

Multifamily Metro Outlook:

Sacramento - Q1 2023

Overview:

- After an extended period of average to slightly above average rates of job growth, the Sacramento job market has slowed to below average. For the period ending Q1 2023, job growth in the metro expanded by nearly 1.9% compared to 2.1% nationally.
- Sacramento's apartment fundamentals performed well throughout the recovery period, however as a result of the current economic environment where interest rates have increased and inflation is high, fundamentals have taken a hit. As of Q1 2023 vacancies continued their ascension to 5% and rent growth also continued to trend in the wrong direction contracting to -0.25% during the same period.
- Despite being more affordable than neighboring tech-centric California metros, for-sale market affordability in the Sacramento metro is still out of reach for many even as both home price values and the number of single-family permits issued both continue to decrease as a result of softening demand due to the current economic environment.

Market Strengths:

- One of positive lasting impacts brought by the virus has been the increased affordability in the area. According to CoStar, as a result of many (tech) employers shifting to remote and/or hybrid working models, there has been an influx of residents from Southern California and the Bay Area moving to the Sacramento metro to take advantage of the lower costs of living. As a result of the influx of residents from other California metros, apartment vacancies continue to perform slightly better than neighboring California metros despite elevated levels of inflation and increased interest rates.

Market Weaknesses:

- Further economic growth continues to be a lingering issue as the metro still does not have an industry that they can rely on for stable, consistent growth. Sacramento is very close to the Tech/Information hub of the country, San Francisco, however the metro does not have the same Tech presence as its California cohort. According to CoStar, software and tech employers are hesitant to relocate to Sacramento despite affordability because the metro lacks the Silicon Valley culture of venture capitalists and engineering schools. Although the ongoing trend of hybrid working may be changing that notion as workers from tech markets continue to relocate to the metro.
- The Government sector makes up the largest employment concentration for the metro's local economy with approximately 24% of total employment concentration. According to Moody's Analytics after 2.5 years of experiencing budget surpluses, the Government sector is now facing a deficit mainly as a result of the current economic climate that has seen stock market volatility, higher interest rates and (continued) elevated levels of inflation. However, due to the previous years of surplus budgets, the sector is in much better shape to handle a rough period than previously.

New Development:

- Fortunately, new apartment construction continues to be at low levels. Since 2017, approximately 13,000 multifamily rental units have been added with only an additional 5,000 underway.
- For-sale market development has slowed tremendously over the last year as the number of single-family new permits issued has nearly halved year-over-year. There were approximately 5,900 permits issued for the period ending Q1 2023, down from 10,000 one year ago.

Outlook:

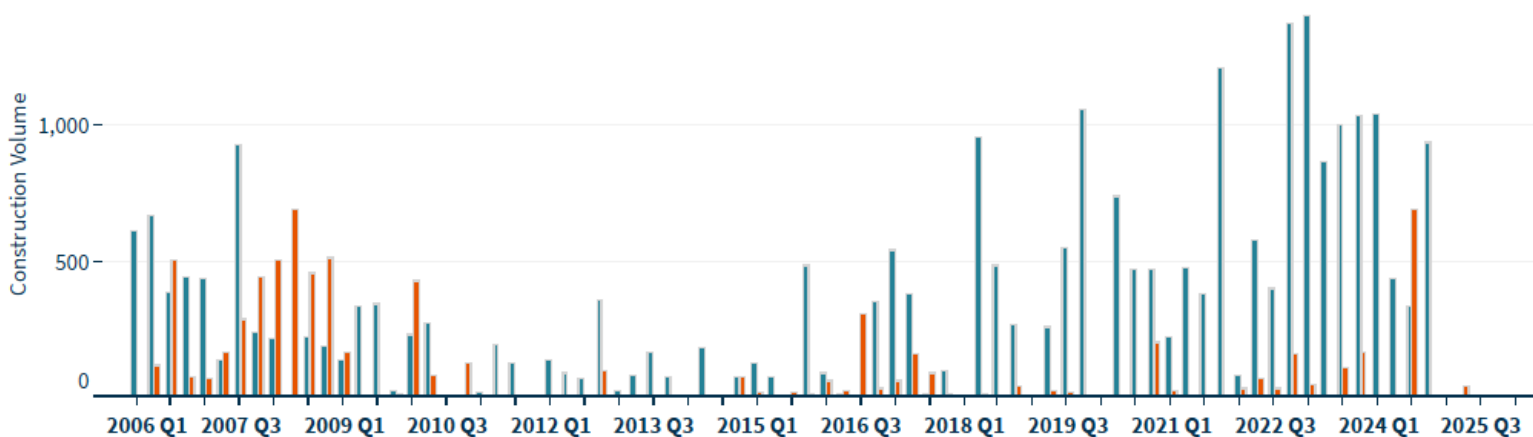
- Apartment market fundamentals are beginning to soften as a result of the current state of economic uncertainty. Despite its below average demographic trends, there is continued optimism about relocating residents from more expensive tech-centric metros migrating to the area.
- The tepid pace of recovery for the local job market, more specifically the Government sector, prevents the metro from earning a higher rating as the job market recovery is progressing at a slower pace than both the nation and its California metro peers. However, the trend of hybrid working becoming more common is a boon for the metro as many workers have relocated to the metro from more expensive tech markets as their employers continue to allow them to work remotely.



Multifamily Apartment Pipeline

Apartments & Condos/Townhomes: Units Completed and Underway

Apartments | Condos



Source: Dodge Data & Analytics SupplyTrack Pipeline

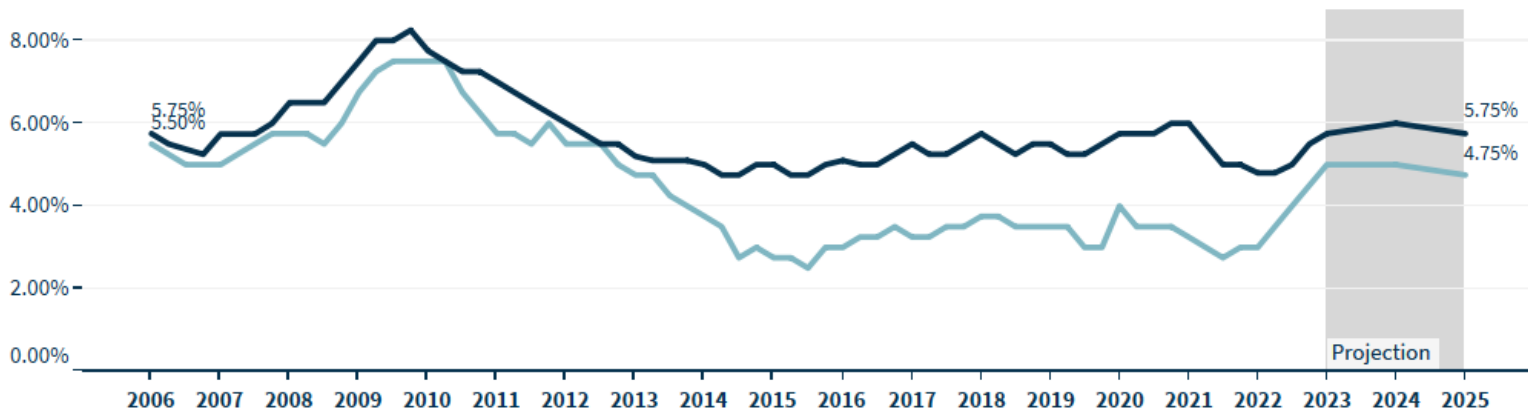
Multifamily Vacancy & Rent Estimates

Vacancy Rates

Sacramento | National

Q1 2023 Vacancy Rate:

5.00%

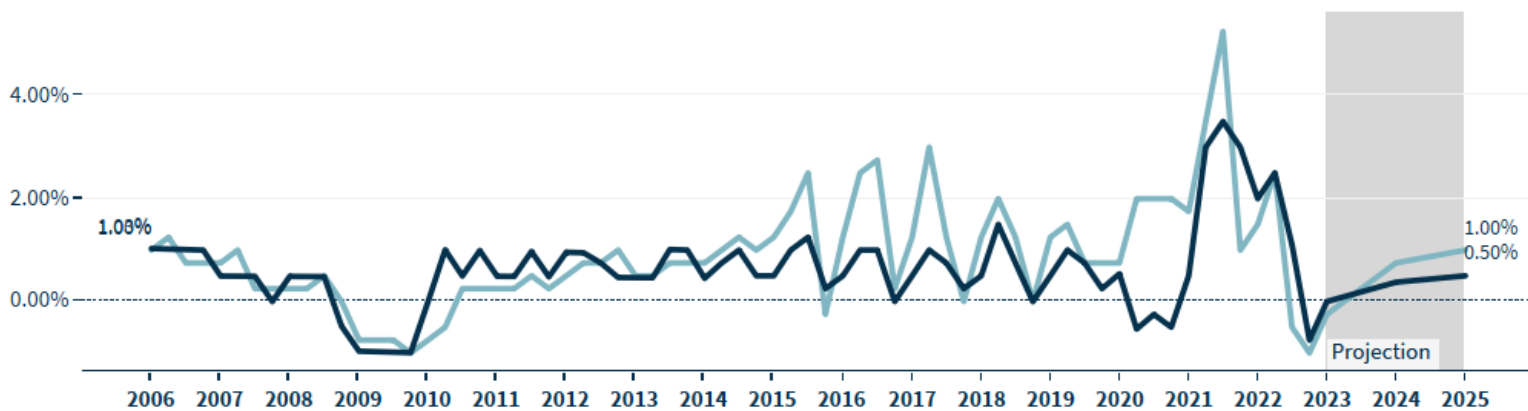


Asking Rent Growth

Sacramento | National

Q1 2023 Asking Rent:

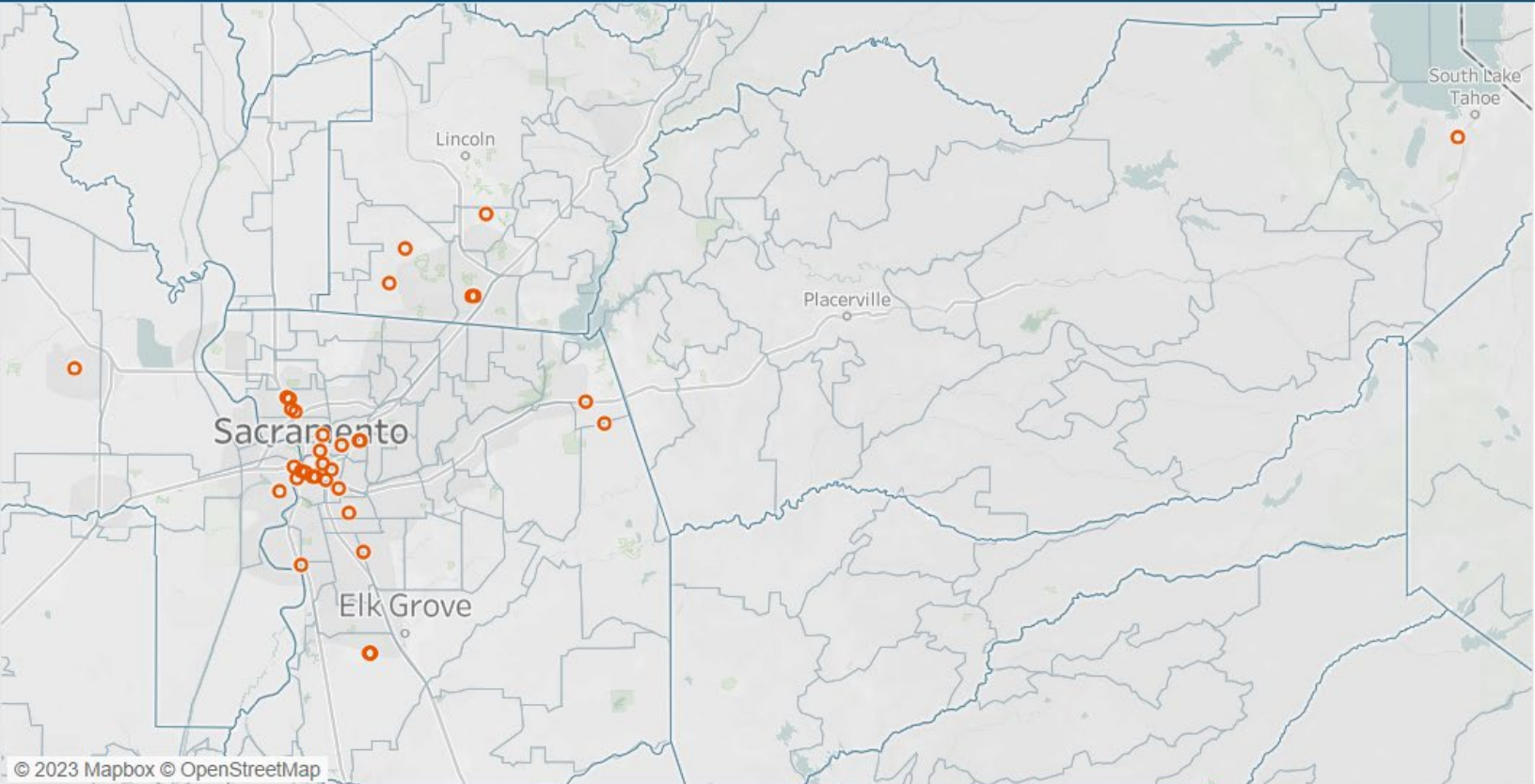
\$1,770



Source: Fannie Mae Multifamily Economics and Research



Multifamily Construction: Bidding & Underway



<i>Submarket</i>	<i>Apartments</i>	<i>Building Units</i>
Central Sacramento	10	1,293
Folsom/Orangevale/Fair Oaks	2	368
Natomas	5	711
North Sacramento/North Highlands	3	473
Rancho Cordova/East Sacramento	1	278
Roseville/Rocklin	5	669
South Sacramento	6	946
Woodland/West Sacramento	3	680
Grand Total	35	5,418

Source: Dodge Data & Analytics SupplyTrack Pipeline



Multifamily: ESR Team

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Multifamily Economics and Market Research Team

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Sources Used

- Moody's Economy.com
- Moody's CRE/REIS
- CoStar
- Real Capital Analytics
- RealPage
- Dodge Data and Analytics SupplyTrack Pipeline
- Axiometrics
- CBRE-Econometric Advisors
- Yardi

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