



Q1 APARTMENTS MARKET REPORT

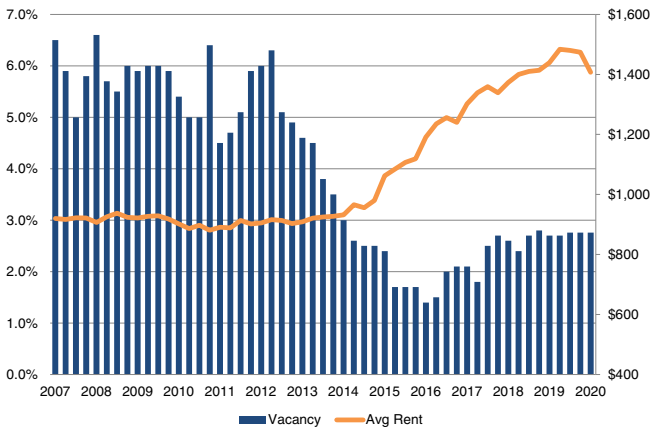
MARKET OVERVIEW

The regional apartment market was on solid footing to start the year, as minimal vacancy fueled steady rent growth and a recent spike in development illustrated elevated industry confidence, but recent economic instability and widespread uncertainty have led to an abrupt halt in investment sales and the first quarterly rent drop in multiple years.

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MARKET TRENDS

Vacancy & Rent Growth



- Regional vacancy has been consistently low in recent years due to strong demand and an ongoing housing shortage. It has remained below 3% for the past five years and unchanged from the previous quarter at 2.76%, but inched up slightly on an annual basis after a year-over-year increase of 6 basis points.

- While the region has seen steady rent growth over the past five years, asking rates saw their first quarterly dip since 2014 and finished at an average of \$1,407 monthly after entering 2020 at \$1,474.

- o Although overall rents are down slightly, the majority of the region was either flat or positive year-over-year with only five of the 25 submarkets lower than at this time in 2019.

- Multifamily Downtown and across the river in West Sacramento are bringing an average of \$2.21 and \$2.36 per square foot, respectively. That is 35% above the metro average, as renters are increasingly opting for smaller spaces in conveniently located areas, even higher prices compared to larger units in other submarkets.

- o These elevated rates are also largely due to the wave of new developments being built around the urban core, the majority of which are high-end complexes which require lofty rents to justify the high price of construction in the current climate.

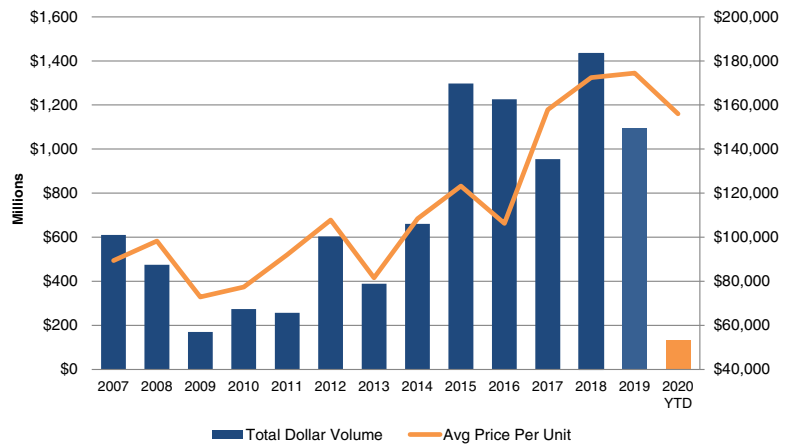
- o West Sacramento saw a substantial increase in rent which is up 7.9% from last year. This increase is primarily due to significant increases at 4 properties after the completion of renovations. Rents can be expected to steadily increase in West Sacramento as new developments come on line.

- The development pipeline has continued to ramp up and there are now 3,880 new units under construction in the region.

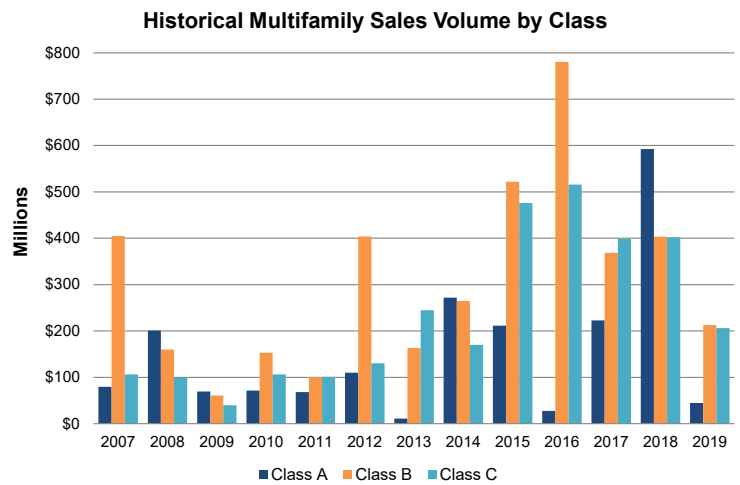
- o The Central Business District accounts for 1,078 of the new units underway, most notably Downtown Commons which will bring an estimated 436 new units and additional ground floor retail.

INVESTMENT HIGHLIGHTS

Multifamily Investment Sales Volume



Historical Multifamily Sales Volume by Class



- Investment in Sacramento's regional multifamily market was reserved in the first quarter, with 17 transactions totaling just over \$132.1 million at an average price of \$155,994 per unit.

- o Volume and price per unit both increased slightly from this time last year, even as the market came to a standstill in early March and virtually all existing deals were put on hold.

- Agave Apartments in Elk Grove was the largest transaction in Q1, with the 188-unit affordable housing property selling for \$29.2 million at \$155,319 per unit. The Class C complex was built in 2005 in the rapidly developing southern portion of Elk Grove.

- Value-add sales for aging properties continue to dictate most of the action, as the complexes sold in Q1 were nearly 50 years old and built in 1974 on average.

- o Arden/Arcade continues to thrive in this environment, accounting for nearly 25% of the quarterly sales volume but at per unit prices of \$120,408, well below the regional average.

- Cap rates compressed to 5.3% on average in the first quarter, remaining within the 5-6% range for the fourth straight year but dropping by 18 basis points annually.

2.7%



Vacancy

\$1,407



Average Monthly Rent

±2,977 UNITS



Construction

4.7%



Sacramento
Unemployment

4.4%



United States
Unemployment

SPOTLIGHT ON: COVID-19 FIRST TAKE

As the market and economy continue adjusting to the ongoing Coronavirus pandemic, the consensus remains hesitantly optimistic for multifamily owners and developers. Landlords reported lower than anticipated delinquency rates for March rent payments, but the longer that widespread stay-at-home orders remain in effect, the higher the likelihood of tenants falling behind as unemployment numbers continue to skyrocket. Governments have enacted temporary eviction freezes to help protect those who are unable to pay rent, but missed payments will need to be made up and could present an even greater burden down the road once they come due. Nearly all investment deals have been put on hold, and although many will resume once the market stabilizes, the coming quarters will undoubtedly see minimal activity as parties on both sides wait for indications of the sector's trajectory.

OUTLOOK

The first quarter provided Sacramento's multifamily sector a glimpse into what effect the ongoing partial economic shutdown will have on the market, and while the early results are encouraging, a better understanding of the pandemic will likely become apparent in Q2. Unemployment is approaching Great Depression-era levels, and unless the recovery is swift and pervasive, it will surely impact many renters. Vacancy rates aren't likely to jump, since most renters have limited options and affordable housing is in short supply, but rent growth will undoubtedly slow as tenants and landlords grapple with current uncertainty. The vulnerability of low-end properties to rent delinquency is likely to diminish their attractiveness to some investors, potentially leading to a "flight to quality" and a shift toward higher quality assets. The coming months will be the true test, so all sides have been forced into holding patterns for now and must brace themselves for potentially widespread market disruption.



Apartment Market Statistics

Submarket	COMPARISON TO LAST YEAR					
	Q1-2020			Q1-2019		
	Average Rent	Avg Rent PSF	Vacancy	Average Rent	Avg Rent PSF	Vacancy
Downtown Sacramento	\$1,763	\$2.21	4.8%	\$1,764	\$2.22	3.5%
East Sacramento	\$1,347	\$1.69	0.0%	\$1,323	\$1.66	0.0%
Land Park	\$1,249	\$1.53	0.0%	\$1,183	\$1.44	2.6%
South Sacramento	\$1,224	\$1.69	0.4%	\$1,138	\$1.56	1.1%
Florin	\$1,235	\$1.60	2.1%	\$1,140	\$1.51	0.8%
Greenhaven	\$1,558	\$1.75	3.7%	\$1,507	\$1.68	2.7%
Rancho Cordova	\$1,403	\$1.70	1.5%	\$1,344	\$1.66	1.8%
Capital Center	\$1,467	\$1.70	1.7%	\$1,435	\$1.68	1.9%
Arden/Arcade	\$1,482	\$1.81	3.2%	\$1,400	\$1.70	2.5%
Arden	\$1,195	\$1.61	0.8%	\$1,125	\$1.50	1.5%
Carmichael	\$1,281	\$1.56	1.3%	\$1,223	\$1.49	1.9%
South Natomas (W)	\$1,628	\$1.79	2.1%	\$1,648	\$1.81	2.7%
South Natomas ('E)	\$1,403	\$1.69	2.3%	\$1,369	\$1.66	2.5%
North Natomas	\$1,706	\$1.82	4.3%	\$1,615	\$1.70	5.7%
North Highlands	\$1,242	\$1.55	1.0%	\$1,207	\$1.50	1.5%
Antelope	\$1,459	\$1.75	3.0%	\$1,480	\$1.78	2.1%
Citrus Heights	\$1,356	\$1.70	2.4%	\$1,304	\$1.61	2.8%
Fair Oaks	\$1,383	\$1.68	2.0%	\$1,339	\$1.60	3.2%
Orangevale	\$1,468	\$1.77	3.7%	\$1,433	\$1.76	2.9%
Folsom	\$1,724	\$1.81	3.7%	\$1,786	\$1.88	3.6%
Roseville/Rocklin	\$1,660	\$1.77	2.4%	\$1,655	\$1.76	3.6%
Elk Grove	\$1,619	\$1.65	1.4%	\$1,504	\$1.55	1.9%
West Sacramento	\$1,463	\$2.36	4.6%	\$1,356	\$2.13	4.0%
El Dorado Hills	\$1,811	\$1.79	3.6%	\$1,842	\$1.83	4.4%
Cameron Park	\$1,500	\$1.70	1.4%	\$1,440	\$1.69	1.6%
Totals	\$1,407	\$1.64	2.76%	\$1,439	\$1.68	2.7%

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

