



Multifamily Report

Q3 2016
GALLELLI REAL ESTATE MARKET REPORT

Overview

Apartment rents continued to rise rapidly in the Sacramento area during Q3 2016, with the overall average asking rent for regional complexes 40 units and over increasing to \$1,256 per unit. This marks a \$21 increase over the \$1,235 rate recorded three months ago, and a year-over-year increase of \$149. Apartment vacancy saw an uptick during Q3, rising from 1.5% in Q2 to 2.0% in Q3. However, this increase is primarily indicative of a break in the action, rather than a change in the market - apartment vacancy in Sacramento is actually lower than some of the larger west coast metros including San Jose (4.3%), Los Angeles (4.9%), and San Diego (5.0%).

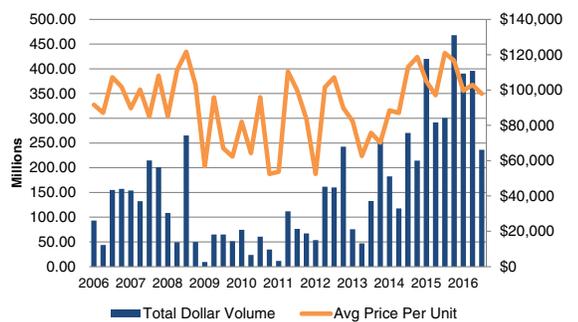
Market Trends

- Regional apartment vacancy increased to 2.0% during Q3. Vacancy has remained firmly within the 1-2% range since Q1 2015.
- Local rental rates continue to skyrocket - rental rates have increased 13.5% over the last year. The current overall average asking rent in the Sacramento region stands at \$1,256 per unit, per month.
- Though there are a few projects in the development pipeline, developers remain reluctant to build, as current rents in most suburban submarkets do not justify the costs of construction, except in core markets like Downtown and Midtown.

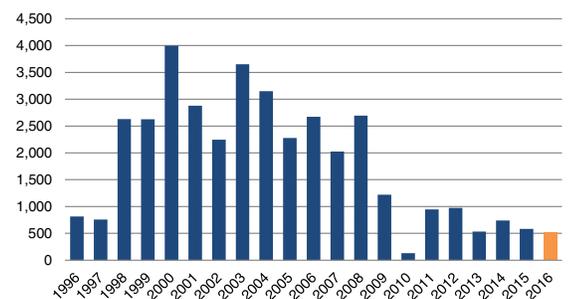


- The local unemployment rate declined from 5.4% in August 2016 to 5.2% in September 2016. Year-over-year, the region has added 27,000 jobs between September 2015 and September 2016.

Multifamily Investment Sales Volume



Multifamily Units Delivered Per Year



*2016 estimate based on current UC projects and est. delivery.

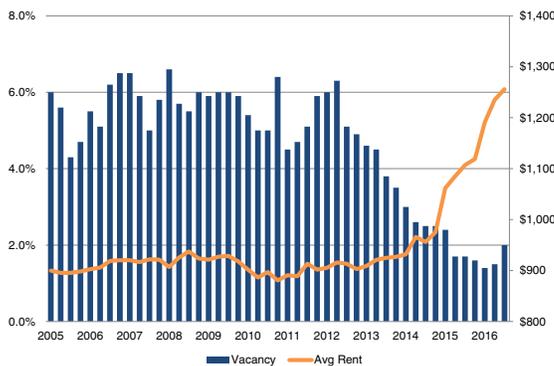
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Multifamily Q3 2016

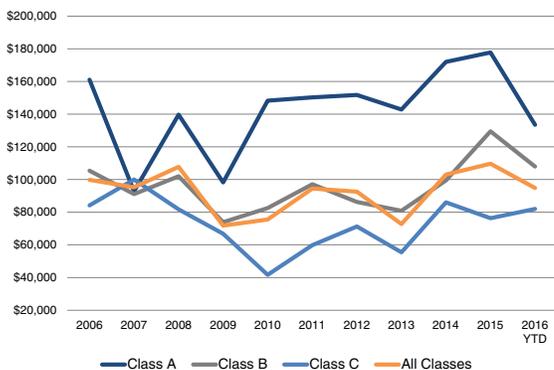
Overall costs for construction and land continue to increase at a rapid rate, making local and regional developers more reluctant to plan new suburban projects.

<p>Vacancy</p> <h1>2.0%</h1> <p>▲</p>	<p>Avg. Asking Rate</p> <h1>\$1,327</h1> <p>UNIT</p> <p>▲</p>	<p>Avg. Rent PSF</p> <h1>\$1.56</h1> <p>PSF</p> <p>▲</p>
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Historical Vacancy & Average Rental Rate Growth

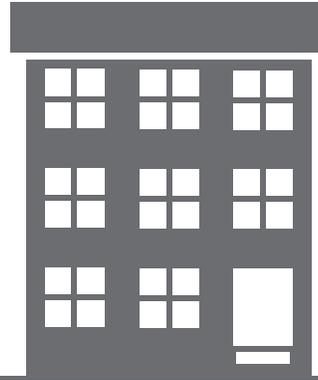


Historical Price Per Unit by Class



Investment Highlights

- Apartment investment sales volume was down from the previous quarter. Q3 saw 39 transactions totaling \$236 million in transactional volume, compared to the \$395 million recorded during Q2. On a year-over-year basis, transaction dollar volume is down \$64.4 million over the same time period last year.
- The average price per unit dropped in Q3, going from \$102,944 to \$97,892 per unit. This is primarily due to the fact that there were limited Class A transactions during the quarter.
- Year-to-date, the apartment market has seen just over \$1 billion in transactions. Class A product has averaged \$133,512 per unit during 2016; Class B product is averaging \$107,900 per unit; and Class C product is averaging \$81,995 per unit.
- Class A investment opportunities have become rare within the region, as owners of Class A product are holding on to their properties, content with their cash flows and reluctant to get stuck in an uneven exchange. As a result, investors are snatching up Class B and C product, especially value-add opportunities in older, more established markets like Rancho Cordova and Arden/Arcade.
- The three largest apartment sales of the quarter were:
 - Ashgrove Place Apartments, located at 3250 Laurelhurst Drive in Rancho Cordova. This 208-unit complex sold for \$37.5 million (\$180,288 per unit).
 - Spring Meadows Apartments, located at 4400 Antelope Road in Antelope. This 247-unit complex sold for \$34.2 million (\$138,664 per unit) at a 5.00% cap rate.
 - Gold Ridge Apartments, located at 2929 Routier Road in Sacramento. This 268-unit complex sold for \$27.4 million (\$102,239 per unit) at a 6.33% cap rate.



Units Under Construction

1,827



Sacramento Unemployment

5.5%



US Unemployment

5.0%



Spotlight: Rental Growth & Development

Since June 2016, the Sacramento region has consistently ranked first in the nation for year-over-year rent growth. Local rents tracked in our database within complexes over 40 units have increased 13.5% over the last year and 37.5% over the last five years. Lack of new multifamily development continues to drive rent growth in Sacramento; according to Yardi, just 517 units are slated to be delivered this year, which is a significant decline from the 2,600 units delivered ten years ago. Though asking rents continue to climb throughout the region, they are still too low to justify the costs of new development, primarily in most suburban areas. Overall costs for construction and land continue to increase at a rapid rate, making local and regional developers more reluctant to plan new suburban projects. Developers would like to see a more significant increase in suburban rents before starting new projects; however, the highest suburban rents seen in high-demand markets like Folsom, Roseville/Rocklin and El Dorado Hills currently stand within the \$1.50 to \$1.60 per square foot range.

If the apartment market maintains the current pace of rental rate growth—and there are no signs that it won't—suburban rents will likely start to justify new development within the next 18 to 24 months. Once this happens, we may begin to see developers plan new projects or go forward with already approved projects; however, whether the market will begin to see new development ultimately depends on construction costs stabilizing, which is unlikely to happen any time soon.

Outlook

The Sacramento apartment market's red-hot growth streak continues, with rents continuing to skyrocket and heavy investor demand for apartment product. Vacancy will continue to tighten through the rest of the year and into 2017, as occupancy rates continue to rise and the region remains a more affordable alternative for tenants getting priced out Bay Area markets. New development will remain minimal within the suburban markets until asking rents increase further. Private and institutional investor demand within the region will remain strong, and investors will continue to purchase Class B and C assets for repositioning, as what little (if any) available Class A product will sell quickly.

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 Q32016

Market Statistics

Submarket	# of Units	Avg Rent	Avg Rent PSF	Vacancy
Downtown Sacramento	1,211	\$1,554	\$1.91	4.6%
East Sacramento	77	\$1,184	\$1.47	2.6%
Land Park	200	\$1,009	\$1.17	1.0%
South Sacramento	1,477	\$918	\$1.27	0.7%
Florin	1,964	\$981	\$1.34	1.6%
Greenhaven	3,988	\$1,330	\$1.49	1.8%
Rancho Cordova	5,083	\$1,166	\$1.46	1.5%
Capital Center	1,996	\$1,270	\$1.49	2.3%
Arden/Arcade	5,202	\$1,221	\$1.47	1.5%
Arden	2,005	\$973	\$1.17	0.8%
Carmichael	2,258	\$973	\$1.17	1.6%
South Natomas (W)	2,332	\$1,460	\$1.61	1.5%
South Natomas ('E)	3,580	\$1,150	\$1.40	1.1%
North Natomas	2,598	\$1,499	\$1.59	2.6%
North Highlands	1,984	\$1,024	\$1.26	1.0%
Antelope	1,559	\$1,291	\$1.55	2.8%
Citrus Heights	6,413	\$1,119	\$1.39	1.3%
Fair Oaks	2,441	\$1,125	\$1.35	2.5%
Orangevale	1,921	\$1,200	\$1.50	2.4%
Folsom	2,690	\$1,635	\$1.69	3.5%
Roseville/Rocklin	8,192	\$1,502	\$1.59	3.0%
Elk Grove	712	\$1,398	\$1.44	2.4%
West Sacramento	164	\$926	\$1.33	0.6%
El Dorado Hills	620	\$1,713	\$1.68	3.7%
Cameron Park	626	\$1,252	\$1.42	2.4%
Totals	61,293	\$1,256	\$1.47	2.0%

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