



TRANSWESTERN

SACRAMENTO MULTIFAMILY MARKET

Q2 2024



DEMAND CONTINUES TO REBOUND, ALONGSIDE OVERALL MARKET GROWTH

Demand for multifamily rentals in the Sacramento area has demonstrated steady progress over the past quarter, with 3,541 units absorbed in Q2. Despite several challenges such as high inflation, sluggish household formation, and ongoing recessionary concerns, the rental market continues to show signs of gradual growth. The Sacramento rental market has resisted reverting to pre-pandemic era lows, as evidenced by positive quarter-over-quarter and year-over-year statistics. A significant factor contributing to this stability is the robust local job market, which has added 186,400 jobs since May 2020, marking a 20% recovery in nonfarm employment. Additionally, a proposed 0.25% Federal Reserve rate cut expected in September could provide further relief to consumers and support continued market resilience.

However, the supply pipeline in Q2 continued to deliver a steady stream of new units to the market, putting downward pressure on the quarter over quarter rent growth of 2.8%, compared to a year over year rent growth of 3.1% to \$1,705 per unit, a new record high. The vacancy rate, also saw improvement as it ticked down .2% to 5.9%.

Sacramento apartment sales recorded \$493 million in deal activity over the last four quarters. This decline in investment volume is mostly attributed to the higher cost of financing, sluggishness in rent growth, and ongoing recessionary fears. 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. Q2 alone had \$235.7 million in volume, the highest since Q2 of 2022. The annual price per unit rose by 29.6% on a quarterly basis to \$207,325 which is up 18.7% year over year. Cap rates saw a dramatic drop of 130 basis points (bps) over the quarter to 5.0%.

TRENDLINES

	2024 Q2	2024 Q1	2023 Q2	Q/Q CHANGE	Y/Y CHANGE
Cap Rates	5.0%	6.3%	5.1%	-123 bps	98 bps
Annual Price per Unit	\$207,325	\$159,933	\$174,602	29.6%	18.7%
Effective Rent (\$/Unit)	\$1,705	\$1,658	\$1,654	2.8%	3.1%
Vacancy Rate	5.9%	6.1%	5.9%	-20 bps	0 bps
12-Mo. Investment Volume (\$ Mil.)	\$493	\$415	\$1,232	18.8%	-60%
Annual Absorption (Units)	3,541	3,110	873	13.9%	305.6%
Annual Completions (Units)	4,032	3,827	3,736	5.4%	7.9%
Annual Permits (Units)	3.2%	3.7%	3.8%	-50 bps	-60 bps
Unemployment Rate	1.09	1.10	1.06	-0.6%	2.8%
Nonfarm Jobs (Mil.)*	1.10	1.09	1.07	1.0%	2.3%

Source: Transwestern, EDD, Costar, MSCI Real Assets, Q2 2024.

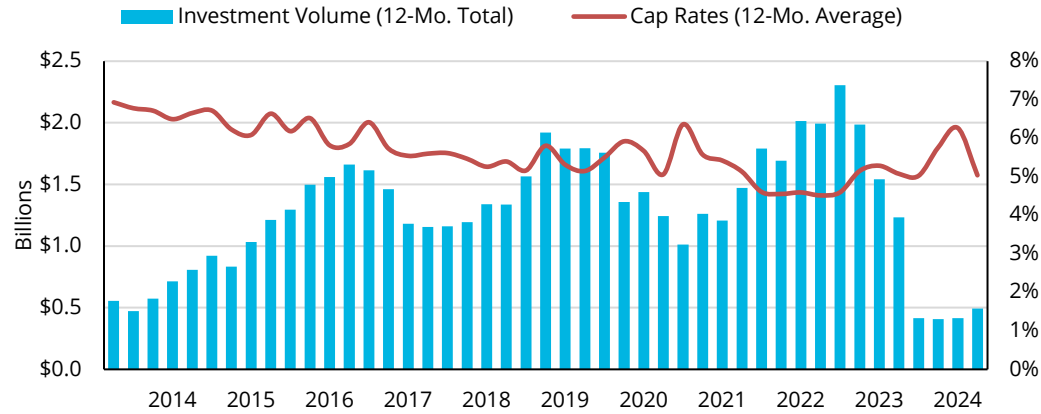


CAPITAL MARKETS

Apartment Sales Surge Despite Financing Challenges

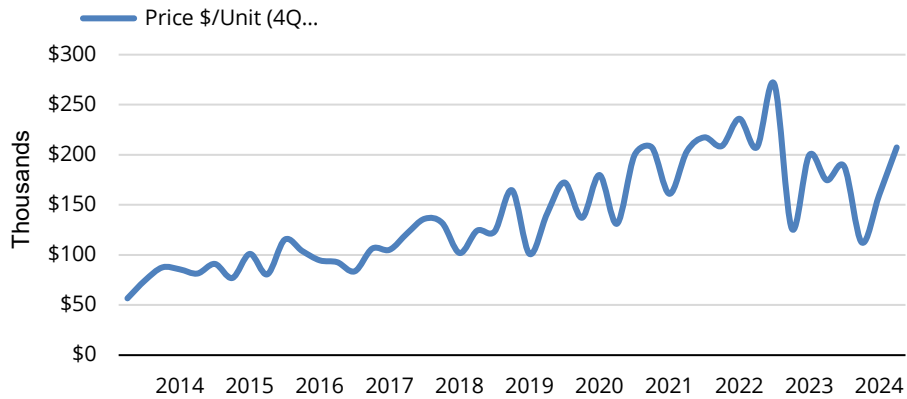
- At the end of Q2, Sacramento apartment sales totaled \$235.7 million, slightly below the five-year average of \$321 million. While lower than historical norms, it was an uptick of 139% from the previous quarter and a 50% increase year-over-year. Although higher financing costs have slowed deal activity, buyers are still looking to deploy capital, although they are seeking higher yields compared to recent years.
- For the year ending in Q2 2024 there was \$493 million in investment activity, a 60% decline from one year ago.
- The average annual price per unit ended the quarter at \$207,325. A 29.6% increase from Q1 2024. Year over year, the price has grown by \$32,723.
- Cap rates in Q2 compressed 130 bps to 5%, as interest rates began to loosen. However, due to the lagging nature of the data, the drop in cap rates can most likely be attributed to several quirks in the data.
- Private buyers in search of value-add deals are the most active in 2024, responsible for 76.6% of investment volume. Institutional capital accounted for the remaining 23.4% of activity.

INVESTMENT VOLUME AND CAP RATES



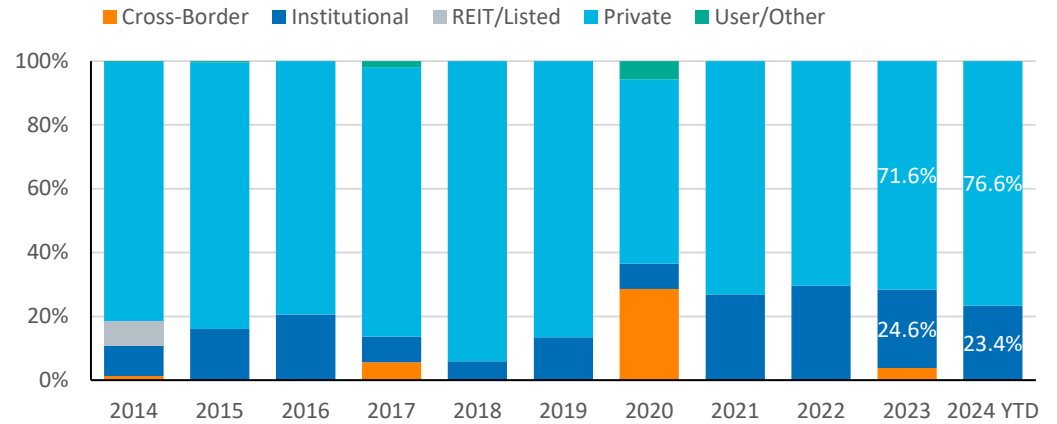
Source: Transwestern, Costar, Q2 2024.

PRICE \$/UNIT



Source: Transwestern, Costar, Q2 2024.

INVESTOR COMPOSITION



Source: Transwestern, MSCI Real Assets, Q2 2024.

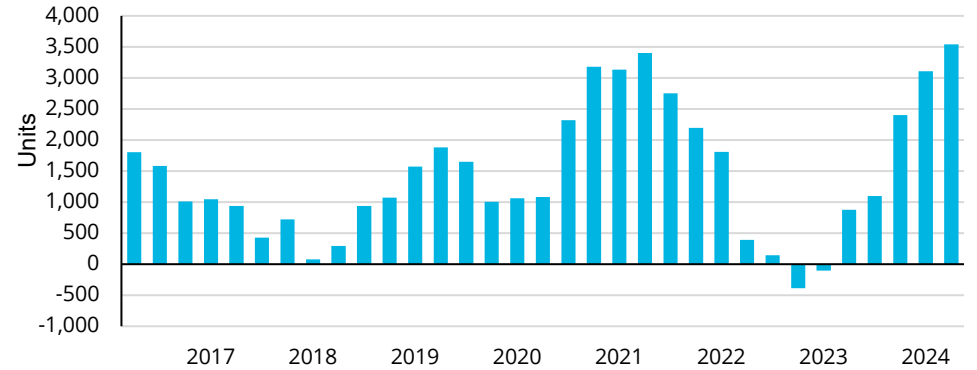


SUPPLY AND DEMAND FUNDAMENTALS

Rental Demand is Rebounding

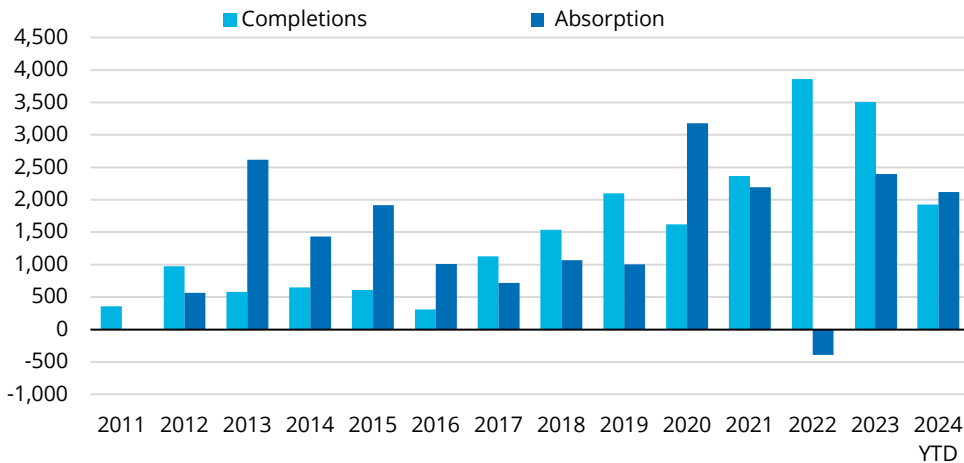
- Q2 ended with 1,129 units being absorbed, a 14.3% increase from the previous quarter. Q2 absorption total was 143.2% higher than the 5-year average of 464 units. The rental market is showing modest signs of recovery after a drop in rents due to the Federal Reserve's tightening cycle. The market has been steadily improving and hasn't seen a negative absorption total in the past six quarters.
- Completions totaled 1,037 units in Q2, up from 890 units in Q1. For the year ending in Q2 2024, there were 4,032 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



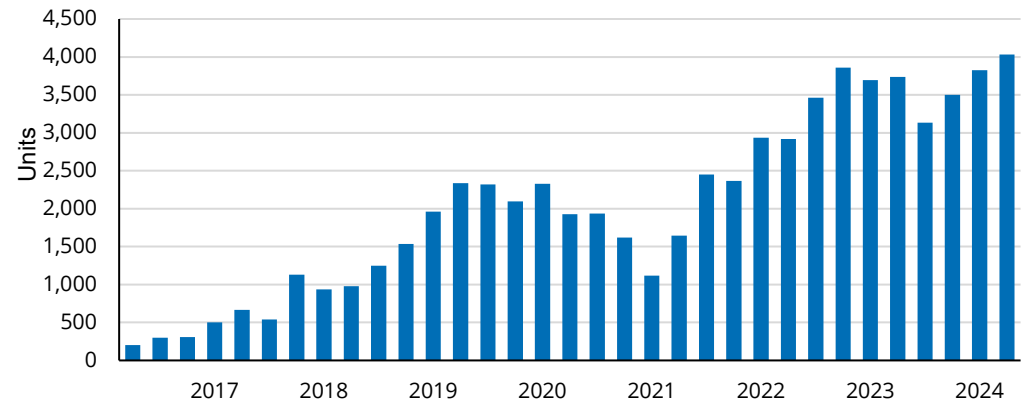
Source: Transwestern, Costar, Q2 2024.

SUPPLY & DEMAND



Source: Transwestern, Costar, Q2 2024.

12-MONTH COMPLETIONS



Source: Transwestern, Costar, Q2 2024.

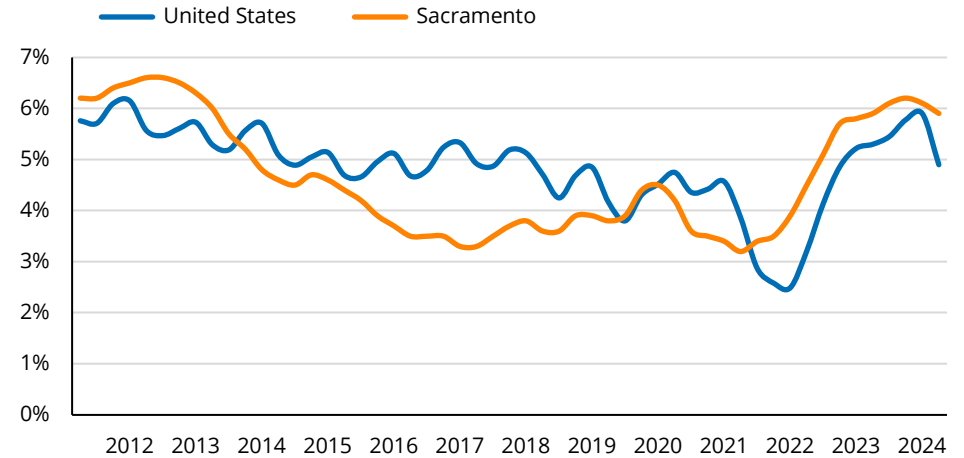


SUPPLY AND DEMAND FUNDAMENTALS

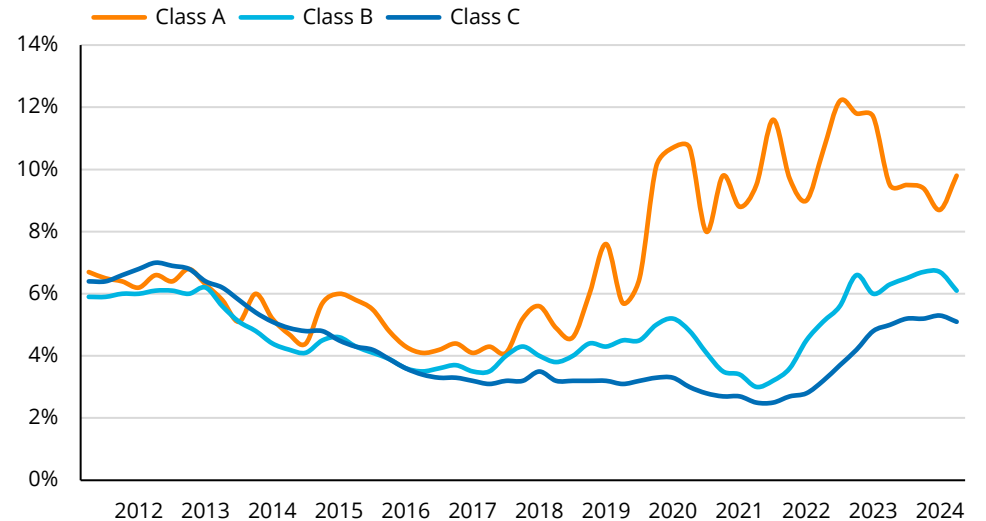
Vacancy Rate Ticks Down to 5.9%

- Despite a consistent stream of new units coming to the market, supply and demand have both been seeing upticks. Rebounding demand helped push the vacancy rate down to 5.9% while the national rate ticked down 100 bps to 4.9%.
- Class A properties saw a large increase in vacancy quarter over quarter, jumping up from 8.7% to 9.8%. Yet, on a year-over-year basis, it's only a 0.2% increase, and 0.1% increase over the 5-year average. Class A vacancy is also down 2% from Q2 of 2022. Therefore, the increase in vacancy this past quarter does not appear to be a trend, and an increase in class A vacancy is not in the forecast.
- Class B Vacancy ticked down 0.6% but remains higher than historical standards as it is a whole percentage point above the 5-year average.

VACANCY RATE



Source: Transwestern, Costar, Q2 2024.



Source: Transwestern, Costar, Q2 2024.

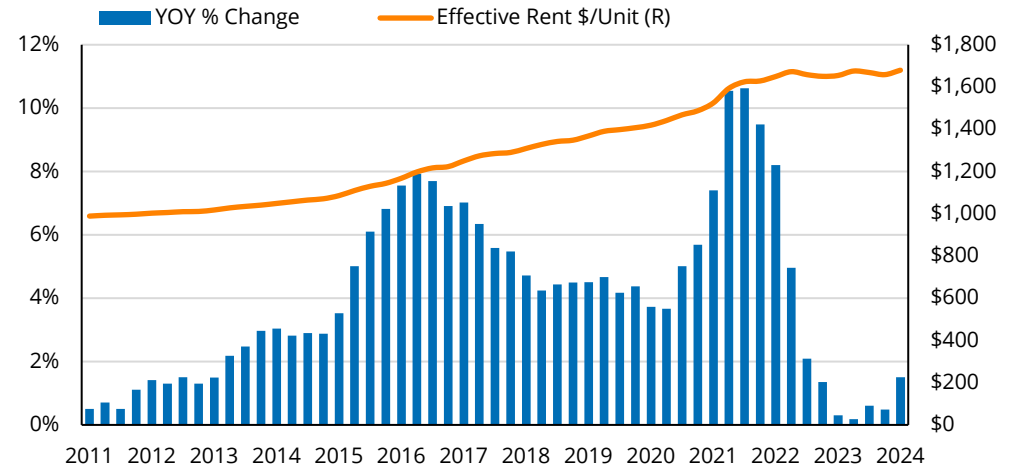


SUPPLY AND DEMAND FUNDAMENTALS

All Time Record High Rent

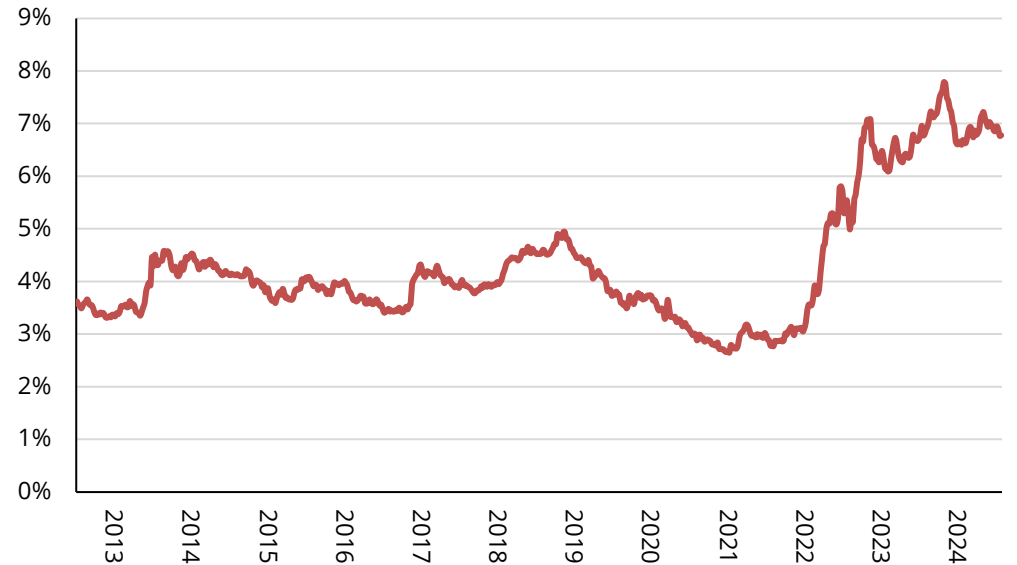
- The average monthly effective rent edged up 1.5% from Q1 to \$1,705 and is at historically high levels. Though demand has been rebounding, the unusually large supply of apartments is putting some downwards pressure on rent growth. Year-over-year, rent growth was up 1.8%.
- Class A had the highest effective rents at a monthly average of \$2,227, and an annual rent growth of 2.0%. Class B rents went up 1.3% from one year ago to \$1,850. Class C rose 1.5% to \$1,460.
- The average rate on a 30-year fixed rate mortgage was 6.9% at the end of the quarter, up from 6.8% three months ago. 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, Q2 2024.

30-YEAR FIXED RATE MORTGAGE



Source: Transwestern, FRED, March 2024.



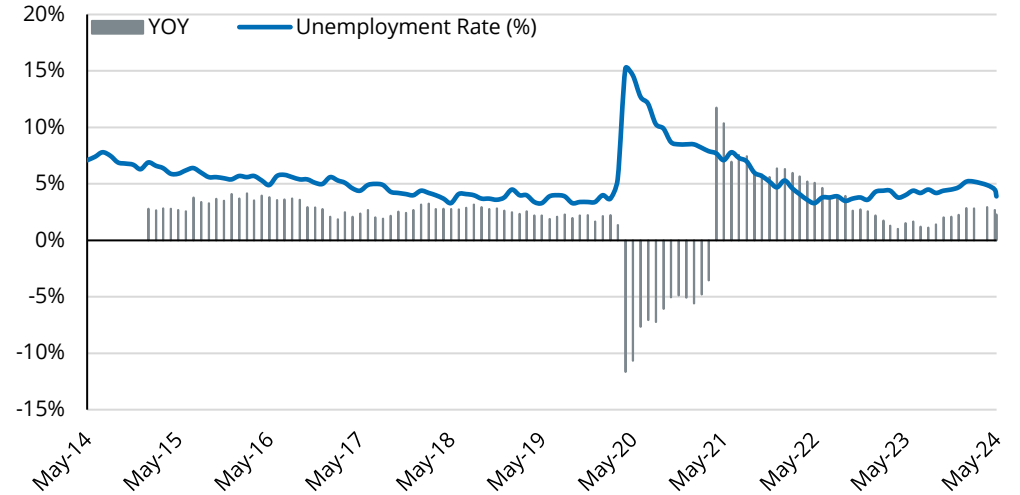
ECONOMY

Job Growth Softens to 3.9%

- The May unemployment rate in the Sacramento metro area saw a slight uptick of 0.1%. However, the 3.9% was the lowest recorded unemployment rate since December 2022. It remains a tight labor market but with softening job gains as businesses and consumers face high borrowing costs.
- With the rise of interest rates cutting into profits, hiring has gradually slowed over the past two years. In Q2, employers added 24,600 jobs annually, a 2.3% gain over the year.
- Job gains were driven by government positions, adding 2,300 jobs to the market, followed by professional and business services that added 1,200 jobs.

UNEMPLOYMENT RATE AND NONFARM JOBS

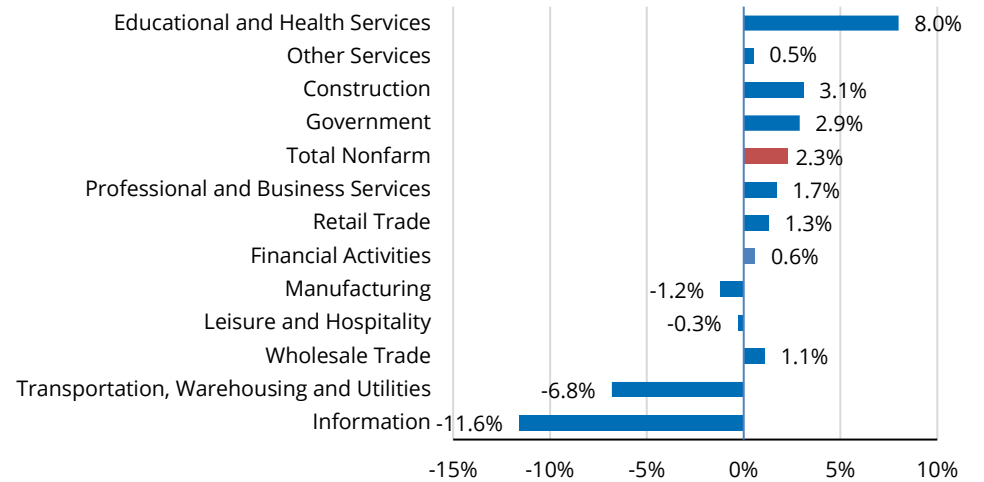
Sacramento-Roseville-Arden-Arcade MSA



Source: Transwestern, CA EDD, May 2024.
Note: Data not seasonally adjusted.

YOY EMPLOYMENT CHANGE BY INDUSTRY

Sacramento-Roseville-Arden-Arcade MSA



Source: Transwestern, CA EDD, May 2024.
Note: Data not seasonally adjusted.



TOP SALES BY PRICE

ADDRESS	CITY	PRICE (MIL. \$)	PRICE PER UNIT	BUYER	SELLER
8282 Calvine Rd	Sacramento	\$77.0	\$291,667	Weidner Property Management LLC	Sequoia Equities, Inc
9745 Old Placerville Rd	Sacramento	\$20.5	\$218,085	Pearl Investment Company	The Corporation Trust Company
2699 Darwin St	Sacramento	\$16.2	\$153,810	Zeeshan Khan	Cascade Capital Partners, LLC
902 Del Paso Blvd	Sacramento	\$11.2	\$78,322	Storz Management Company	North Sacramento Land Co

Source: Transwestern, MSCI Real Assets, Q2 2024.

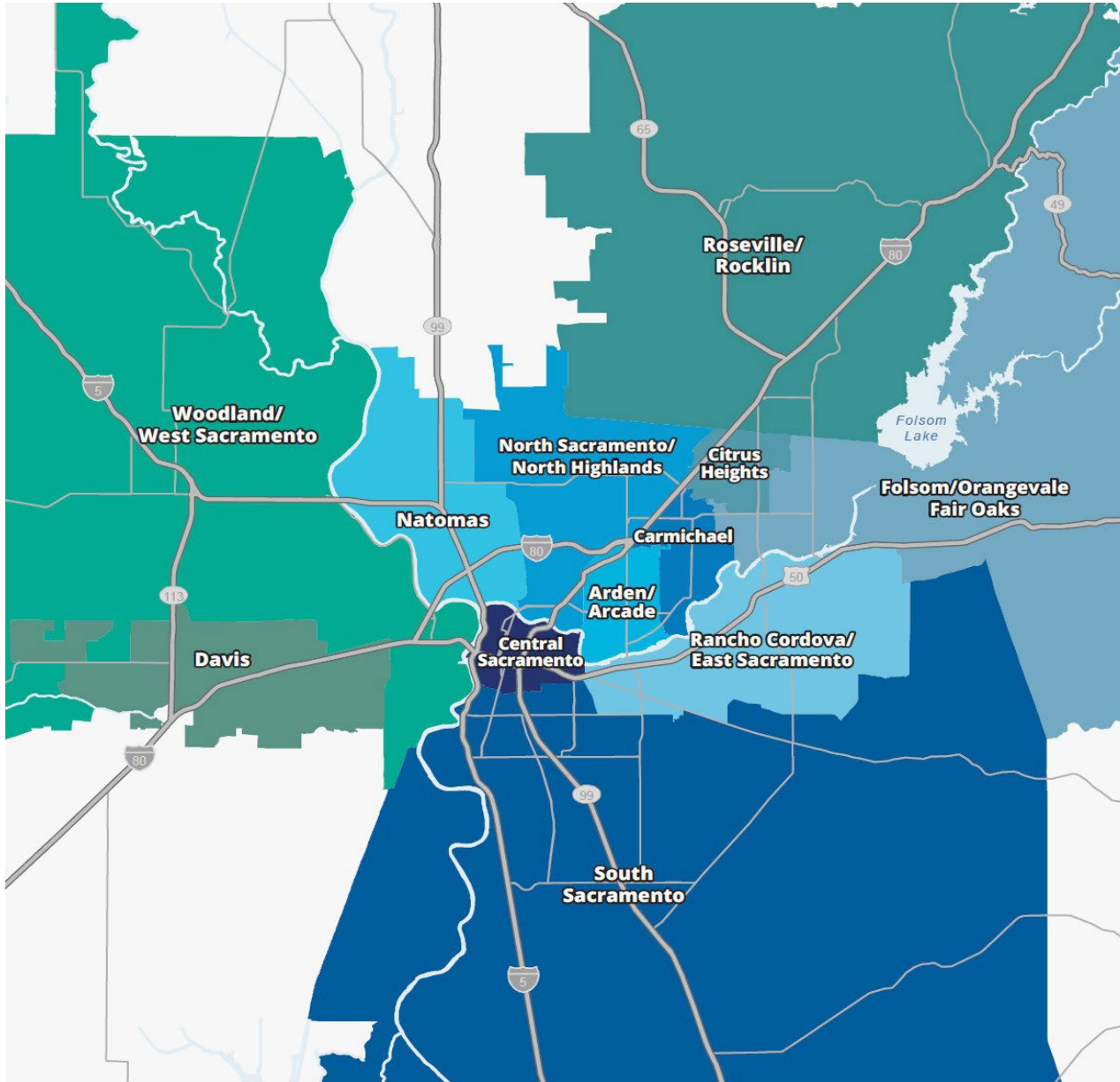
Q2 SUBMARKET FUNDAMENTALS

SUBMARKET	INVENTORY (UNITS)	EFFECTIVE RENT \$/UNIT	YOY RENT GROWTH	VACANCY RATE	"ABSORPTION (4-QUARTER)"	COMPLETIONS (4-QUARTER)	ANNUAL CAP RATE	ANNUAL \$/ UNIT
ARDEN/ARCADE	18,807	\$1,403	0.6%	5.6%	127	0	5.4%	207,924
CARMICHAEL/CITRUS HEIGHTS	18,825	\$1,575	-0.5%	5.4%	36	0	7.5%	196,917
CENTRAL SACRAMENTO	18,691	\$1,675	-0.2%	9.2%	1,155	1,088	4.8%	308,129
DAVIS	8,904	\$2,155	2.7%	3.2%	8	0	3.0%	208,250
FOLSOM/ORANGEVALE/FAIR OAKS	18,879	\$1,992	1.0%	7.4%	660	1,070	--	427,632
NATOMAS/NORTH SACRAMENTO/NORTH HIGHLANDS	31,118	\$1,728	2.1%	5.7%	658	481	7.0%	95,248
RANCHO CORDOVA	9,426	\$1,663	0.1%	8.0%	171	254	5.1%	215,588
ROSEVILLE/ROCKLIN	15,641	\$2,134	4.4%	4.5%	732	487	--	--
SOUTH SACRAMENTO	38,309	\$1,568	2.1%	5.1%	620	716	4.9%	186,830
WOODLAND/WEST SACRAMENTO	12,683	\$1,481	-0.6%	4.8%	294	458	5.6%	102,841
SACRAMENTO TOTAL	199,174	\$1,705	1.5%	5.9%	4,084	4,121	7.6%	207,325

Source: Transwestern, RealPage, Q2 2024.



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.