

Multifamily Metro Outlook:

Sacramento - Q1 2021

Overview:

- Sacramento's economy has recovered nicely and is growing slightly faster than the national rate. As of Q1 2021 Sacramento's local job market expanded by 2.2 compared to 1.7 percent nationally per Moody's Analytics.
- Sacramento's apartment fundamentals performed well throughout the worst of the pandemic and continue to perform exceptionally. As of Q1 2021 vacancies were at 3.25 percent and rent growth was at 1.75 percent. Vacancies are usually low in the metro, but the last few quarters have brought vacancies to lows not seen since 2014-2015. Development has started to pick up (for Sacramento's standards) as there are 5,000 units underway and more than 23,000 units in the planning stages.

Market Strengths:

- The cheaper costs of doing business in the metro (compared to other California tech metros) continue to attract the major tech employers of the Valley. According to Moody's Analytics, Apple has invested \$13 million to transform a large warehouse into a logistic center and Intel, Micron, and Hewlett-Packard all have presences in the metro.
- Sacramento is much less expensive than the Bay Area metros. On average, business and living costs are 52 percent and 23 percent lower (respectively) than the Bay Area metros costs of living and doing business. Low business and living costs will help the metro attract both new residents and employers looking to offset the Bay Area's high costs.
- The Government sector has historically been an economic crutch for the local economy which has also presented the Sacramento economy with its fair share of issues. However, despite the troubles that the virus brought to the metro and the Government sector, the Government sector emerged from 2020 with an expected budget surplus of \$76 billion per CoStar. As a result of the budget surplus, California Governor Gavin Newsome has proposed sending residents of the state stimulus checks to boost the local economy.

Market Weaknesses:

- Further economic growth is a bit of a problem 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.
- The Government sector makes up the largest employment concentration for the metro's local economy with approximately 24 percent of total employment concentration. As a result of the virus continuing to linger around in the metro (and statewide) the Government employment sector is the only employment sector that still has not recaptured any growth since the virus first arrived. According to CoStar, the local Government sector contracted by -0.1 percent compared to 0.5 percent growth nationally.
- Although Reis Inc., has given the metro a "low" economic impact rating from COVID-19, there are some areas that will present some potential short and long-term concern. The Education/Health services sector continues to be of concern as the metro's largest employer, University of California - Davis continued to conduct most of their operations online into the Spring of 2021. However as of late April, the University of California school system announced that students will be permitted to return to campus as vaccines will be required for both students and employees per *The Chronicle of Higher Education*.

Development:

- Fortunately, new apartment construction is at historically low levels. Since 2016, approximately 7,000 multifamily rental units have been added. The lack of development in the apartment market in recent years was offset by overdevelopment in the condo market. Since the beginning of 2006, around 4,800 condo units have been completed. Fortunately, there are very few condos in the pipeline through 2021.

Outlook:

- Multifamily Outlook: Steady. Apartment market fundamentals continue to be healthy and limited new supply in the metro should be easily absorbed. The metro does not have a high share of the population that is vulnerable to the virus so absorption should not be impacted by the onset of the virus.
- Economic Outlook: Stable. The local job market has slowed as the metro remains without a leading economic crutch, to spur local growth trends. Furthermore, this trend should continue over the next few years as all jobs have now returned to the metro. The presence of COVID-19 will continue to present major issues to the metro's largest employer, UC Davis at least until the Fall 2021 semester. The Government sector despite a budget surplus remains particularly vulnerable as it employs approximately a quarter of the workforce and is the sole sector that is still contracting as of Q1 2021.

Five Year Metro Area Growth Forecast

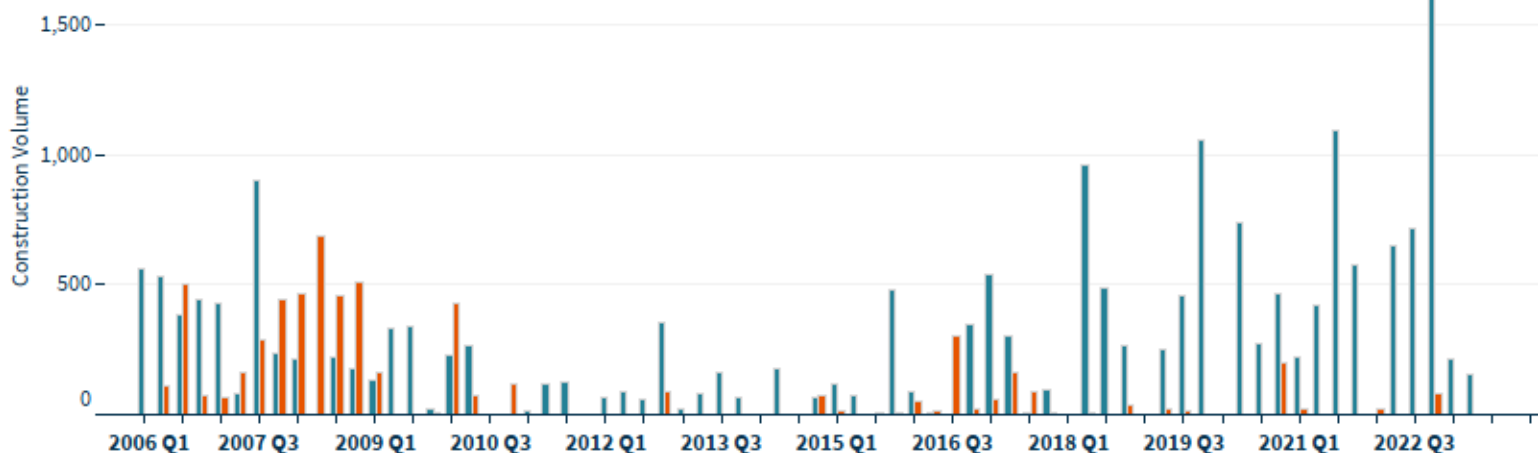
	Q4 2020	Q4 2025	Sacramento (5-Year Annual Average Change)	National (5-Year Annual Average Change)
Population (000s)	2,388	2,419	0.26%	0.52%
Households (000s)	856	913	1.28%	1.41%
Renting Cohort (Ages 20-34) (000s)	494	476	-0.74%	-0.26%
Total Employment (000s)	955	1,053	1.98%	1.71%
Median Household Income	\$74,514	\$86,555	3.04%	2.83%
Median SF Home Price	\$452,264	\$634,439	7.00%	4.30%
Net Migration (Annualized)	8,196	-2,131		

Source: Moody's

SupplyTrack Pipeline

Apartments & Condos/Townhomes: Units Completed and Underway

Apartments | Condos



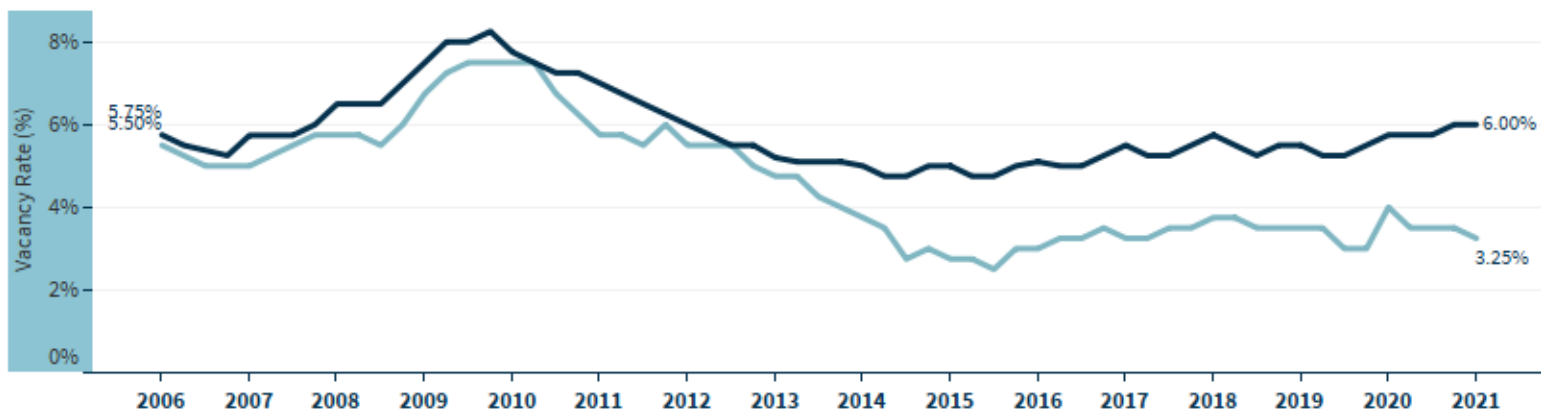
Vacancy & Rent Composite Estimates

Vacancy Rates

Sacramento | National

Q1 2021 Vacancy Rate:

3.25%

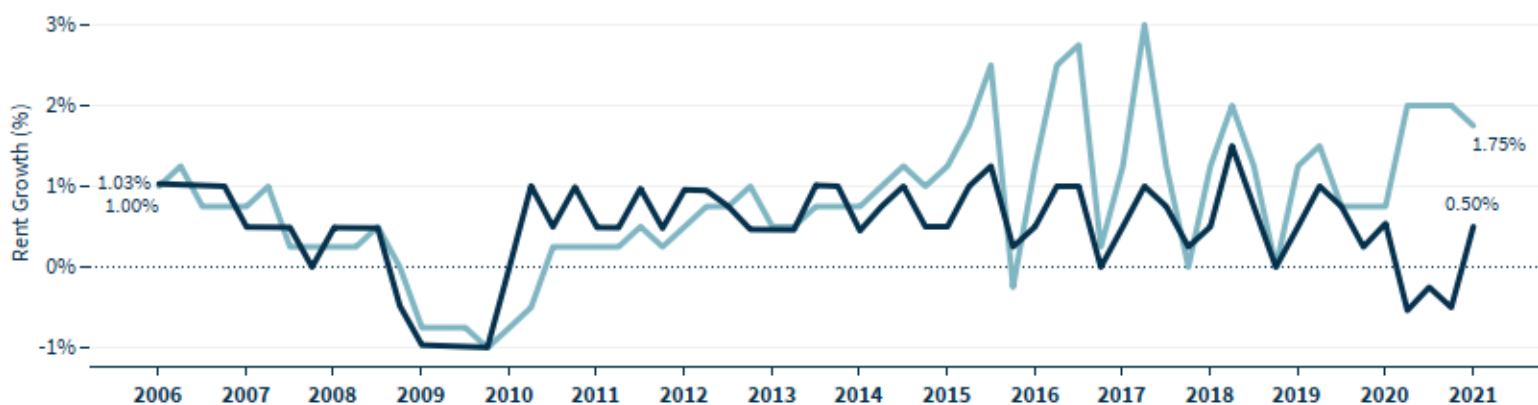


Asking Rent Growth

Sacramento | National

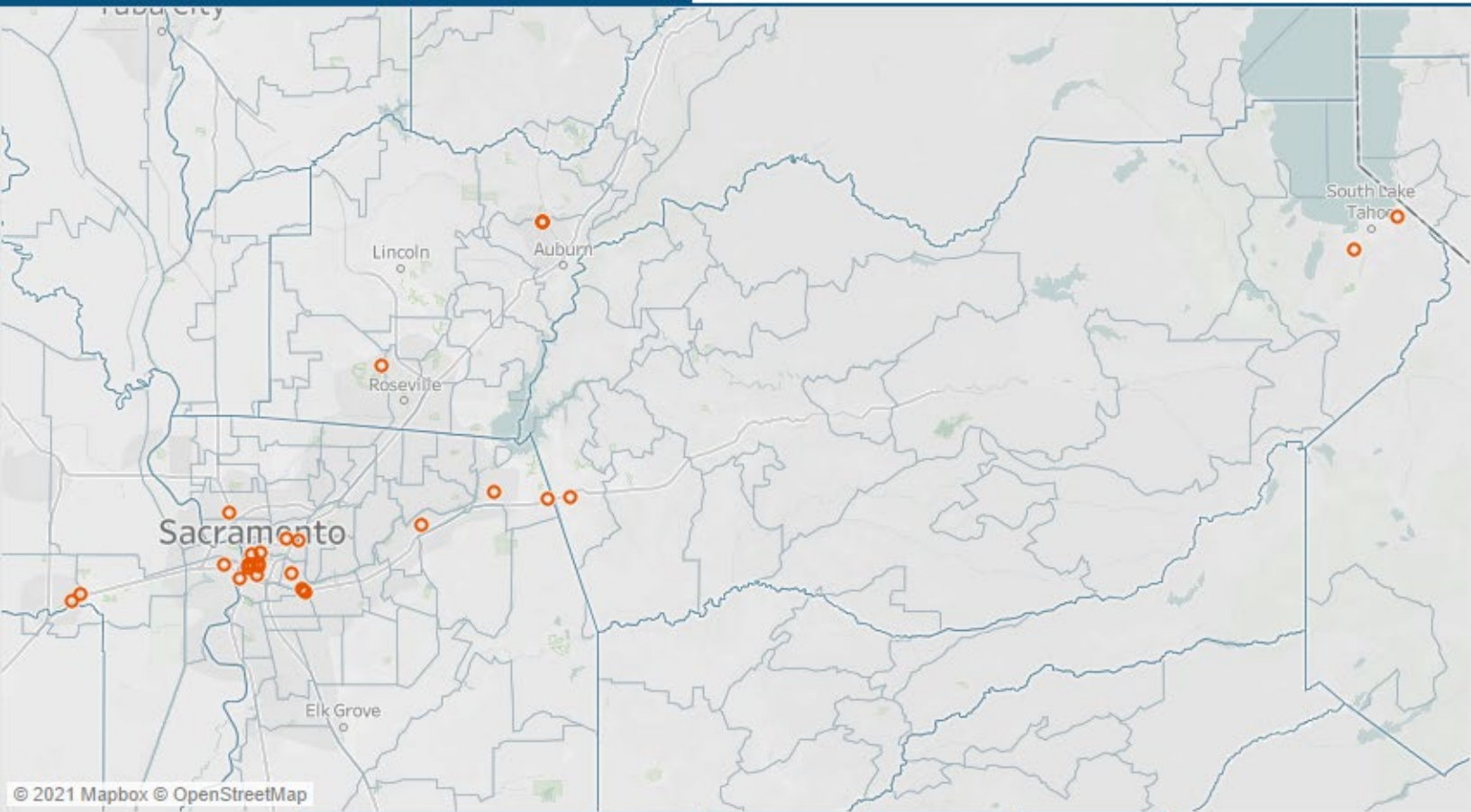
Q1 2021 Asking Rent:

\$1,530



Source: Multifamily Economics and Research

Construction: Bidding & Underway



<i>Sub-Market</i>	<i>Projects</i>	<i>Units</i>	<i>Sq. Ft. (M)</i>
Central Sacramento	13	2,356	2.83M
Davis	2	168	0.21M
Folsom/Orangevale/Fair Oaks	5	884	1.09M
Natomas	1	368	0.31M
North Sacramento/North Highlands	2	525	0.16M
Rancho Cordova/East Sacramento	1	162	0.19M
Roseville/Rocklin	4	289	0.29M
South Sacramento	1	224	0.25M
Woodland/West Sacramento	1	85	0.06M
Grand Total	30	5,061	5.40M

Multifamily: ESR Team

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Multifamily Economics and Market Research Team

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Sources Used

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

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