



TRANSWESTERN

SACRAMENTO MULTIFAMILY MARKET

Q3 2023



DEMAND CONTINUES TO REBOUND BUT STRONG SUPPLY PRESSURES HURT RENT GROWTH

Third quarter apartment demand in Sacramento was positive for the second consecutive quarter as slowing inflation and a strong labor market strengthened consumer confidence and, in turn, household formation. Though demand is rebounding, rent growth has flattened from a wave of pandemic-era projects coming online.

The supply pipeline in Q3 continued to deliver a steady stream of new units to the market, putting downward pressure on rent growth, which fell 0.3% year over year. The vacancy rate ticked up 10 basis points (bps) from last quarter as improving demand offset some of the pressures of high supply. Though rent growth has substantially moderated, monthly effective rents still ended the quarter at \$1,974 per unit, not far behind the all-time highs recorded last year.

Sacramento apartment sales recorded \$58 million in deal activity – below the five-year average of \$355 million as the higher cost of financing 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 declined to \$180,582 from Q2 (-25.9%) and was down 29.6% year over year. Cap rates expanded by 30 basis points (bps) over the quarter to 4.9% although it underestimates re-pricing on many deals.

TRENDLINES

	Q3 2023	Q2 2023	Q3 2022	Q/Q CHANGE	Y/Y CHANGE
Annual Completions (Units)	2,811	2,389	1,873	17.7%	50.1%
Annual Absorption (Units)	316	(1,477)	(1,290)	-121.4%	-124.5%
Vacancy Rate	5.6%	5.5%	4.1%	6 bps	146 bps
Effective Rent (\$/Unit)	\$1,974	\$1,958	\$1,979	0.8%	-0.3%
Annual Investment Volume (\$ Bil.)	\$0.3	\$1.1	\$2.2	-73.4%	-86.5%
Annual Cap Rates	4.9%	4.6%	4.4%	30 bps	47 bps

Source: Transwestern, RealPage, MSCI Real Assets, Q3 2023.

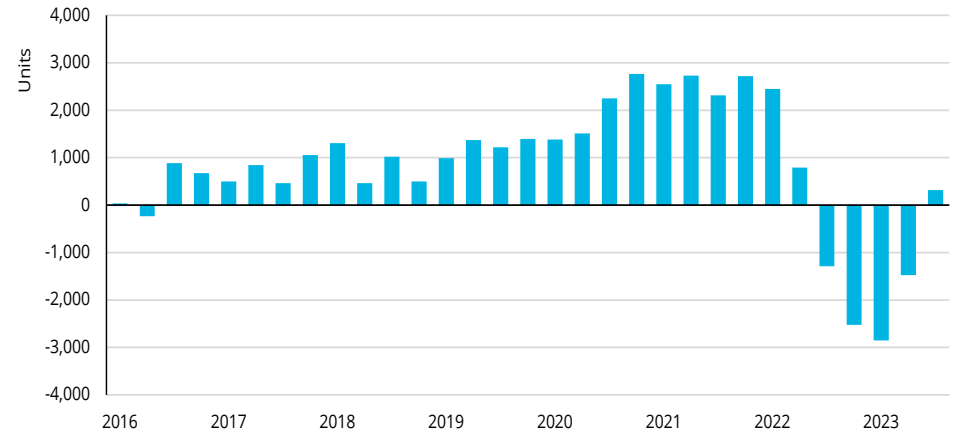


SUPPLY AND DEMAND FUNDAMENTALS

Rental Demand is Rebounding

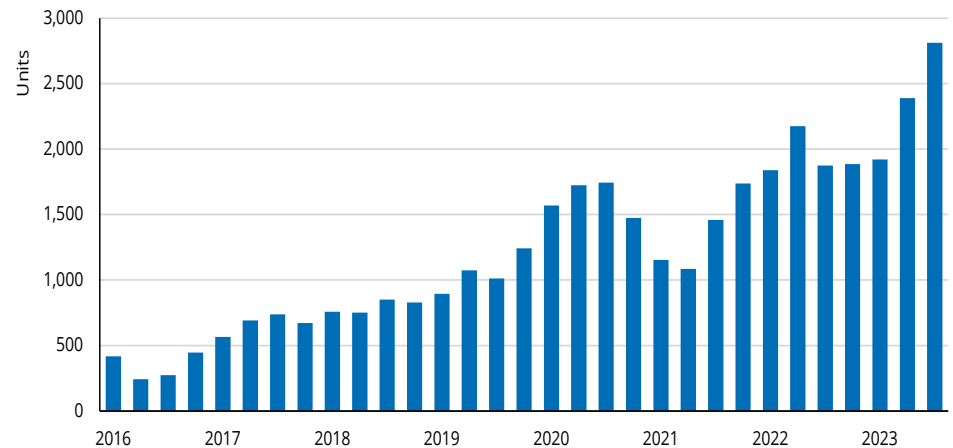
- Rental demand was positive for the second consecutive quarter with 618 units absorbed in Q3, showing signs of a rebounding market. High inflation, weak household formation and recessionary fears kept renters in place but some of that pent-up demand is now being unleashed. For the four quarters ending in Q3 2023, absorption finally turned positive with 316 units.
- Completions totaled 759 units in Q3, down from 1,196 units in Q2. For the year ending in Q3 2023 there were 2,811 units delivered to the market as a flurry of pandemic-era projects continued to come online, both in Sacramento as well as in most major markets across the nation.

12-MONTH NET ABSORPTION



Source: Transwestern, RealPage, Q3 2023.

12-MONTH COMPLETIONS



Source: Transwestern, RealPage, Q3 2023.

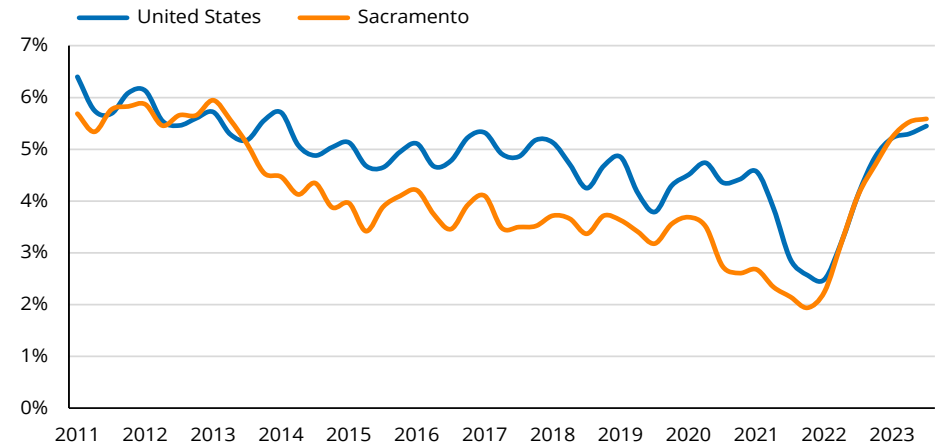


SUPPLY AND DEMAND FUNDAMENTALS

Vacancy Rate Edges up to 5.6%

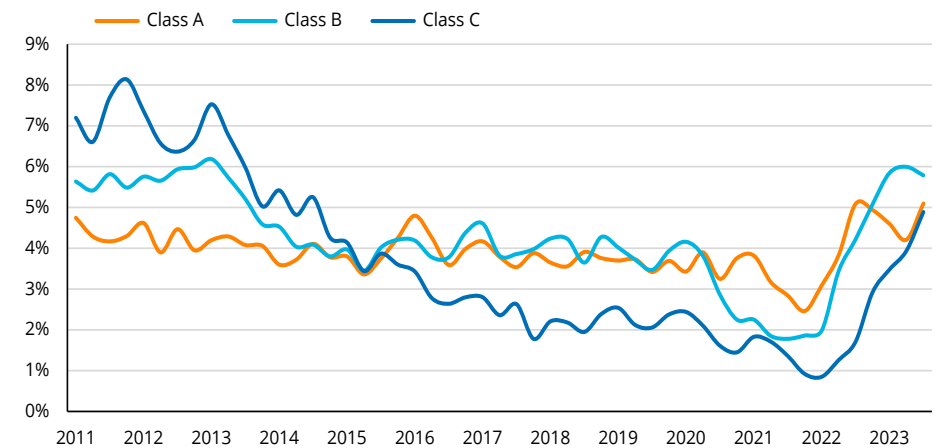
- A steady stream of new supply coming online pushed the vacancy rate up by 10 bps to end the third quarter at 5.6%, despite rebounding demand.
- Class A vacancy rose 90 bps from last quarter to 5.1 % while Class B properties had a 20-bp decline in vacancy to 5.8%. Class C rose 100 bps to 4.9%.

VACANCY RATE



Source: Transwestern, RealPage, Q3 2023.

VACANCY RATE BY CLASS



Source: Transwestern, RealPage, Q3 2023.

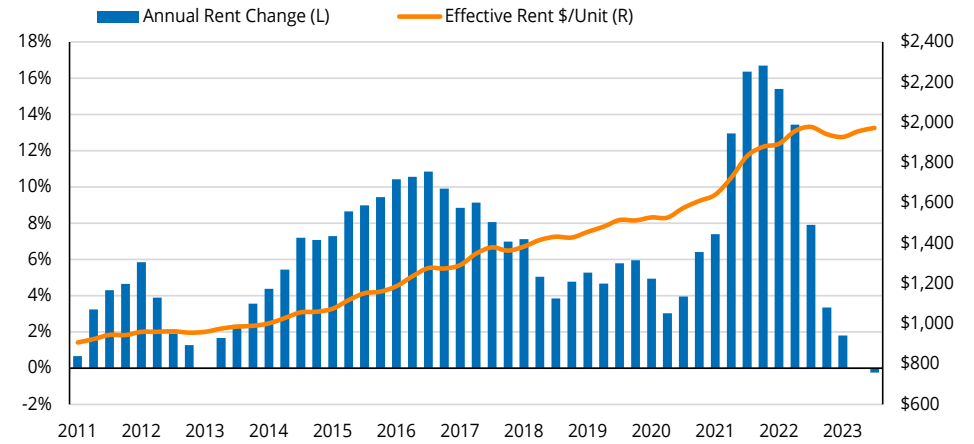


SUPPLY AND DEMAND FUNDAMENTALS

Annual Rent Growth Slows to 0.3%

- The average monthly effective rent rose for the second quarter in a row, reaching \$1,974 per unit in Q3 2023. Though demand was positive this quarter, supply was higher, causing rent growth to rise moderately by 0.8% from last quarter and fall 0.3% from one year ago.
- Class A had the highest effective rents at a monthly average of \$2,514 and annual rent growth of 8.7%. Class B rents increased 2.1% from one year ago (to \$1,960) and Class C rose 2.0% to \$1,507.
- The average rate on a 30-year fixed rate mortgage was 7.3% at the end of the quarter, the highest rate since 2000. High mortgage rates are reducing the affordability of single-family homes and discouraging potential buyers from buying a home, thereby supporting multifamily demand.

MONTHLY EFFECTIVE RENT



Source: Transwestern, RealPage, Q3 2023.

30-YEAR FIXED RATE MORTGAGE



Source: Transwestern, FRED, September 2023.

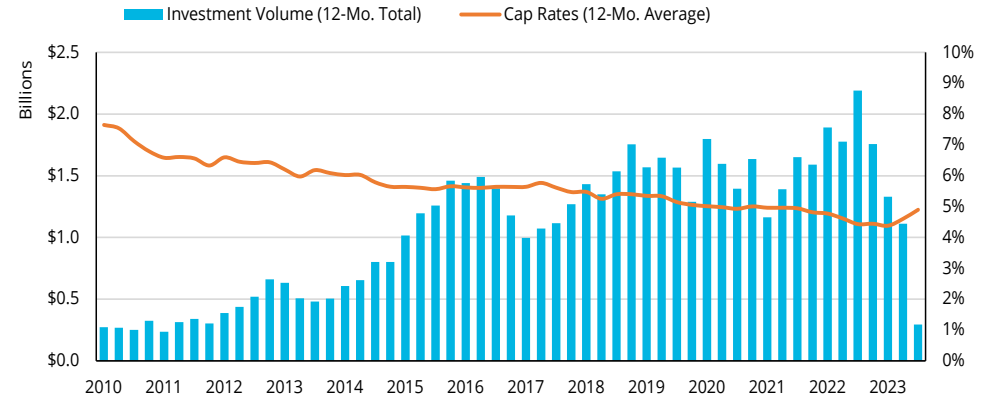


CAPITAL MARKETS

Bid-Ask Gap Narrows but Deal Activity Still Weak

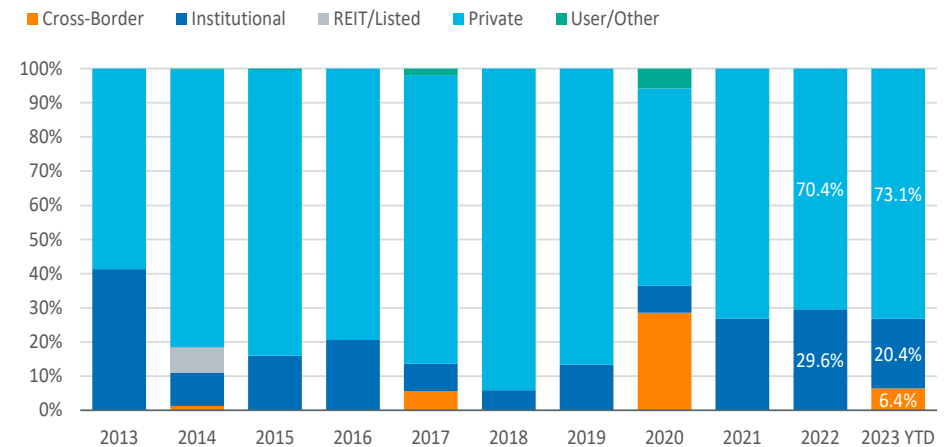
- Sacramento apartment sales recorded \$58 million in deal activity -- below the five-year average of \$355 million as the higher cost of financing slowed deal activity. While the gap between buyer and seller expectations remains wide, buyers are still taking on deals with lower yields than they have seen over the last few years.
- For the year ending in Q3 2023 there was \$295 million in investment activity, a 86.5% decline from one year ago.
- Average price per unit ended the quarter at \$180,582, a 25.9% decrease from Q2. Over the year, price growth has retreated by 29.6%.
- Annual cap rates in Q3 ticked up by 30 bps to 4.9% but remain near historic lows and underestimates re-pricing on many deals.
- Private buyers in search of value-add deals were the most active through Q3 of 2023, responsible for 73.1% of investment volume. Institutional capital was the next largest player, accounting for 20.4% of the total.

INVESTMENT VOLUME AND CAP RATES



Source: Transwestern, MSCI Real Assets, Q3 2023.

INVESTOR COMPOSITION



Source: Transwestern, MSCI Real Assets, Q3 2023.



TOP SALES BY PRICE

ADDRESS	CITY	PRICE (MIL. \$)	BUILDING SF	BUYER	SELLER
3690 S PORT DR	Sacramento	\$17.9	79,784	Redwood Property Investors	PI Properties
1224 SKI RUN BLVD	South Lake Tahoe	\$8.2	--	Unknown	David Washburn
5939 SUTTER AVE	Carmichael	\$7.3	28,400	Ranjit Hundal	Adele Barsotti
7530 WALNUT DR	Citrus Heights	\$5.3	26,180	Eric Price	Porterfield Family LLC
2712-2714 E ST	Sacramento	\$3.3	12,750	Enduravest Partners	Betty S Reuben Living Trust

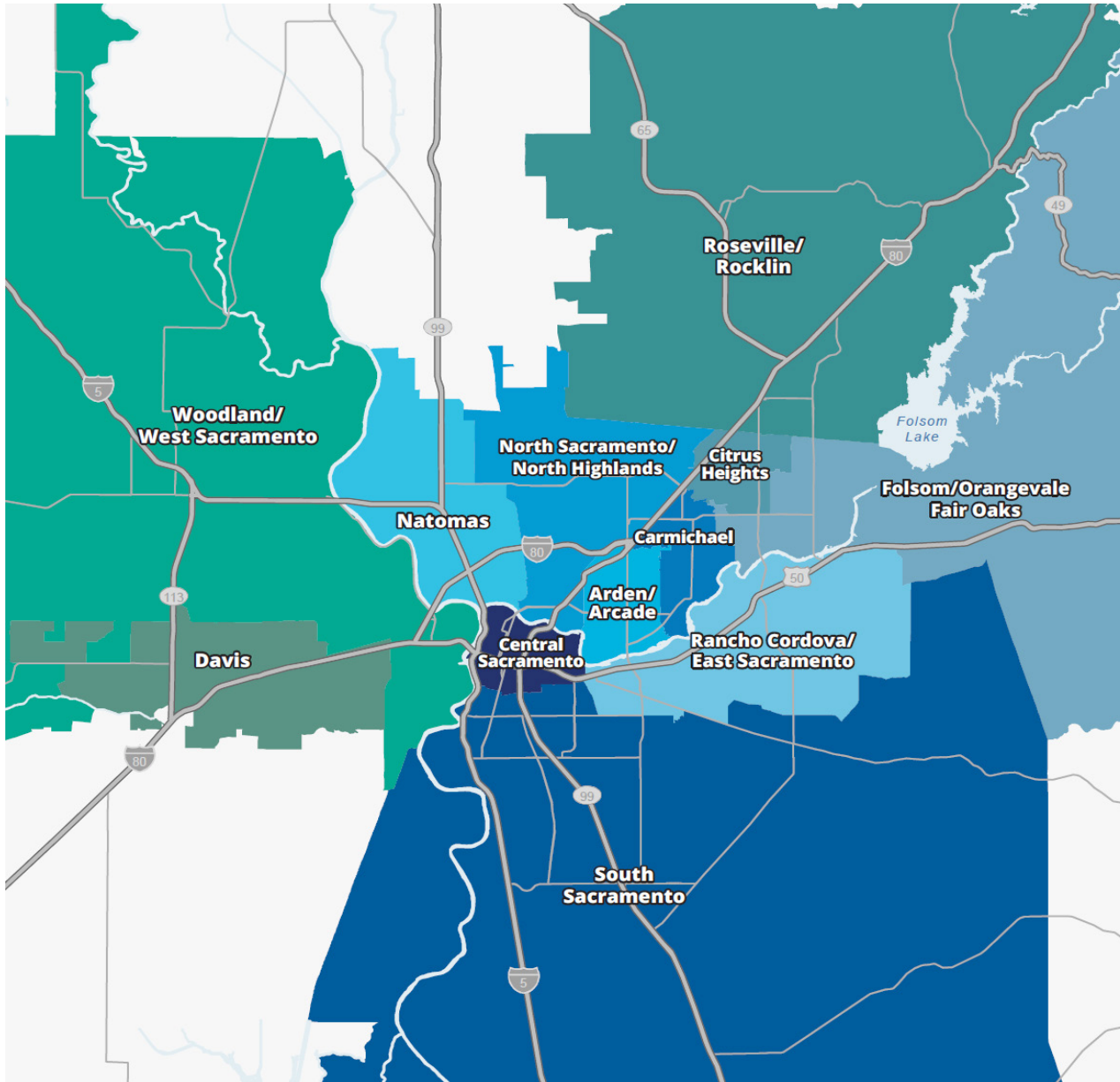
Q3 SUBMARKET FUNDAMENTALS

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	\$1,668	2.0%	6.9%	-462	0	4.9%	188,523
CARMICHAEL	9,187	\$1,648	1.7%	6.3%	-342	0	--	182,192
CENTRAL SACRAMENTO	19,342	\$2,253	2.7%	6.2%	1,521	1,199	3.9%	261,518
CITRUS HEIGHTS	7,197	\$1,744	-2.4%	5.4%	-144	0	5.0%	165,625
DAVIS	9,192	\$2,447	7.3%	2.2%	284	309	--	142,731
FOLSOM/ORANGEVALE/FAIR OAKS	14,539	\$2,196	-1.1%	5.5%	-161	73	4.1%	199,398
NATOMAS	13,785	\$1,984	-2.1%	6.3%	92	368	4.8%	--
NORTH SACRAMENTO/NORTH HIGHLANDS	10,602	\$1,914	-1.3%	6.6%	-169	0	5.7%	237,029
RANCHO CORDOVA/EAST SACRAMENTO	11,914	\$1,770	-4.5%	6.4%	-172	94	5.6%	137,029
ROSEVILLE/ROCKLIN	18,226	\$2,161	-1.7%	4.8%	515	593	5.8%	199,094
SOUTH SACRAMENTO	20,858	\$1,923	-0.3%	5.2%	-178	88	4.0%	172,646
WOODLAND/WEST SACRAMENTO	8,767	\$1,892	1.8%	5.4%	-99	87	5.0%	152,000
SACRAMENTO TOTAL	157,500	\$1,974	-0.3%	5.6%	317	2,811	4.6%	178,765

Source: Transwestern, RealPage, MSCI Real Assets, Q3 2023.



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.