

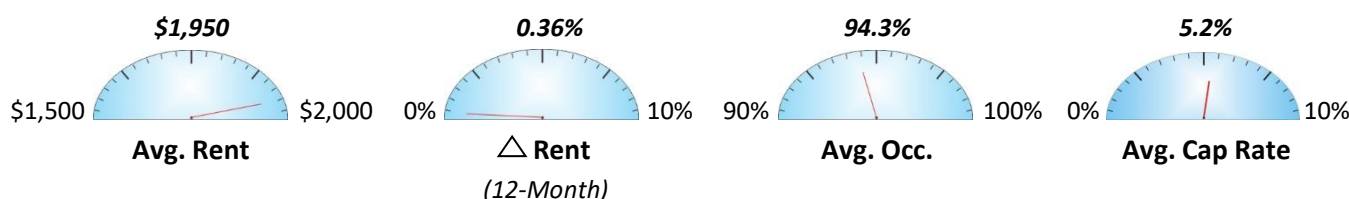


Q4 2023 Sacramento Apartment Report



Achieving goals!

Key Metrics



FULL METRICS AT A GLANCE 4TH Qtr 2023

Total Inventory	158,294
Quarterly Absorption	730
12-Month Absorption	1,318
Quarterly Unit Completions	1,028
12-Month Completions	3,158
12-Month Inventory Increase	2.0%
Average Occupancy	94.3%
Δ from Previous Quarter	0.1%
Δ from Previous Year	1.0%
Average Rent	\$1950
Δ from Previous Quarter	-0.86%
Δ from Previous Year	0.36%
Average Cap Rate	5.2%
Δ from Previous Year	0.7%
Average U.S. Cap Rate	5.2%
Δ from Previous Year	0.6%

Note: "Δ" values refer to basis point change.

Source: RealPage

What You Should Know

- Rents have softened in Sacramento as the effects of new supply are slowly outpacing demand.
- Concessions are on the rise, comprising 4.1% of rent in Q4 2023, up from 2.7% in 2022. The % of units with concessions is also up from 11% to 15%.
- Flat rent growth and increased concessions are traditional signs of reaching the down-cycle point. Buyer's and Seller's are currently working through the "chicken and egg" dilemma to reach new equilibrium pricing.
- Average market occupancy is now at its lowest level since the early stages of the last recovery in 2012.
- Building activity remains robust with more than 6,000 units currently under construction, eclipsing the market peak of the last cycle in Q4 2002 of 5,137 units.
- Current job growth rates of 2% - 2.5% is insufficient to sustain new supply levels without occupancy declines.
- An estimated \$1.0 trillion of CRE apartment loans are expected to mature by 2027 in the US.

QUARTERLY FORECAST

	(Actual) Q4 2023	(Forecast) Q1 2024
Average Rent	👎	🚫
Occupancy	👎	👎
Completions	👍	👍
Absorption	👍	👍
Construction	👍	👎
Avg Cap Rate	👍	🚫

AVERAGE RENT PERFORMANCE

Q4 2023	Category	Rent
Market		\$1,950
By Unit Type:	Efficiency	\$1,578
	1 Bedroom	\$1,720
	2 Bedroom	\$2,026
	3 Bedroom	\$2,730
By Age:	2000+	\$2,262
	1990's	\$2,125
	1980's	\$1,816
	1970's	\$1,720
	Pre - 1970	\$1,805

Source: RealPage

TAKE AWAYS

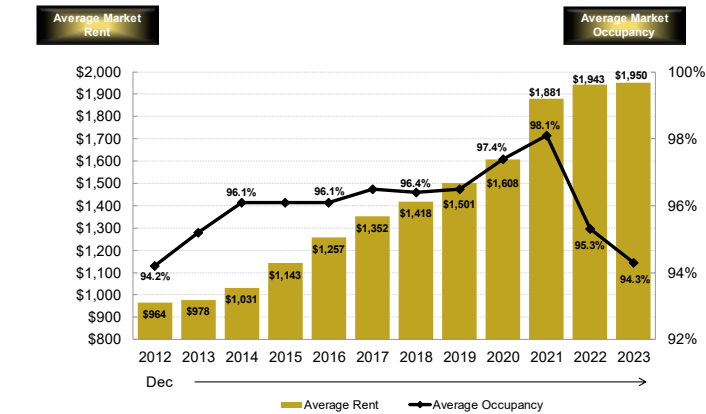
- Rent for pre-1970 units outpaced 1970's product and almost that of 1980's units, due mostly to the costs of acquisition and rehab.
- Occupying 2BR units is now more in favor than 1BR units, likely due to economic uncertainty.
- Occupancy of 3BR units is now higher than 1BR units and equals 2BR units, likely the result of home affordability.

AVG OCCUPANCY PERFORMANCE

Q4 2023	Category	Occ
Market		94.3%
By Unit Type:	Efficiency	92.3%
	1 Bedroom	94.1%
	2 Bedroom	94.4%
	3 Bedroom	94.4%
By Age:	2000+	93.9%
	1990's	95.5%
	1980's	94.6%
	1970's	93.9%
	Pre - 1970	93.3%

Source: RealPage

Sacramento MSA Occupancy Summary



Source: MPF (Includes Properties of 5+ Units in Sacramento, Placer, El Dorado, and Yolo Counties)

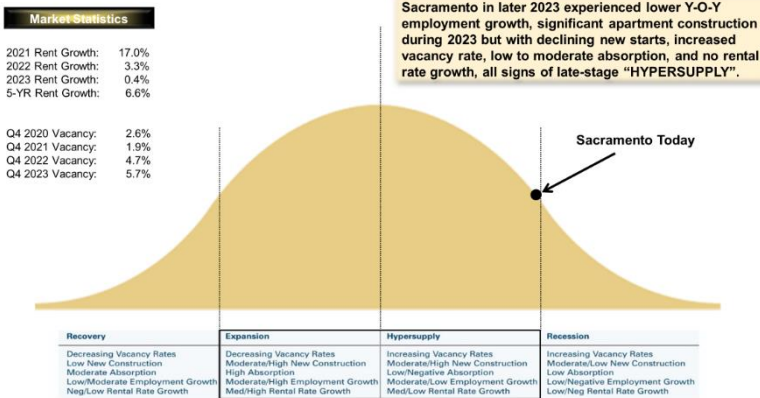
NOTEWORTHY

- The rent decline occurring in Q4 2023 is the first notable monthly drop in Sacramento's average rent level since 2012, the early stage of recovery from the last downturn.
- The recent sharp decline in occupancy is attributed to a cumulative negative net absorption of 1,215 units in 2022 and 2023 compared to 5,042 unit deliveries during that same two-year period.

NOTEWORTHY

- Recession typically marks the end of a cycle.
- While recent performance of the fundamentals is characteristic of a "Hypersupply" condition (increasing vacancy, low rent growth, modest job growth), supply of new units coupled with modest job growth is likely to push the market farther down the curve into early stages of "Recession".
- Good news is Sacramento's apartment market has always been resilient and expectations are that new sources of demand will continue to absorb new unit deliveries.

Sacramento MSA Market Cycle



SUBMARKET PERFORMANCE

Q4 2023 PERFORMANCE SUMMARY						Trailing 12-Mo. (in Units)		Current Status (in Units)	
Submarket	Avg Rent	12-Mo.	Avg \$/SF	Avg Occ	(*) 12-Mo.	Deliveries	Net Absorption	Constr.	Inventory
		Δ			Δ				
Davis	\$2,447	\$170	\$2.63	97.2%	(2.2%)	281	86	284	9,164
Central Sacramento	\$2,192	(\$4)	\$2.73	91.6%	0.2%	1,202	1,139	1,658	19,662
Roseville/Rocklin	\$2,155	\$16	\$2.30	95.6%	0.6%	686	748	692	18,376
Folsom/Orangevale/Fair Oaks	\$2,122	\$7	\$2.30	94.5%	0.3%	85	51	1,000	14,551
Natomas	\$1,914	(\$84)	\$2.16	93.4%	(2.1%)	401	96	1,033	13,890
South Sacramento	\$1,913	\$32	\$2.13	94.9%	(0.1%)	116	83	300	20,886
North Sac/North Highlands	\$1,900	(\$21)	\$2.16	93.3%	(1.3%)	0	(132)	452	10,602
Woodland/West Sacramento	\$1,892	\$94	\$2.38	94.1%	(1.1%)	229	112	607	8,909
Rancho Cordova/East Sac	\$1,752	(\$72)	\$2.11	93.3%	(1.5%)	158	(23)	0	11,979
Citrus Heights	\$1,738	(\$12)	\$2.15	94.5%	(1.7%)	0	(122)	0	7,197
Arden/Arcade	\$1,652	(\$12)	\$2.17	93.1%	(2.4%)	0	(336)	0	13,891
Carmichael	\$1,627	\$1	\$2.03	94.2%	(2.1%)	0	(197)	0	9,187

Source: RealPage (*) - values refer to basis point change.

KEY HIGHLIGHTS

- Fundamentals in three of Sacramento’s historically strongest submarkets remained slightly positive in spite of strong unit deliveries. Average occupancy and rents were slightly up with the exception of average rent in Central Sac.
 - Construction activity remains strongest in the highest rent generating areas with more than 4,400 units being built in just 4 of the 12 submarkets.
- Rents are strongest along Sacramento’s west corridor with Davis and Woodland showing the highest growth rates (7.5% and 5.2% respectively).
 - 3BR units in Carmichael showed considerable growth, increasing \$186 (8.9%) in 2023.
 - Rehabbed pre-1970 units in downtown is still a solid strategy with rents increasing \$282 (19.4%) in 2023.

TOP SUBMARKET RENT PERFORMERS			
Q4 2023	Category	Submarket	12-Mo. Δ
By Submarket: (Best and Worst)	Best	Davis	\$170
	Worst	Natomas	(\$84)
By Unit Type:	Efficiency	South Sac	\$178
	1 Bedroom	Davis	\$130
	2 Bedroom	Davis	\$124
	3 Bedroom	Wdland/West Sac	\$528
By Age:	2000+	Davis	\$135
	1990's	Davis	\$251
	1980's	Davis	\$200
	1970's	Wdland/West Sac	\$183
	Pre-1970	Central Sac	\$282

TOP SUBMARKET OCCUPANCY PERFORMERS			
Q4 2023	Category	Submarket	12-Mo. Δ
By Submarket: (Best and Worst)	Best	Rosvle/Rockln	0.6%
	Worst	Arden/Arcade	(2.4%)
By Unit Type:	Efficiency	Wdland/West Sac	3.3%
	1 Bedroom	Rosvle/Rockln	0.5%
	2 Bedroom	Central Sac	0.7%
	3 Bedroom	South Sac	2.2%
By Age:	2000+	N.Sac/N.HghInds	4.3%
	1990's	Arden/Arcade	4.6%
	1980's	Central Sac	5.6%
	1970's	Central Sac	7.4%
	Pre-1970	South Sac	1.9%

Source: RealPage

Source: RealPage (Values refer to basis point change.)



TAKE AWAYS

- Interest rates reaching a 10-year high (rose 150 bps in 8 quarters) severely impacted sales activity in 2023, reducing volume by 82% from total sales in 2022.
- Only 7 sales recorded in 2023 involved a property with at least 100 units, and only 4 others for 50-99 units. Most activity involved smaller assets.
- The average cap rate from the 2023 sale activity increased by 70 basis points from 2022 sales.

TOP MARKET SALES - 2023									
Property	City	Sale Date	Units	Price	\$/Unit	\$/SF	Cap Rate	Buyer	Seller
Savannah at Southport (1)	West Sacramento	10/27/2023	228	\$20,298,500	\$89,028	\$86.46	7.0%	Alliant	Eden Housing
Continental Terrace	Sacramento	4/12/2023	142	\$15,750,000	\$110,916	\$207.54	3.93%	J. Shergill	Positive Inv.
Riverview Plaza (2)	Sacramento	6/21/2023	124	\$17,845,603	\$143,916	\$86.24	n/a	Bellwether	Sac Housing Authority
El Macero	Davis	1/17/2023	104	\$23,750,000	\$228,365	\$253.20	4.0%	Wacker Family	Bridge Partners
Oakwood Garden	Sacramento	4/17/2023	56	\$10,950,000	\$195,536	\$251.03	5.2%	Lars Lenck	Paul Cobbe

Source: CoStar (1) Affordable Property (2) LIHTC Recap

Looking Ahead

- Best time to buy is late in the “Recession” phase, before prices and competition heat up, and best time to sell is at the end of the “Expansion” phase before the cycle peaks while prices and competition are highest.
- During 2024 rents likely to stay flat, new deliveries of more than 3,200 units will likely result in negative net absorption pushing vacancy rates up more, employment will be modest in the 2% range and sales activity will be slow early in the year and hopefully pick up in later 2024.
- National factors such as political climate and interest rates will continue to impact market performance.
- Proactively manage your Management Company to ensure best possible operations.