



Multifamily Report

Q2 2016
GALLELLI REAL ESTATE MARKET REPORT

Overview

Apartment vacancy in the Sacramento region remained tight at 1.5% during Q2. Rents are still rising rapidly - the overall average rent for apartment units currently stands at \$1,264 per unit, per month, which marks an increase of \$73 over the \$1,191 rate that was recorded three months ago. Year-over-year, apartment rental rates in the Sacramento region have increased 16.5%. As of June 2016, Yardi ranked the Sacramento region first in the nation for year-over-year apartment rent growth.

Market Trends

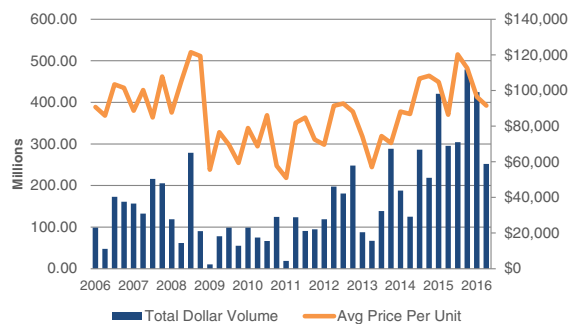
- Regional apartment vacancy remains at an all-time low.
- Sacramento continues its red-hot rental growth. Rental rates have increased 42.2% over the last five years, and 16.5% over the last year.
- Local unemployment saw an uptick during Q2, rising from 4.7% in May to 5.6% in June; however, this uptick is primarily due to the seasonal decline in education jobs when schools are out for summer. Overall, the region added 11,000 jobs between May and June.

Research

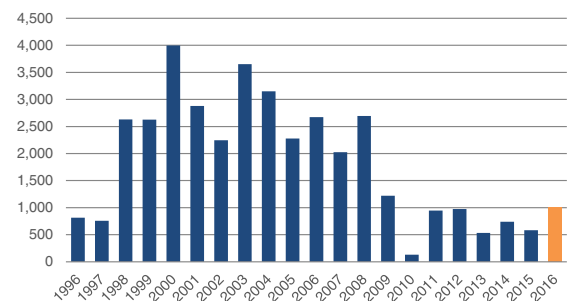
Our team focuses on providing high quality, data driven, accurate market information to our clients. We provide in-depth commercial real estate market analysis and insight into market trends in order to help optimize our clients' real estate decisions.



Multifamily Investment Sales Volume



Multifamily Units Delivered Per Year



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Multifamily Q22016

With vacancy remaining relatively unchanged during Q2, the Sacramento apartment market remains red-hot.

<p>Vacancy</p> <p>1.5%</p> <p>▲</p>	<p>Avg. Asking Rate</p> <p>\$1,264 UNIT</p> <p>▲</p>	<p>Avg. Rent PSF</p> <p>\$1.49 PSF</p> <p>▲</p>
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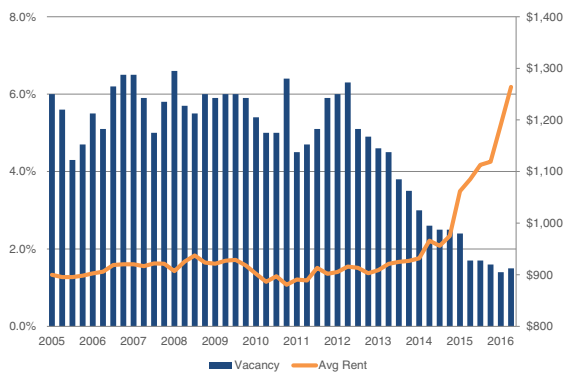
Spotlight: Multifamily Investments and Pricing

There's no question Sacramento's multifamily investment market has been on fire for the last few years, as high occupancy rates, job growth and lack of new construction continue to fuel local rental rates. Local housing prices are also increasing - in June, the median resale price for single-family homes in Sacramento County was \$310,000, which is the highest price the region has seen in nine years. Single-family home sales have also increased, rising 3% from a year ago. Investor interest in the region is getting stronger and has fueled an increase in apartment pricing.

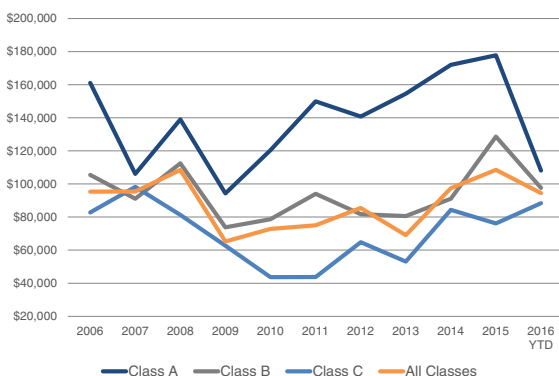
While Class A multifamily product has been the asset of choice among local and regional investors, prices for Class A product are increasing. Class A assets have typically been averaging close to \$200,000 per unit in the Sacramento region, and during Q2, LaSerra Apartments in El Dorado Hills sold for over \$271,000 per unit, which is one of the highest prices-per-unit the region has seen. Class A product, however, is becoming increasingly difficult for investors to find - there are no Class A assets currently on the market in the region.

The lack of available Class A product on the market is driving investors towards older, value-add Class B assets that can be renovated and leased out at higher rents. Class B assets are also more modestly priced, averaging around \$125,000 per unit, which makes them more attractive to investors. As long as occupancy remains high, rents continue to climb and new multifamily development is limited, investors will remain active in the region, as Sacramento continues to be an attractive and affordable area to place their capital.

Historical Vacancy & Average Rental Rate Growth



Historical Price Per Unit by Class





Units Under Construction

1,583



Sacramento Unemployment

5.6%



US Unemployment

4.9%



Investment Highlights

- Apartment investment sales volume was down from the previous quarter. Q2 saw 41 transactions totaling just over \$251 million in transactional volume, compared to the \$425 million recorded during Q1.
- The average price per unit dropped in Q2, going from \$96,433 to \$91,495 per unit. This decrease is primarily due to the lack of Class A transactions during the quarter.
- Investor demand in the region remains strong - with little new development on the horizon, rental rates continue to rise. High occupancy rates, local employment growth and little available inventory continue to make Sacramento an attractive market for both private and institutional investors.
- With a large discrepancy in pricing between Class A assets and Class B/C assets, investors are beginning to turn to older apartment product for their investments.
- The sale of Montage Apartments in the Citrus Heights submarket was the largest investment sale of the quarter - the 636-unit property sold for \$74 million or \$116,352 per unit.

Outlook

With vacancy remaining relatively unchanged during Q2, the Sacramento apartment market remains red-hot. With the market nearing full occupancy and rents continuing to skyrocket, momentum doesn't appear to be slowing down any time soon. Expect vacancy to continue to tighten in the coming months, as lack of available inventory and minimal new construction has increased competition for apartment units in the region.

While there are a number of units currently under construction and in the development pipeline, these projects combined (and if all proposed projects are built) will only add 6,700 units to the overall inventory, which is not nearly what is needed to help satisfy current demand. Since 2006, the region has only added 12,000 units to the overall inventory; the previous ten year period (1995-2005) saw over 25,000 units added. While current market conditions may not bode well for existing local tenants, they are helpful to tenants seeking a more affordable alternative to the exorbitant prices of the Bay Area, as well as investors looking for stable and secure assets. Investor interest in the region will remain strong and any Class A product that comes to market will get snatched up quickly. We will see more sales of Class B and C product in the future, as investors will look to find their returns through upgrading these asset classes.

Market Statistics

Submarket	# of Units	Avg Rent	Avg Rent PSF	Vacancy
Downtown Sacramento	1,211	\$1,606	\$1.97	3.3%
East Sacramento	122	\$991	\$1.33	2.5%
Land Park	200	\$995	\$1.16	1.0%
South Sacramento	1,477	\$854	\$1.18	0.9%
Florin	2,115	\$954	\$1.29	1.0%
Greenhaven	3,988	\$1,332	\$1.50	1.3%
Rancho Cordova	5,328	\$1,119	\$1.39	1.2%
Capital Center	1,996	\$1,377	\$1.62	1.8%
Arden/Arcade	5,300	\$1,209	\$1.47	1.4%
Arden	2,249	\$880	\$1.16	0.4%
Carmichael	2,739	\$902	\$1.10	0.9%
South Natomas (W)	2,332	\$1,493	\$1.64	1.3%
South Natomas ('E)	3,795	\$1,175	\$1.43	1.4%
North Natomas	2,598	\$1,532	\$1.63	2.8%
North Highlands	2,218	\$990	\$1.23	2.3%
Antelope	1,707	\$1,256	\$1.47	0.6%
Citrus Heights	6,558	\$1,108	\$1.37	1.3%
Fair Oaks	2,639	\$1,087	\$1.31	1.6%
Orangevale	1,994	\$1,204	\$1.51	0.8%
Folsom	3,034	\$1,754	\$1.84	2.2%
Roseville/Rocklin	8,384	\$1,615	\$1.71	2.1%
Elk Grove	1,170	\$1,229	\$1.27	0.6%
West Sacramento	164	\$878	\$1.26	0.6%
El Dorado Hills	688	\$1,803	\$1.79	4.4%
Cameron Park	668	\$1,230	\$1.39	1.3%
Totals	64,674	\$1,264	\$1.49	1.5%

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