Northmarq

MARKET INSIGHTS

Rents inch higher with construction limited

CONSTRUCTION ACTIVITY

UNDER CONSTRUCTION	1,501
UNITS DELIVERED (YTD)	52

MARKET FUNDAMENTALS

VACANCY RATE	4.2%
YEAR-OVER-YEAR CHANGE	+40bps
ASKING RENTS	$1,600
YEAR-OVER-YEAR CHANGE	+2.2%

TRANSACTION ACTIVITY (YTD)

MEDIAN SALES PRICE PER UNIT	$115,500

Central Valley Multifamily
1Q 2024

HIGHLIGHTS

- The Central Valley multifamily market recorded mostly steady conditions during the first quarter. Only 52 units of new inventory were delivered, putting the region on pace to record its fourth consecutive year of slowing deliveries.
- Vacancy in the Central Valley ended the first quarter at 4.2 percent. The rate rose 20 basis points during the quarter and has increased by 40 basis points year over year.
- Rents inched up 0.8 percent to $1,600 per month in the first quarter. Current rents are up 2.2 percent in the past 12 months, a more modest pace of growth than has been recorded in recent years.
- Transaction activity was limited in 2023 and that trend continued in the first quarter. In the properties that have sold, the median price is $115,500 per unit, while cap rates have ranged between 5 percent and 6 percent.

CENTRAL VALLEY MULTIFAMILY MARKET OVERVIEW

The apartment market in the Central Valley continued on its recent trajectory during the first quarter. Vacancy inched up, but the rate is only marginally higher than it was one year ago. Vacancy trends were mixed at the county level. In Fresno County, which has the largest population and inventory of rental units, vacancy rates have pushed up by more than 100 basis points in the past year. In other areas, however, including rapidly expanding San Joaquin County and Stanislaus County, vacancies have inched lower. Vacancies in San Joaquin County have declined even as new units have come online; the county has accounted for nearly 30 percent of the total new deliveries in the Central Valley during the past five years. While the overall vacancy rate has moved a bit higher, rents are rising in response to conditions that remain tight.

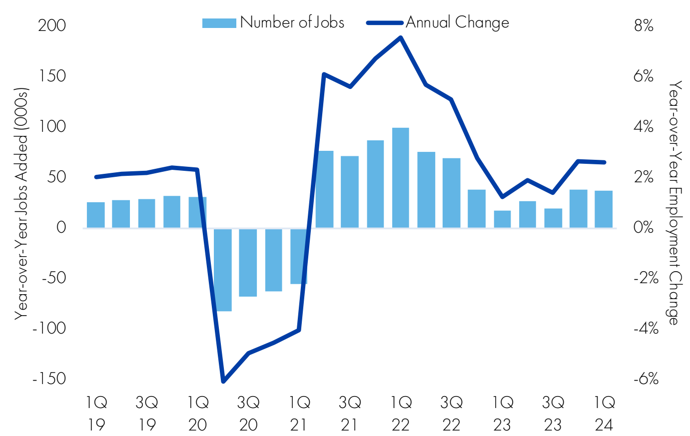
Multifamily investment activity was fairly steady in the first quarter, closely tracking levels that were achieved throughout much of 2023. Only a few properties changed hands, with transaction counts in recent quarters about 50 percent lower than during the recent peak years of 2020 and 2021. Still, enough properties are selling to support price discovery in the region's investment market. Cap rates have risen about 50 basis points from 2023 levels and are generally ranging between 5 percent and 6 percent on average. Recent transaction activity has been occurring throughout the region, including in some of the larger population centers such as Fresno and Bakersfield, as well as in cities with smaller inventories of rental housing led by Merced. While a handful of Class A properties traded each year from 2020-2022, recent activity has consisted almost exclusively of Class B and Class C assets.

EMPLOYMENT

- Employers in the Central Valley have continued to add workers to payrolls at a steady pace in recent quarters. Year over year, total employment in the region has expanded by 2.6 percent with the addition of 37,400 net new jobs.
- The Fresno portion of the Central Valley has added the most workers in the past year, with 9,000 jobs created, a 2.3 percent gain. The education and health services sector accounted for nearly half of the jobs created in Fresno during the past 12 months.
- Madera and Merced are two of the fastest growing counties in the region, and these areas are posting the strongest rates of payroll expansion. Year over year, total employment in Madera spiked by 6 percent, while the gain in Merced totaled 4.3 percent. Combined, the counties added more than 5,500 workers.
- **FORECAST:** After more than 38,000 jobs were added in the Central Valley in 2023, the region is on pace to record a more modest rate of expansion this year. A total of 24,000 net new jobs are forecast to be added in 2024, a 1.6 percent rate of growth.

Year over year, total employment in the region has expanded by 2.6 percent.

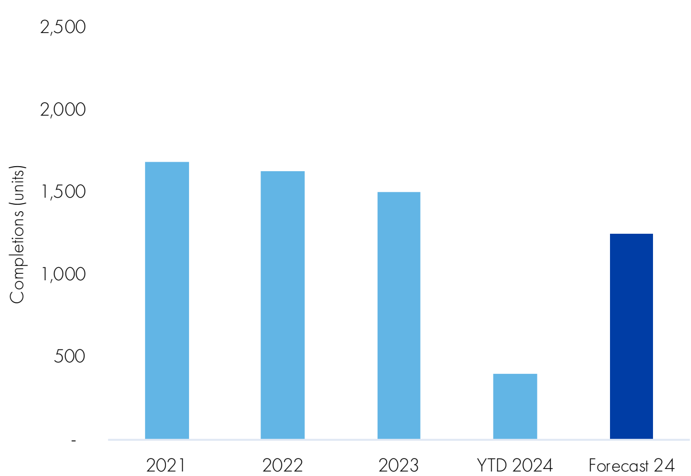
EMPLOYMENT OVERVIEW



Sources: Northmarq, Bureau of Labor Statistics

There are approximately 1,500 units under construction.

DEVELOPMENT TRENDS



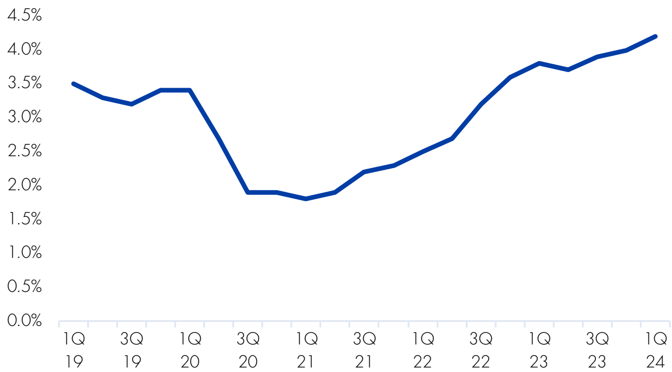
Sources: Northmarq, CoStar, Yardi

DEVELOPMENT & PERMITTING

- Deliveries slowed at the start of this year, with projects totaling only 52 units coming online in the first quarter. This followed an extended period of more active construction. During the past five years, deliveries have averaged nearly 400 units per quarter. In that time, Fresno County has led the way, with more than 3,600 units delivered, followed by San Joaquin County, where nearly 2,600 units have come online.
- There were approximately 1,500 units under construction in the Central Valley at the end of the first quarter. More than 400 units are under construction in Fresno County, with another 300 units in development in both San Joaquin and Kern counties.
- Multifamily permitting levels in the first quarter of this year were up 15 percent compared to the same period in 2023. Despite the recent uptick, current permitting levels are down more than 50 percent from the recent peak recorded in 2022. During the first quarter, developers pulled permits for approximately 350 multifamily units.
- **FORECAST:** Deliveries in the Central Valley are expected to slow for the fourth consecutive year in 2024. Developers are on pace to complete projects totaling approximately 1,250 units this year, down from more than 1,500 units in 2023.

Vacancy has increased by only 40 basis points in the past year.

VACANCY TRENDS



Sources: Northmarq, CoStar, Yardi

VACANCY

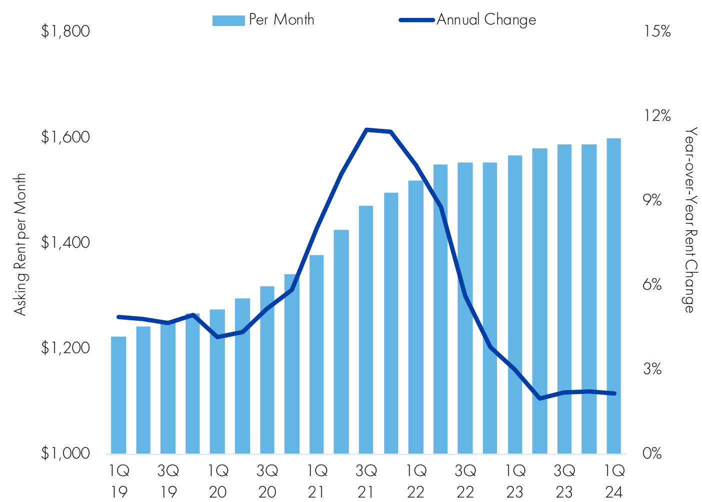
- Vacancy in the Central Valley rose 20 basis points during the first quarter, with the rate reaching 4.2 percent. This marked the fourth consecutive quarter where vacancy rose, although the rate has increased by only 40 basis points in the past year.
- Most of the markets in the Central Valley have posted fairly stable vacancy rates in recent quarters, but conditions have softened in Fresno County. Vacancy in Fresno has increased by 130 basis points in the past year to 4.4 percent.
- Vacancy has tightened in San Joaquin County in recent periods. The rate ended the first quarter at 4 percent, 80 basis points lower than the year-end 2022 peak.
- **FORECAST:** Vacancy is forecast to inch higher this year, with the rate on pace to rise 30 basis points to 4.3 percent. During the past decade, vacancy in the Central Valley has averaged 3.6 percent, and the rate has not topped 5 percent in that time.

RENTS

- Rents inched higher in the first quarter, ticking up 0.8 percent to $1,600 per month. During the past 12 months, rents have advanced by 2.2 percent, a slightly slower pace of growth than was being recorded one year ago.
- Some of the strongest rent growth in the region is being recorded in Stanislaus County, which is also one of the more expensive parts of the Central Valley. Rents in the county have increased 3.1 percent year over year to $1,755 per month.
- In Kern County, rent growth has trailed the regional average. Rents in Kern County have increased 1.6 percent in the past year, ending the first quarter at $1,474 per month. The county's recent performance is lagging longer-term trends. During the past decade, rent growth in Kern County has averaged 4.5 percent per year, and since 2019, annual growth has averaged 6.5 percent.
- **FORECAST:** Rents are expected to rise about 3 percent in 2024, ending the year at approximately $1,635 per month. Renter demand for units remains steady, which should support continued rent increases.

During the past 12 months, rents have advanced by 2.2 percent.

RENT TRENDS



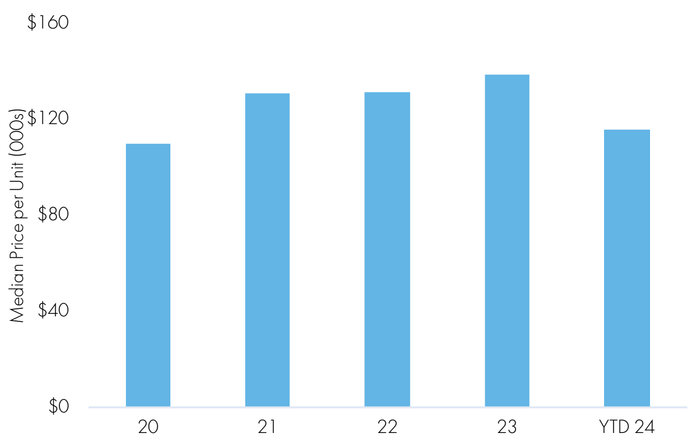
Sources: Northmarq, Apartment Insights

MULTIFAMILY SALES

- Sales activity slowed modestly during the first quarter, with transaction counts down 25 percent from levels at the end of last year. The number of properties that changed hands in the first quarter closely tracked levels from the same period in 2023.
- Prices have trended lower to this point in 2024. The median price in sales that closed during the first quarter was $115,500 per unit, 17 percent lower than the median price in 2023. The properties that have thus far in 2024 are generally 1970s- and 1980s-vintage assets.
- Cap rates have generally ranged between 5 percent and 6 percent to this point in 2024. On average, cap rates are about 50 basis points higher than in 2023; last year, most properties traded with cap rates between 4.5 percent and 5.5 percent.

Cap rates have ranged between 5 percent and 6 percent.

INVESTMENT TRENDS



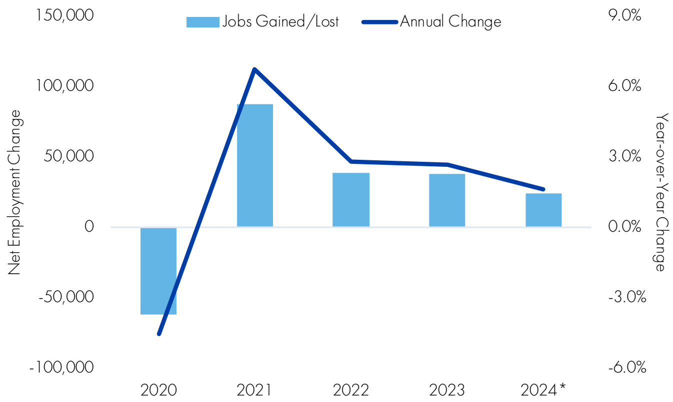
Sources: Northmarq, CoStar

LOOKING AHEAD

Apartment properties in the Central Valley are expected to post relative outperformance through the remainder of 2024. The region will benefit from a continued slowing of new deliveries, at the same time as the nation posts a record high of new construction. This cooling pace of inventory growth will allow the local vacancy rate to level off in the coming quarters, and employment growth and renter demand should remain strong enough to leave room for modest rent increases. The greatest operational gains will likely be recorded in the fastest-growing markets in the Central Valley, while larger, more established cities such as Fresno and Bakersfield will likely post mostly stable operational performance.

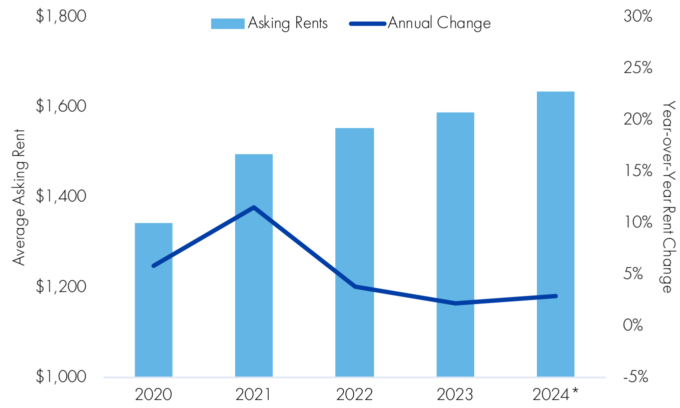
Investment activity should gain momentum in the second half of 2024, as more properties become available for acquisition and interest rates potentially decline slightly by the end of the year. Healthy operational performance should support the investment market, with investors wary of the competitive impact of new supply in other markets. Another factor that should support the investment market in the Central Valley is cap rates, which have likely risen to a high enough level where deals can get done. A few properties have traded with cap rates of 6 percent or higher, and these levels should be sufficient to support deal flow in the coming quarters.

EMPLOYMENT FORECAST



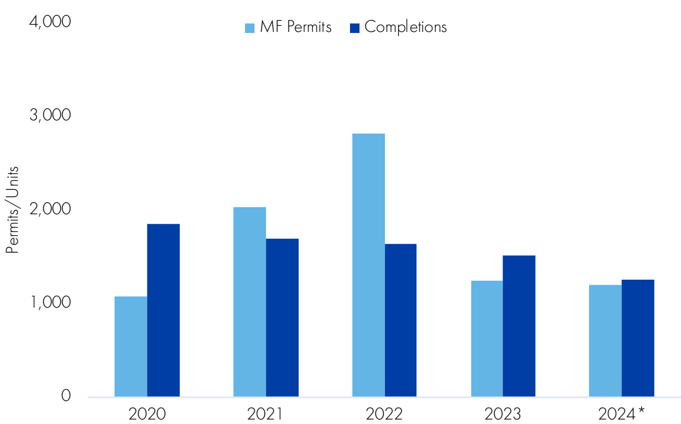
** Year End Forecast*
Sources: Northmarq, Bureau of Labor Statistics

RENT FORECAST



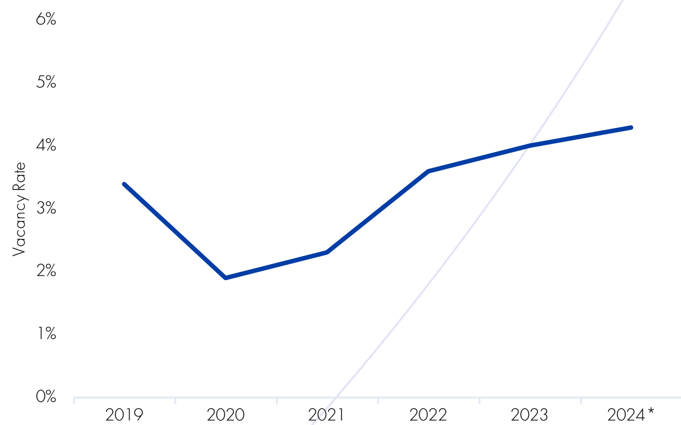
** Year End Forecast*
Sources: Northmarq, Apartment Insights

CONSTRUCTION & PERMITTING FORECAST



** Year End Forecast*
Sources: Northmarq, Apartment Insights, Census Bureau

VACANCY FORECAST



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

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