



Multifamily Report

Q1 2017
GALLELLI REAL ESTATE MARKET REPORT

Overview

The Sacramento apartment market continued its red-hot growth streak during the first quarter of 2017, as lack of supply continued to put upward pressure on average asking rents, which saw yet another increase. The Sacramento region still ranks first in the nation for year-over-year rental growth, and the overall apartment market remains tight.

Market Trends

- Regional apartment vacancy stayed at 2.1%, the same rate that was recorded three months ago. One year ago, this metric stood at 1.7%. Local vacancy has hovered around the 1% to 2% range for the last eight consecutive quarters.
- The overall average asking rent for complexes 40 units and over rose from \$1,240 during Q4 2016 to \$1,302 - a \$62 increase over the last three months. Year-over year, rates have increased 9.3% and 43.8% over the last five years. Asking rents in the majority of suburban markets have surpassed \$1,000 per month. El Dorado Hills currently has the highest asking rent in the region with an average of \$1,760 per month.
- Developers remain reluctant to build due to the rising costs of ground-up construction. Though rental rates continue to climb, current asking rates do not yet justify the costs of the construction in most submarkets.



- Local unemployment fell from 5.3% to 5.1% between January and February 2017. This compares with an unemployment rate of 5.2% for California and 4.9% for the nation. One year ago, this metric stood at 5.5%. Overall, the region added 5,700 jobs between January and February of this year and 15,900 jobs between February 2016 and February 2017.
- There are 1,633 units across 12 projects currently under construction within the four-county region. The majority of projects are located within the City of Sacramento in the Downtown/Midtown and Natomas submarkets. Davis, Rocklin, and Rancho Cordova are the only other cities with apartment projects currently under construction. The largest project currently under construction is Natomas Park Drive Apartments, a 232-unit, Class A complex in Natomas that is being developed by Demmon Partners.

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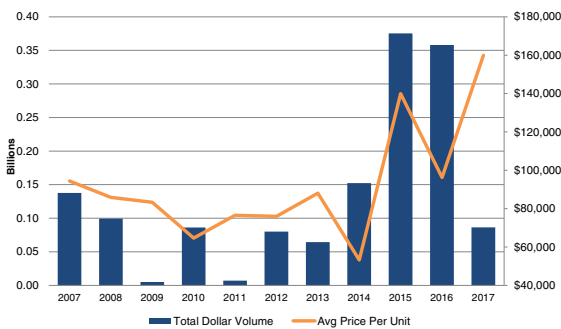
Class A opportunities remain a rare find within the region.

<p>Vacancy</p> <p>2.1%</p> <p>—</p>	<p>Avg. Asking Rate</p> <p>\$1,302 UNIT</p> <p>▲</p>	<p>Avg. Rent PSF</p> <p>\$1.52 PSF</p> <p>▲</p>
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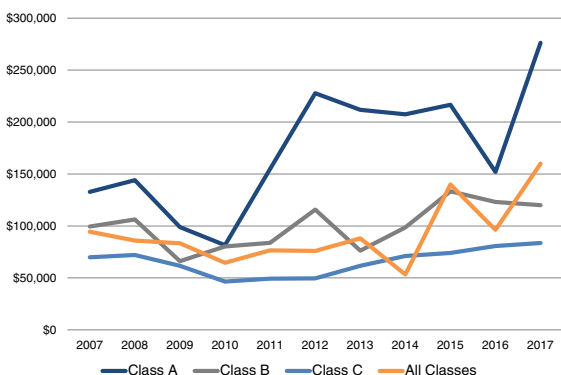
Investment Highlights

- Apartment investment activity slowed during Q1, with the market recording just 8 transactions totaling \$86.4 million in total volume. Year-over-year, this figure is down from Q1 2016, which recorded \$358 million in total volume over 23 transactions.
- The average price per unit increased from \$113,322 to \$152,958. This is primarily attributable to the one Class A sale that transacted during the quarter, which sold for over \$276,000 per unit.
- Year-to-date, Class A product has averaged \$276,316 per unit; Class B product has averaged \$120,000 per unit; and Class C product is averaging \$83,558 per unit.
- Class A opportunities remain a rare find within the region, as Class A owners are content to hold onto their properties for now. The majority of sales within the region have been for value-add Class B and C product, typically located within older, more established markets such as Arden/Arcade, Carmichael and Rancho Cordova.
- The two largest investment sales of the quarter were:
 - Allegre Apartments located at 1659 Drew Circle in Davis. This 152-unit, Class A complex sold for \$42 million (\$276,316 per unit) at a 4.75% cap rate.
 - Vintage Creek Apartments, located at 9231 Elk Grove-Florin Road in Elk Grove. This 100-unit, Class B complex sold for \$12 million (\$120,000 per unit) at a 5.40% cap rate.

Multifamily Investment Sales Volume



Historical Price Per Unit by Class





Units Under Construction

1,633

-

Sacramento Unemployment

5.1%

US Unemployment

4.9%

Spotlight: California's Housing Crisis

Unlike cities such as Seattle and Phoenix, where rental rates are being driven by increased job growth and new supply that cannot keep up with demand, in Sacramento and California, rental rates are primarily being driven by a very limited supply of housing and a lack of new construction. The State of California is currently dealing with a major housing crisis. The population of the state has increased by over 300,000 people a year over the last 17 years. As such, the state needed to create over 100,000 housing units per year to keep up with the population growth; however, housing production dropped to near zero during the economic recession, and has only recently reached the 100,000-unit level. According to California's Department of Housing and Community Development, between now and 2025, the state will need 1.8 million units of new construction to keep up with the current pace of population growth.

Unfortunately, construction costs in California are some of the highest in the nation, which has made many developers reluctant to build housing - even though rents are skyrocketing in regions like Sacramento, they still do not justify the current costs of land, development fees, construction and labor.

The Sacramento region has definitely felt the sting of the housing crisis - though the region's population growth has actually outpaced California with an average annual growth rate of 1.38% (compared to 0.87% for the state), the last three years have seen just over 6,000 single and multifamily units added to the overall regional inventory. This is in drastic contrast to the middle of the previous housing boom which saw over 78,500 single and multifamily units built between 2003 and 2007. Until construction costs come down (which is unlikely) or legislation is introduced and passed to ease governmental regulations on construction and help spur new development, local apartment construction will remain minimal and rents will continue to climb.

Outlook

Sacramento's apartment market continues to strengthen, as lack of new construction, high occupancy rates, and high levels of demand continue to put upward pressure on rental rates. Vacancy will continue to see minor fluctuations, but should keep within the 1-2% range. With very little in the development pipeline and developers that are reluctant to build due to continually increasing development fees, construction and land costs, it is unlikely market momentum will slow any time soon. Investor interest in the region is still going strong, though lack of available, quality assets is becoming a concern, as Class B and C opportunities continue to get snatched up, and very little is left on the market.

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 Q12017

Market Statistics

Submarket	# of Units	Avg Rent	Avg Rent PSF	Vacancy
Downtown Sacramento	1,329	\$1,658	\$2.04	2.7%
East Sacramento	77	\$1,349	\$1.67	1.3%
Land Park	137	\$1,065	\$1.29	1.5%
South Sacramento	1,477	\$940	\$1.30	0.9%
Florin	2,385	\$1,055	\$1.38	1.8%
Greenhaven	3,347	\$1,386	\$1.53	2.4%
Rancho Cordova	4,998	\$1,203	\$1.48	1.3%
Capital Center	1,268	\$1,337	\$1.53	2.6%
Arden/Arcade	5,127	\$1,230	\$1.51	2.0%
Arden	2,249	\$968	\$1.26	0.9%
Carmichael	2,559	\$1,010	\$1.22	1.7%
South Natomas (W)	2,052	\$1,446	\$1.61	1.9%
South Natomas ('E)	3,795	\$1,218	\$1.48	1.6%
North Natomas	2,598	\$1,530	\$1.62	2.3%
North Highlands	2,156	\$1,079	\$1.35	1.2%
Antelope	1,707	\$1,290	\$1.52	2.2%
Citrus Heights	6,200	\$1,170	\$1.44	1.8%
Fair Oaks	2,367	\$1,180	\$1.42	2.7%
Orangevale	1,832	\$1,278	\$1.60	2.3%
Folsom	3,124	\$1,704	\$1.79	4.0%
Roseville/Rocklin	8,360	\$1,533	\$1.62	3.2%
Elk Grove	1,060	\$1,348	\$1.39	1.3%
West Sacramento	538	\$1,615	\$2.02	2.6%
El Dorado Hills	688	\$1,760	\$1.67	1.7%
Cameron Park	607	\$1,305	\$1.46	1.6%
Totals	62,037	\$1,302	\$1.52	2.1%

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