

Multifamily Metro Outlook:

Sacramento - Q3 2023

Overview:

- After an extended period of tepid job growth, job growth in the metro appears to be on the upswing. For the period ending Q3 2023 job growth in the Sacramento metro expanded by 1.5% compared to the national rate of 1.1%. Much of the accelerated growth during this period can be attributed to the economic pillar of the metro, the Education and Health Services sector, which expanded by 4.3% in Q3 2023.
- 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, more specifically vacancies. As of Q3 2023 vacancies remain elevated at 5% however, rent growth has rebounded quite well and was approximately 0.75% for the period ending Q3 2023.

Market Strengths:

- One of positive lasting impacts of the (end of) pandemic 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.
- 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 budget surpluses, the sector is in much better shape to handle a rough period than previously.

Development:

- Fortunately, new apartment construction continues to be at low levels. Since 2017, approximately 15,000 multifamily rental units have been added with only an additional 7,000 underway.

Outlook:

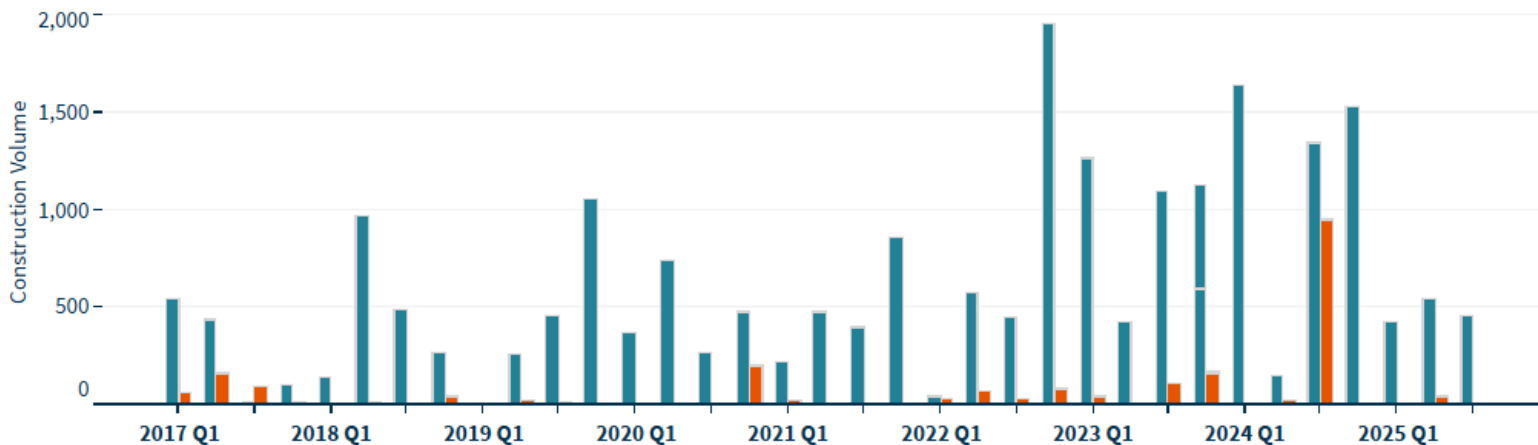
- Apartment market fundamentals, specifically vacancies have seemingly plateaued as a result of the current state of economic uncertainty. Despite its below average demographic trends, there is continued optimism about relocating residents from more expensive tech-centric metros migrating to the area.
- The slower 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 albeit at a tepid pace. 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

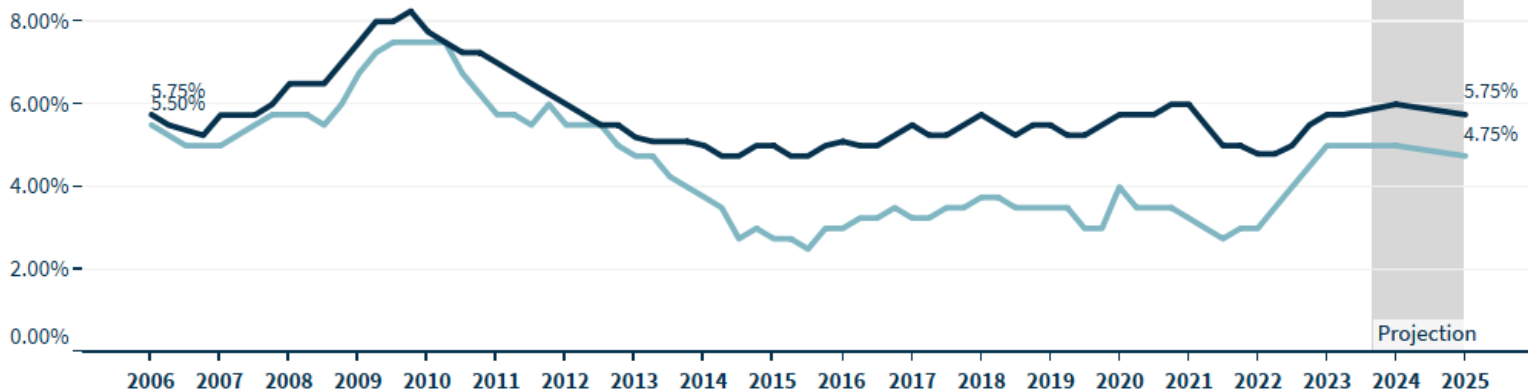
Multifamily Vacancy & Rent Estimates

Vacancy Rates

Sacramento | National

Q3 2023 Vacancy Rate:

5.00%



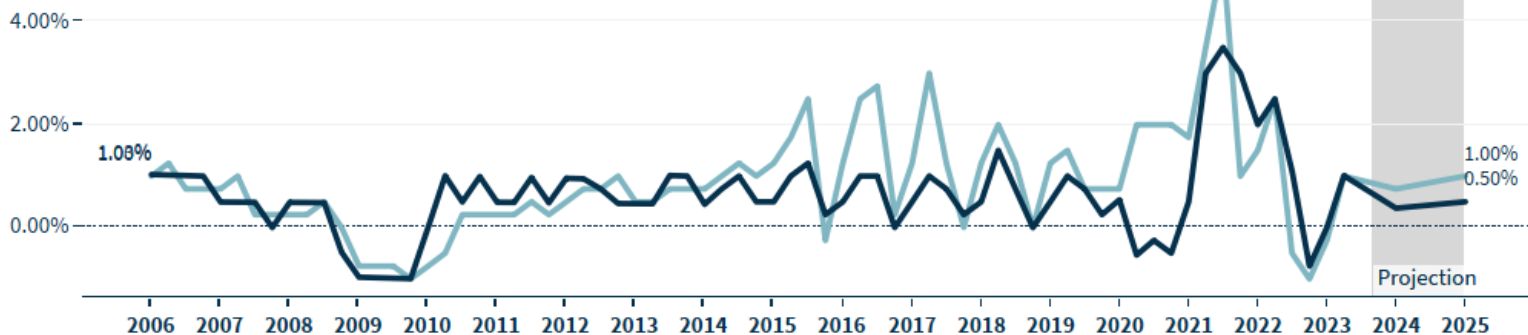
Projection

Asking Rent Growth

Sacramento | National

Q3 2023 Asking Rent:

\$1,800

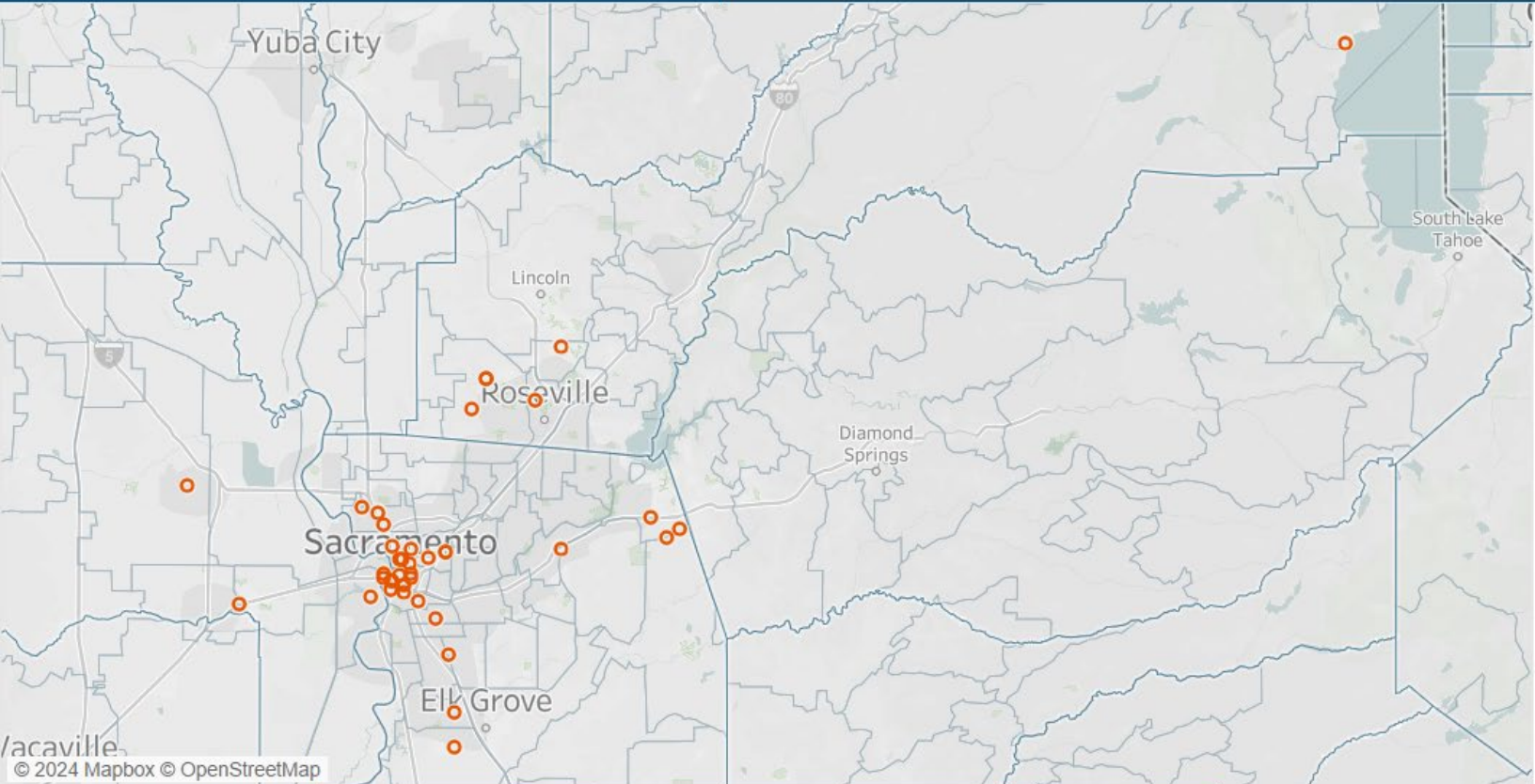


Projection

Source: Fannie Mae Multifamily Economics and Research



Multifamily Construction: Bidding & Underway



| <i>MultiHousingSubmarketName</i> | <i>Apartments</i> | <i>Units</i> |
|----------------------------------|-------------------|--------------|
| Central Sacramento | 13 | 1,596 |
| Davis | 1 | 200 |
| Folsom/Orangevale/Fair Oaks | 3 | 523 |
| Natomas | 5 | 848 |
| North Sacramento/North Highlands | 3 | 473 |
| Rancho Cordova/East Sacramento | 2 | 360 |
| Roseville/Rocklin | 5 | 1,228 |
| South Sacramento | 4 | 669 |
| Woodland/West Sacramento | 4 | 764 |
| Grand Total | 40 | 6,661 |

Source: Dodge Data & Analytics SupplyTrack Pipeline



Multifamily: ESR Team

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Multifamily Economics and Market Research Team

Francisco Nicco-Annan, Economic and Strategic Research - Economics – Advisor

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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