



APARTMENTS MARKET REPORT

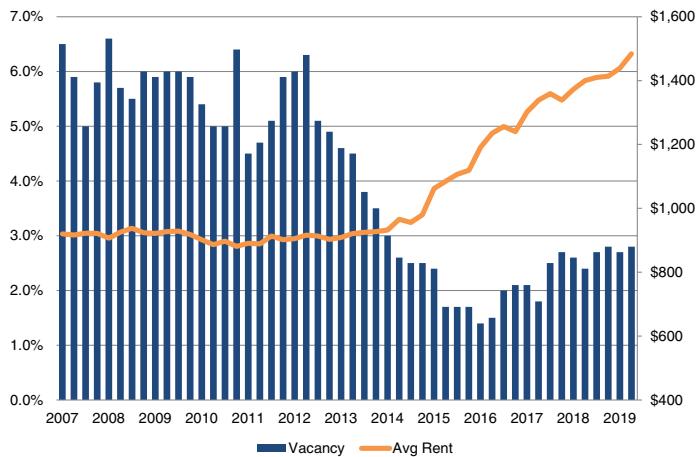
MARKET OVERVIEW

The regional apartment market had another stellar quarter as robust renter demand and minimal vacancy continued driving up rents and encouraging local investment. Rent control is now a reality in the Capital Region, with the City Council recently approving a tenant protection act which could put a damper on the local apartment market's desirability to investors.

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MARKET TRENDS

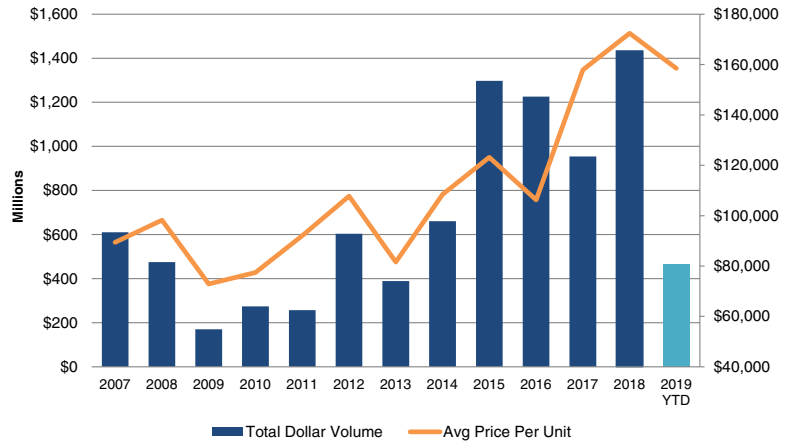
Vacancy & Rent Growth



- Vacancy rates in the Sacramento apartment market have remained consistently low in recent years, closing the second quarter with an average of 2.8%. This is a 40 basis point increase from one year prior, but virtually unchanged from the last three quarters.
- The region continues to see some of the fastest rent growth among the nation's largest metros, jumping up 6.0% year-over-year and averaging \$1,484 per month at the end of Q2.
 - Three local submarkets had annual rent growth above 10% for the past year, with Arden leading the way at over 14%, followed by South Natomas and El Dorado Hills.
 - El Dorado Hills also retained the top spot with regard to rental rate for the fourth consecutive quarter, averaging \$1,907 per month.
- Downtown apartments, where space and amenities come at a premium, are bringing an average of \$2.30 per square foot, over 30% higher than the metro average.
- The development pipeline has ramped up in recent months, with nearly 3,000 new units under construction as the Urban Core continues to boom and Natomas has broken ground on the submarket's first new projects since 2008.

INVESTMENT HIGHLIGHTS

Multifamily Investment Sales Volume



- Sacramento's apartment investment market was off to a slow start in 2019, but the second quarter saw a substantial boost in activity, recording more than double the sales volume seen in Q1.
 - The region saw \$334,095,000 in sales through 15 transactions at \$170,109 per unit, bringing year-to-date sales to \$463,475,000 at an average of \$158,453 per unit.
- Copper Creek was the largest sale of the quarter, as well as the first half of 2019, with JCM Partners selling the 268-unit complex at I-80 and Greenback going for \$48 million at nearly \$180,000 per unit.
- Arden/Arcade has been a standout in recent quarters, with its aging inventory attracting value-add buyers and accounting for over one quarter of the units sold so far in 2019 as well as more than half of all units currently on the market.

2.8%



Vacancy

\$1,484



Average Monthly Rent

±2,977 UNITS



Construction

3.8%



Sacramento
Unemployment

3.7%



United States
Unemployment

SPOTLIGHT ON: RENT CONTROL REALITY

The capital region is facing the second proposed rent control legislation in as many years, with the Sacramento City Council recently approving a measure intended to be a compromise for both sides following the sweeping defeat of Prop 10 in 2018. The latest iteration, dubbed the Sacramento Tenant Protection and Relief Act, applies to properties built prior to February 1995 and aims to protect renters by capping annual rent increases and making it harder for landlords to evict tenants:

- Annual cap on rent increases of 6% plus CPI (Consumer Price Index) not to exceed 10%, and limited to one increase per twelve months.
- After a tenant has occupied a space for one year, the landlord is required to renew their lease unless they: fail to pay rent, violate the lease terms, commit a crime, or fail to give access.
- Justified evictions are still permitted for necessary repairs, landlord or family move-in, or removal from rental market for at least one year, but only after a 120-day notice is given.

Similar regulations are on the horizon at the state level as well, with a few tweaks, but there continues to be strong resistance from across the industry as experts and economists argue these restrictions will discourage development and worsen the current housing shortage.

OUTLOOK

The first half of 2019 has seen steady activity in Sacramento's apartment market, with continued rent growth and new construction projects breaking ground across the region. There are 15 local projects currently underway which will contribute 2,977 new units, over 2,500 of which are expected to be delivered in the next 12 months.

Downtown Sacramento continues to be a hotbed for development activity, leading all submarkets with 840 units under construction and over 1,500 more in the planning stages. Natomas has seen a surge in development as well, with 660 units currently being built after more than a decade-long drought. This submarket is expected to see continued development activity in the coming years due to its abundance of available land, strong job growth, and proximity to Downtown.

Value-add properties will remain a driving force in the majority of local investment sales, as seen in Arden/Arcade, but the appeal of these properties could potentially take a hit due to their vulnerability to rent control legislation if built prior to 1995.



Apartment Market Statistics

Submarket	COMPARISON TO LAST YEAR					
	Q2-2019			Q2-2018		
	Average Rent	Avg Rent PSF	Vacancy	Average Rent	Avg Rent PSF	Vacancy
Downtown Sacramento	\$1,870	\$2.30	3.4%	\$1,792	\$2.27	3.8%
East Sacramento	\$1,323	\$1.66	0.0%	\$1,323	\$1.66	1.1%
Land Park	\$1,183	\$1.44	0.0%	\$1,099	\$1.35	0.7%
South Sacramento	\$1,144	\$1.57	0.8%	\$1,080	\$1.47	1.1%
Florin	\$1,159	\$1.55	1.1%	\$1,069	\$1.44	1.2%
Greenhaven	\$1,529	\$1.71	2.5%	\$1,427	\$1.63	2.5%
Rancho Cordova	\$1,388	\$1.71	1.8%	\$1,331	\$1.64	1.8%
Capital Center	\$1,493	\$1.74	1.9%	\$1,386	\$1.62	2.2%
Arden/Arcade	\$1,437	\$1.76	2.4%	\$1,348	\$1.63	2.4%
Arden	\$1,215	\$1.60	1.9%	\$1,064	\$1.48	1.6%
Carmichael	\$1,222	\$1.48	2.6%	\$1,146	\$1.40	1.8%
South Natomas (W)	\$1,766	\$1.93	3.4%	\$1,565	\$1.72	2.1%
South Natomas ('E)	\$1,384	\$1.67	2.4%	\$1,350	\$1.61	1.6%
North Natomas	\$1,737	\$1.84	5.4%	\$1,656	\$1.76	4.2%
North Highlands	\$1,180	\$1.48	1.3%	\$1,150	\$1.44	1.4%
Antelope	\$1,491	\$1.79	2.4%	\$1,407	\$1.69	2.3%
Citrus Heights	\$1,337	\$1.68	3.1%	\$1,280	\$1.60	2.5%
Fair Oaks	\$1,343	\$1.63	3.7%	\$1,286	\$1.56	2.4%
Orangevale	\$1,431	\$1.76	4.3%	\$1,340	\$1.59	2.1%
Folsom	\$1,831	\$1.93	4.0%	\$1,738	\$1.83	3.7%
Roseville/Rocklin	\$1,726	\$1.85	3.2%	\$1,614	\$1.72	3.2%
Elk Grove	\$1,555	\$1.61	1.8%	\$1,492	\$1.54	2.3%
West Sacramento	\$1,822	\$2.25	4.4%	\$1,741	\$2.15	4.3%
El Dorado Hills	\$1,907	\$1.89	3.6%	\$1,720	\$1.66	1.5%
Cameron Park	\$1,466	\$1.65	1.1%	\$1,352	\$1.50	2.0%
Totals	\$1,484	\$1.74	2.8%	\$1,400	\$1.69	2.4%

*This table represents Multi-family complexes of 40 units or more, and is intended to provide an accurate snapshot of the overall regional market.

