



Multifamily Report

Q2 2017
GALLELLI REAL ESTATE MARKET REPORT

Overview

The Sacramento apartment market continued to tighten during the second quarter of 2017, as vacancy declined and rents continued to climb. Lack of new supply, high occupancy and increasing levels of demand continue to put upward pressure on rates, especially as more Bay Area residents migrate to Sacramento to escape the area's exorbitant rents. Investor interest in the region remains strong, though lack of quality assets is becoming a concern.

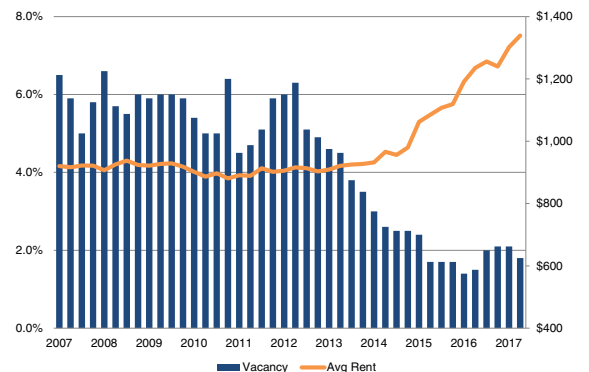
Market Trends

- Regional apartment vacancy declined from 2.1% in Q1 2017 to 1.8% in Q2 2017. One year ago, local vacancy stood at 1.6%. Vacancy has continued to hover in the 1% to 2% range for the last nine consecutive quarters.
- The overall average asking rent for complexes 40 units and over increased from \$1,302 to \$1,339 – a \$38 increase over the last three months. The Sacramento region remains first in the nation for year-over-year rent growth - local rents have increased 8.7% over the last 12 months and 46.7% over the last five years.
- Local unemployment fell from 4.4% to 4.1% between April and May 2017. This compares with an unemployment rate of 4.2% for California and 4.1% for the nation. One year ago, Sacramento's unemployment stood at 5.7%. On a monthly basis, the region added 2,900 jobs between April and May of this year. Job growth on a year-over-year basis has slightly declined, with the region adding just 2,700 jobs between May 2016 and May 2016.



- There are 1,553 units across 14 projects currently under construction within the four-county region. New construction remains limited due to the rising costs of ground-up construction. The majority of these projects are located in the Downtown/Midtown, Davis and Roseville/Rocklin submarkets, where rental rates are higher than the overall regional average. Though rental rates continue to climb across the board, local rents still do not justify the costs of construction in most suburban markets.

Historical Vacancy & Average Rental Rate Growth



Multifamily Q22017

With very little Class A product available on the market, investors have snatched up any available Class B projects, leaving very little Class B product left.

Vacancy
1.80%



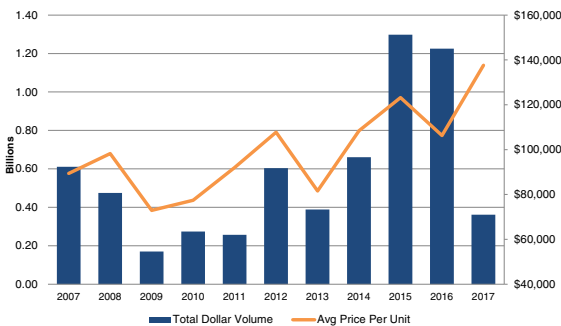
Avg. Asking Rate
\$1,339 UNIT



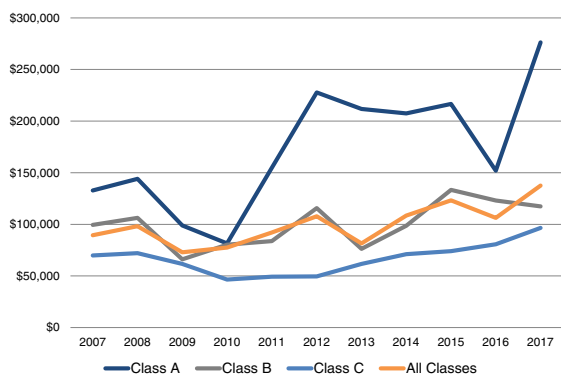
Avg. Rent PSF
\$1.57 PSF



Multifamily Investment Sales Volume



Historical Price Per Unit by Class



Investment Highlights

- Apartment investment activity increased during Q2, with the market recording 20 transactions totaling \$282.5 million in total dollar volume. Year-over-year, this figure is down from Q2 2016, which saw \$405.9 million in total dollar volume.
- The average price per unit declined from \$153,822 to \$145,949 – this is primarily due to the fact that the majority of sales during the quarter were for older, Class C product.
- Q2 saw one Class A apartment sale that sold for \$201,809 per square unit; Class B product averaged \$137,930 per unit during the quarter; and Class C product averaged \$98,198 per unit.
- With very little Class A product available on the market, investors have snatched up any available Class B projects, leaving very little Class B product left. There are currently only 8 Class B projects on the market within the four county region. Class C product is still readily available, and the market saw a significant increase in Class C sales during Q2.
- The two largest investment sales of the quarter were:
 - The Eleven Hundred Apartments located at 1100 Howe Avenue in Sacramento. This 565-unit, Class B complex sold for \$69 million (\$122,124 per unit) at a 5.80% cap rate.
 - The Artisan apartments located at 8282 Calvine Road in Sacramento. This 264-unit, Class A project sold for \$53,277,500 (\$201,809 per unit) at a 5.00% cap rate.



Units Under Construction

1,533



Sacramento Unemployment

4.1%



US Unemployment

4.1%



Spotlight On: Bay Area Migration to Sacramento

With the average rent for an apartment in the San Francisco Bay Area currently exceeding \$2,000 per month (and exceeding \$3,000 in San Francisco alone), Bay Area rents have reached the point where even highly paid employees cannot afford the exorbitant rents. As such, many Bay Area renters have begun to migrate to Sacramento in search of more affordable housing. Not only can they retain their high-paying jobs by commuting to the Bay Area, but by paying less rent in Sacramento, they can actually save money and buy houses, since they would no longer be spending the majority of their income on living expenses.

According to Redfin.com's 2017 Migration Report, Sacramento was the number one destination for Bay Area residents seeking housing elsewhere, with a net outflow of 15,000 residents during Q1 2017. Population growth in the Bay Area has seen a noticeable slowdown over the last four years, with year-over-year growth falling from 1.36% in 2013 to 0.87% in 2017 for the nine-county Bay Area region. In contrast, Sacramento's population growth has increased during the same time period, with year-over-year growth rising from 0.89% in 2013 to 1.27% in 2017.

While the Bay Area is still adding jobs, the pace of job growth has seen a decline. Year-over-year job growth in the nine-county Bay Area region decreased from 1.71% in 2016 to 0.48% at month-end May 2017. Sacramento's job growth has also slowed during the same time period; however, the pace has been on par with the Bay Area region, and the average annual job growth in Sacramento is actually higher than the Bay Area's at 0.94% compared to 0.62%.

San Francisco's exorbitant rents have started to flatten as more and more people escape to Sacramento for its affordability. Unfortunately for Sacramentans, more people and no new development has led to continually climbing rents and high occupancy rates, and some locals are starting to get pushed out, as they cannot afford the rents that Bay Area migrants can. As a result, we may start to see more Sacramentans migrating towards the Central Valley for affordability in the future.

Outlook

The Sacramento apartment market's red-hot growth streak continued during the second quarter and the market will likely keep the same pace of momentum throughout the rest of the year. Lack of new construction, high occupancy and increasing levels of demand continue to put upward pressure on rental rates. With very little in the development pipeline, rents will continue to rise, especially as demand increases due to Bay Area residents migrating to Sacramento in search of lower rents. Investor interest and activity in the region remains strong, and this combination along with the recent drop in long-term rates bodes very well for cap rates to remain low for the foreseeable future.



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Market Statistics

Submarket	# of Units	Avg Rent	Avg Rent PSF	Vacancy
Downtown Sacramento	1,227	\$1,769	\$2.14	1.9%
East Sacramento	41	\$1,391	\$1.86	4.9%
Land Park	200	\$1,062	\$1.24	2.5%
South Sacramento	1,477	\$951	\$1.32	0.8%
Florin	2,385	\$1,077	\$1.40	2.6%
Greenhaven	3,912	\$1,393	\$1.54	1.8%
Rancho Cordova	5,074	\$1,223	\$1.50	1.1%
Capital Center	1,996	\$1,294	\$1.52	2.2%
Arden/Arcade	5,300	\$1,261	\$1.52	1.4%
Arden	2,222	\$993	\$1.31	0.9%
Carmichael	2,343	\$1,079	\$1.32	1.4%
South Natomas (W)	2,332	\$1,547	\$1.70	1.5%
South Natomas ('E)	3,795	\$1,253	\$1.52	1.9%
North Natomas	2,598	\$1,595	\$1.69	2.3%
North Highlands	2,132	\$1,112	\$1.38	0.8%
Antelope	1,317	\$1,350	\$1.61	1.8%
Citrus Heights	5,966	\$1,204	\$1.51	1.8%
Fair Oaks	2,161	\$1,239	\$1.48	2.7%
Orangevale	1,994	\$1,320	\$1.65	2.0%
Folsom	3,034	\$1,710	\$1.80	3.1%
Roseville/Rocklin	8,152	\$1,612	\$1.71	2.6%
Elk Grove	916	\$1,395	\$1.42	1.0%
West Sacramento	538	\$1,580	\$1.97	1.7%
El Dorado Hills	688	\$1,772	\$1.75	2.2%
Cameron Park	668	\$1,278	\$1.44	1.2%
Totals	62,468	\$1,339	\$1.57	1.8%

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