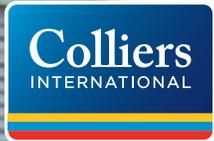


Research &  
Forecast Report

# SACRAMENTO | MULTIFAMILY

Q2 2015



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115

# Market Strength

## Regional Summary

During 2nd Quarter 2015 the Sacramento apartment sector continued with another quarter of exceptional performance, yielding improvement in both rates and occupancy. The strength in the market continues to be a reflection of the minimal new supply that trickles in to the local inventory base each quarter coupled with consistently strong demand. It is important to note that demand today is shifting from the non-traditional sources that have been in play for the past few years towards the more traditional “employment” driver, which is more characteristic of a sustainable growing market. Average monthly rent during 2nd Quarter 2015 increased from \$1,051 to \$1,082, and average occupancy in the market increased another 20 basis points to end the quarter at 97.3%. It is important to note that average occupancy in the Sacramento region has remained above the economic equilibrium level of 95% for the past 9 quarters, and the average rent level increased almost 6.3% during the past 12 months. The table to the right summarizes the performance of several of the leading apartment market indicators measuring the health of Sacramento’s multifamily market.

Some of the key takeaways from Sacramento’s 2nd Quarter 2015 market performance include:

- Overall market inventory remained above full economic occupancy, ending the quarter at 97.3%, and is a 40 basis point increase from the Q2 2014 recorded level of 96.9%.
- The average apartment market rent in Sacramento ended June 30, 2015 at \$1,082, significantly above the Q2 2014 average rent level of \$1,018, and is a 3.5% annual increase in average rent since mid-2009.
- The quarterly same-store rents rose 3.0% during 2nd Quarter 2015, and the annual same-store rents increased by 7.3%. (i.e., 2nd Quarter 2015 average market rent was 7.3% greater than the 2nd Quarter 2014 average market rent for the identical group of units surveyed).
- Multifamily permit issuance was light during the quarter, with 186 permits issued during the three month period, a decline from the 228 permits issued in Sacramento during Q1 2015.
- There were 286 new apartment units delivered to Sacramento’s apartment inventory base during 2nd Quarter 2015, resulting in total completions of 765 over the past four quarters.

- As of June 30, 2015 there remained seven multifamily properties under construction in the Sacramento area totaling 1,007 units, with all of those units expected to be delivered by mid-year 2016.
- The continuing low home ownership rate in the region, and low new multifamily construction, should help to offset some of the pressures from the improving single family home market.
- The average cap rate for Sacramento area sales dropped 50 basis points during Q2 2015, ending the quarter at 5.40%, dropping below its lowest level achieved during the last cycle in 2008 before spiking in 2009 to 8.31%.

### Key Sacramento Apartment Market Metrics

Q2 2015

Total Apartment Inventory	141,397
Quarterly Apartment Absorption	695
Trailing 12 Month Absorption	1,516
Quarterly Unit Completions	286
Trailing 12 Month Completions	765
Annual Increase in New Inventory	0.54%
Market Occupancy	97.3%
Change from Previous Quarter	0.2%
Change from Previous Year	0.7%
Average Market Rent	\$1,082
Same Store Difference from Previous Quarter	3.0%
Same Store Difference from Previous Year	7.3%
Trailing 12-Month Sacramento Apt. Cap Rate	5.5%
Change from Previous Year	-0.4%
Trailing 12-Month US Apt. Cap Rate	6.1%
Change from Previous Year	-0.2%

1. Please note that “Same-Store” refers to a comparison that is made querying the same exact group of properties between two points in time.

2. “Change” values refer to basis point change.

## Submarket Summary

During 2nd Quarter 2015 the various submarkets comprising the Sacramento apartment sector continued to perform well. While some submarkets are stronger than others, all submarkets continue to record strong occupancy and rent levels.

### Submarket Summary

2nd Quarter					Trailing 12 Months	
SUBMARKET	AVG. UNIT SIZE SF	AVERAGE RENT	AVERAGE RENT/SF	AVERAGE OCCUPANCY	UNIT DELIVERIES	UNIT ABSORPTION
Central Sacramento	767	\$1,311	\$1.71	96.4%	346	339
South Sacramento	868	\$990	\$1.14	97.3%	0	214
Natomas	894	\$1,130	\$1.26	97.4%	0	(55)
N Sacramento / N Highlands	878	\$997	\$1.14	96.7%	63	280
Arden/Arcade	797	\$878	\$1.10	97.2%	0	154
Carmichael	816	\$854	\$1.05	97.5%	0	102
Rancho Cordova / East Sacramento	834	\$961	\$1.15	97.6%	0	125
Citrus Heights	808	\$959	\$1.19	97.9%	0	37
Orangevale/ Fair Oaks/Folsom	904	\$1,277	\$1.41	96.4%	0	(77)
Roseville/Rocklin	929	\$1,228	\$1.32	96.3%	224	174
Woodland / West Sac	838	\$915	\$1.09	97.8%	132	173
Davis	926	\$1,475	\$1.59	99.5%	0	50

Source: MFP Research

Some of the key takeaways from Sacramento's 2nd Quarter 2015 submarket performance include:

- › Occupancy in the various submarkets all remained well above economic stabilization in Q2 2015, ranging from 96.3% to 99.5%, with six of the submarkets recording a very minor decline in their average occupancy during the quarter.
- › Unit deliveries continue to remain low, with only four of the submarkets recording unit completions during the past 12 months.
- › Annual same-store rent growth was highest in the Rancho Cordova / East Sacramento submarket at 11.3%, followed by the Citrus Heights submarket at 11.2%; a reversal from the Q1 ranking. It is worth noting that in all 12 submarkets the rent level recorded in 2nd Quarter 2015 was higher than the rent level reported for 2nd Quarter 2014.
- › Concessions during 2nd Quarter 2015 appeared in only five of the twelve submarkets, with two averaging 8.3% of the contract rate. These two submarkets are North Sacramento / North Highlands and Carmichael. During Q2 2015 the average concession metro wide remained at 4.7% of the contract rate.



## Market Performance

During 2nd Quarter 2015 Sacramento’s apartment market fundamentals once again were very strong, slightly improving from the already impressive results recorded during 1st quarter 2015. As we have reported previously, the most significant traditional driver for apartment demand is employment growth, which is continuing to pick up steam. We anticipate local fundamentals to remain strong, and should continue that way for the foreseeable future as job growth continues to improve.

Closing statistics published by the Sacramento Association of Realtors (“SAR”) indicated that during Q2 2015 a total of 4,947 escrows were consummated, a rapid escalation from the pace of completed transactions recorded during Q1 2015 of 3,438. Additionally, the mean average price recorded for Sacramento County home sales during 2nd Qtr 2015 increased 5.4% over the Q1 2015 mean price, ending the quarter at \$317,722. Most single family experts agree that home sales during the first half of 2015 is quickly approaching the impressive home sale results recorded in the Sacramento market during 2013. We anticipate the remainder of 2015 to remain a good year for Sacramento’s single family market.

As mentioned above, employment in the region continues to improve. As the graph to the right illustrates, the year-over-year employment level recorded in the four-county Sacramento region remains positive, with some of these jobs starting to be created in higher paying sectors. Sacramento will need to continue to post strong employment numbers to maintain the improvement levels in the multifamily sector.

Sale activity for Sacramento apartments continues to be robust, with 70 transactions closing during 2nd Quarter 2015 in the Sacramento region for properties of at least 5 units in size. It is important to note that most of those closings involved smaller properties, with only 22 of the closings for communities greater than 50 units in size. Sale activity remains strong as investors continue to seek this asset class for opportunities, particularly Bay Area investors seeking to achieve stronger yields than are currently available in Bay Area apartments.

We anticipate only small swings in occupancy and rental rates over the next four quarters as employment levels continue to grow, and the improved single family market continues to square off against the lack of any meaningful new apartment deliveries during the next 12 months.

### Market Indicators

Relative to prior period	Market Q2 2015	Market Q3 2015*
VACANCY	↓	↔
NET ABSORPTION	↑	↓
DELIVERIES	↑	↑
CONSTRUCTION	↑	↑
LEASE RATE	↑	↔

\*3rd Qtr 2015 over 2nd Qtr 2015 Change

### Sacramento MSA Employment Analysis

#### Sacramento MSA Employment Analysis



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

## Rental Rate Trends

The overall average apartment market rent in Sacramento was reported to be \$1,082 as of June 30, 2015, a 3.0% increase from the average rent of \$1,051 recorded three months earlier, and a very strong 6.3% increase from the \$1,018 average rent level reported 12 months earlier.

Similarly, the change in same-store rents increased 3.0% during 2nd Quarter 2015, and for the previous 12-month period increased by 7.3% (i.e., 2nd Quarter 2015 average market rent was 7.3% higher than 2nd Quarter 2014 average market rent for the identical group of units surveyed). Note that the difference in performance between the overall and the same-store statistics is due to the difference in units surveyed. Below is a summary of 2nd Quarter 2015 rent performance for the different bedroom type and age groups of inventory in the Sacramento region.

### Market Rent Performance

Q2 2015	CATEGORY	AVERAGE RENT
Market		<b>\$1,082</b>
By Unit Type	<b>Efficiency</b>	<b>\$802</b>
	<b>1 Bedroom</b>	<b>\$935</b>
	<b>2 Bedroom</b>	<b>\$1,122</b>
	<b>3 bedroom</b>	<b>\$1,473</b>
By Age	<b>2000+</b>	<b>\$1,288</b>
	<b>1990's</b>	<b>\$1,161</b>
	<b>1980's</b>	<b>\$1,034</b>
	<b>1970's</b>	<b>\$919</b>
	<b>Pre-1970</b>	<b>\$1,027</b>

Source: MFP Research

## Occupancy Analysis

The following table summarizes occupancy highlights across submarkets, unit types, and property age.

### Market Occupancy Performance

Q2 2015	CATEGORY	OCCUPANCY
Market		<b>97.3%</b>
By Unit Type	<b>Efficiency</b>	<b>96.2%</b>
	<b>1 Bedroom</b>	<b>97.2%</b>
	<b>2 Bedroom</b>	<b>97.3%</b>
	<b>3 bedroom</b>	<b>97.4%</b>
By Age	<b>2000+</b>	<b>97.2%</b>
	<b>1990's</b>	<b>97.0%</b>
	<b>1980's</b>	<b>97.3%</b>
	<b>1970's</b>	<b>97.7%</b>
	<b>Pre-1970</b>	<b>96.9%</b>

## Looking Forward

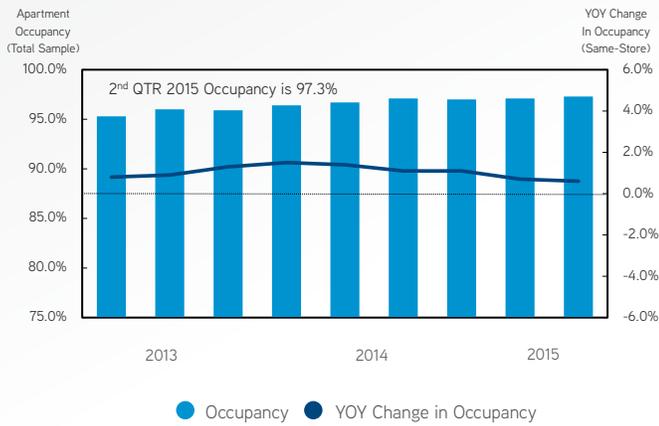
We expect Sacramento's apartment market fundamentals to remain strong over the next 12 months. A lack of new supply, coupled with an improving employment market, will continue having a positive effect on local occupancy and rental rates. The more recent accelerated performance in the local multifamily sector will prove challenging to sustain without a stronger employment market adding jobs at a 4%-5% rate compared to the 2%-3% employment growth rate the market has been recently experiencing. Also keep in mind that the improved single family market, coupled with the significant decline in local foreclosure activity and weakening shadow rental market, will continue keeping downward pressure on local apartment fundamentals.

In addition to limited new supply, there are many other factors that will have some level of influence on Sacramento apartment occupancy and rental rates.

- › Low U.S. mortgage rates continue to help in the buyer qualification process, keeping slight downward pressure on apartment occupancy rates. Down payment requirements will keep this pressure in check for now.
- › Continued economic concerns are keeping many from considering home ownership currently, but that uncertainty will not last forever. Additionally, general lifestyle choices embraced by the up and coming home ownership pool are keeping some, by choice, a renter.

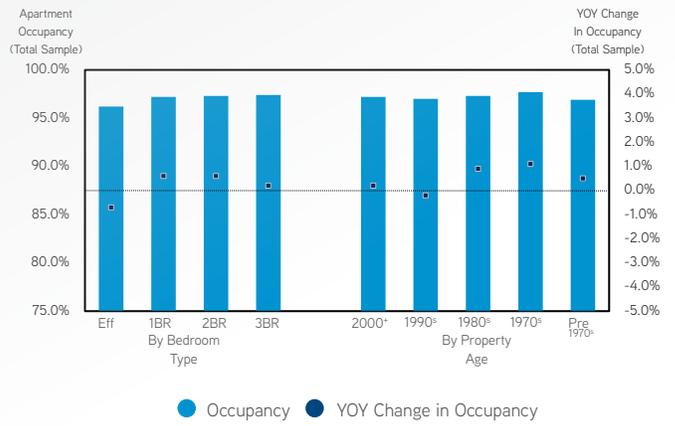
With respect to the apartment investment market, we see fewer distressed deals available for sale. The distressed market peaked in 2010, with almost 33% of the sales that year involving a property having some form of financial distress. Sale velocity should continue to be robust in the Sacramento region, with the bulk of sales likely to remain in the smaller property sizes. Cap rates declined further during Q2 2015 to end the 12-month period ending June 30, 2015 at 5.5%, dropping to below the pre-recession level of 5.66%. Most of this reduction has been the result of the competitive pricing in the larger institutional sales, with these transactions routinely trading at 5.0% cap rates.

## Occupancy vs. Year-over-Year Change



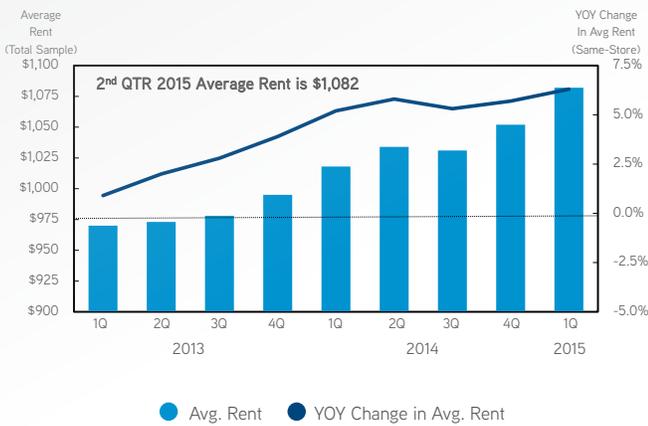
Source: MPF Research

## Occupancy Analysis



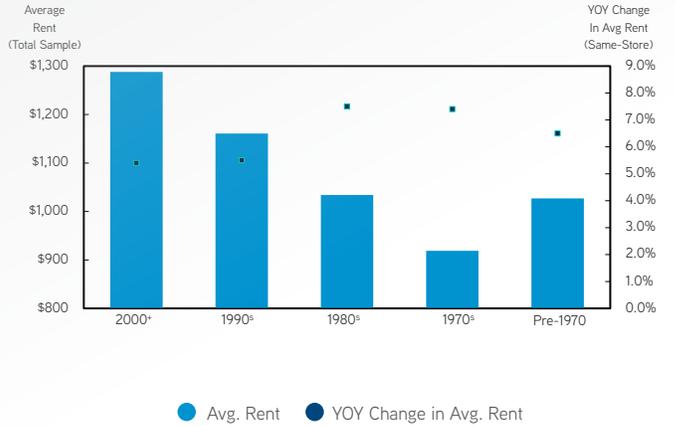
Source: MPF Research

## Average Market Rent vs. Year-over-Year Avg. Rent Change



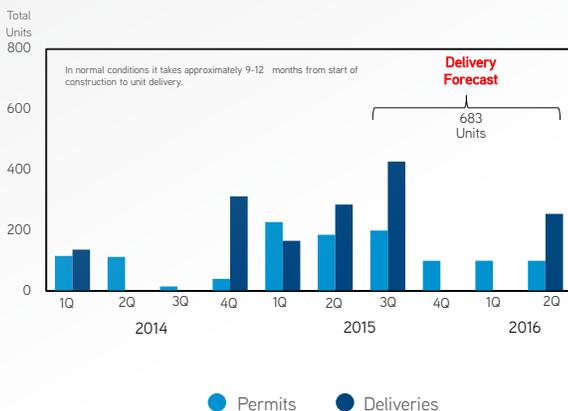
Source: MPF Research

## Rent Analysis by Property Age



Source: MPF Research

## Multifamily Permits vs. Deliveries



Source: MPF Research

## Cap Rate Analysis

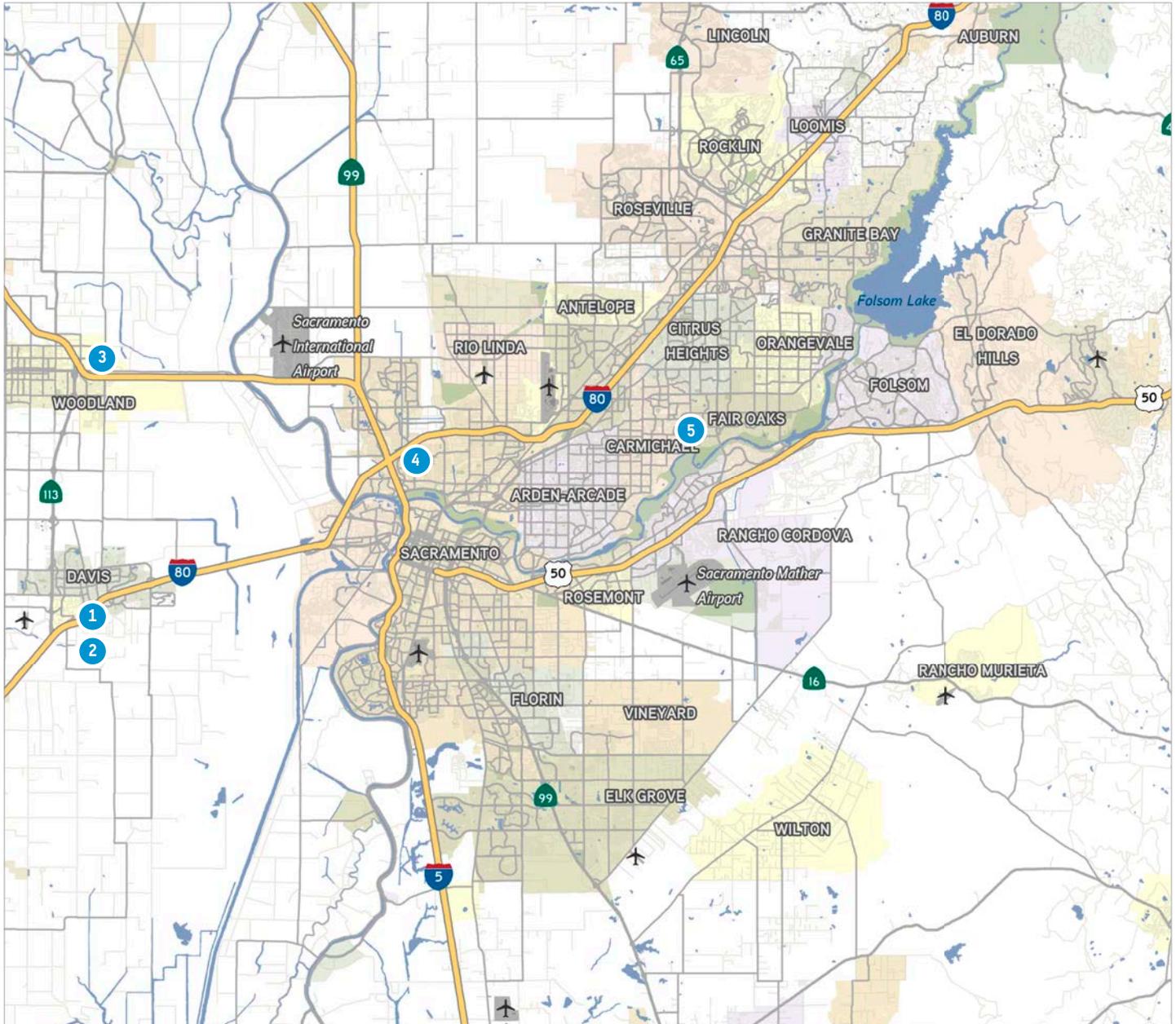


Source: MPF Research

# Sale Comparables

## 1st Quarter

MAP	PROPERTY NAME	# OF UNITS	SALE PRICE	PRICE UNIT	PRICE/SF	BUYER	SELLER
1	Tanglewood Apts.	216	\$54,000,000	\$250,000	\$233.28	Tomanek Group	Sequoia Equities
2	Sharps & Flats	132	\$32,600,000	\$246,970	\$187.33	Tilden Properties	Sequoia Equities
3	The Fairmont	192	\$22,000,000	\$114,583	\$133.75	Michael Allen	JCM Partners
4	3310 Winter Park Drive	384	\$35,000,000	\$91,146	\$107.54	Garibaldi Company	Prometheus
5	River's Edge at Fair Oaks	148	\$12,900,000	\$87,162	\$117.78	K&C Investments	Latitude Mgmt



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## \$2.3

billion in  
annual revenue

## 1.7

billion square feet  
under management

## 16,300

professionals  
and staff

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