

Sacramento Multifamily Summary



Achieving goals!



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Points of Discussion

- MSA Market Fundamentals
- Transaction Volume and Pricing Trends
- New Construction Activity
- Local Market Cycle
- Forecast of Key Indicators
- In Summary
- Market Intelligence Campaign

Sacramento MSA Q4 Market Fundamentals

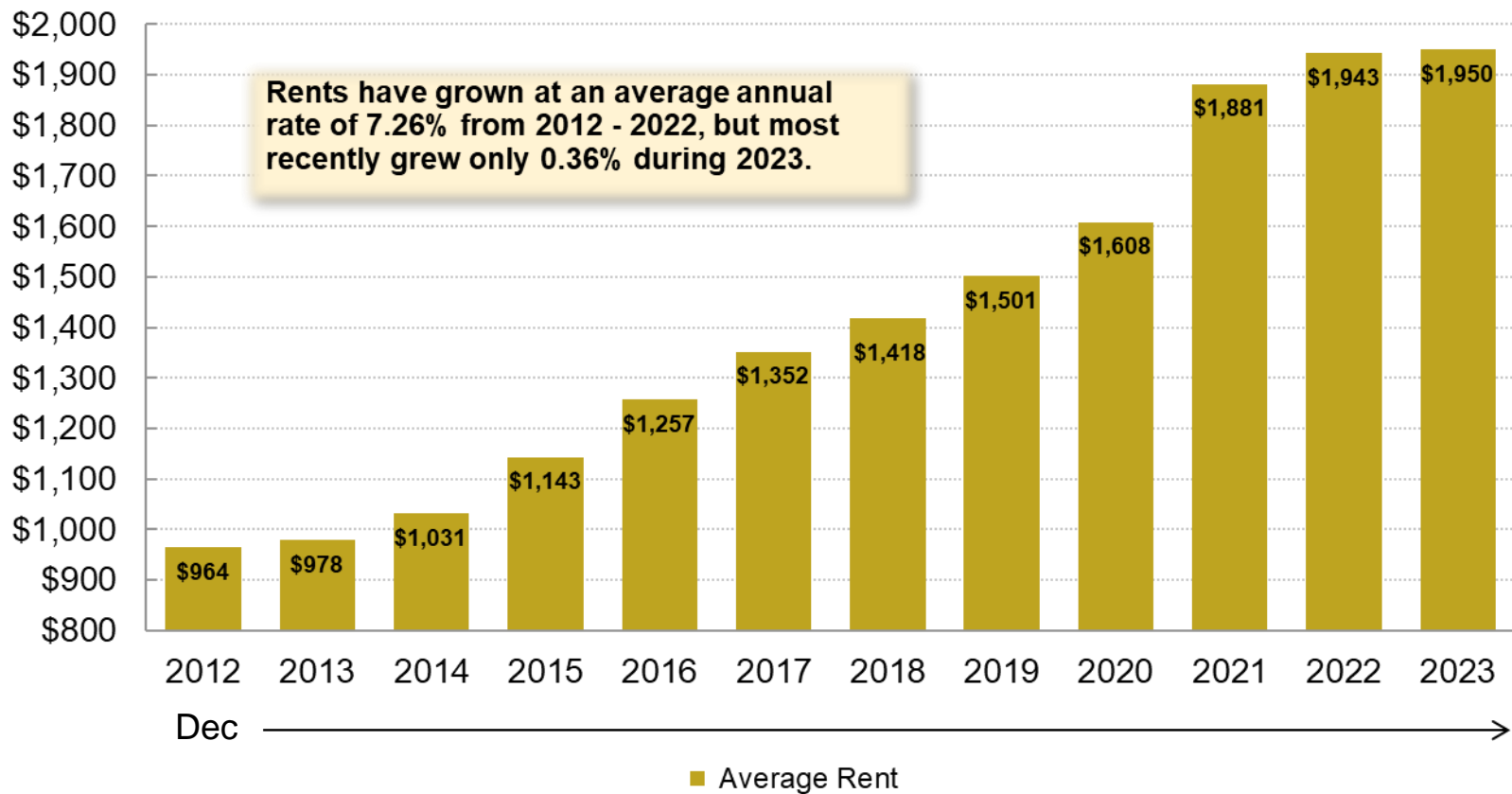
YOY Change from Q4 2022 to Q4 2023

	<u>2022</u>	<u>2023</u>	
Overall Market Occupancy	95.3%	94.3%	↓
Average Market Rent	\$1,943	\$1,950	↔
Total Net Absorption	(485)	730	↑
Total Unit Completions	446	1,028	↑
Total M-F Permits Issued	320	323	↔
Units Under Construction	5,777	6,026	↑



Sacramento MSA Rental Rate Summary

Average Market
Rent



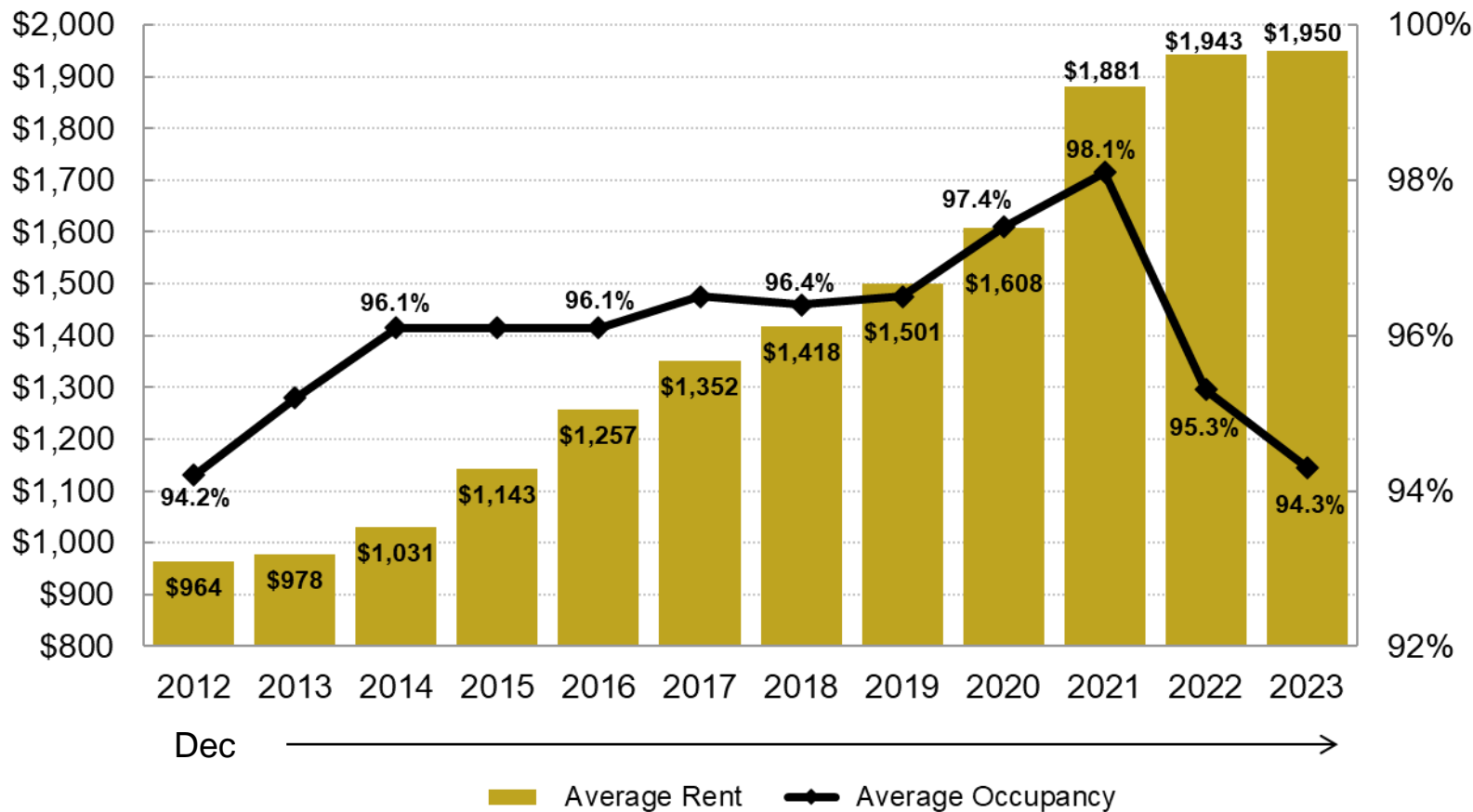
Source: MPF (Includes Properties of 5+ units in Sacramento, Placer, El Dorado, and Yolo Counties)



Sacramento MSA Occupancy Summary

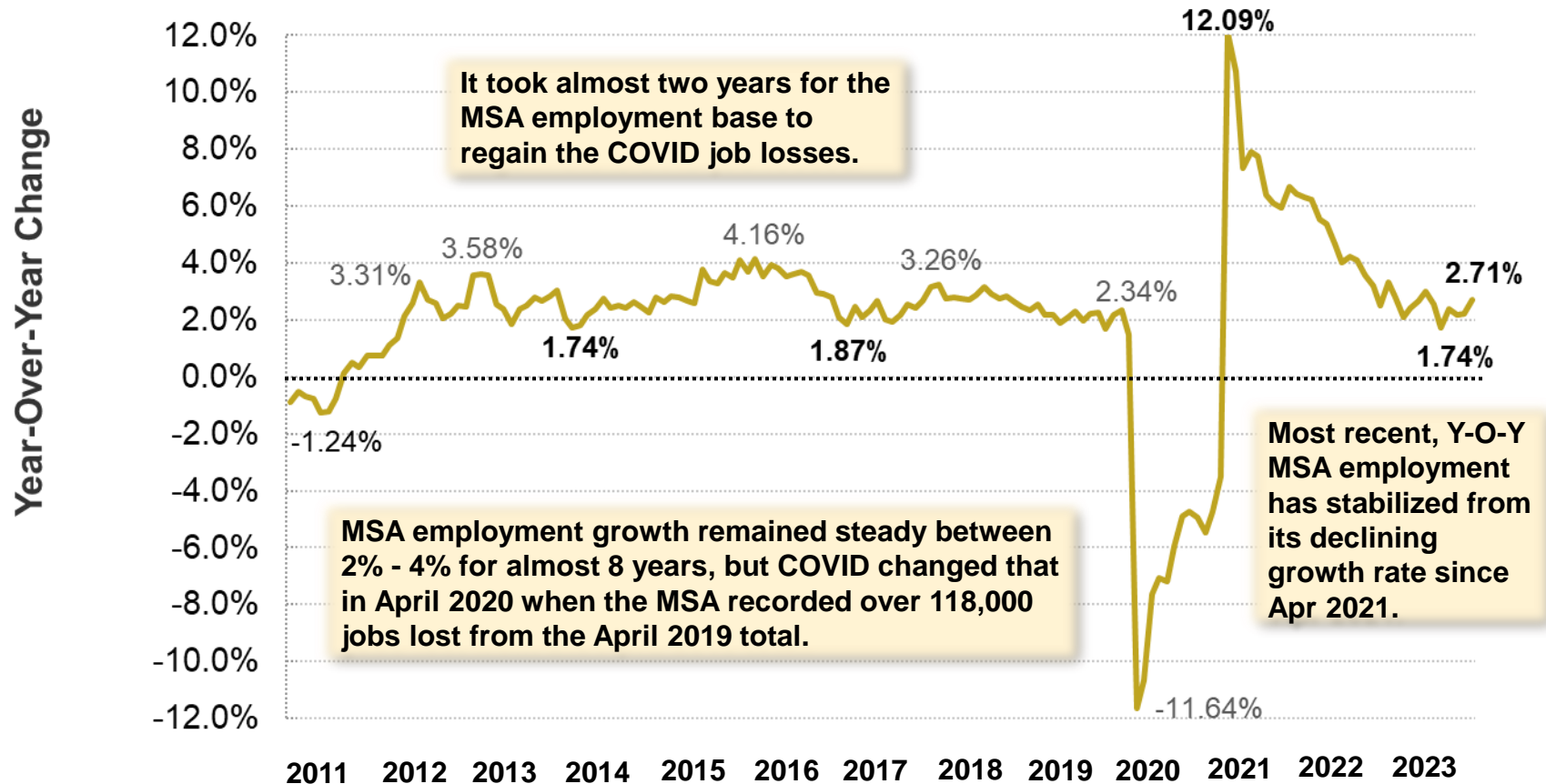
Average Market
Rent

Average Market
Occupancy



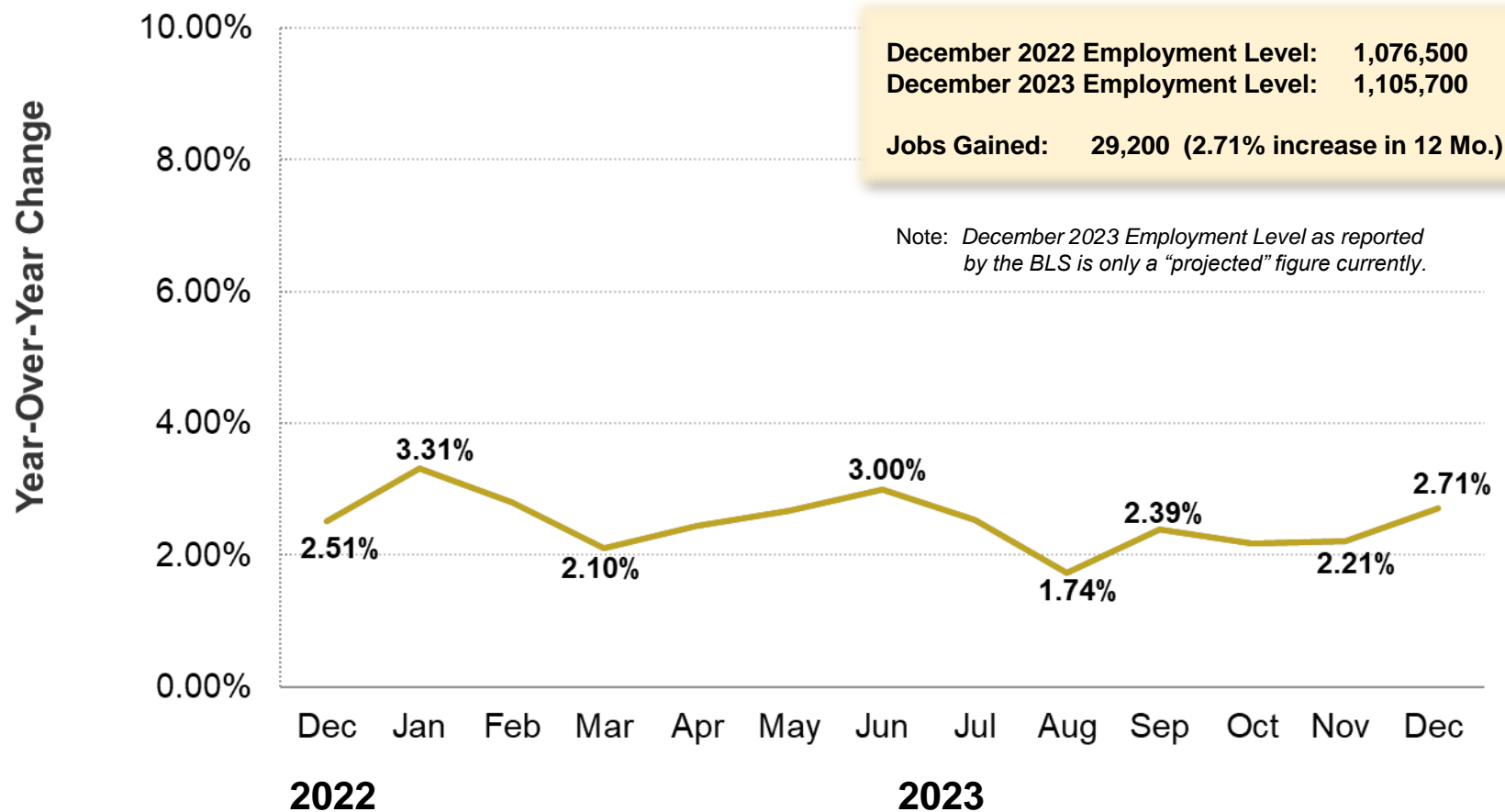
Source: MPF (Includes Properties of 5+ Units in Sacramento, Placer, El Dorado, and Yolo Counties)

Sacramento MSA Employment Analysis





Sacramento MSA Employment Analysis



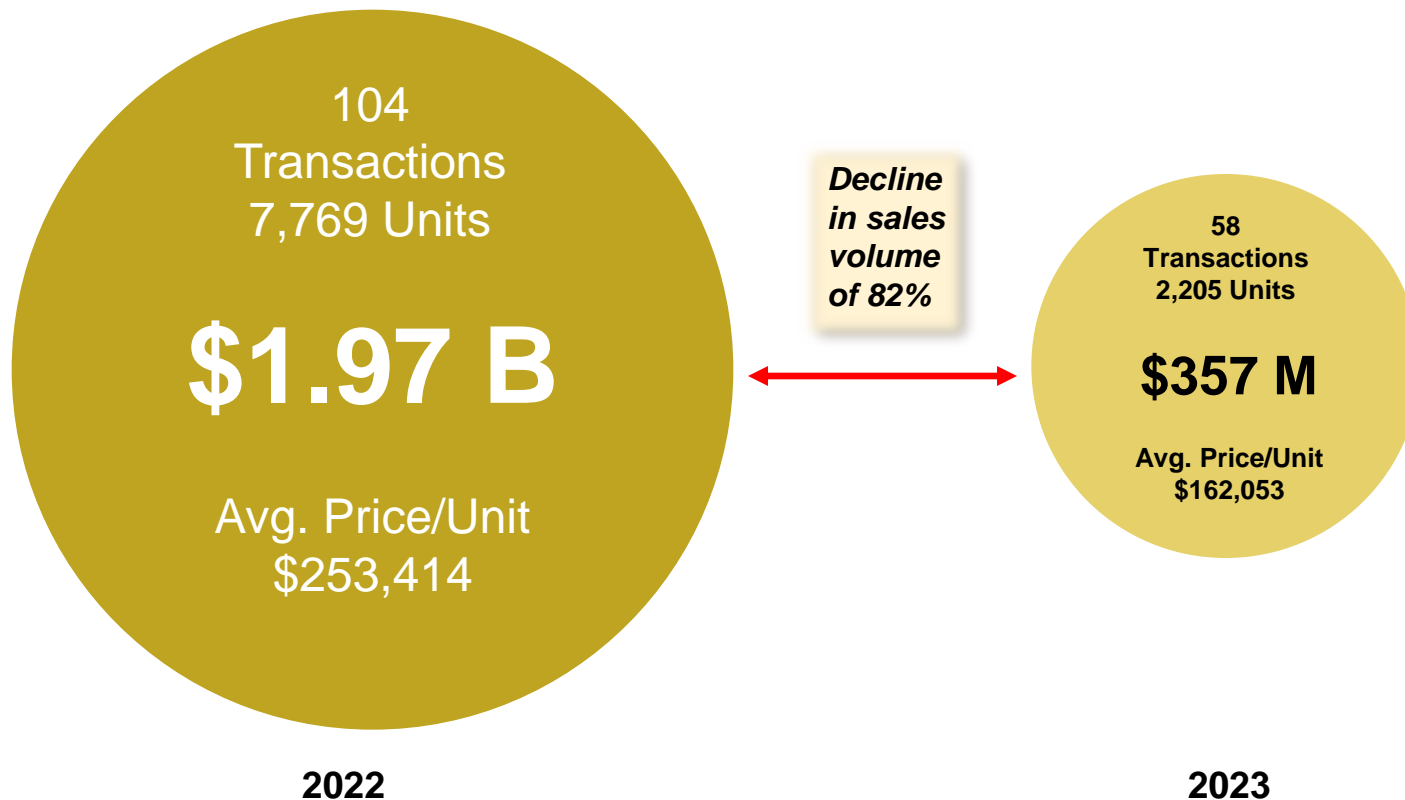
Source: Bureau of Labor Statistics (Includes Sacramento, Placer, El Dorado, and Yolo Counties)

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Transaction Volume and Pricing Trends

Sacramento MSA Sales Activity Comparison

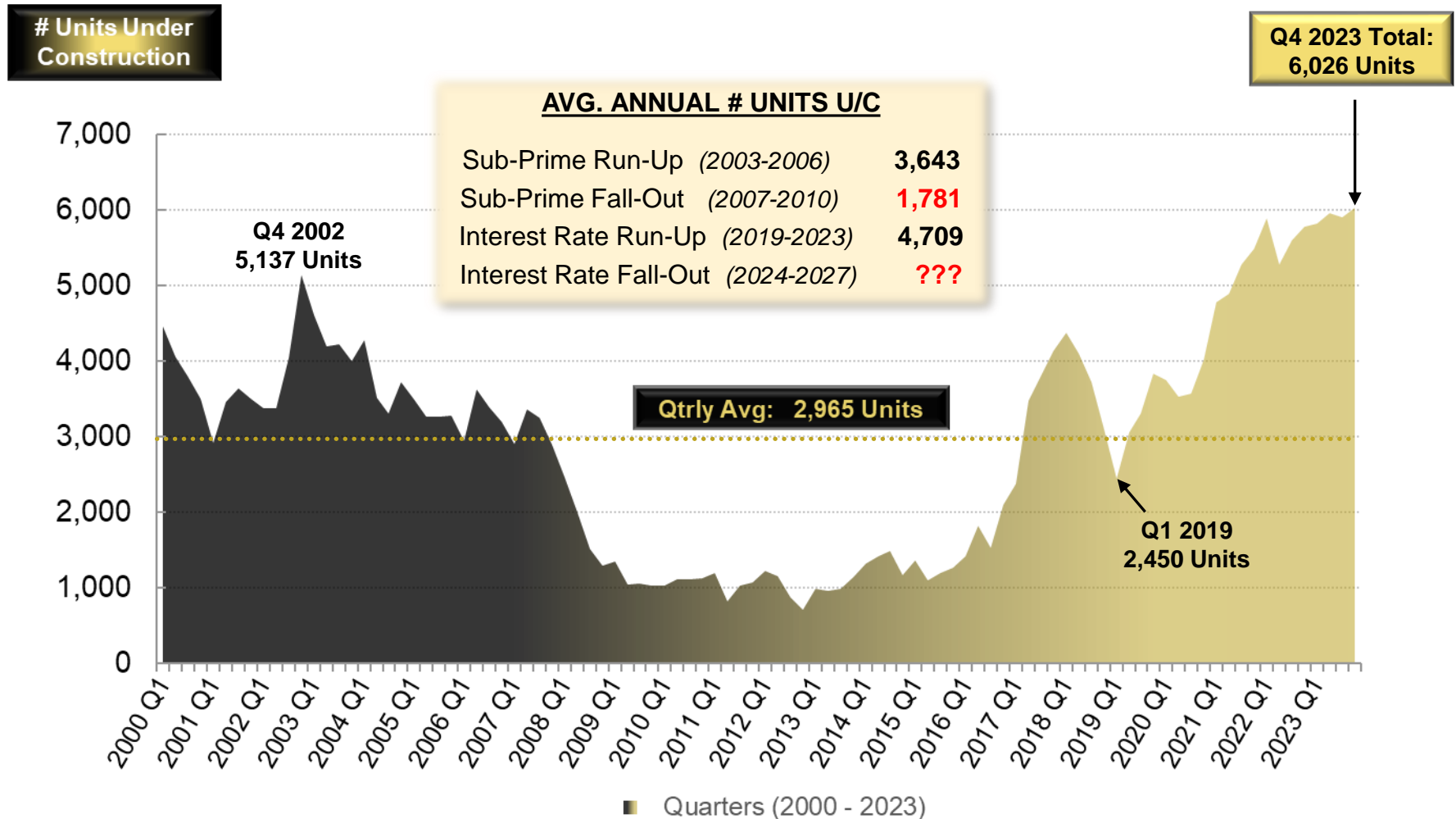


Source: CoStar Sales Comparable for properties 10 units or greater in the 4-county region

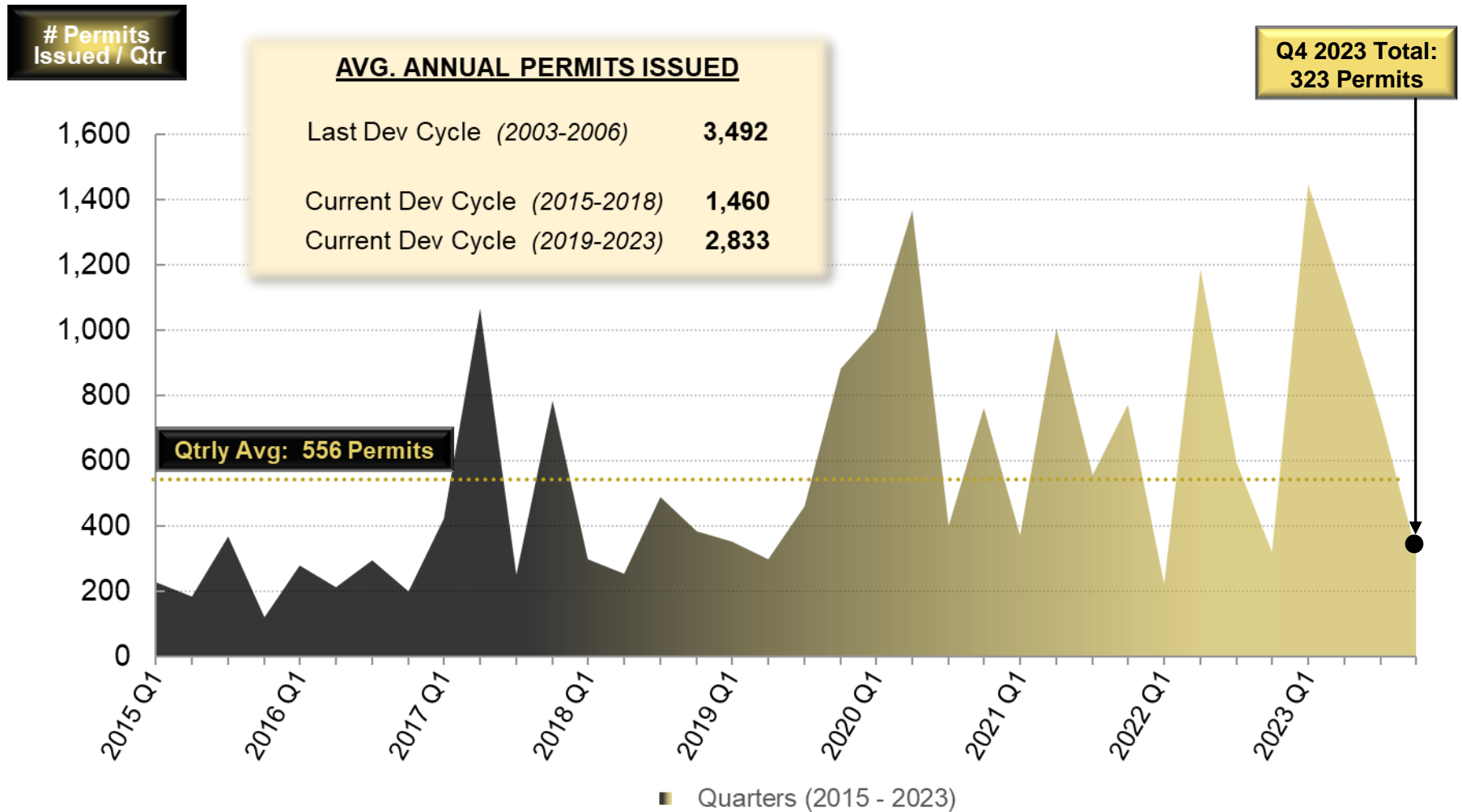
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Sacramento MSA Multifamily Construction

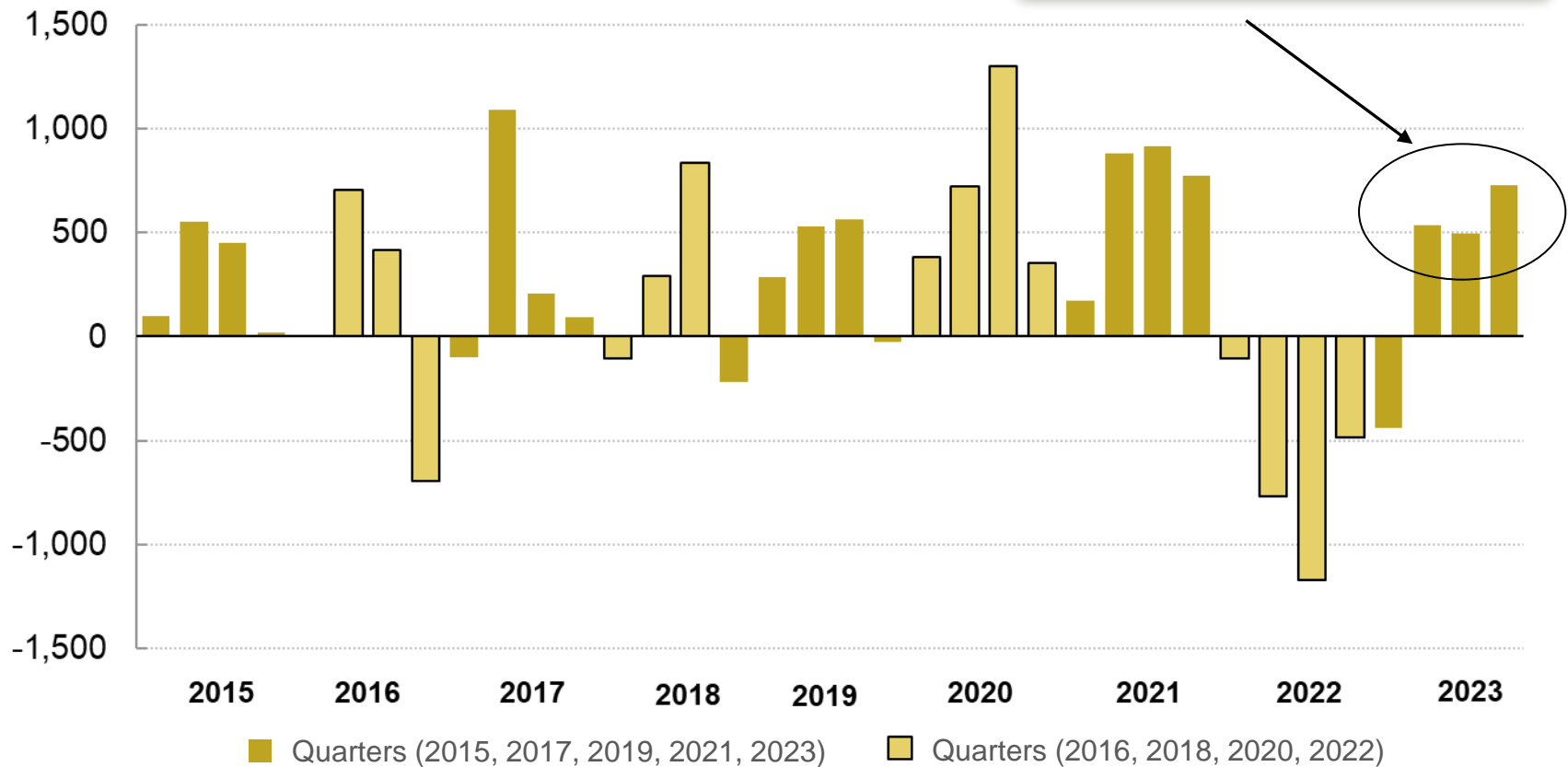


Sacramento MSA Multifamily Construction



Sacramento MSA Multifamily Construction

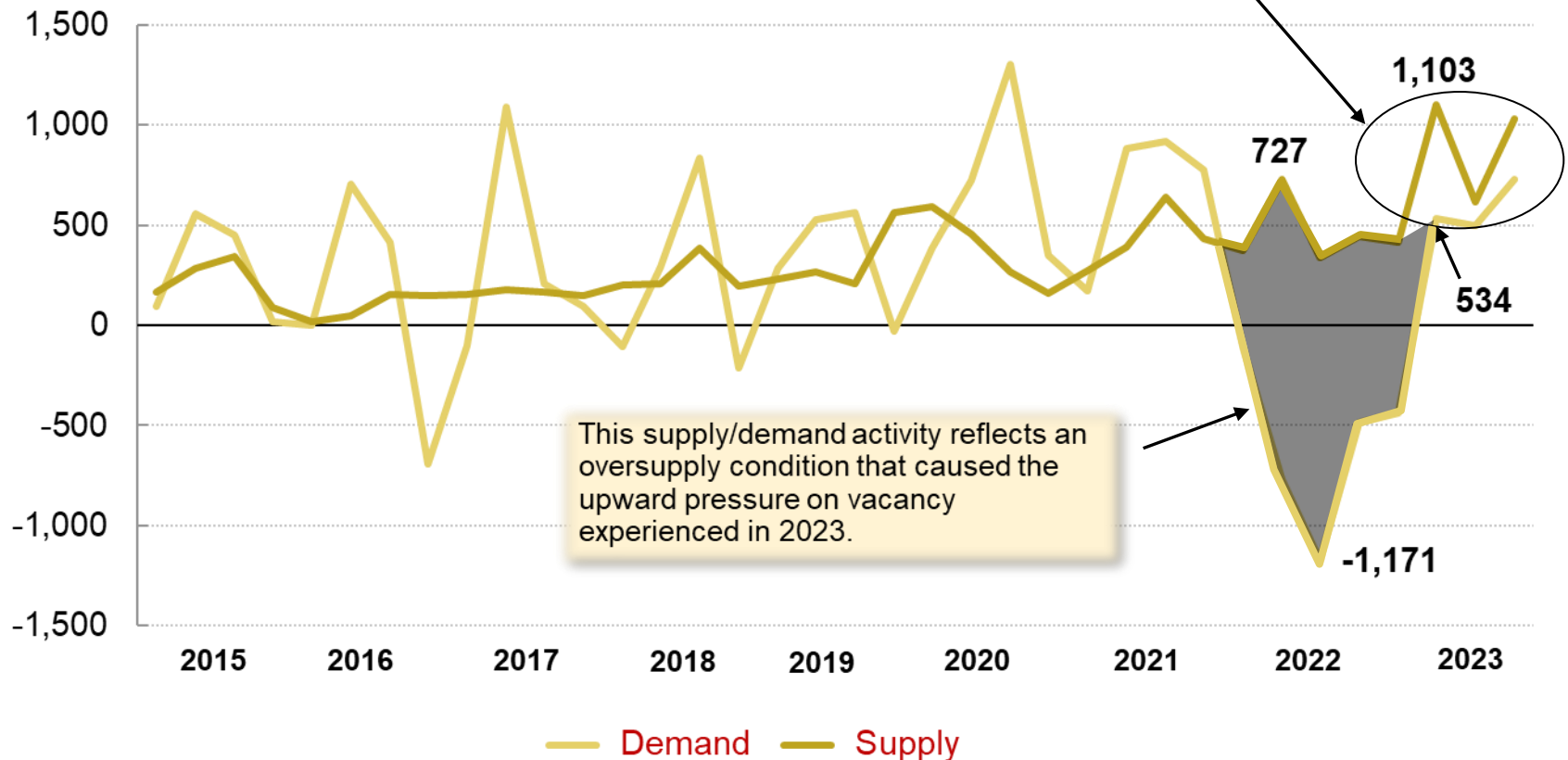
Units
Absorbed / Qtr



Sacramento MSA Multifamily Construction

Units / Qtr

Most recently, supply is still outpacing demand which will likely keep upward pressure on vacancy in 2024.



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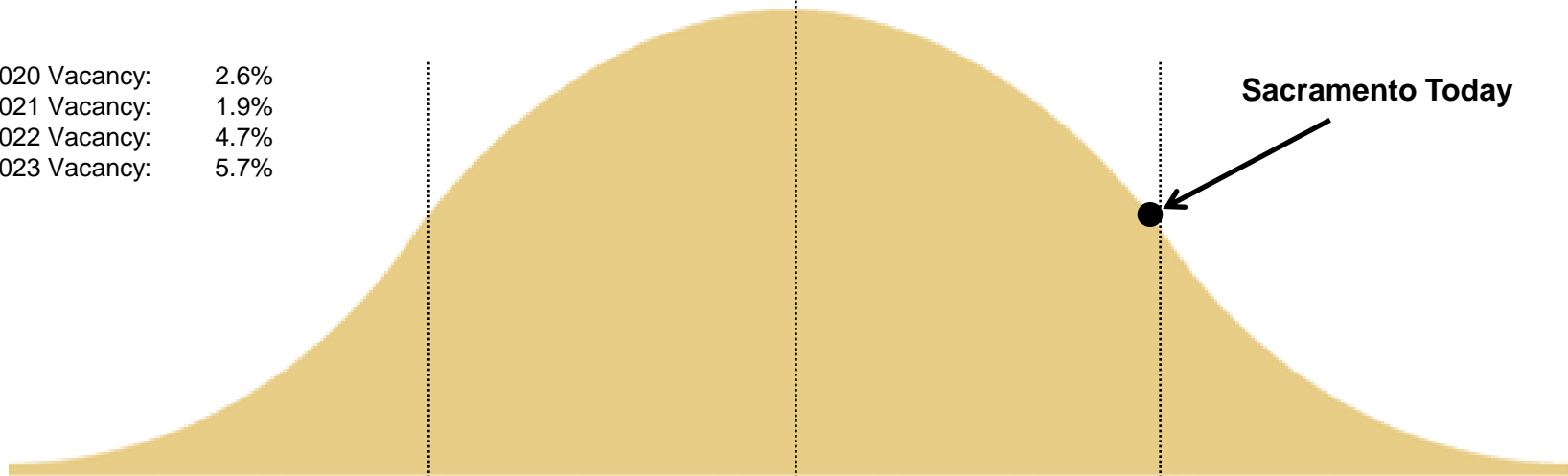
Sacramento MSA Market Cycle

Market Statistics

2021 Rent Growth: 17.0%
2022 Rent Growth: 3.3%
2023 Rent Growth: 0.4%
5-YR Rent Growth: 6.6%

Q4 2020 Vacancy: 2.6%
Q4 2021 Vacancy: 1.9%
Q4 2022 Vacancy: 4.7%
Q4 2023 Vacancy: 5.7%

Sacramento in later 2023 experienced lower Y-O-Y employment growth, significant apartment construction during 2023 but with declining new starts, increased vacancy rate, low to moderate absorption, and no rental rate growth, all signs of late-stage “HYPERSUPPLY”.



Recovery	Expansion	Hypersupply	Recession
Decreasing Vacancy Rates Low New Construction Moderate Absorption Low/Moderate Employment Growth Neg/Low Rental Rate Growth	Decreasing Vacancy Rates Moderate/High New Construction High Absorption Moderate/High Employment Growth Med/High Rental Rate Growth	Increasing Vacancy Rates Moderate/High New Construction Low/Negative Absorption Moderate/Low Employment Growth Med/Low Rental Rate Growth	Increasing Vacancy Rates Moderate/Low New Construction Low Absorption Low/Negative Employment Growth Low/Neg Rental Rate Growth

Points of Discussion

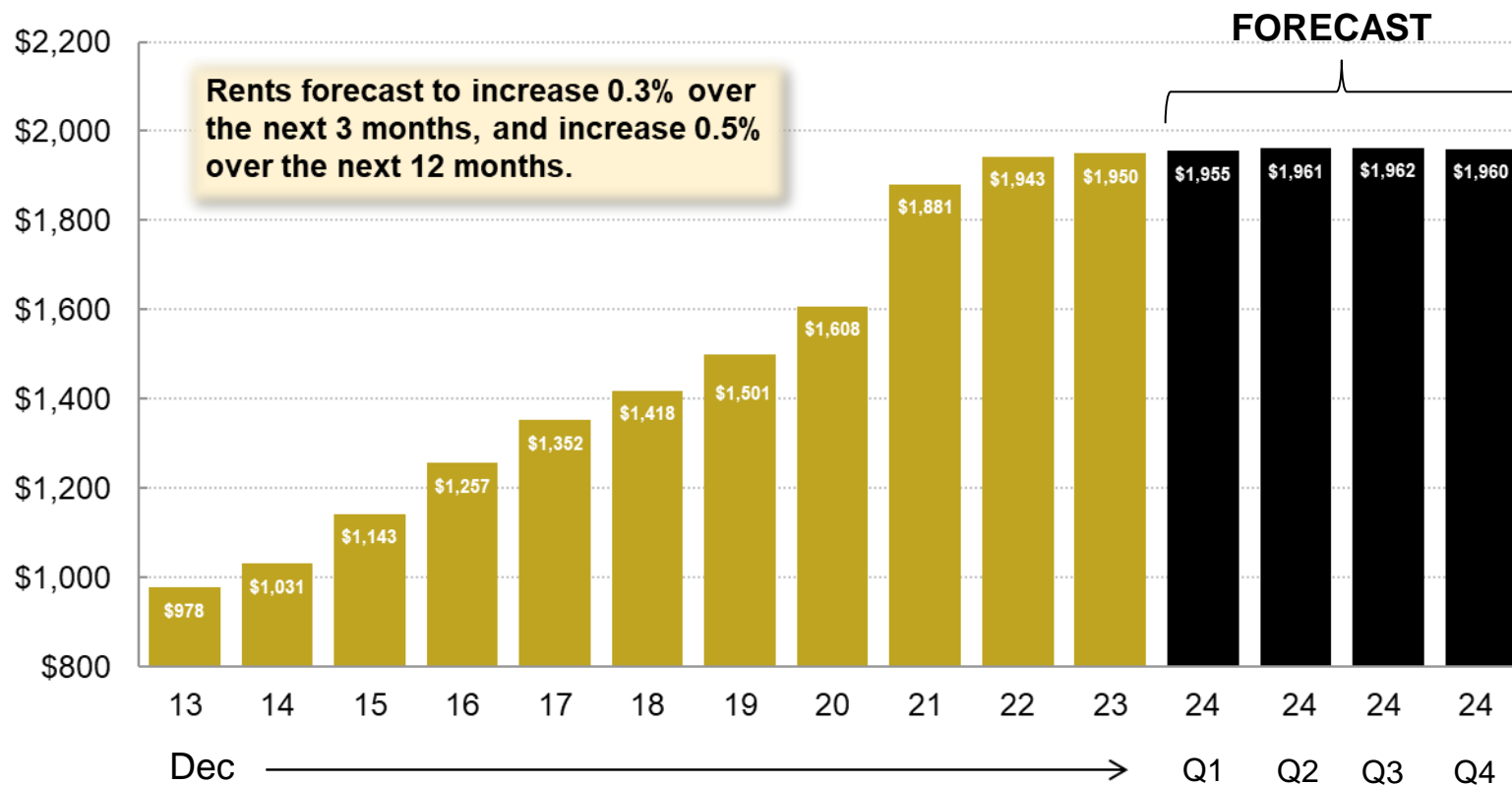
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Sacramento MSA Forecast of Key Indicators

	<u>Next 3 Months</u>	<u>Next 12 Months</u>
Employment Growth	N/A	2.16%
New Apt. Unit Supply	1,123	3,270
Net Absorption (<i>demand</i>)	Positive	Positive
Occupancy Rate	94.2%	94.0%
Rent Growth	0.26%	0.51%
Rent Concessions	Minor	Moderate
Apt. Sales Volume	Weak	Moderate

Sacramento MSA Rental Rate Forecast

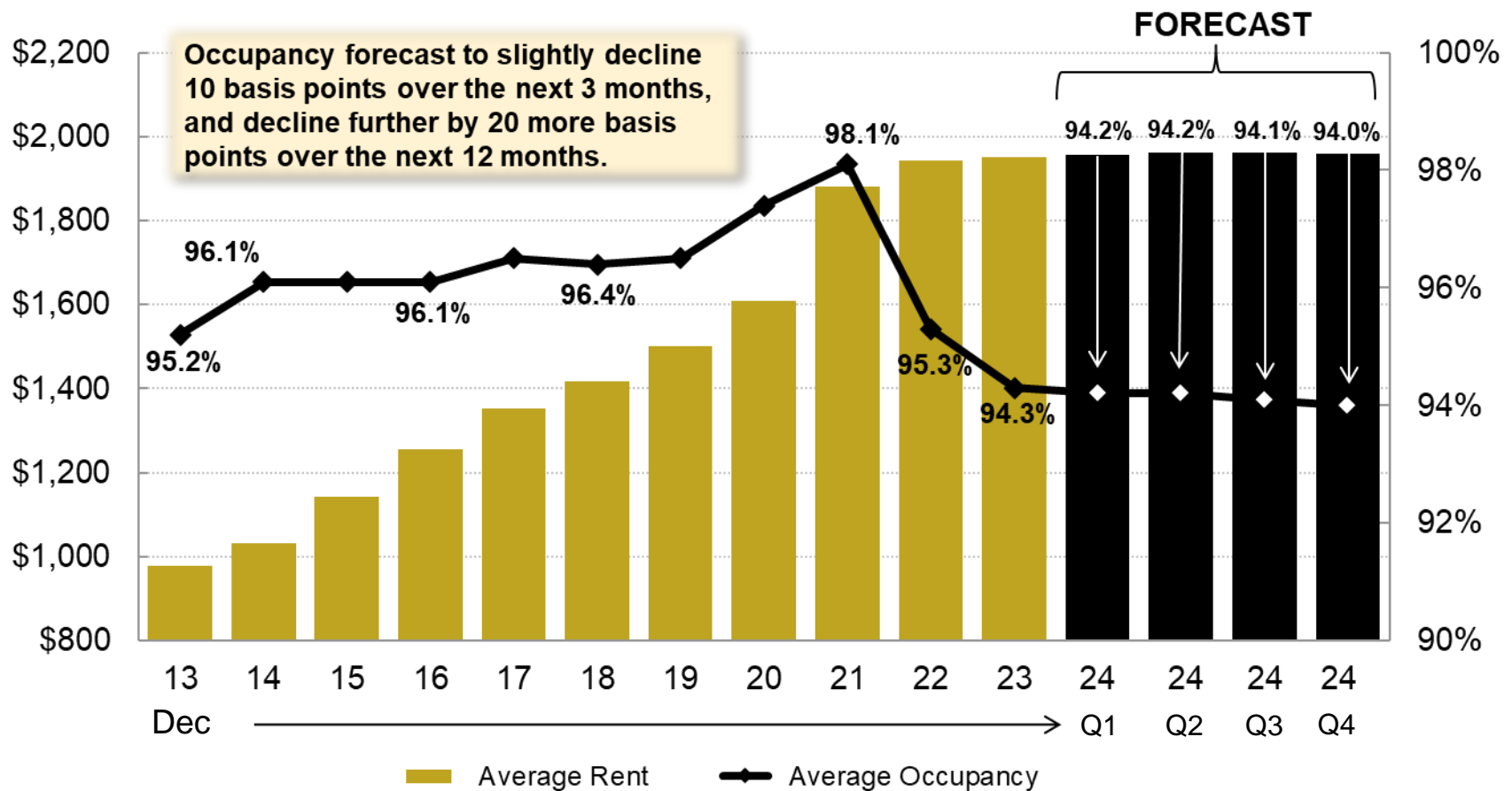
Average Market Rent



Sacramento MSA Occupancy Forecast

Average Market
Rent

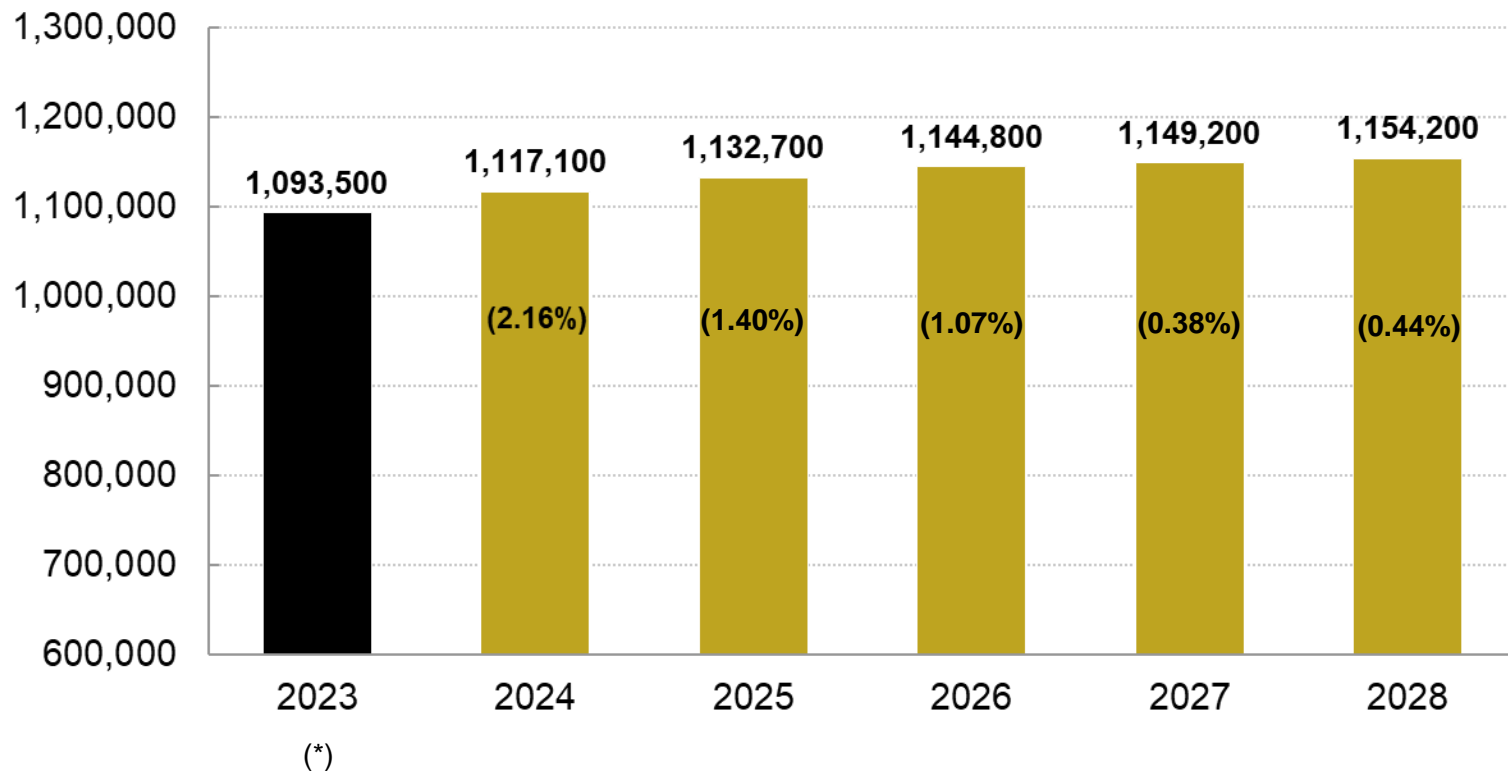
Average Market
Occupancy



Sacramento MSA Employment Forecast

Projected Employment Base

Caltrans Predicts a Slowdown in Sacramento's Employment Growth



Sacramento MSA Forecast Results

	<u>Q4 2023 Forecast</u>	<u>Q4 2023 Actual</u>
Employment Growth <i>(12-month period - Caltrans)</i>	2.49%	2.71%
New Apt. Unit Supply	986	1,028
Occupancy Rate	94.5%	94.3%
Average Rent	\$1,992	\$1,950
Apt. Sales Volume	Weak	Weak

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In Summary

- Sacramento market fundamentals softened during 2023 with December 31 occupancy down 100 basis points from year-end 2022, and rent growth of only 0.36% during the year, much below the regions recent rent growth rates.
- More than twice the number of units were delivered to the Sacramento apartment market in 2023 than were absorbed, with 3,128 units delivered and only 1,318 net absorbed.
- Forecasted slowing in Sacramento's employment growth will have an impact on upcoming apartment demand.

In Summary

- Additionally, new apartment construction in late 2023 was at its highest recorded level in this millennium, surpassing even the robust unit construction levels recorded in Sacramento during the early 2000's.
- These high supply levels, coupled with slower demand will challenge Sacramento's apartment fundamentals in 2024.
- High apartment construction levels are a strong indicator of a pending shift in fundamentals, as developers over-built before the last several downturns.

In Summary

- Interest rates and other economic factors will continue to have an impact on Sacramento's apartment market.
- Apartment sale activity in Sacramento was weak during 2023, and buyers and sellers are still dealing with an inflection point reflecting the shift from a "seller's market" to a "buyer's market". It takes time for both parties to reach a new equilibrium.
- Sacramento apartment sale activity in 2023 reflected an **82% decline** in volume from 2022 levels.

In Summary - Conclusion

Sacramento's apartment market will have challenges on many fronts in the next 12-24 months. New supply coupled with forecasted slower demand is a leading issue of concern. National factors such as political climate and interest rates will also have a bearing on near-future apartment performance.

Those Sacramento apartment investors that will likely fair best over the next several years will be those that keep a finger on the pulse of our fundamentals and an eye out for the opportunities that present themselves as the multifamily landscape keeps evolving.

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Market Intelligence Campaign

- Sale Transactions
- Properties Available for Sale
- Quarterly Report
- Forecast of Various Apartment Indicators

Each Report is Issued Quarterly

Avalon Commercial Investment Team



Achieving goals!

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