



TRANSWESTERN

SACRAMENTO MULTIFAMILY MARKET

Q4 2023



DEMAND CONTINUES TO REBOUND BUT HIGH SUPPLY DAMPENS RENT GROWTH

Rental demand was positive for the second consecutive quarter with 495 units absorbed in Q4, 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. With inflation running lower and the labor market remaining historically tight, consumer confidence and household formation has strengthened, supporting rental demand.

The supply pipeline in Q4 continued to deliver a steady stream of new units to the market, putting downward pressure on rent growth, which ticked up 0.5% on a quarterly basis to \$1,967 per unit but effective rents remained near historically high levels. The vacancy rate, however, rose only 10 basis points (bps) from Q3 to end the quarter at 5.6% as improving demand offset some of the pressures of high supply.

Sacramento apartment sales recorded \$396 million in deal activity over the last four quarters – the lowest since 2012 as the higher cost of financing slowed investment levels. 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 by 22.3% on a quarterly basis to \$141,784 and was down 4.6% year over year. Cap rates expanded by 80 basis points (bps) over the quarter to 5.8% although it underestimates re-pricing on many deals.

TRENDLINES

	Q4 2023	Q3 2023	Q4 2022	Q/Q CHANGE	Y/Y CHANGE
Cap Rates	5.8%	5.0%	5.3%	80 bps	50 bps
Annual Price per Unit	\$141,784	\$182,400	\$148,682	-22.3%	-4.6%
Effective Rent (\$/Unit)	\$1,967	\$1,958	\$1,980	0.5%	-0.7%
Vacancy Rate	5.6%	5.5%	4.1%	5 bps	146 bps
12-Mo. Investment Volume (\$ Mil.)	\$85.6	\$72.2	\$87.7	18.6%	-2.4%
Annual Absorption (Units)	495	534	(1,171)	-7.3%	-142.3%
Annual Completions (Units)	615	1,103	337	-44.2%	82.5%
Annual Permits (Units)	-	2,912	3,668	-100.0%	-100.0%
Unemployment Rate	4.5%	4.5%	3.8%	0 bps	70 bps
Nonfarm Jobs (Mil.)*	1.11	1.09	1.08	1.6%	2.2%

Source: Transwestern, EDD, Costar, MSCI Real Assets, Q4 2023.

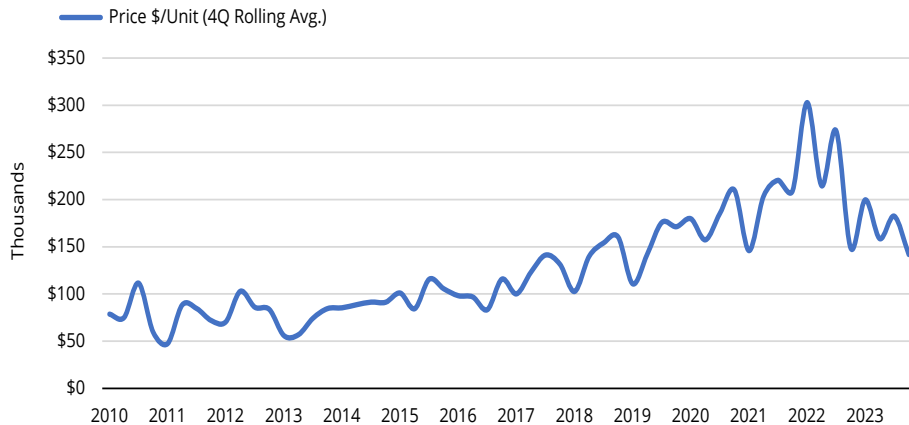


CAPITAL MARKETS

Bid-Ask Gap Narrows but Deal Activity Still Weak

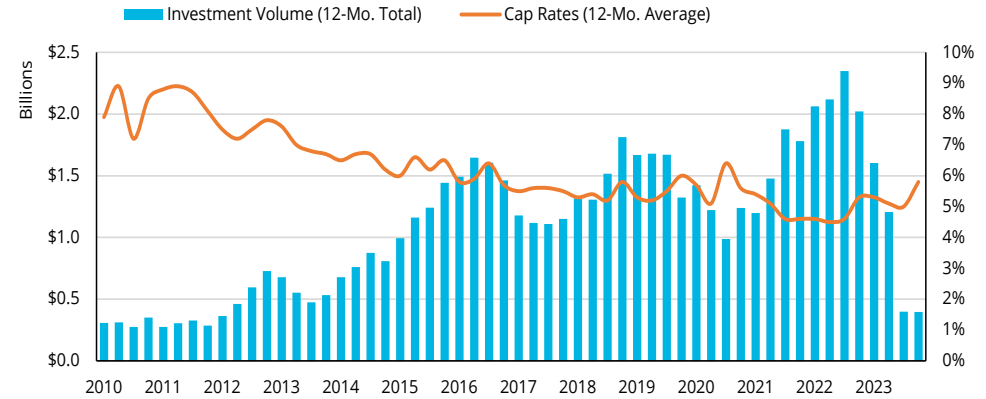
- Sacramento apartment sales recorded \$86 million in deal activity -- below the five-year average of \$338 million as the higher cost of financing slowed deal activity. While the gap between buyer and seller expectations remains wide, buyers are still taking on deals with lower yields than they have seen over the last few years.
- For the year ending in Q4 2023 there was almost \$396 million in investment activity, a 80.4% decline from one year ago.
- Average annual price per unit ended the quarter at \$141,784, a 22.3% decrease from Q3. Over the year, price growth has retreated by 4.6%.
- Quarterly cap rates in Q4 ticked up by 80 bps to 5.8% but remain near historic lows and underestimates re-pricing on many deals.
- Private buyers in search of value-add deals were the most active in 2023, responsible for 68.1% of investment volume. Institutional capital accounted for much of the remainder of activity with 28.0%.

PRICE \$/UNIT



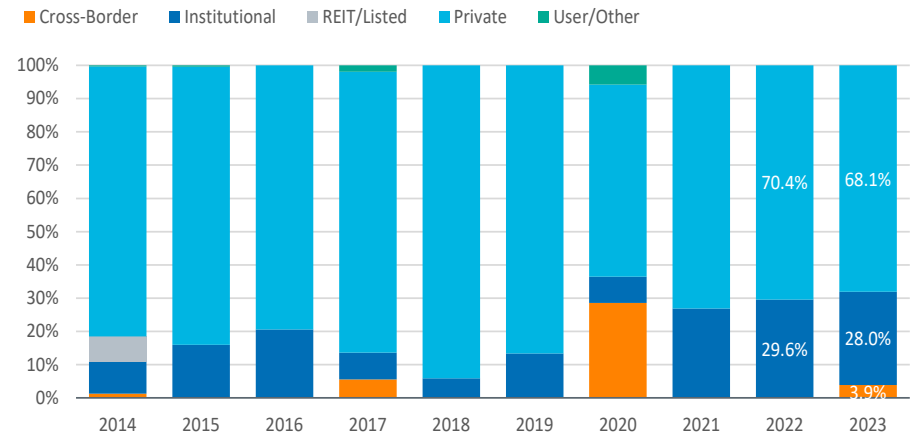
Source: Transwestern, Costar, Q4 2023.

INVESTMENT VOLUME AND CAP RATES



Source: Transwestern, Costar, Q4 2023.

INVESTOR COMPOSITION



Source: Transwestern, MSCI Real Assets, Q4 2023.

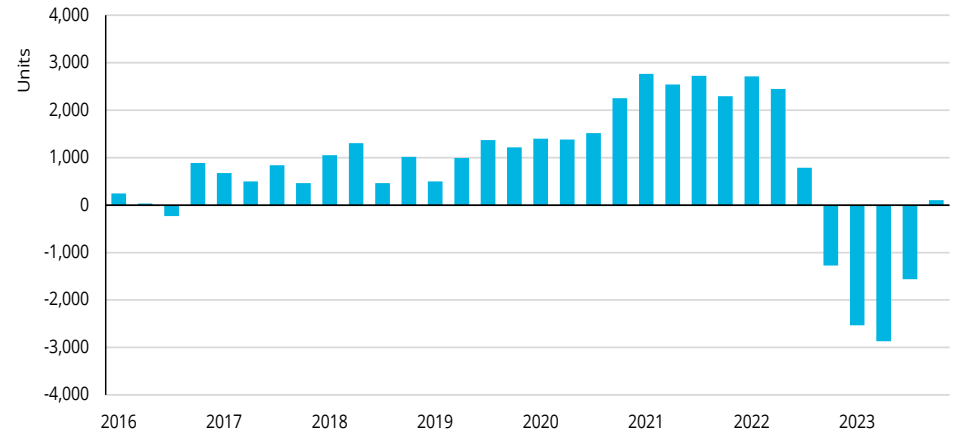


SUPPLY AND DEMAND FUNDAMENTALS

Rental Demand is Rebounding

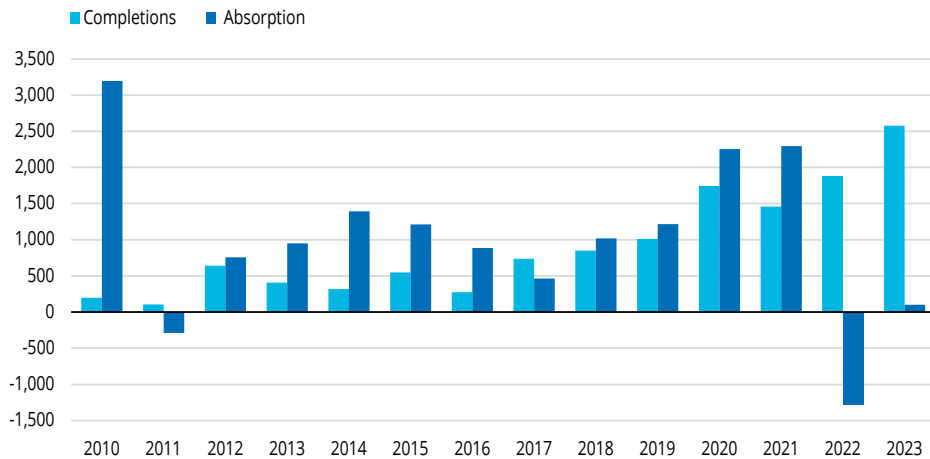
- Rental demand was positive for the second consecutive quarter with 495 units absorbed in Q4, showing signs of a rebounding market. High inflation, weak household formation and recessionary fears kept renters in place but some of that pent-up demand is now being unleashed. For the four quarters ending in Q4 2023, absorption was at 103 units (the first half of 2024 had negative absorption of about 900 units).
- Completions totaled 615 units in Q4, down from 1,103 units in Q3. For the year ending in Q4 2023 there were 2,576 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



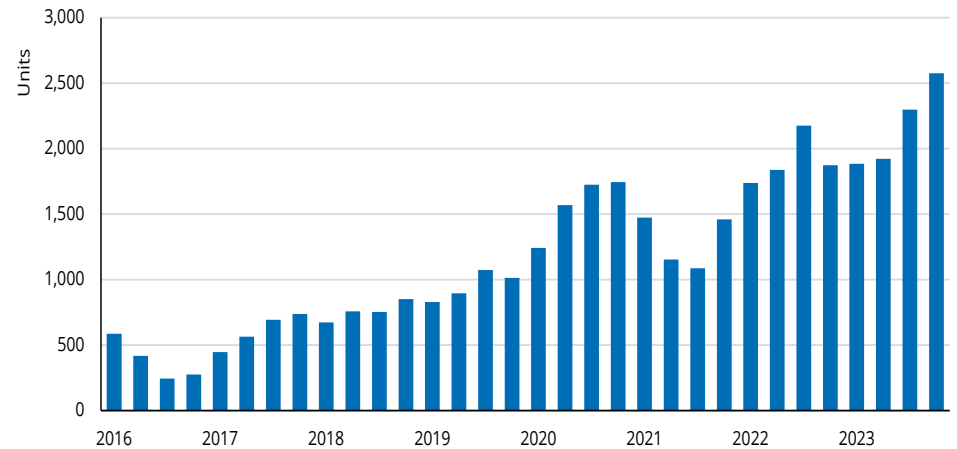
Source: Transwestern, Costar, Q4 2023.

SUPPLY & DEMAND



Source: Transwestern, Costar, Q4 2023.

12-MONTH COMPLETIONS



Source: Transwestern, Costar, Q4 2023.

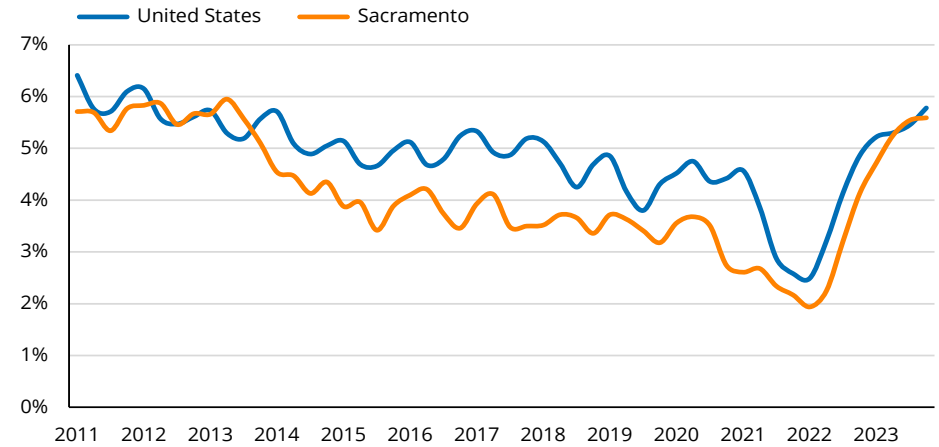


SUPPLY AND DEMAND FUNDAMENTALS

Vacancy Rate Remains Stable at 5.6%

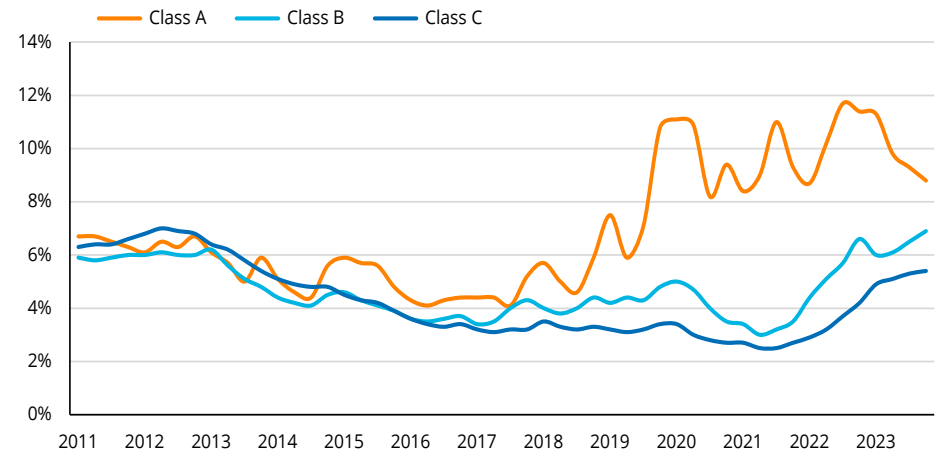
- Despite a steady stream of new supply coming online, rebounding demand helped keep the vacancy rate stable, rising only 10 bps to 5.6% while the national rate ticked up 30 bps to 5.8%.
- Class A vacancy fell 50 bps from Q3 to 8.8% and Class B properties had a 40-bp rise in vacancy to 6.9%. Class C ticked up 10 bps to 5.4%.

VACANCY RATE



Source: Transwestern, Costar, Q4 2023.

VACANCY RATE BY CLASS



Source: Transwestern, Costar, Q4 2023.

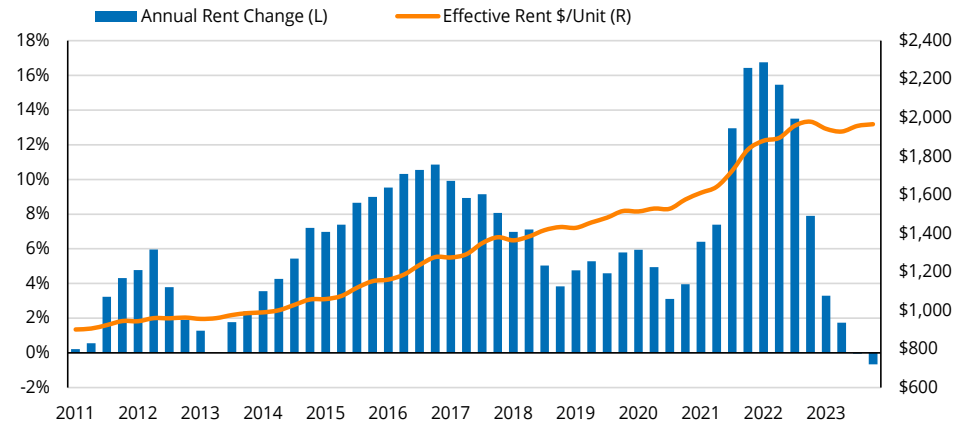


SUPPLY AND DEMAND FUNDAMENTALS

Quarterly Rent Growth Ticks up 0.5%

- The average monthly effective rent edged up 0.5% from Q3 to \$1,967 but remained near historically high levels. Though demand has been rebounding, the unusually large supply of apartments is putting pressure on rent growth. Year-over-year, rent growth was down 0.7%.
- Class A had the highest effective rents at a monthly average of \$2,143 and annual rent growth of 0.5%. Class B rents dipped 0.1% from one year ago (to \$1,796) and Class C rose 1.1% to \$1,435.
- The average rate on a 30-year fixed rate mortgage was 6.6% at the end of the quarter, coming down from 7.3% three months ago, the highest level 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, Costar, Q4 2023.

30-YEAR FIXED RATE MORTGAGE



Source: Transwestern, FRED, September 2023.



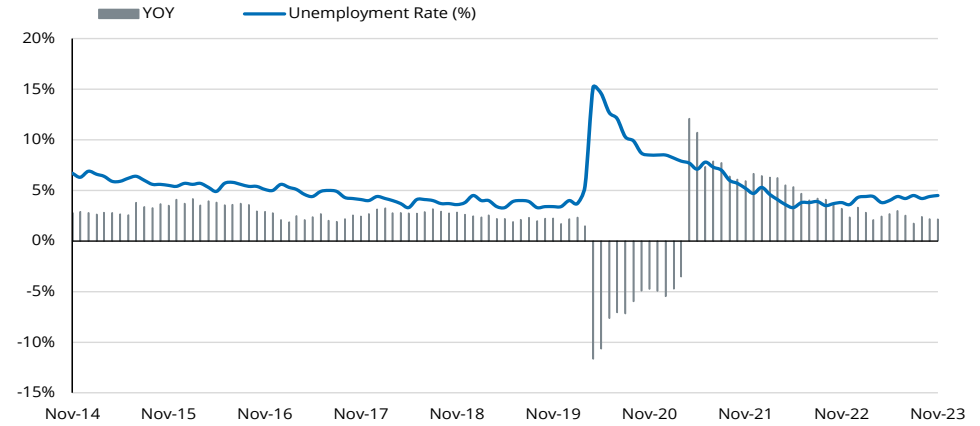
ECONOMY

Job Growth Softens to 2.2% YOY

- The November unemployment rate in the Sacramento metro area remained unchanged from three months ago at 4.5%. Though up from 3.8% one year ago, it has been under 5% for nearly two years. It remains a tight labor market but with softening job gains as businesses and consumers facing high borrowing costs.
- With the rise of interest rates cutting back at profits, hiring has gradually slowed over the past two years. In Q4, employers added 23,300 jobs annually, a 2.2% gain over the year.
- Jobs gains were driven by a year-over-year increase of 6.9% in construction employment (+5,100 jobs). Government also made a significant contribution, growing 1.8% and adding 4,600 jobs.

UNEMPLOYMENT RATE AND NONFARM JOBS

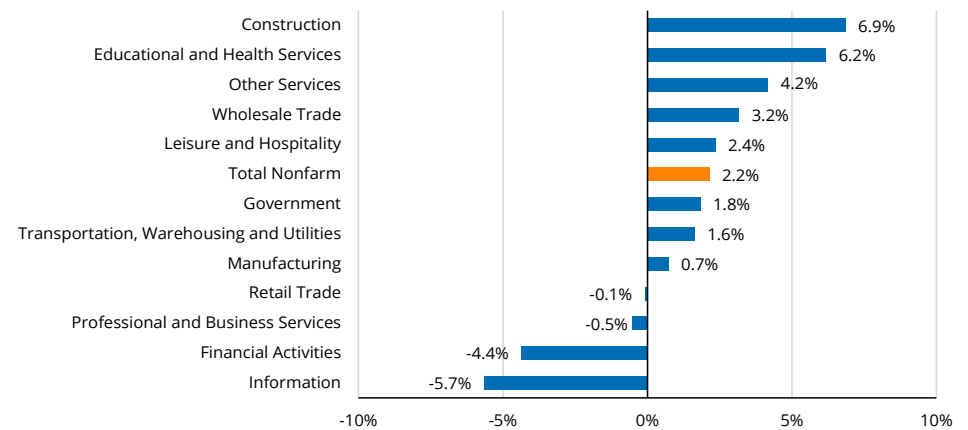
Sacramento-Roseville-Arden-Arcade MSA



Source: Transwestern, CA EDD, November 2023. Note: Data not seasonally adjusted.

YOY EMPLOYMENT CHANGE BY INDUSTRY

Sacramento-Roseville-Arden-Arcade MSA



Source: Transwestern, CA EDD, November 2023. Note: Data not seasonally adjusted.



TOP SALES BY PRICE

ADDRESS	CITY	PRICE (MIL. \$)	BUILDING SF	BUYER	SELLER
3401 SAVANNAH LN	West Sacramento	\$17.9	233,290	The Alliant Co	Eden Housing, HPET
724 COTTONWOOD ST	Woodland	\$8.2	62,112	Montgomery Partners Inc	Woodland Oaks Investments LLC
7700 COLLEGE TOWN DR	Sacramento	\$7.3	--	John M Melikian	Srcf Supporting Organization
2640 WOODRIDGE CT	Placerville	\$5.3	--	Hardeep Dhindsa (CA)	McAdams Family Trust; Brendan V McAdams
5700 FALCONER WAY	Sacramento	\$3.3	--	Trilochan Singh	Sailesh Patel

Source: Transwestern, MSCI Real Assets, Q4 2023.

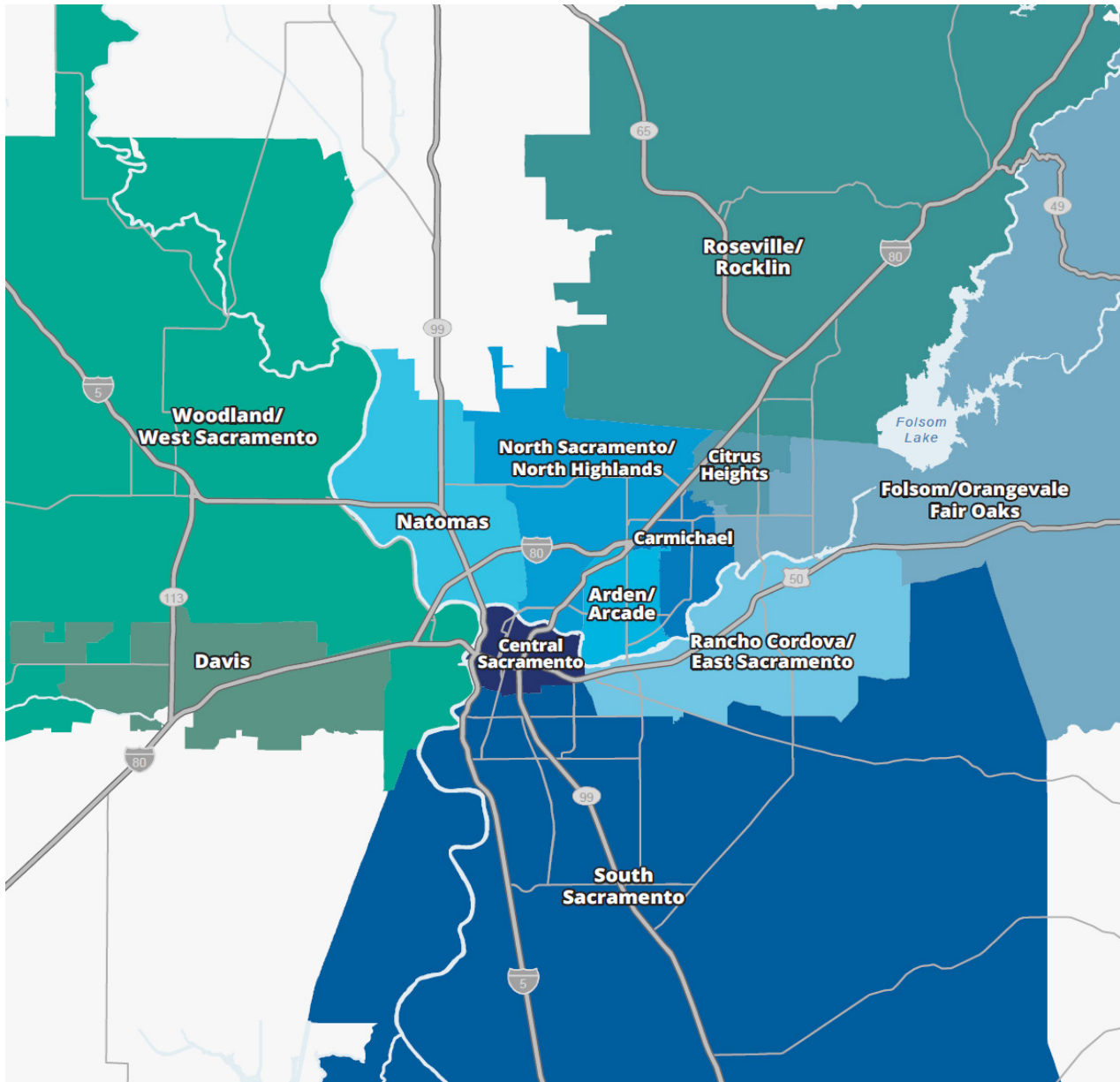
Q4 SUBMARKET FUNDAMENTALS

SUBMARKET	INVENTORY (UNITS)	EFFECTIVE RENT \$/UNIT	YOY RENT GROWTH	VACANCY RATE	"ABSORPTION (4-QUARTER)"	COMPLETIONS (4-QUARTER)	ANNUAL CAP RATE	ANNUAL \$/ UNIT
ARDEN/ARCADE	13,891	\$1,652	0.7%	6.9%	-336	0	4.9%	201,185
CARMICHAEL	9,187	\$1,627	0.1%	5.8%	-197	0	5.0%	182,192
CENTRAL SACRAMENTO	19,662	\$2,192	-0.2%	8.4%	1,139	1,202	4.5%	198,722
CITRUS HEIGHTS	7,197	\$1,738	-0.7%	5.5%	-122	0	5.1%	165,625
DAVIS	9,164	\$2,447	7.5%	2.8%	86	281	--	142,731
FOLSOM/ORANGEVALE/FAIR OAKS	14,551	\$2,122	0.3%	5.5%	51	85	4.8%	197,450
NATOMAS	13,890	\$1,914	-4.2%	6.6%	96	401	4.9%	--
NORTH SACRAMENTO/NORTH HIGHLANDS	10,602	\$1,900	-1.1%	6.7%	-132	0	4.8%	282,609
RANCHO CORDOVA/EAST SACRAMENTO	11,979	\$1,752	-3.9%	6.7%	-23	158	5.6%	126,368
ROSEVILLE/ROCKLIN	18,376	\$2,155	0.7%	4.5%	748	686	5.7%	170,804
SOUTH SACRAMENTO	20,886	\$1,913	1.7%	5.1%	83	116	5.1%	174,330
WOODLAND/WEST SACRAMENTO	8,909	\$1,892	5.2%	6.0%	112	229	5.5%	171,594
SACRAMENTO TOTAL	158,294	\$1,950	0.4%	5.7%	1,319	3,158	5.8%	141,784

Source: Transwestern, RealPage, Q4 2023.



MULTIFAMILY 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.