



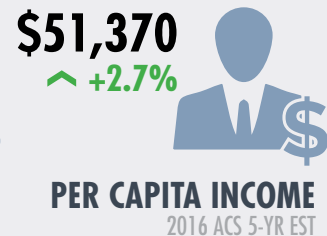
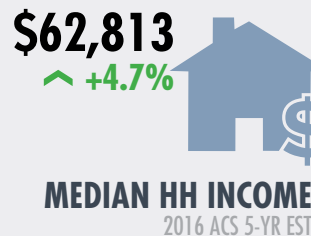
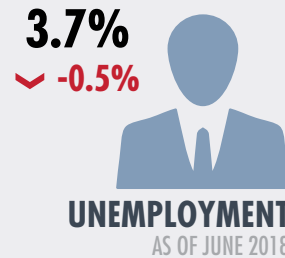
SACRAMENTO MSA | MULTIFAMILY | 2Q 2018 REPORT

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5+ UNIT PROPERTIES	2Q 2018	INCREASE/DECREASE	2Q 2017
Total Sales Volume	\$296M	-17% ▼	\$356M
AVERAGE	Price/Unit	\$153,435 +26% ▲	\$121,620
	Price/SF	\$187.15 +25% ▲	\$150.01
	Year Built	1971 +5 YRS ▲	1966
Average Rent	\$1,423 +4.9 ▲	\$1,357	
Occupancy Rate	96.3% -0.9% ▼	97.2%	
Units Delivered	397 +47% ▲	270	

5+



ABI GEONEWS - SACRAMENTO MSA 2Q 2018 SELECT NEWS

CONTINUED ON PAGE 05



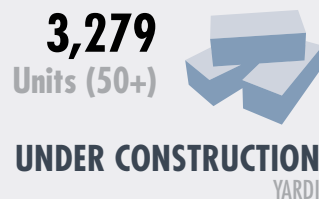
UC Davis plans aggressive development of Aggie Square Research and Innovation Center



Construction begins on \$135 million California Military headquarters project



Valley Rail project gets \$500.5 million to connect Sacramento, San Jose



SACRAMENTO MSA - PER COUNTY ANALYSIS

SACRAMENTO MSA STATS	UNEMPLOYMENT RATE	MEDIAN HH INCOME	PER CAPITA INCOME	50+	
				TOTAL INVENTORY	UNDER CONSTRUCTION
Sacramento MSA	4.1%	\$62,813	\$51,370	127,288	3,279
Sacramento	3.4%	\$57,509	\$28,292	93,781	2,685
Placer	2.8%	\$76,926	\$37,914	14,766	544
Yolo	3.6%	\$57,663	\$28,996	16,886	50
El Dorado	3.2%	\$72,586	\$37,089	3,017	N/A

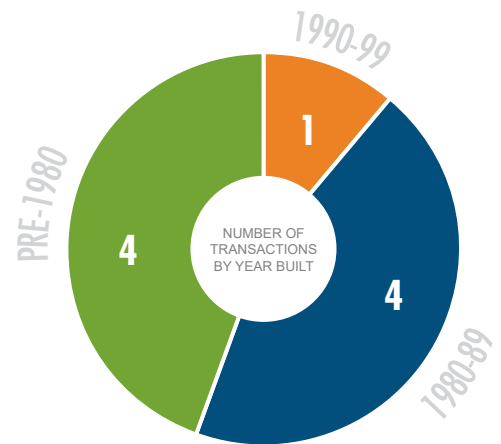
* Total inventory numbers may vary due to zip/city overlap

SACRAMENTO MSA - PER COUNTY ANALYSIS

	Sacramento	Placer	Yolo	El Dorado	
RENT & OCCUPANCY STATS	Average Rent (2Q 2018)	\$1,338	\$1,589	\$1,805	\$1,630
	% Change (y-o-y)	+5.1%	+0.7%	+7.2%	+2.7%
	Occupancy Rate (2Q 2018)	96.1%	95.8%	99.0%	95.8%
	% Change from 2017	-0.9%	-0.8%	-0.2%	-1.5%
	Units Delivered (50+)	397	N/A	N/A	N/A
SALES DATA (50+)	Total Sales Volume (2Q 2018, 50+)	\$86,046,000	\$148,700,000	\$12,500,000	N/A
	Total Sales Volume (2Q 2017, 50+)	\$271,164,220	\$3,765,500	N/A	N/A
	% Change (y-o-y)	-68%	+3849%	N/A	N/A
	Avg P/U (2Q 2018, 50+)	\$100,875	\$242,974	\$164,474	N/A
	Avg P/U (2Q 2017, 50+)	\$125,714	\$47,069	N/A	N/A
	% Change (y-o-y)	-20%	+416%	N/A	N/A
SALES DATA (5-49)	Total Sales Volume (2Q 2018, 5-49)	\$37,876,175	\$9,013,500	N/A	\$2,300,000
	Total Sales Volume (2Q 2017, 5-49)	\$48,312,000	N/A	\$11,345,000	\$734,000
	% Change (y-o-y)	-22%	N/A	N/A	+213%
	Avg P/U (2Q 2018, 5-49)	\$129,270	\$115,558	N/A	\$115,000
	Avg P/U (2Q 2017, 5-49)	\$103,650	N/A	\$182,984	\$146,800
	% Change (y-o-y)	+25%	N/A	N/A	-22%

50+ UNIT PROPERTIES

	2Q 2018	INCREASE/DECREASE	2Q 2017
Total Sales Volume	\$247M	-14% ▼	\$287M
AVERAGE Price/Unit	\$160,445	28% ▲	\$124,871
AVERAGE Price/SF	\$189.34	26% ▲	\$150.15
AVERAGE Year Built	1974	-7 yrs ▼	1981



TOP 3 TRANSACTIONS BY PRICE/UNIT (50+)



Slate Creek

Roseville, 612 Units | \$148,700,000
\$242,974/Unit | \$235.62/SF | Built 1989

Avondale

Sacramento, 76 Units | \$12,500,000
\$164,474/Unit | \$222.74/SF | Built 1986

Morningside Creek I & II

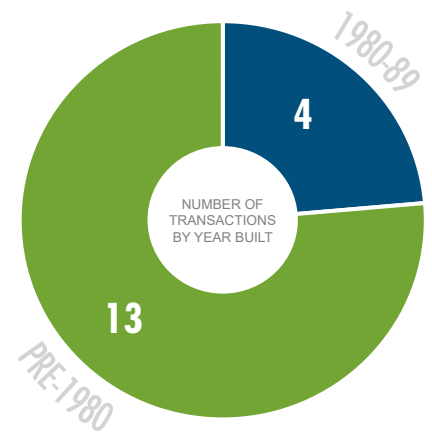
Sacramento, 177 Units | \$26,350,000
\$148,870/Unit | \$180.78/SF | Built 1990/2000

2Q 2018 Transactions by Year Built

	# of Transactions	Avg Price/Unit	Avg Price/SF
2010+	0	N/A	N/A
2000-09	0	N/A	N/A
1990-99	1	\$149K	\$181
1980-89	4	\$177K	\$194
Pre-1980	4	\$110K	\$173

5 - 49 UNIT PROPERTIES

	2Q 2018	INCREASE/DECREASE	2Q 2017
Total Sales Volume	\$49M	-29% ▼	\$70M
AVERAGE Price/Unit	\$125,805	15% ▲	\$109,819
AVERAGE Price/SF	\$176.82	18% ▲	\$149.44
AVERAGE Year Built	1969	+9 yrs ▲	1960



TOP 3 TRANSACTIONS BY PRICE/UNIT (5-49)



Almond Grove

Fair Oaks, 21 Units | \$4,250,000
\$202,381/Unit | \$180.41/SF | Built 1987

Sutter Apartments

Folsom, 9 Units | \$1,815,000
\$201,667/Unit | \$248.97/SF | Built 1965

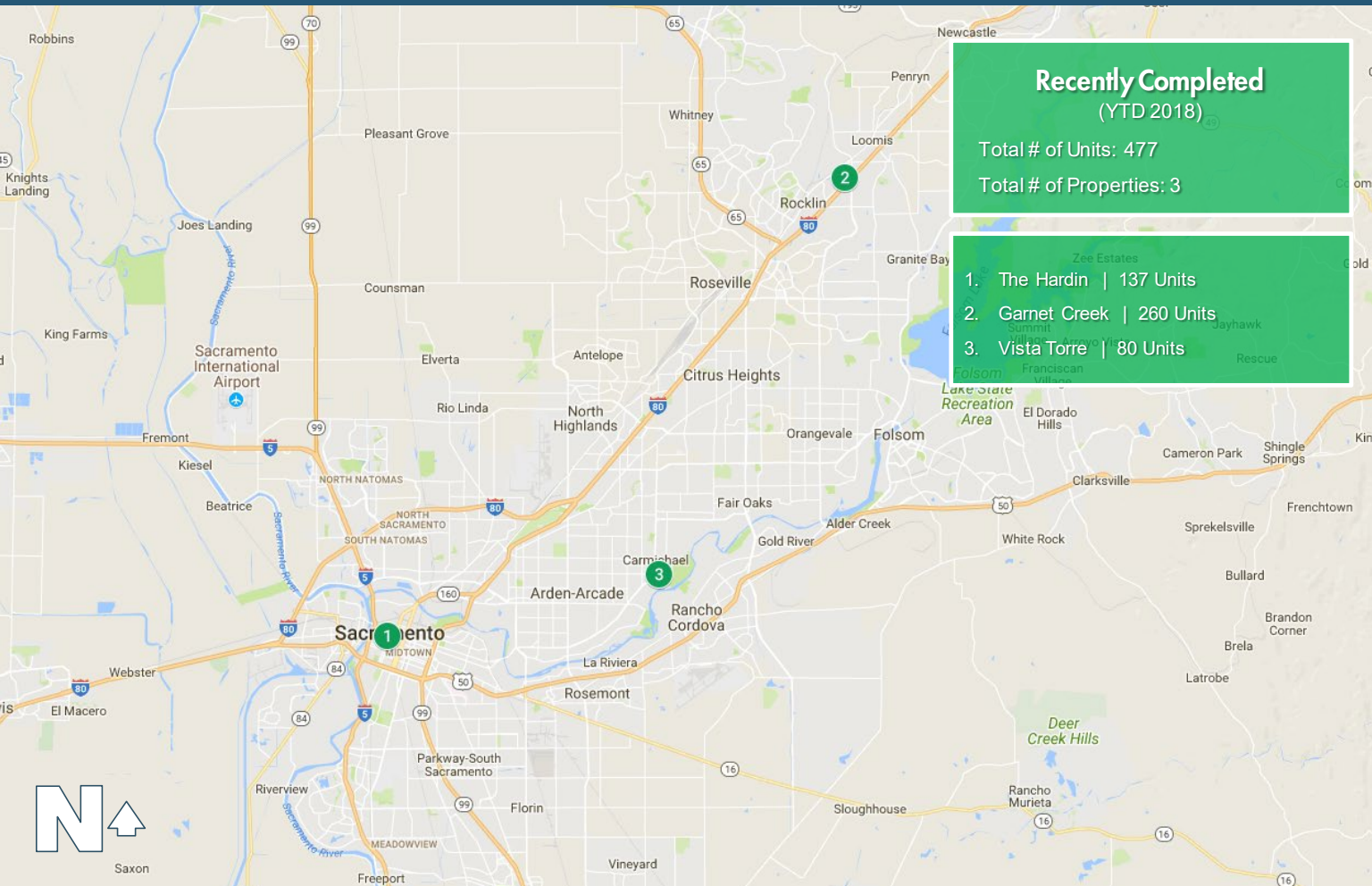
Casa de Las Palmas (Fractured Condo)

Fair Oaks, 26 Units | \$4,500,000
\$173,077/Unit | \$190.19/SF | Built 1988

2Q 2018 Transactions by Year Built

	# of Transactions	Avg Price/Unit	Avg Price/SF
2010+	N/A	N/A	N/A
2000-09	N/A	N/A	N/A
1990-99	N/A	N/A	N/A
1980-89	4	\$158K	\$170
Pre-1980	13	\$117K	\$179

COMPLETED CONSTRUCTION

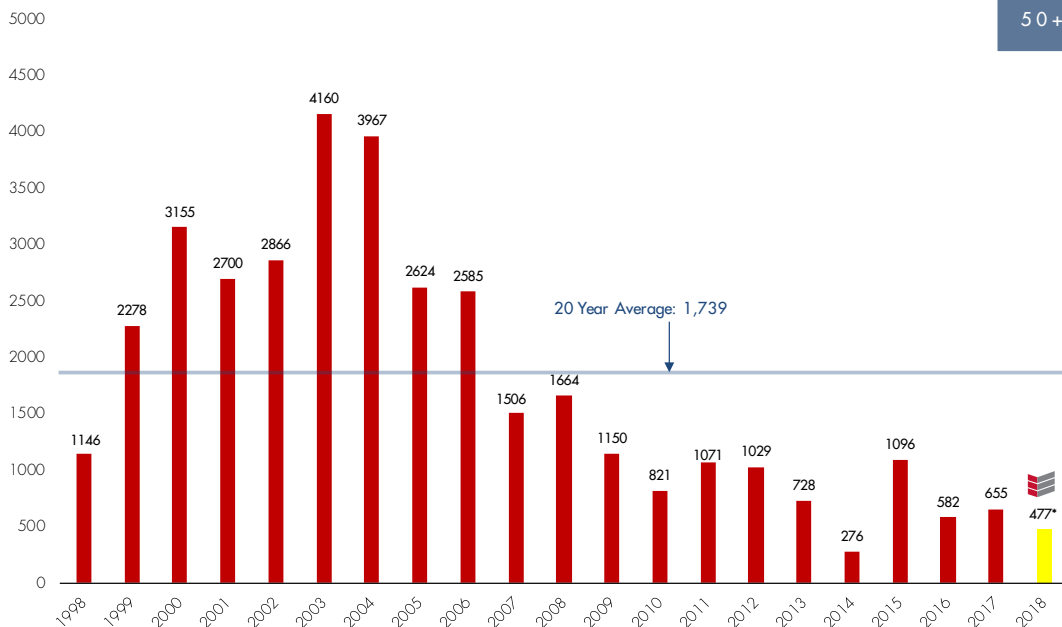


Recently Completed (YTD 2018)

Total # of Units: 477
Total # of Properties: 3

1. The Hardin | 137 Units
2. Garnet Creek | 260 Units
3. Vista Torre | 80 Units

SACRAMENTO MULTIFAMILY CONSTRUCTION PIPELINE 2Q 2018



* Project Units Delivered. Project units delivered is based on when the total project is completed, not as individual buildings/units are delivered

TOTAL UNIT INVENTORY

5+ UNIT PROPERTIES: **272,399**
50+ UNIT PROPERTIES: **127,288**

PRE-LEASE ABSORPTION RATE

11
Units/Property (2Q Avg)

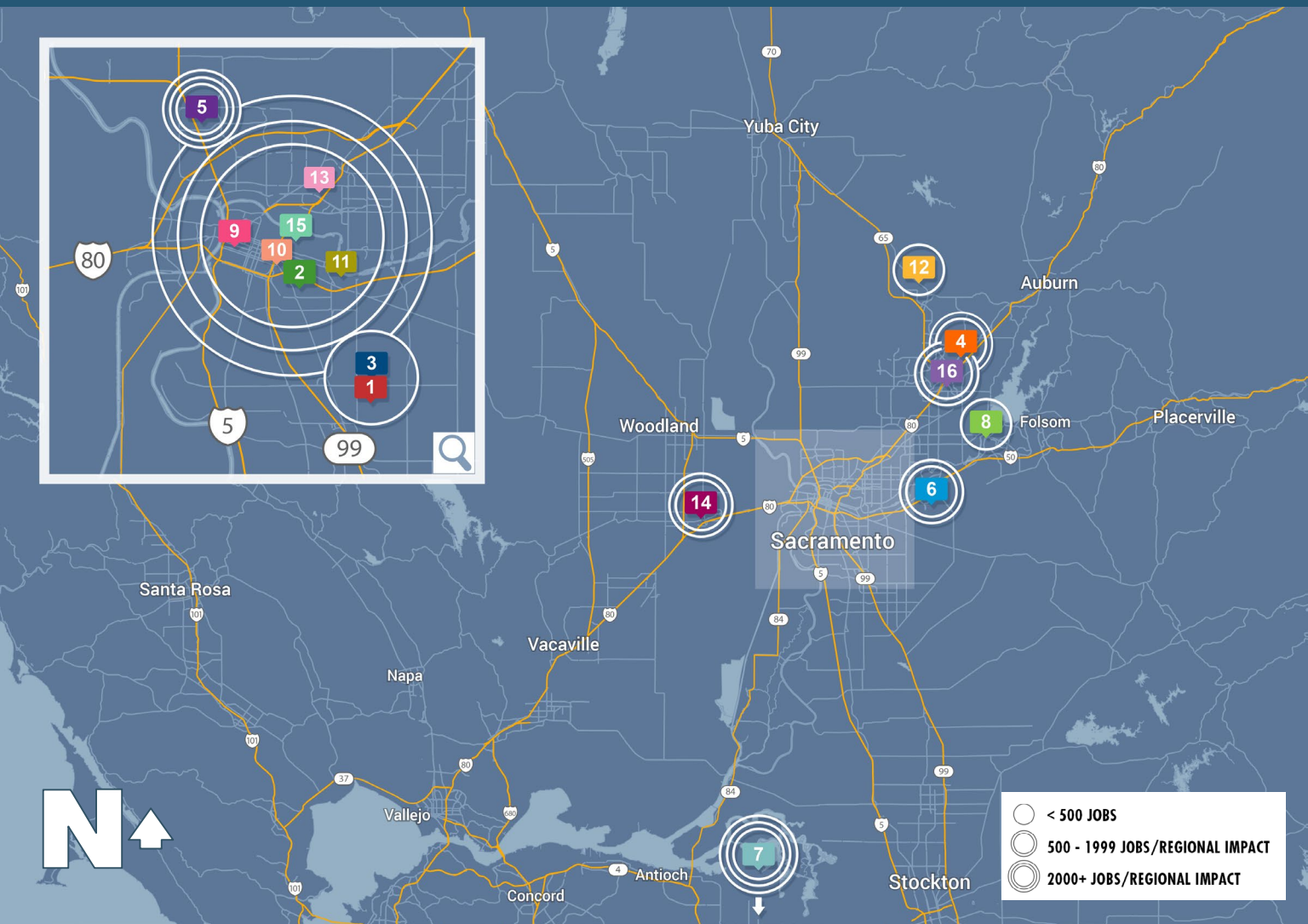
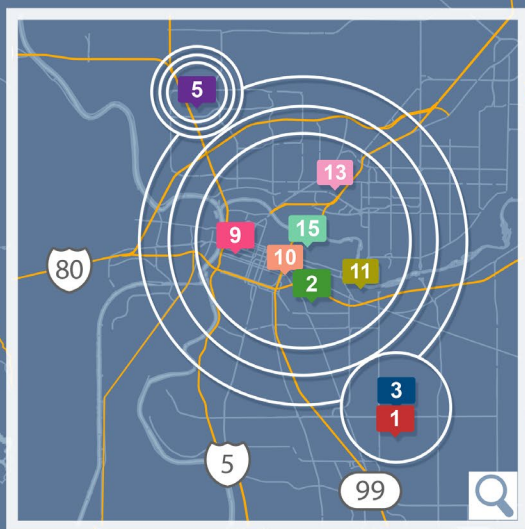
Under Construction

Total # of Units: 3,279
Total # of Properties: 18

Planned

Total # of Units: 4,596
Total # of Properties: 27

2Q 2018 SELECT NEWS



- | | |
|---|--|
| <p>1 Siemens adding new manufacturing building at Sacramento factory</p> <p>2 UC Davis plans aggressive development of Aggie Square Research and Innovation Center</p> <p>3 Wisetek, data recycling and destruction company, opens local office to hire 20</p> <p>4 With Rocklin's Quarry Park Adventures set to open June 15, Rocklin sees a future in its historic quarries</p> <p>5 Possible Centene site fuels new housing development</p> <p>6 Construction begins on \$135 million California Military headquarters project</p> <p>7 Valley Rail project gets \$500.5 million to connect Sacramento, San Jose</p> <p>8 Folsom Coworking expected to open in October</p> | <p>9 Sacramento's Anpac commits to hiring 28 over five years in exchange for tax credit</p> <p>10 Advanced electric motor company, Highlands Power, moving into Urban Hive Co-Work Space</p> <p>11 Sac State plans up to 1,100 student beds in \$150 million project southeast of campus</p> <p>12 Manufacturing Firm, GC Products Inc, moving to Lincoln</p> <p>13 Progressive ramps up Sacramento hiring, to hire 325 locally</p> <p>14 Engage3 leases large office space in downtown Davis</p> <p>15 Tech consulting firm, KAI Partners, leases its first space in East Sacramento</p> <p>16 Kazan Networks' move to Roseville makes room for expansion</p> |
|---|--|

BY: THOMAS M. BROPHY, DIRECTOR OF RESEARCH



The Market's Lateral Line

by Tom Brophy, Director of Research, ABI Multifamily

The lateral line, in aquatic vertebrates such as sharks, is a system of sense organs which is used to detect movement, vibration, and pressure gradients in the surrounding water. As Discovery Channel's 'Shark Week' detailed, sharks use changes in their environment, specifically sensing electro-magnetic waves/pulses via their lateral lines, to better position themselves to strike at prey. In more laymen terms, the lateral line enables the shark to detect its prey without seeing it.

In today's data-rich, information light, central banker skewed-market environment sometimes the only thing investors can truly count on is gut instinct and inspection of the market's tea leaves. By all accounts the economy is firing on all cylinders with GDP at 4.1%, inflation just a tick over 2%, National unemployment at 4% and interest rates still hovering near historic lows. As [Elliott D. Pollack](#)

opined in his July 31st *Monday Morning Quarterback* newsletter, "most economists expect GDP this year to come in at or above 3.0%. And while how sustainable this is over the long run is open to debate (there are good demographic reasons to doubt that it is), the economy is doing just fine, thank you. Enjoy the party."

Sacramento Market Metrics:

By the Numbers

The MSA's total sales volume (5+ unit properties) decreased (17%), year-over-year, to \$296M across 26 transactions representing 1,932 total units sold. Sales of 50+ unit properties witnessed a general volume contraction, decreasing (14%) y-o-y to \$247M. Average price-per-unit amount increased to \$160,445 or 28%. As with 50+ unit properties, 5 to 49 unit properties saw its volume decrease (29%) to \$49M with a 15% increase in average

price-per-unit amounts to \$125,805.

The Sacramento MSA experienced a 47% y-o-y increase in 2Q unit deliveries with 397 new units delivered to the market. For 2018, Sacramento area developers are on track to deliver 1,800+ new units, the most since 2006. Occupancy rate for the MSA contracted marginally, (0.9%), to 96.3% while average rent increased 4.9% to \$1,423, nearly \$500 below San Diego's \$1,908 average.

Yolo County claimed the top spot in the MSA for rent growth at 7.2%, followed by Sacramento County at 5.1%, El Dorado at 2.7% and Placer, last, at 0.7%. Yolo County claimed the top spot in actual average rent which at \$1,805 is the highest in the region. In regards to occupancy, Yolo was #1 at 99%, Sacramento #2 at 96.1% and two-way tie between Placer and El Dorado Counties for #3 at 95.8%.

continued →

BY: THOMAS M. BROPHY, DIRECTOR OF RESEARCH

What's Up?

Rent Control & Price-per-Unit

The single biggest issue, from a real estate perspective, facing both renters and owners in this year's California midterm elections is the fate of Prop 10. Prop 10, for those living under rocks by Tower Bridge, is the initiative that would overturn California's Costa-Hawkins Rent Control Act thereby allowing local municipalities to impose rent control, on any type of rental housing, within their respective jurisdictions. If passed municipalities with rent control, and similar statutes, already on the books could immediately begin its implementation.

Despite the uncertainties of the legislation hasn't reduced investor's stated interest in the California markets we currently cover, i.e. San Diego and Sacramento MSAs. What has reduced investor interest? High price-per-unit amounts which, for Sacramento Investment/Institutional Grade (IG) properties (50+ units) recently peaked at \$160K/unit at the end of 2Q. As a result of higher per unit pricing, overall sales volume, and to a lesser degree active listings, have declined for the last several quarters. This trend should continue as Institutional Investors have decidedly shifted focus, taking profits from California sales and moving them into growing Secondary/Tertiary Markets to implement value add strategies in markets such as Phoenix, Las Vegas, Tucson and Salt Lake MSAs.

The Market's Lateral Line – Yield Curve Inversion?

The 2-year/10-year spread refers to the divergence between the 2-year Treasury note and the 10-year US Treasury bond. Generally speaking the yield on the 10-year should be greater than the 2-year based simply on the fact that more adverse economic events are likelier to transpire over a longer timeframe than a shorter one. Why all the noise? During the past three recessions, the 2/10 spread went negative about a year before the onset of the economic slowdown; which, as far as economic indicators go, has been as prescient an indicator as we've had over the last several decades. As of July 31st, the 2/10 spread was a mere 32 bps.

Despite the long list of notable bond trading detractors who firmly believe in the prescience of the 2/10 spread as the true market indicator, I tend to agree with traders such as John Mauldin, MauldinEconomics.com, or Kevin Muir, TheMacroTourist.com, who assert that given massive Central Bank QE (Quantitative Easing), and real negative rates, has rendered the spread less effective. I would further assert, not only has it made the spread less effective it has also distorted R-star or natural rate of interest. Given the past decade of zero-to-negative interest rates the entire developed world over, central banks have artificially thrust R-star downward causing investors, whether

knowing or unknowingly, to increase risk in order to attain greater yields.

I still believe we are closer to negative rates than we are to 4%+ rates. *Why do I think this?* Given the length of our current recovery, second longest on record, we are probably closer to a correction than continued expansion. The *caveat emptor*, current growth has been spurred by tax cuts and deregulation which could certainly extend the bull market's rally longer than what many are predicting. Nonetheless, in previous recessions central bankers have, on average, needed to cut interest rates ~5% before normalizing policy. Given the Fed's current 1.5 to 1.75% target, with two more rate hikes expected this year moves the target to 2 to 2.25%, negative rates could certainly be on the horizon.

Final question/thought, suppose real estate return rates revert to average historical levels of 3.8%, across the board, and average rental rates soften to 2%+, contingent upon market, where else are you going to find a better return? Investors are slowly beginning to wake up to this new market reality and, my best guess without the benefit of a future indicating magical crystal ball, is that multifamily is where they will want to be.

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ABI COMPARATIVE MARKET REVIEW: 2Q 2018



SACRAMENTO

SAN DIEGO

PHOENIX

TUCSON

DEMOGRAPHICS

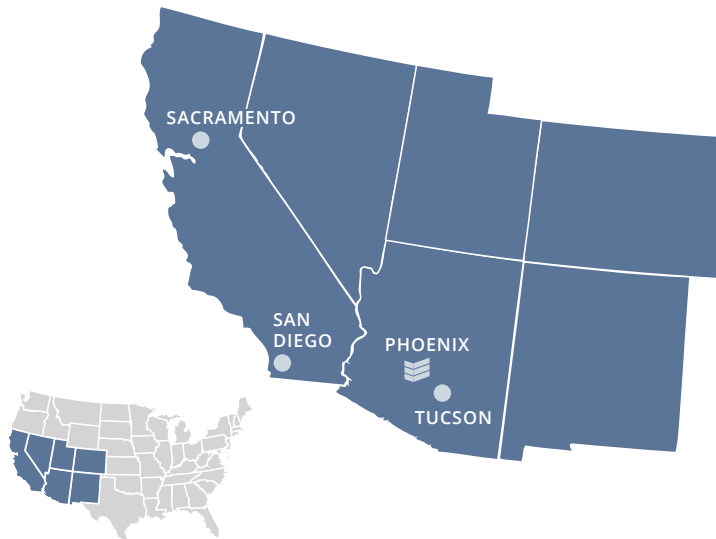
RENT/OCC/CONST (50+)

SALES (50+)

Total Population	2,296,418	3,317,749	4,737,270	1,026,099
Unemployment Rate (as of Mar '18)	4.1%	3.7%	4.2%	4.5%
Employment Growth (y-o-y)	1.6%	1.5%	3.1%	2.1%
Median HH Income	\$62,813	\$66,529	\$55,547	\$46,764
Per Capita Income	\$51,370	\$55,168	\$43,249	\$39,541
Rent (2Q 2018)	\$1,423	\$1,908	\$1,067	\$831
% Increase / Decrease	+4.9%	+5.2%	+6.4%	+4.1%
Occupancy (2Q 2018)	96.3%	96.5%	95.3%	94.5%
% Increase / Decrease	-0.9%	-0.6%	+0.2%	+0.1%
Total Inventory (50+)	127,288	182,894	303,404	67,093
Total Under Construction (50+)	3,279	7,436	16,766	853
Units Delivered (50+, 2Q 2018)	397	1,307	2,380	N/A
Total Sales Volume (2Q 2018)	\$247M	\$326M	\$1.43B	\$242M
y-o-y % Increase / Decrease	-14%	-56%	+16%	+74%
Average P/U (2Q 2018)	\$160,445	\$297,765	\$155,266	\$86,628
y-o-y % Increase / Decrease	+28%	+7%	+26%	-1%

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