TRANSWESTERN

SACRAMENTO MULTIFAMILY MARKET

Q3 2024

The Sacramento area is experiencing continuous improvement in the multifamily rental sector, building on the success of the previous quarter. Overall vacancy rates have decreased, coinciding with an increase in effective rent and total investment volume. The effective rent of $1,705 per unit is an improvement both on a quarter-over-quarter (1.5%) and year-over-year basis (1.8%). Additionally, the annual total number of units being absorbed has increased by 13.9% on a quarter-over-quarter basis, with a net positive of 3,541 units. A steady stream of new units has been coming online, with a total of 3,739 new completions in the past year. The yearly average of completions has steadily increased over the past 5 years at an average rate of 788 units per quarter.

With the rapid expansion of the Sacramento multifamily market, the local economy appears to be well-positioned to absorb new deliveries from ongoing construction. Since August 2020, Sacramento has added 144,200 new jobs, with education and professional business services leading the way, accounting for 18% and 12% of the job market, respectively. Over the past year, the education sector alone has added 17,200 jobs, largely due to constant significant expansion projects at the University of California, Davis. The university's most recent project is underway for a new 14-story, 900,000-square-foot hospital with a 5-story pavilion alongside. This project is expected to be finished by 2030.

TRENDLINES

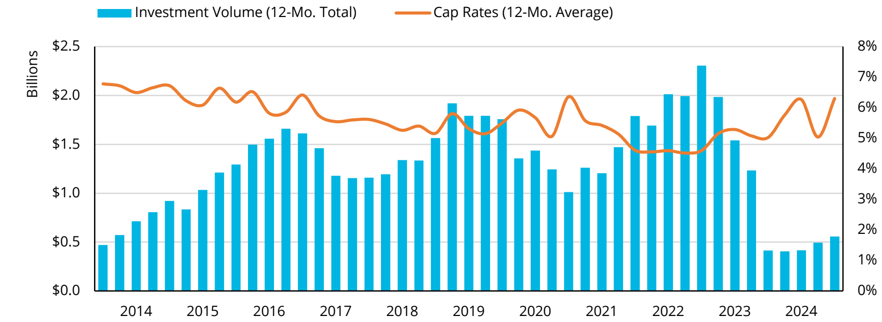
	2024 Q3	2024 Q2	2023 Q3	Q/Q CHANGE	Y/Y CHANGE
Cap Rates	6.3%	5.0%	5.0%	126	128
Annual Price per Unit	$172,497	$207,325	$188,215	-16.8%	-8.4%
Effective Rent ($/Unit)	$1,714	$1,705	$1,668	0.5%	2.8%
Vacancy Rate	5.9%	5.9%	6.1%	0	-20
12-Mo. Investment Volume ($ Mil.)	$558	$493	$414	13.1%	34.9%
Annual Absorption (Units)	4,440	3,541	1,098	25.4%	304.4%
Annual Completions (Units)	4,770	4,032	3,133	18.3%	52.3%
Unemployment Rate	5.2%	4.9%	4.5%	30	70
Nonfarm Jobs (Mil.)*	1.10	1.09	1.07	0.6%	2.1%

CAPITAL MARKETS

placeholder

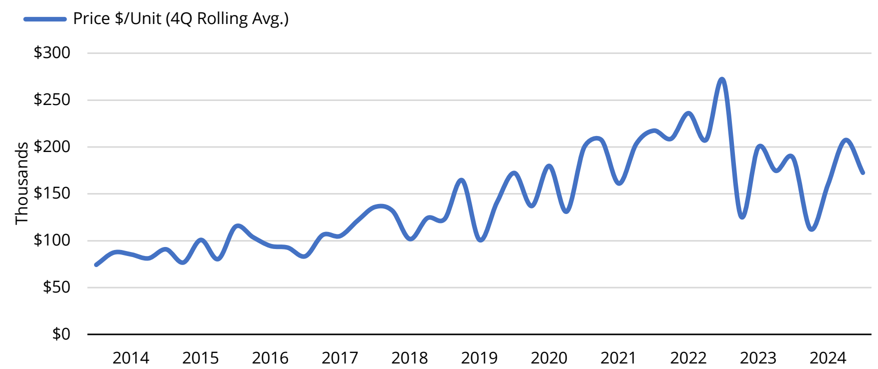
- In Q3 2024, total sales volume reached $135.4 million, a historically low number but in line with the past two years of transaction activity. Sales activity has only exceeded $100 million in three of the last eight quarters, although this was the second consecutive quarter that surpassed the $100m threshold—something that hasn't occurred since Q2-Q3 of 2022. Sales volume did not consecutively exceed $100 million starting in Q4 2022; prior to that, it was Q1-Q2 of 2013. Nonetheless, despite a 42% decrease quarter-over-quarter from Q2 to Q3 this year, it is encouraging to see the continuous growth and consecutive $100 million plus quarters in sales volume.
- The average annual price per unit for the quarter was $172,497, a 16% decrease quarter-over-quarter and 6.8% below the five-year average of $185,008.
- Cap Rates in Q3 increased by 130 bps points to 6.3%, matching Q1 cap rates. This follows a 130 bps cap rate compression in Q2. Cap rates have hovered around 6% for the past 4 quarters.

INVESTMENT VOLUME AND CAP RATES



Source: Transwestern, MSCI Real Assets, Q3 2024.

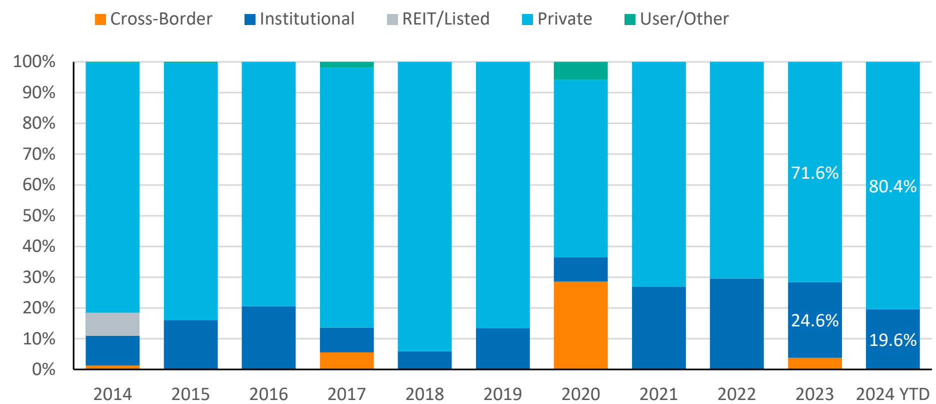
PRICE $/UNIT



Source: Transwestern, MSCI Real Assets, Q3 2024.

INVESTOR COMPOSITION

San Francisco



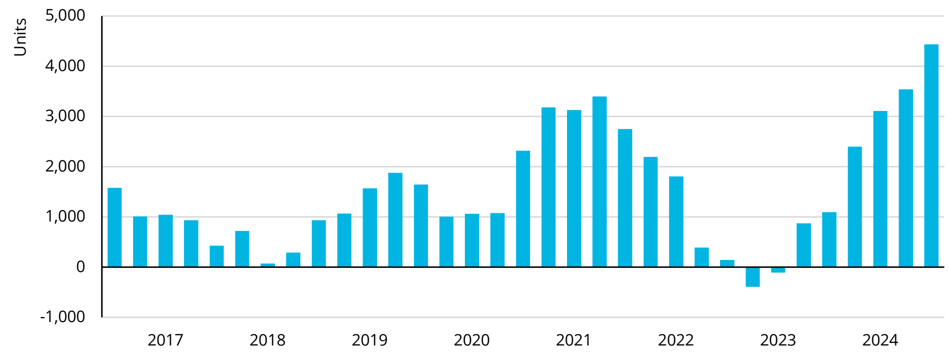
Source: Transwestern, MSCI Real Assets, Q3 2024.

SUPPLY AND DEMAND FUNDAMENTALS

Absorption And Completions

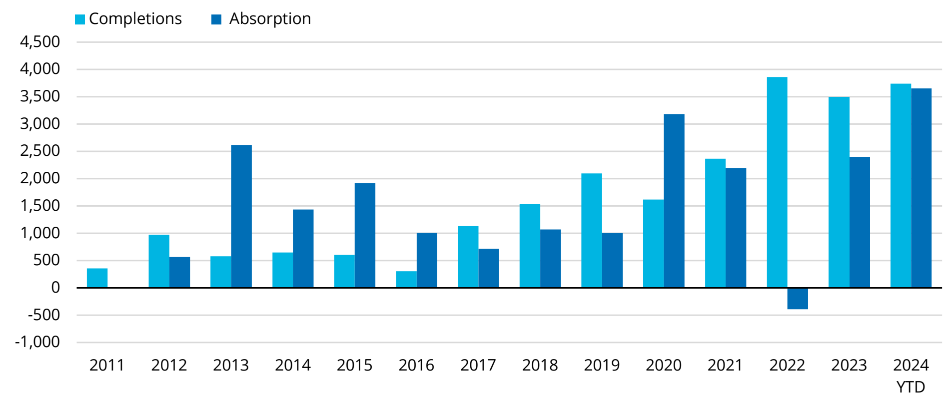
- In the Sacramento area, Q3 concluded with a positive absorption of 1,535, following a strong performance in Q2, which recorded an absorption of 1,129. This brings the year-to-date total to 3,651, significantly exceeding the 2023 absorption figure of 2,401.
- In Q3, 1,812 new units were completed, adding to the strong performance of Q2, which saw 1,037 new units come online. This growth in completions highlights Sacramento's steady improvement, with a total of 240 more units year-to-date compared to 2023. Notably, this growth is occurring alongside consistently positive net absorption figures.

12-MONTH NET ABSORPTION



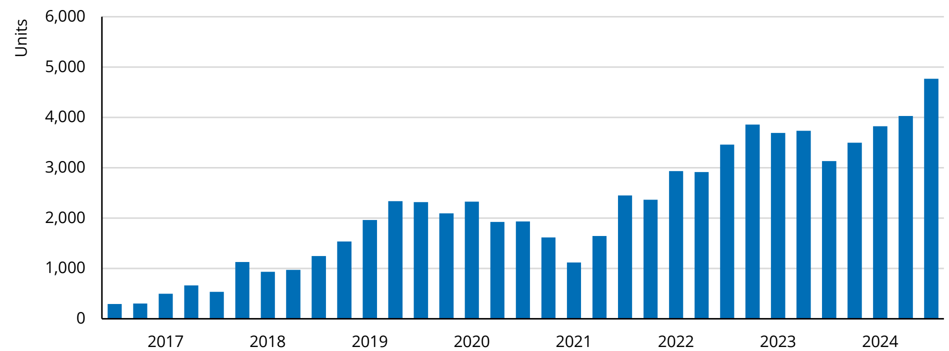
Source: Transwestern, CoStar, Q3 2024.

SUPPLY & DEMAND



Source: Transwestern, CoStar, Q3 2024.

12-MONTH COMPLETION



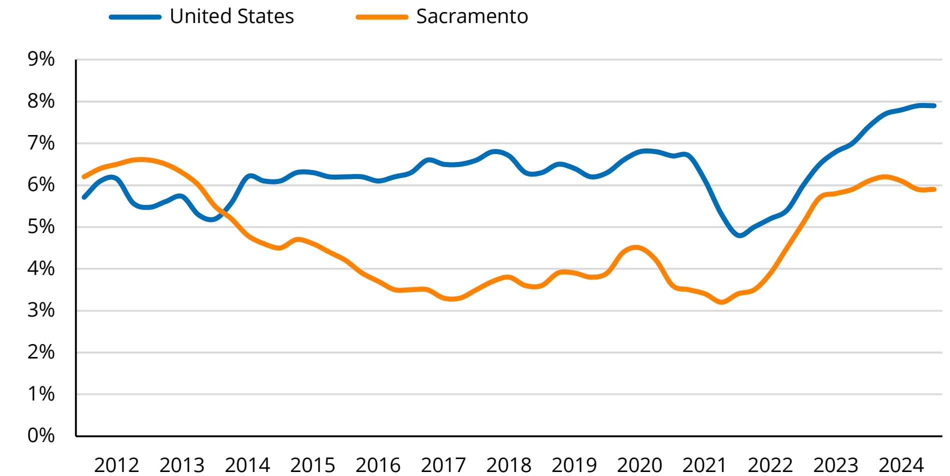
Source: Transwestern, CoStar, Q3 2024.

SUPPLY AND DEMAND FUNDAMENTALS

Vacancy Rate

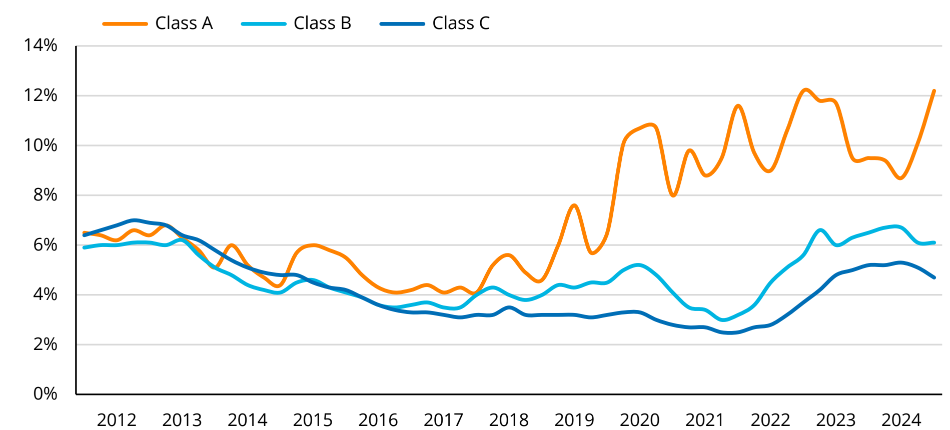
- Despite a steady influx of new units coming online, net absorption stayed positive for the quarter, while the vacancy rate remained stable on a quarter-over-quarter basis, holding steady at 5.9%. This stability indicates a balanced market, where demand for rentals is keeping pace with new supply.
- The Class A vacancy rate saw a significant increase, rising from 10% in Q2 to 12.1% in Q3. In contrast, Class B vacancy rates remained stable at 6.1%, while Class C rates experienced a decrease of 40 basis points, falling from 5.1% to 4.7%. This decrease in Class C vacancy brings the five-year Class C average to 3.7%, the lowest out of all the classes by a significant margin.

OVERALL VACANCY RATE



Source: Transwestern, CoStar, Q2 2024.

OVERALL VACANCY RATE BY CLASS



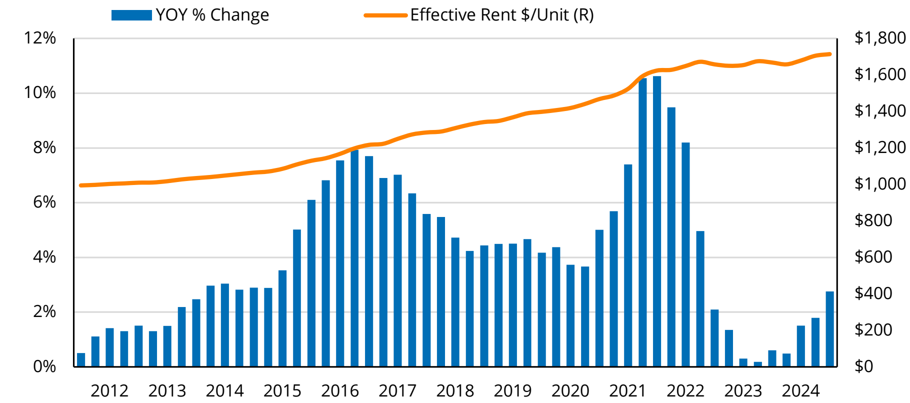
Source: CoStar, Transwestern

SUPPLY AND DEMAND FUNDAMENTALS

Annual Rent

- Asking rents in Sacramento has experienced modest year-over-year increases over the past 12 years, averaging a $53 annual increase. This trend has culminated in an all-time high asking rate this quarter of $1,714 per unit.
- Class A asking rents are significantly higher than the Sacramento metro average of $1,714. Q3 Class A asking rents were $2,238 per unit, up 2.5% from Q3 2023 and are 31% higher than the combined building class average.
- Class B asking rates are right alongside the combined class average. Class B asking rents are $1,875 per unit, only a 9.7% difference from the average. While Class C asking rents fall 14.5% below the combined average at $1,466 per unit.
- The average rate on a 30-year fixed-rate mortgage was 6.1% at the end of the quarter, on the same level as it was 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 homes.

EFFECTIVE RENTS



Source: Transwestern, CoStar, Q2 2024.

30 YEAR RENTS

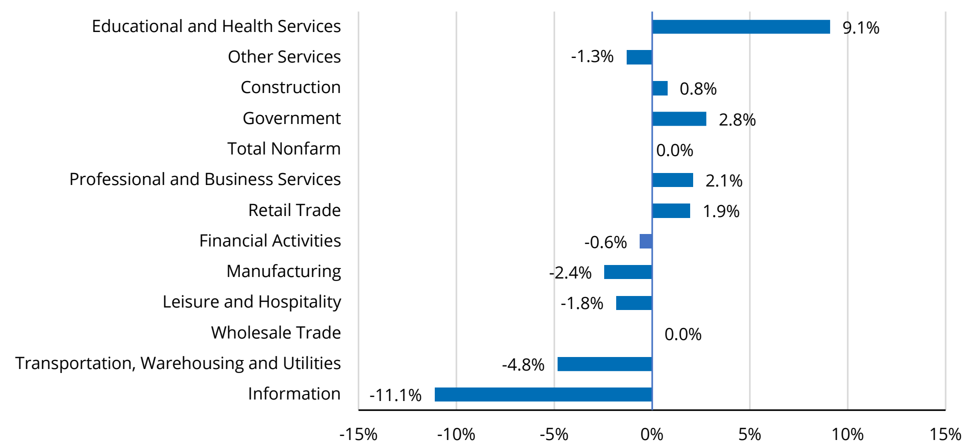
ECONOMY

Placeholder

- The unemployment rate in the Sacramento metro area has seen gradual increases over the past four months, rising from 3.9% in May to 5.2% now. This recent uptick follows a period where the unemployment rate was the lowest since December 2022, and it's now returning to some of the higher levels we've seen over the past couple of years.
- Concluding with Q3, employers added 22,500 jobs over the past 12 months, reflecting a 2.1% gain. Over the last five years, approximately 70,000 jobs have been added to the market. This growth has been driven primarily by the education and professional business services sectors, which account for 12% and 18% of the total job increase, respectively. Specifically, education added 17,200 jobs, while professional business services contributed 2,800 jobs on a year-over-year basis.

YOY EMPLOYMENT CHANGE BY INDUSTRY

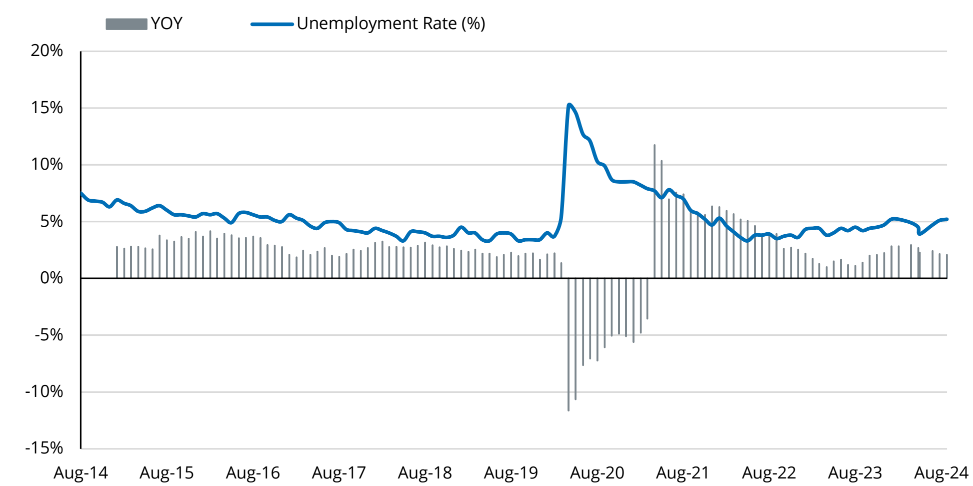
Oakland-Hayward-Berkeley MD



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

UNEMPLOYMENT RATE AND NONFARM JOBS

Oakland-Hayward-Berkeley MD



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

NOTABLE SALES

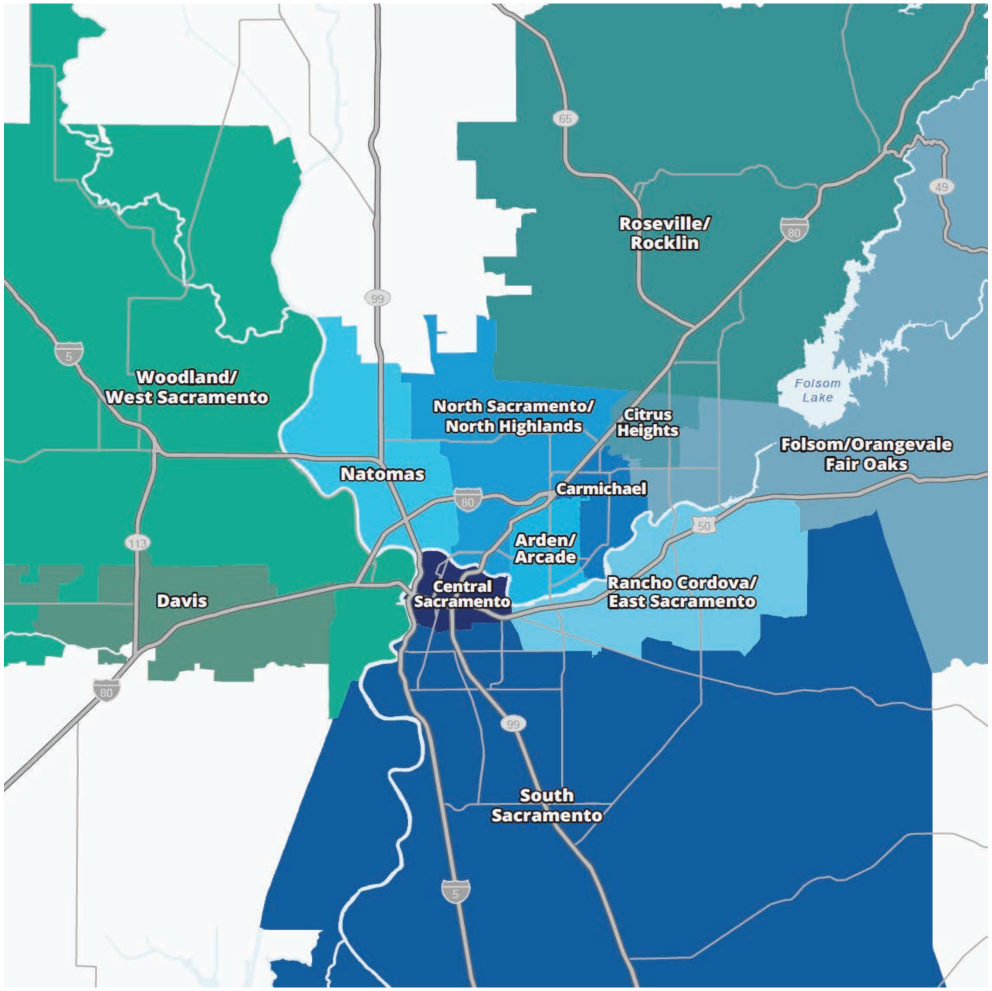
ADDRESS	CITY	PRICE (MIL. $)	PRICE PER UNIT	BUYER	SELLER	SELLER
1531 N St	Sacramento	$40.1	$340,042	CONAM Management Corporation	Sequoia Equities, Inc	Newport Office Center V Associates, LLC
9745 Old Placerville Rd	Sacramento	$20.5	$218,085	Pearl Investment Company	The Corporation Trust Company	Nationwide Mutual
1501 Cobble Creek Circle	Rocklin	$19.5	$244,375	Ideal Capital Group	Foothill Development Group	MXB Properties, LP
2201 Northview Dr	Sacramento	$9.2	$74,797	Caldwell Law	Roberto Jimenez	DoMyLLC
4909 Date Ave	Sacramento	$8.0	190,357	Edward Joseph Nunez	Brian Revelli	

Source: Transwestern, MSCI Real Assets, Q3 2024

= Transwestern deal

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	18,808	$1,421	1.7%	5.3%	190	--	5.4%	193,157
Carmichael/Citrus Heights	18,932	$1,606	0.7%	4.8%	244	107	7.5%	337,571
Central Sacramento	19,130	$1,696	0.5%	9.4%	1,183	893	5.3%	290,665
Davis	8,900	$2,123	0.3%	4.2%	-173	--	3.0%	216,842
Folsom/Orangevale/Fair Oaks/El Dorado County	18,953	$1,931	9.0%	7.8%	303	940	6.6%	149,873
North Sacramento/North Highlands/Natomas	31,309	$1,760	3.3%	6.2%	522	830	6.9%	97,305
Rancho Cordova	9,444	$1,713	1.6%	7.2%	232	302	5.0%	215,588
Roseville/Rocklin	18,683	$2,145	3.8%	5.6%	771	685	6.2%	364,440
South Sacramento	34,039	$1,609	2.9%	4.7%	1,022	650	5.6%	180,383
Woodland/West Sacramento	12,689	$1,505	-0.1%	4.5%	306	429	5.6%	102,841
Sacramento Total	**190,887**	**$1,751**	**2.4%**	**6.0%**	**4,600**	**4,836**	**5.7%**	**214,867**



FOR MORE INFORMATION

Shivu Srinivasan

Senior Director
shivu.srinivasan@transwestern.com
415 489 1746

Mairaj Din

Associate
mairaj.din@transwestern.com
415 489 1750

Tyler HIll

Researcher
tyler.hill@transwestern.com
415 489 1750

RESEARCH METHODOLOGY

The information in this report is the result of a compilation of information on office properties located in San Francisco. This report includes single tenant, multi-tenant and owner-user properties 10,000 SF and larger, excluding condo and medical office facilities and those properties owned and occupied by a government agency.

ABOUT TRANSWESTERN

The privately held Transwestern companies have been delivering a higher level of personalized service and innovative real estate solutions since 1978. An integrated approach formed from