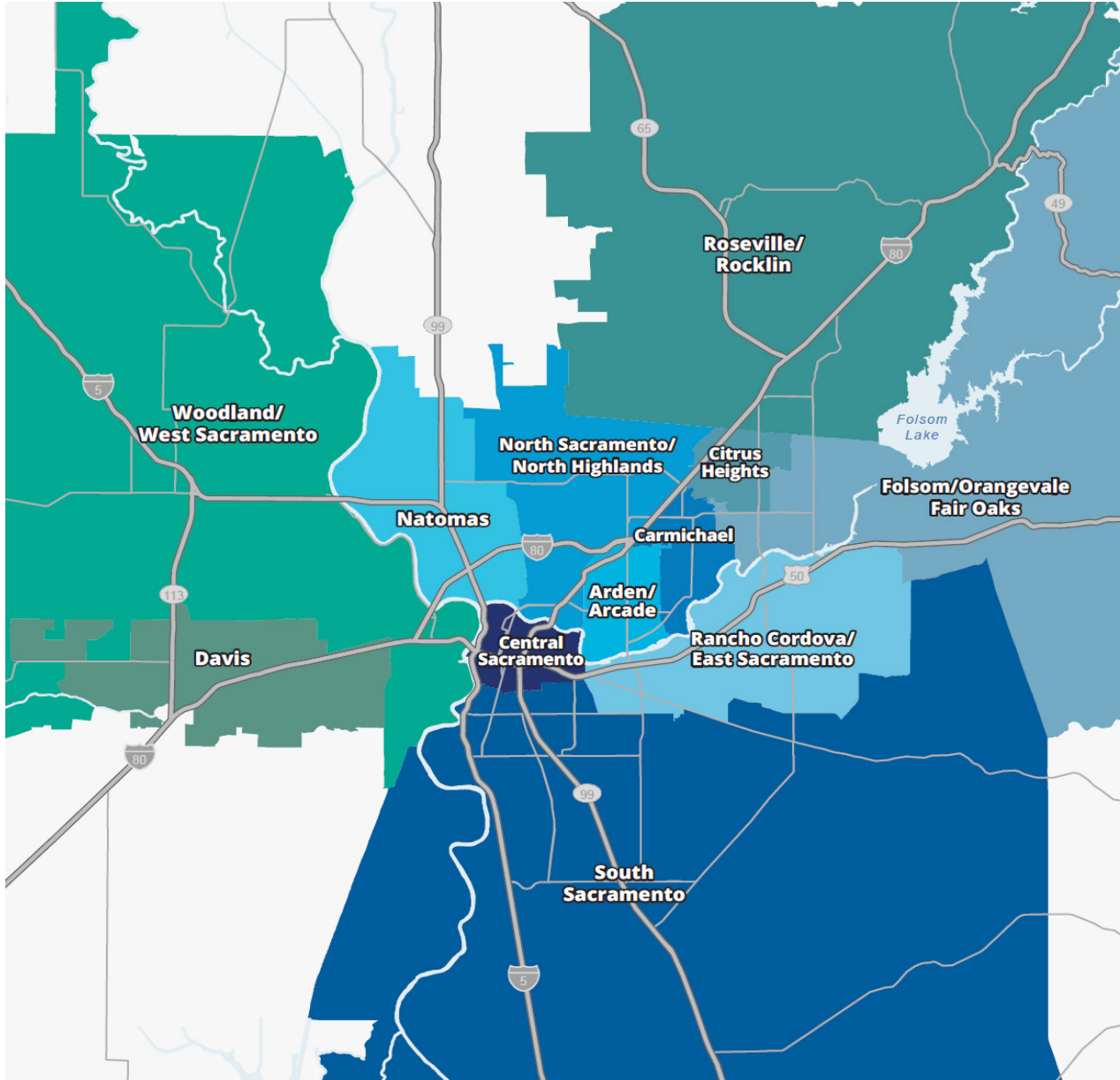
Q2 SUBMARKET FUNDAMENTALS

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	\$1,669	4.5%	6.2%	-493	0	4.2%	192,314
CARMICHAEL	9,187	\$1,619	3.7%	5.0%	-321	0	--	182,075
CENTRAL SACRAMENTO	19,258	\$2,242	3.7%	7.1%	1,210	1,262	3.2%	329,495
CITRUS HEIGHTS	7,197	\$1,737	-0.7%	4.8%	-133	0	4.3%	180,447
DAVIS	9,108	\$2,438	9.0%	0.8%	326	225	--	326,481
FOLSOM/ORANGEVALE/FAIR OAKS	14,539	\$2,156	-1.9%	5.9%	-395	73	6.0%	311,372
NATOMAS	13,744	\$1,972	-2.2%	6.1%	6	327	4.8%	--
NORTH SACRAMENTO/NORTH HIGHLANDS	10,602	\$1,875	-1.4%	6.8%	-324	0	4.7%	236,079
RANCHO CORDOVA/EAST SACRAMENTO	11,820	\$1,781	-3.3%	6.7%	-486	0	--	137,029
ROSEVILLE/ROCKLIN	18,039	\$2,120	-5.2%	4.9%	234	446	3.9%	227,121
SOUTH SACRAMENTO	20,770	\$1,878	-0.4%	5.9%	-696	0	3.8%	220,513
WOODLAND/WEST SACRAMENTO	8,720	\$1,869	3.8%	4.9%	-147	112	--	390,095
SACRAMENTO TOTAL	156,875	\$1,953	-0.1%	5.5%	-1,416	2,445	4.3%	257,745

Source: Transwestern, RealPage, Real Capital Analytics, Q2 2023.



SUBMARKET MAP



FOR MORE INFORMATION

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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.