Northmarq

## CONSTRUCTION ACTIVITY

| | |
|---|---|
| UNDER CONSTRUCTION | 871 |
| UNITS DELIVERED (YTD) | 868 |

## MARKET FUNDAMENTALS

| | |
|---|---|
| VACANCY RATE | 4.1% |
| YEAR-OVER-YEAR CHANGE | +40bps |
| ASKING RENTS | $1,617 |
| YEAR-OVER-YEAR CHANGE | +2.3% |

## TRANSACTION ACTIVITY (YTD)

| | |
|---|---|
| MEDIAN PRICE PER UNIT | $134,700 |

CENTRAL VALLEY MULTIFAMILY
**2Q 2024**

MARKET INSIGHTS

# Operating fundamentals improve even as deliveries trend higher

## HIGHLIGHTS

- The Central Valley multifamily market posted a slightly improving trajectory in the second quarter, with vacancies inching lower and rents pushing higher. The pace of completions has accelerated, but the pipeline has thinned, which will limit the number of units coming online through the remainder of this year and into 2025.
- The regional vacancy rate in the Central Valley dipped 10 basis points during the second quarter to 4.1 percent. Despite the recent improvement, current vacancies are up 40 basis points from one year ago.
- Rents rose 1 percent in the second quarter, building on the gain that was recorded at the start of the year. Asking rents ended the second quarter at $1,617 per month, up 2.3 percent year over year.
- Investment activity in the first half of this year has been similar to 2023 trends. Transaction counts have been steady while per-unit prices are nearly identical to levels recorded from 2021-2023. Cap rates are up about 50 basis points on average.

## CENTRAL VALLEY MULTIFAMILY MARKET OVERVIEW

The apartment markets across the Central Valley posted improved performance during the second quarter, despite a more active period of inventory growth. More units were delivered in the second quarter than in any period since the second quarter of 2021. This trend of rising deliveries will prove to be short-lived, as the number of units under construction has declined considerably, and minimal levels of permitting activity will restrict inventory growth at least through 2025. Vacancies and rents have posted consistently healthy performance in recent quarters. Rent growth year to date is nearly identical to the pace of expansion that was recorded in the first half of last year, but the outlook calls for a stronger second half of 2024. Improving operations in Fresno and San Joaquin Counties should drive regional performance and carry over to surrounding areas.

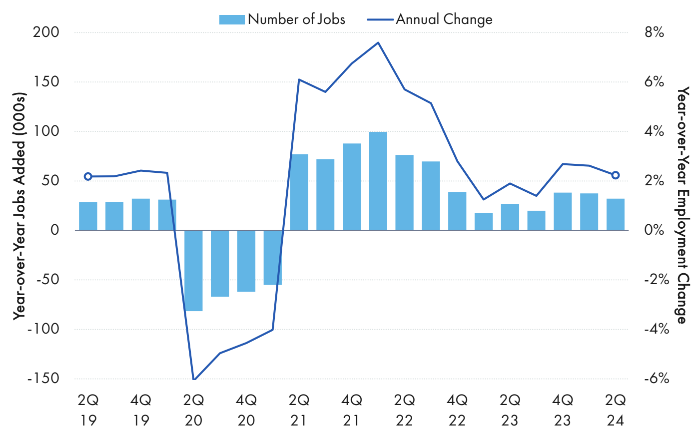
Multifamily investment activity maintained a gradual pace during the second quarter, with a few properties selling across the Central Valley region. While overall transaction levels have been limited, there has been an increase in the number of sales in excess of $15 million in recent quarters. While a few larger transactions have closed year to date, activity remains concentrated in 1970s- and 1980s-vintage Class B and Class C assets. Prices to this point in 2024 have been only slightly lower than levels that were recorded last year, even as cap rates have gradually pushed higher. During the second quarter, prices rose, reaching approximately $150,000 per unit, while cap rates have generally ranged between 5 percent and 6.25 percent.

## EMPLOYMENT

- The pace of employment growth in the Central Valley has leveled off somewhat during the first half of this year, but employers continue to add workers. During the past 12 months, total employment in the region has expanded by 2.2 percent with the addition of 32,100 net new jobs.
- More than 9,000 jobs have been added in the Fresno portion of the Central Valley, a 2.4 percent expansion. The pace of growth in Fresno has been steady for the past 18 months. The education and health services sector is the largest industry in Fresno, and has accounted for nearly half of the new jobs added in the past year.
- The Stockton area has recorded a healthy pace of growth in recent quarters, although the public sector has accounted for a significant share of the gains. Total employment in the area has expanded by 7,000 jobs in the past year, although more than half of those positions have been added in the government sector.
- **FORECAST:** Employers are on pace to add approximately 28,000 jobs in the Central Valley in 2024, a 1.9 percent gain.

*Area employers are on pace to add 28,000 jobs in 2024.*

EMPLOYMENT OVERVIEW



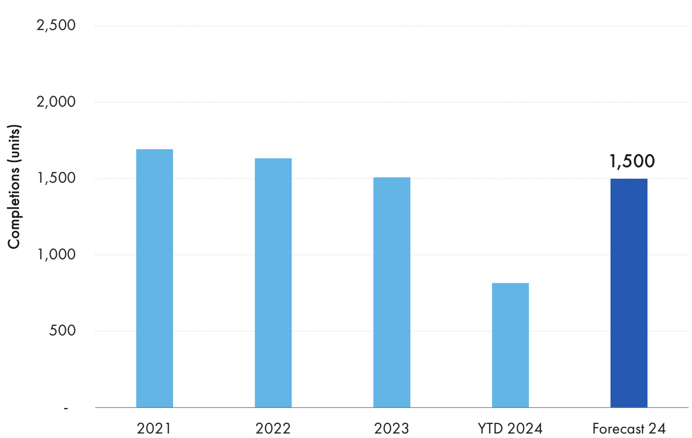

Sources: Northmarq, Bureau of Labor Statistics

## DEVELOPMENT & PERMITTING

- After a slow start to the year, the pace of deliveries accelerated during the second quarter. Projects totaling approximately 800 units were completed in the past three months. Year to date, 868 units have come online, up about 30 percent from the number of units that were delivered during the first half of last year.
- The recent increase in deliveries has thinned out the development pipeline. Projects totaling fewer than 900 units are currently under construction, down more than 65 percent from one year earlier.
- Multifamily permitting levels also slowed, suggesting further declines in inventory growth are likely going forward. During the first half, permits for approximately 500 multifamily units were pulled, 36 percent lower than the total in the first half of 2023.
- **FORECAST:** Developers are on pace to deliver approximately 1,500 new units in 2024, nearly identical to the total number of units completed last year. Since 2015, the Central Valley region has averaged inventory growth or more than 1,200 units per year.

*Year to date, 868 units have come online.*

DEVELOPMENT TRENDS

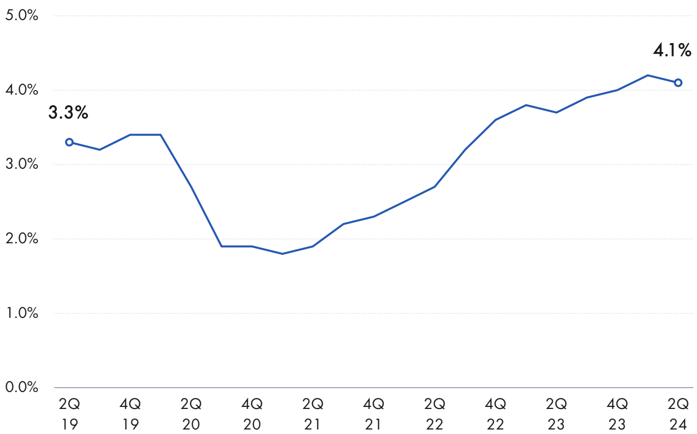



Sources: Northmarq, CoStar, Yardi

## VACANCY

*The vacancy rate ticked lower to 4.1 percent.*

VACANCY TRENDS



*Sources: Northmarq, CoStar, Yardi*

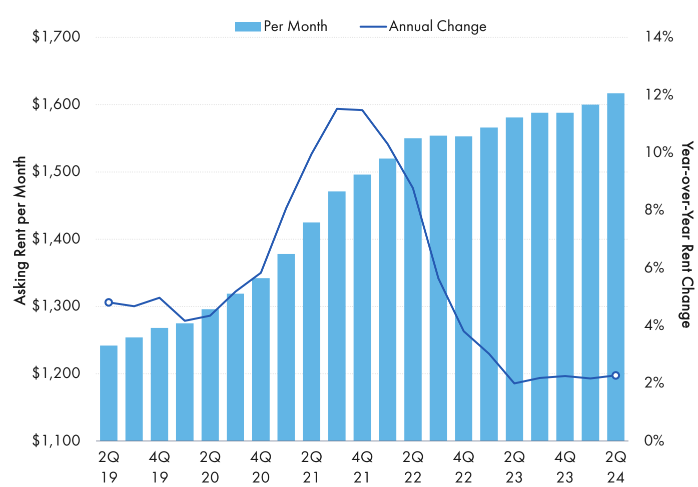
- The vacancy rate in the Central Valley ticked lower in the second quarter, dipping 10 basis points to 4.1 percent. This marked the first vacancy tightening in the region since the second quarter of last year, after the rate crept higher in the second half of 2023 and at the beginning of this year. The current vacancy rate is 40 basis points higher than levels from one year ago.
- While vacancy conditions in the region are generally stable, the rate has pushed higher in Class A properties in recent periods. The Class A vacancy rate ended the second quarter at 7 percent; the rate had averaged 3.6 percent during the previous five years.
- Vacancy in Fresno County ended the second quarter at 4.2 percent, 10 basis points lower than in the first quarter, but still somewhat higher than in recent periods. The rate has averaged 3.3 percent since the beginning of 2022.
- **FORECAST:** Vacancy in the Central Valley is forecast to level off in the second half, with renter demand expected to remain steady and the pace of new construction on pace to slow. The rate is expected to end the year at 4.1 percent, up just 10 basis points from the year-end 2023 figure.

## RENTS

- After rising 0.8 percent at the start of the year, asking rents rose an additional 1 percent in the second quarter, reaching $1,617 per month. Annual growth rates have been steady since the beginning of 2023; year over year, rents in the region are up 2.3 percent.
- Rents in San Joaquin County are some of the most expensive in the region and have been posting a steady rise. Asking rents in the county ended the second quarter at $1,859 per month on average, up 1.9 percent from one year earlier.
- Rents in the Class A segment of the market ended the first half at $2,118 per month, up less than 1 percent year over year. Gains have been more robust in Class C properties, where rents have advanced 2.8 percent during the past 12 months, reaching $1,419 per month.
- **FORECAST:** Continued health in the local rental market should support additional rent increases in the second half. Asking rents are forecast to end the year up 3.3 percent to $1,640 per month.

*Asking rents rose 1 percent in the second quarter, reaching $1,617 per month.*

RENTS TRENDS



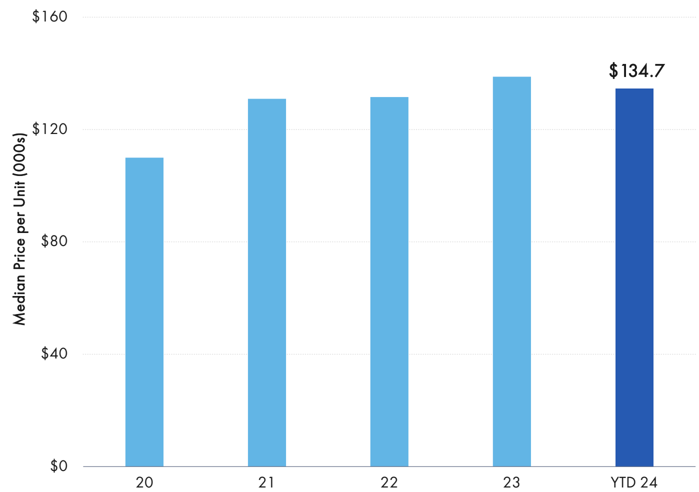
*Sources: Northmarq, CoStar, Yardi*

## MULTIFAMILY SALES

- Transaction activity in the second quarter closely tracked levels from earlier in the year. After accelerating in 2021, the sales velocity in the Central Valley has maintained a mostly steady pace.
- Prices ticked up in the second quarter, after a drop at the start of the year. The median price in deals closed year to date is $134,700 per unit, just 3 percent lower than in 2023. In deals that closed during the second quarter, the median price was approximately $150,000 per unit.
- Cap rates have averaged approximately 5.5 percent year to date with a range of about 5 percent to 6.25 percent. Cap rates were closer to 5 percent in 2023, and approximately 4.5 percent in 2022.

*The median price in deals closed year to date is $134,700 per unit.*

INVESTMENT TRENDS



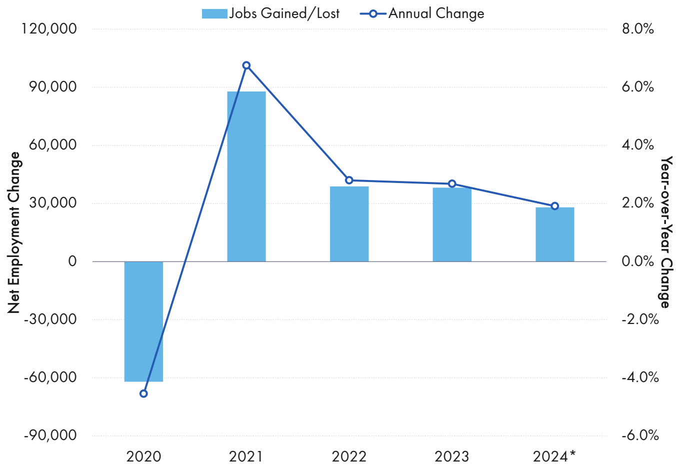

Sources: Northmarq, CoStar

## LOOKING AHEAD

The second half of 2024 is expected to be a fairly steady one in the Central Valley. Deliveries have been elevated to this point in the year, but the construction pipeline has thinned considerably, and the pace of new inventory growth is expected to slow to below-trend levels over the next several quarters. With supply-side pressures likely to ease, the vacancy rate is expected to remain stable across the region. The close alignment between supply and demand should allow for continued rent growth. In prior quarters, rents gained momentum in some of the region's counties with smaller populations, including Merced, Madera, and Kings Counties. In recent months, rent growth gained momentum in the more populous Fresno and San Joaquin Counties, and a continuation of this trend would support overall rental performance across the region.

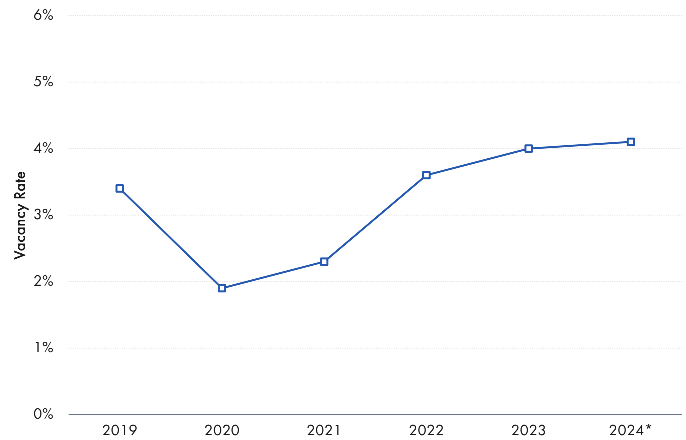
Sales velocity in the Central Valley region has maintained a steady pace over the past several quarters, but there are a few trends emerging that could signal a greater amount of activity in the coming periods. Historically, transactions in the Central Valley have been most active between $5 million and $15 million, with most deals averaging between 50 and 100 units. In recent quarters, there has been an increase in larger properties trading, with a handful of deals in the $30 million range closing. These types of transactions were more prevalent at the height of the market in 2021 and the first half of 2022. This resumed of trading in larger assets could buoy market sentiment, and any declines in interest rates and borrowing costs should make it easier for a greater number of acquisitions to pencil.

## EMPLOYMENT FORECAST



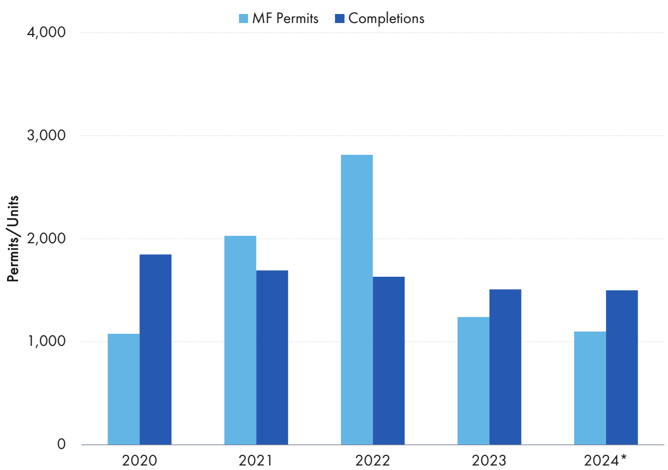

* Year End Forecast
Sources: Northmarq, Bureau of Labor Statistics

## VACANCY FORECAST



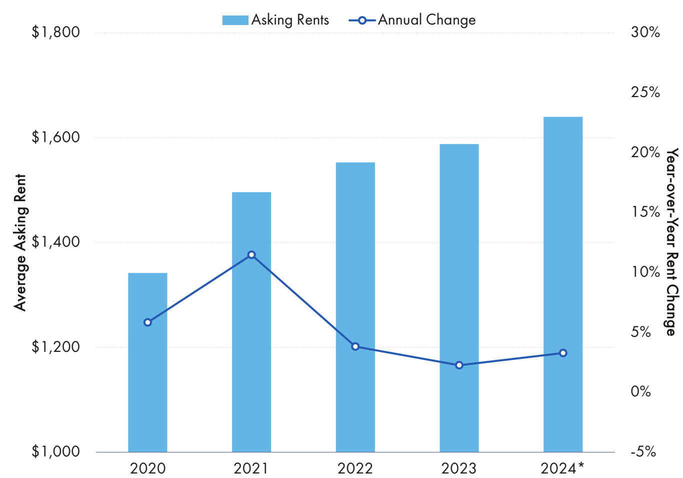

* Year End Forecast
Sources: Northmarq, CoStar, Yardi

## CONSTRUCTION & PERMITTING FORECAST




* Year End Forecast
Sources: Northmarq, Census Bureau, CoStar, Yardi

## RENTS FORECAST




* Year End Forecast
Sources: Northmarq, CoStar, Yardi

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## ABOUT **NORTHMARQ**

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