Northmarq

CONSTRUCTION ACTIVITY

UNDER CONSTRUCTION	1,608
UNITS DELIVERED (YTD)	219

MARKET FUNDAMENTALS

VACANCY RATE	4.4%
YEAR-OVER-YEAR CHANGE	+20bps
ASKING RENTS	$1,643
YEAR-OVER-YEAR CHANGE	+2.7%

TRANSACTION ACTIVITY (YTD)

MEDIAN PRICE PER UNIT	$117,027

CENTRAL VALLEY MULTIFAMILY
1Q 2025

MARKET INSIGHTS

Vacancy and rents inch upward amid growing supply

HIGHLIGHTS

- The Central Valley multifamily market recorded mostly steady conditions in the first quarter. While 2025 is on track for the highest level of new supply in five years, a continued slowdown in permitting points to reduced deliveries beginning in 2026.
- Vacancy in the Central Valley ended the first quarter at 4.4%, rising 10 basis points from the previous quarter. Current vacancy levels are up 20 basis points year over year.
- After trending higher in the second half of last year, rents continued to tick up at the start of 2025. In the first quarter, average rents increased by 0.6% to $1,643 per month, a 2.7% increase year over year.
- Sales volume slowed during the first quarter, with investors favoring older vintages. The median price reached $117,000 per unit, and transactions were spread across several counties in the Central Valley.

CENTRAL VALLEY MULTIFAMILY MARKET OVERVIEW

The Central Valley multifamily market continued to follow trends set in 2024. The regional vacancy rate rose slightly but remains only marginally higher than one year ago. County-level trends varied; Fresno County, the region's largest rental market, posted a 100-basis-point vacancy decline to 4.2%, while Kern and Tulare counties each recorded increases of more than 100 basis points. Rents continued to rise at a healthy pace, with year-to-date growth ahead of last year's early performance. It may prove difficult to sustain this pace of rent increases through the remainder of this year as deliveries reach a five-year high. San Joaquin and Fresno counties are likely to lead regional performance, supported by steady renter demand and improving occupancy. San Joaquin County has absorbed nearly 30% of the Central Valley's new inventory since 2020, yet still recorded only a minor vacancy increase over the past year, underscoring the submarket's resilience amid elevated construction.

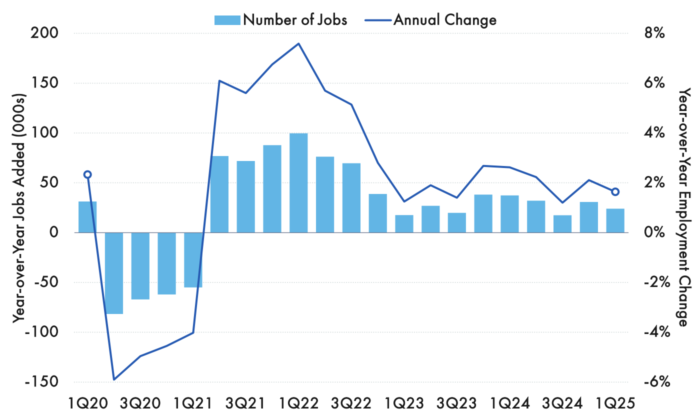
Multifamily investment activity in the Central Valley remained consistent with recent quarters, though transaction counts are still down roughly 50% from the peak years of 2020 and 2021. Even with fewer deals closing, activity has been sufficient to support price discovery. Cap rates have climbed about 60 basis points year over year, generally ranging between 5% and 6%. Sales have occurred across the region, with larger population centers like Fresno and Visalia among the more active areas. Recent deals have involved primarily 1970s and 1980s vintage Class B and Class C properties. Most transactions have fallen in the $1 million to $10 million range, reflecting continued investor focus on smaller, value-add opportunities.

EMPLOYMENT

- The Central Valley's year-over-year employment growth rate reached 1.6% through the first quarter of 2025. While quarter-to-quarter growth has been inconsistent, the recent pace of hiring remains only slightly below the area's long-term average.
- Modesto led regional job growth over the past year, adding 4,400 new positions for a 2.3% increase. Stockton followed closely behind, with employers expanding payrolls by 2.1% with the addition of roughly 6,000 jobs.
- The public sector is contributing to a significant portion of recent gains across the region. Construction of the Valley Rail extension from Stockton to Merced, which began in 2024, is also supporting employment in the construction sector.
- **FORECAST:** The pace of hiring in the Central Valley is forecast to slow in 2025, with employers expected to add 19,000 workers, down from more than 30,000 jobs added in 2024. Area payrolls are forecast to grow by 1.2% for the full year.

The Central Valley is forecast to add 19,000 jobs in 2025.

EMPLOYMENT OVERVIEW

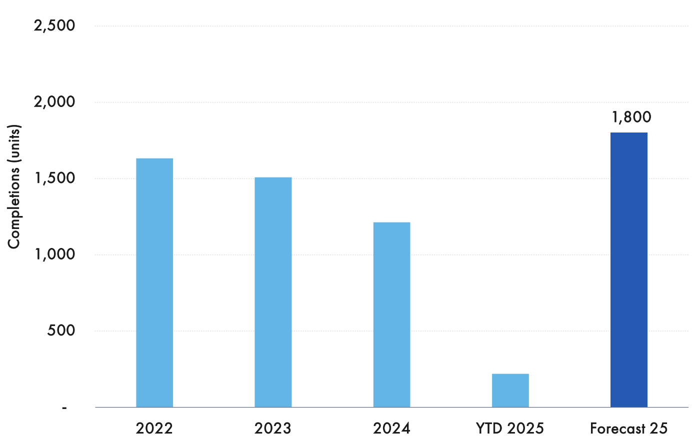


Sources: Northmarq, Bureau of Labor Statistics

DEVELOPMENT & PERMITTING

Roughly 1,600 units were under way at the end of the first quarter.

DEVELOPMENT TRENDS

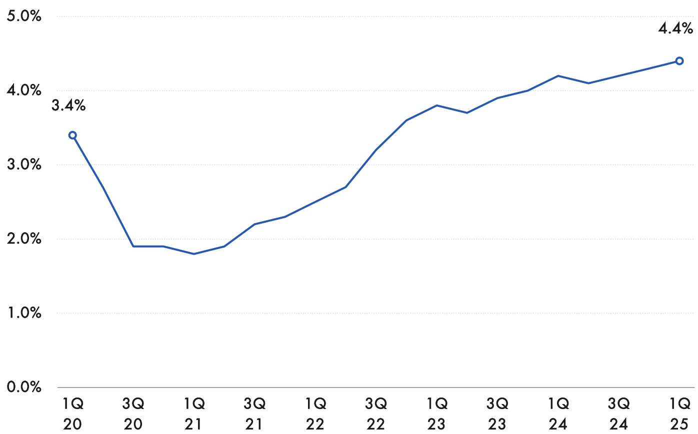


Sources: Northmarq, CoStar, Yardi

- Multifamily deliveries were limited in the first quarter, with a single project bringing 219 units online, below the five-year quarterly average of 400 units. A larger wave of completions is expected by midyear, which should increase the annual total. Fresno and San Joaquin counties have led regional development over the past year.
- The number of units under construction has declined since peaking in late 2019, but activity ticked up to start this year. Approximately 1,600 units were underway at the end of the first quarter, up 6 % from a year earlier. Most of the projects in the pipeline are expected to deliver in 2025, with construction concentrated in Tulare and Merced counties.
- Multifamily permitting activity dropped more than 60% year over year, with only 110 units approved in the first quarter. Developers have significantly pulled back on permit applications since levels peaked in 2022 and are expected to remain cautious in the near term.
- **FORECAST:** Developers are on track to deliver approximately 1,800 units in 2025, the highest annual total since 2020. This would surpass the region's average annual inventory growth of just over 1,200 units since 2015.

Class A vacancy declined by 60 basis points year over year.

VACANCY TRENDS



Sources: Northmarq, CoStar, Yardi

VACANCY

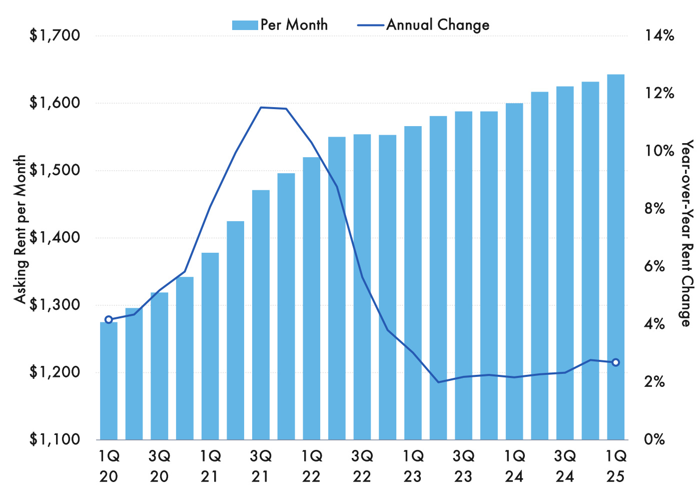
- The vacancy rate increased by 10 basis points during the first quarter, marking the fourth consecutive quarterly rise. Still, the year-over-year change was modest at 40 basis points. Some of the recent uptick likely reflects seasonal patterns, as the first quarter is typically a slower leasing period in the Central Valley.
- The Class A vacancy rate in the Central Valley declined by 60 basis points to 5.2% in the 12-month period ending in March, the lowest figure since 2021. Despite the recent improvement, the rate remains 60 basis points above the market's long-term average.
- Vacancy in Fresno County ended the first quarter at 4.3%, marking a 100-basis-point decline in the past 12 months. Only two of the region's eight counties posted a year-over-year vacancy decrease, with Stanislaus County being the other.
- **FORECAST:** Vacancy is expected to inch higher in 2025, rising by 30 basis points to 4.6%, the highest level in a decade. Even with the uptick, the rate remains below the national average.

RENTS

- Rents inched higher during the first quarter, rising 0.6% to $1,643 per month. Compared to one year earlier, rents are up 2.7%, a slightly slower pace of growth that at the end of 2024.
- All counties in the Central Valley experienced year-over-year rent growth through March, with Fresno and Madera counties leading overall growth. Stanislaus County, among the higher-priced areas, recorded a 1.4% annual rent increase, reaching $1,968 per month.
- Class C rents increased by more than 2% during the past year, reaching $1,462 per month and extending a 10-year streak of quarterly growth. Class A and Class B rents also rose, each gaining just over 1% annually to $2,140 and $1,815 per month, respectively.
- **FORECAST:** Average rents are forecast to reach approximately $1,667 per month by the end of 2025, representing a 2.1% annual increase. Elevated deliveries are expected to moderate rent growth, resulting in the slowest annual increase in more than a decade.

Rents rose 0.6% in the first quarter, to $1,643 per month.

RENTS TRENDS



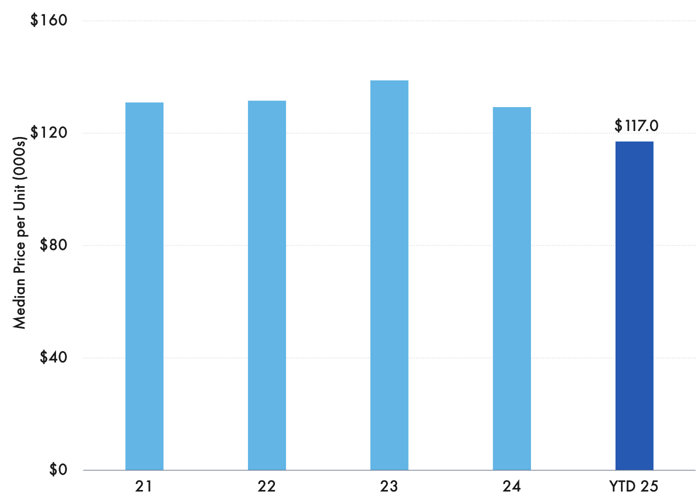
Sources: Northmarq, CoStar, Yardi

MULTIFAMILY SALES

- Sales velocity in the Central Valley held steady over the past year, with 13 transactions in the trailing 12 months. Class C properties continue to account for the bulk of activity, particularly in Fresno.
- Pricing trends have been uneven in early 2025, with the median price at $117,000 per unit, down roughly 10% from 2024. The decline is tied to the transaction mix, as the majority of sales this year have involved Class C properties.
- Cap rates rose 80 basis points in the past year, reaching 5.9% in the first quarter. Properties have traded with cap rates ranging from about 5% to 6.25%, with the highest figures recorded in Fresno.

Cap rates have risen by 80 basis points year over year, reaching 5.9%.

INVESTMENT TRENDS



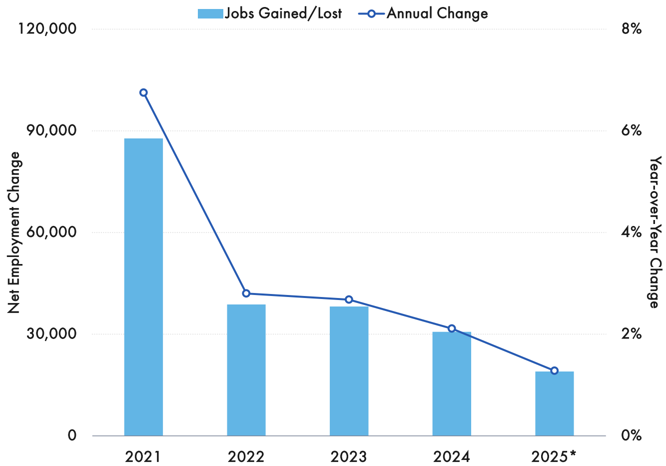
Sources: Northmarq, CoStar

LOOKING AHEAD

Despite steady early-year property performance, the Central Valley multifamily market is on pace to record its highest single year of new construction since 2020, resulting in some modest supply-side pressures. Developers are expected to complete approximately 1,800 units in 2025, about 50% higher than the annual total since 2015. This will mark the sixth year out of the past seven where deliveries are above trend, and vacancy is projected to rise for a third consecutive year. Still, conditions vary by county; Fresno and Kern counties are expected to post rent gains this year, while smaller markets such as Tulare, Madera, and Kings have recorded solid rent momentum in recent quarters. Additionally, rising insurance costs remain a concern for apartment owners in California. In May, the state approved an emergency rate increase for State Farm, allowing premiums on multifamily policies to rise by up to 38% starting in June, further underscoring the growing expense burden in the wake of recent wildfire damage.

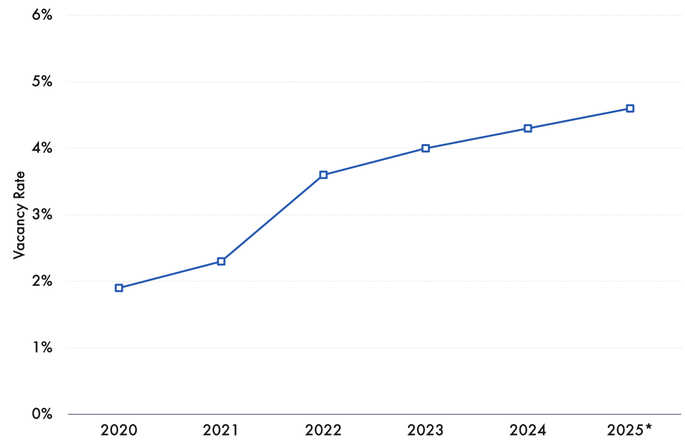
The investment market is positioned to regain momentum in the coming quarters, supported by cap rates that may improve deal feasibility. Last year, transaction activity was strongest in the second and third quarters, and early indicators suggest a similar seasonal uptick could occur this year. A greater number of trades have been recorded at or above a 6% cap rate, levels that appear sufficient to support additional deal flow. If rates hold near this mark, more buyers may move off of the sidelines as acquisitions become more economically viable. Longer term, the Central Valley's strong population growth outlook should continue to attract investors. Markets like Stockton, which led the region in population gains and posted the highest rent growth over the past year, may garner particular attention.

EMPLOYMENT FORECAST



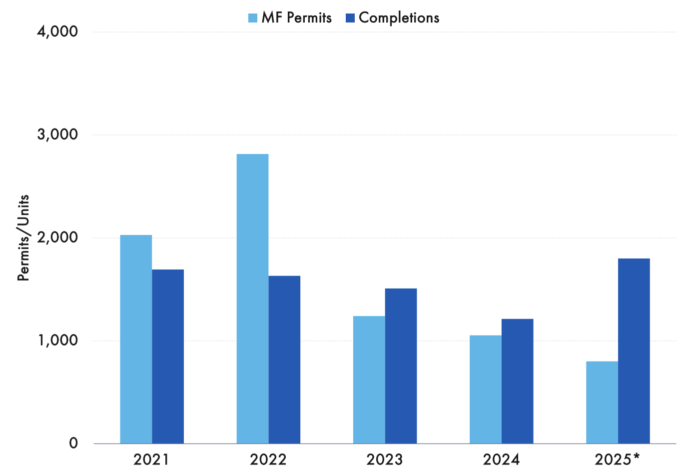
* Year End Forecast
Sources: Northmarq, Bureau of Labor Statistics

VACANCY FORECAST



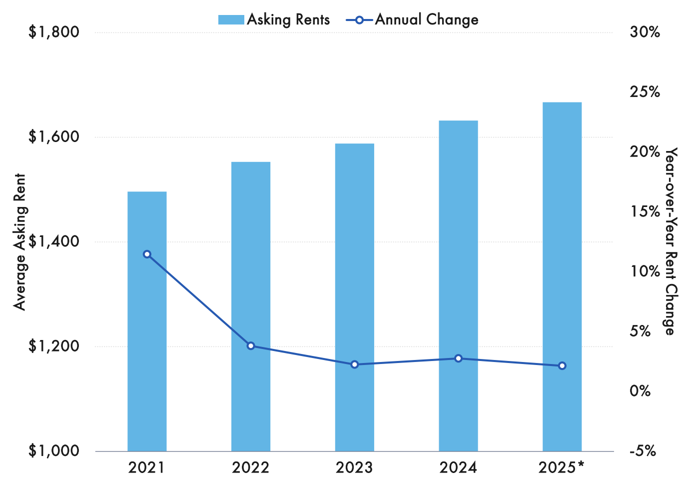
* Year End Forecast
Sources: Northmarq, CoStar, Yardi

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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