Northmarq

MARKET INSIGHTS

Investment activity picks up in smaller deals

CONSTRUCTION ACTIVITY

UNDER CONSTRUCTION	1,444
UNITS DELIVERED (YTD)	1,532

MARKET FUNDAMENTALS

VACANCY RATE	4.5%
YEAR-OVER-YEAR CHANGE	+40bps
ASKING RENTS	$1,680
YEAR-OVER-YEAR CHANGE	+1.8%

TRANSACTION ACTIVITY (YTD)

MEDIAN PRICE PER UNIT	$135,800

CENTRAL VALLEY MULTIFAMILY
2Q 2025

HIGHLIGHTS

- Operating conditions in the Central Valley multifamily market were mixed in the second quarter, as vacancy edged higher while rents advanced at a steady pace. Completions remained elevated, with more than 1,500 units delivered year to date.
- Vacancy rose in the second quarter, climbing 30 basis points to 4.5%, and now sits 40 basis points above levels recorded a year ago.
- Average asking rents posted a quarterly gain of 0.9% in the second quarter, reaching $1,680 per month. Current rents are up 1.8% year over year, a slightly slower pace of increase than has been recorded in recent periods.
- Investment activity in the Central Valley has been elevated in 2025, with the number of properties that changed hands in the first half 50% higher than the total from the same period last year. Year-to-date transactions have recorded a median price of $135,800 per unit.

CENTRAL VALLEY MULTIFAMILY MARKET OVERVIEW

Multifamily deliveries in the Central Valley accelerated in the second quarter, with more than 1,000 units completed, marking one of the highest quarterly totals on record. Developers continued to advance projects through the pipeline, resulting in a modest vacancy increase. Vacancy ended the second quarter at 4.5%, up 40 basis points year over year. The current rate now sits about 130 basis points above the five-year average. Rents continue to push higher, although the pace of recent increases has lagged historical averages. With more than 1,500 units already delivered and 2025 on track for the most completions over a decade, sustaining current rent growth may prove challenging in the second half. In Fresno County, where renters account for nearly half of all households, vacancy ended the second quarter at 4.4%, unchanged from one year earlier. The county has delivered about one-quarter of the Central Valley's new units in 2025, yet elevated renter demand has kept conditions balanced despite the influx of supply.

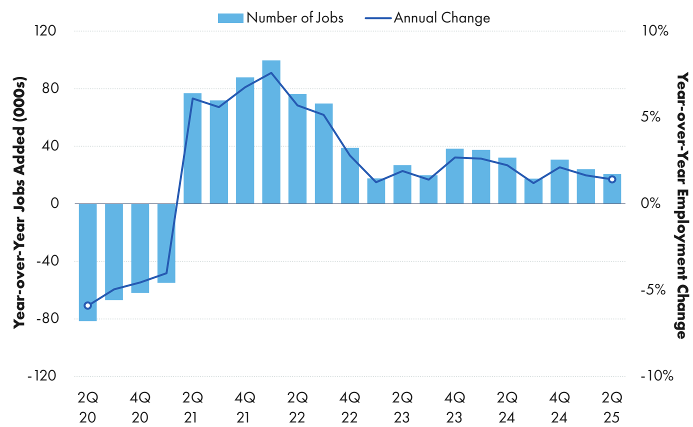
Sales activity in the Central Valley's multifamily market has picked up in 2025, with investment activity on pace to reach a four-year high. While transaction counts have accelerated, total dollar volumes remain below the region's five-year average, reflecting a shift toward smaller deal sizes and older property vintages. Nearly all recorded sales in the first half of this year involved assets built before the 1990s, with San Joaquin County leading the Central Valley in total transactions. The average unit count for traded properties has declined by 45% compared to 2024, with deals averaging just 72 units. Most trades have occurred in the $5 million to $10 million range, primarily involving Class C assets underscoring a value-add focus.

EMPLOYMENT

- Employment in the Central Valley remained steady in the second quarter, with payrolls expanding by 20,700 jobs over the past year, a 1.4% increase.
- Modesto led the region in year-over-year employment growth, expanding payrolls by 4,500 jobs, a 2.3% increase. Fresno recorded the largest net gain, adding 7,600 positions over the past year.
- Kern County is benefiting from industrial expansion in Shafter, where logistics parks with tenants including Walmart, Target, and Amazon continue to add jobs. In 2024, the county recorded the fastest rate of population growth in California.
- **FORECAST:** Employment growth in the Central Valley is expected to be modest for the remainder of 2025. Local employers are forecast to increase payrolls by 1.2% for the full year, adding approximately 19,000 new positions.

Payrolls expanded by 20,700 jobs over the past year.

EMPLOYMENT OVERVIEW



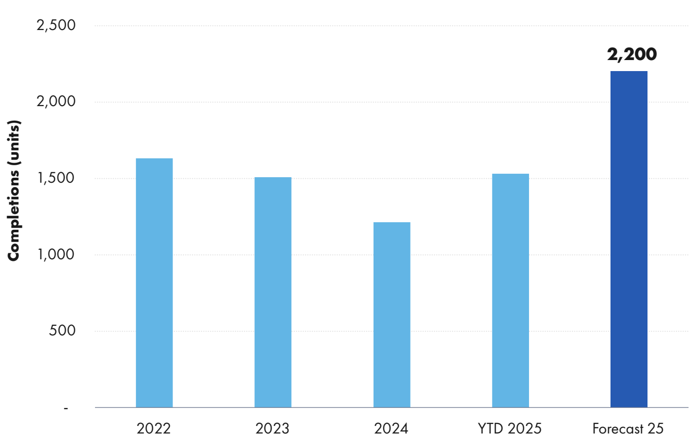
Sources: Northmarq, Bureau of Labor Statistics

DEVELOPMENT & PERMITTING

- Projects totaling more than 1,000 units came online during the second quarter, bringing the year-to-date total to roughly 1,500 units. Completions in the first half of 2025 have already exceeded the annual average for the past 10 years.
- The development pipeline has continued to shrink in recent months, with projects totaling 1,444 units currently under construction, down 35% from levels recorded one year ago. Merced County accounts for roughly 65% of the number of units under construction.
- Multifamily permitting activity has slowed to this point in 2025. Developers have pulled permits for only about 300 units through the first half of this year, the slowest first-half permitting total in the Central Valley since 2019.
- **FORECAST:** Apartment deliveries are projected to accelerate in 2025, with around 2,200 units scheduled for completion, the highest annual total since 2011.

More than 1,000 units came online during the second quarter.

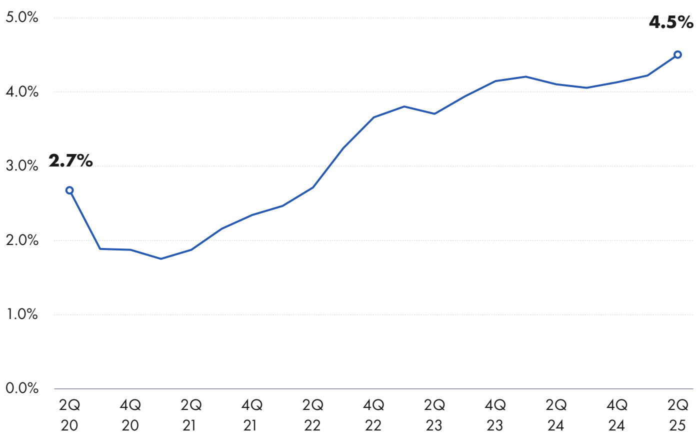
DEVELOPMENT TRENDS



Sources: Northmarq, CoStar, Yardi

Vacancy for Class A properties closed the second quarter at 6.0%.

VACANCY TRENDS



Sources: Northmarq, CoStar, Yardi

VACANCY

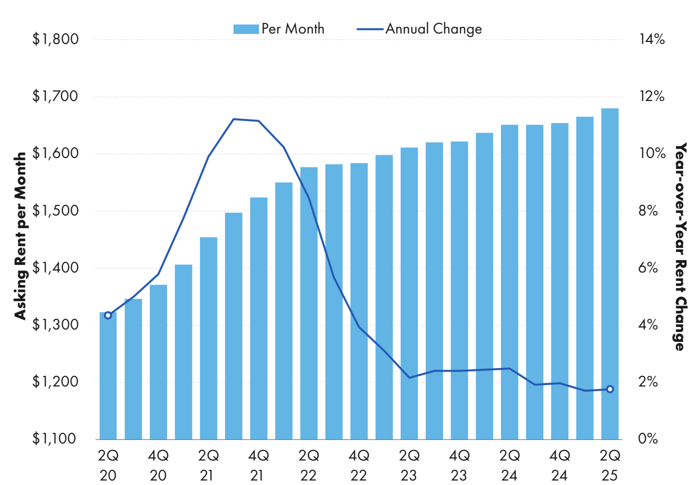
- Vacancy in the Central Valley edged up to 4.5% in the second quarter, climbing 30 basis points and extending an upward trend. Year over year, vacancy increased by 40 basis points.
- Elevated inventory growth in recent years continues to apply upward pressure on Class A vacancy. The Class A vacancy rate closed the second quarter at 6.0%, up 50 basis points annually. At the same time, Class C vacancy increased only slightly year over year to 4.5%.
- While vacancies across most of the Central Valley's counties were either flat or posted modest upticks during the past year, a larger increase was recorded in San Joaquin County. The rate rose 120 basis points year over year; despite the increase, vacancy in San Joaquin County is just 3.4%, one of the lowest vacancy rates in the region.
- **FORECAST:** Vacancy in the Central Valley is expected to continue rising modestly through the remainder of the year, driven by an elevated pace of apartment deliveries. Metro vacancy is projected to reach 4.8% by the end of 2025, up 50 basis points annually.

RENTS

- Rents continued to post modest gains, though growth continues to slow. Asking rents averaged $1,680 per month at the end of the second quarter, up 0.9% from the first quarter and 1.8% annually.
- Madera and Kings counties lead the Central Valley in rent growth, with asking rents advancing more than 3% year-over-year to $1,532 per month and $1,642 per month, respectively. Madera County pairs this momentum with the region's tightest vacancy, just 2.5% in the second quarter.
- Annual rent growth was consistent across asset classes, though Class C units outperformed in the second quarter, with average asking rents increasing 1.8% year over year to $1,742 per month.
- **FORECAST:** Multifamily asking rents in the Central Valley are projected to continue rising through the remainder of the year, following a similar growth trend recorded in 2024. Rents are projected to increase by 2.6% in 2025, reaching approximately $2,675 per month.

Asking rents averaged $1,680 per month.

RENTS TRENDS



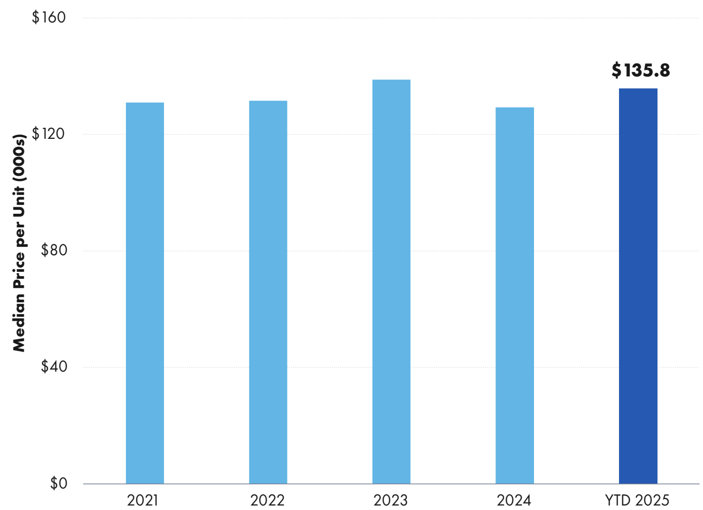
Sources: Northmarq, CoStar, Yardi

MULTIFAMILY SALES

- Deal flow in the Central Valley remains active, with transaction counts on pace to surpass totals from each of the previous three years. The average deal size has declined, however, and total dollar volume in the first half of 2025 trailed the five-year average.
- Per-unit prices have trended higher as activity levels have increased. The median sale price year-to-date is $135,800 per unit, a 5% increase from 2024, with most deals concentrated in the $5 million to $10 million range and involving Class C properties.
- While current cap rate data is based on only a few sales, they have remained within a close range of recent years. Year to date, cap rates have been in the low-5% range, consistent with 2024 levels and up approximately 25 to 50 basis points from the 2023 average.

The median sale price year-to-date is $135,800 per unit.

INVESTMENT TRENDS



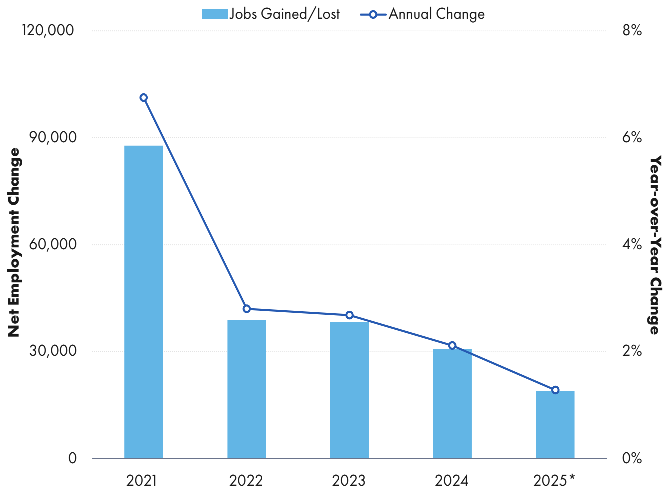
Sources: Northmarq, CoStar

LOOKING AHEAD

Operating conditions in the Central Valley multifamily market are expected to remain stable even as supply pressures build. Completions are expected to reach their highest annual total in more than a decade, after 1,200 completions in 2024. While this new supply may push vacancy rates slightly higher, strong renter demand, particularly in logistics-driven counties like Fresno and Stanislaus, should help absorb new inventory. Rent growth is likely to continue, though at a more moderate pace, as operators offer concessions to support lease-up. Market performance will vary by submarket, with areas facing limited new construction and supported by durable employment bases expected to outperform. San Joaquin County's long-term outlook remains strong, with 20,000 logistics jobs projected through 2050, reinforcing its role as a key distribution hub. Potential disruptions in international trade could weigh on the region's warehousing and logistics sectors in the near term, introducing some uncertainty into the broader economic landscape.

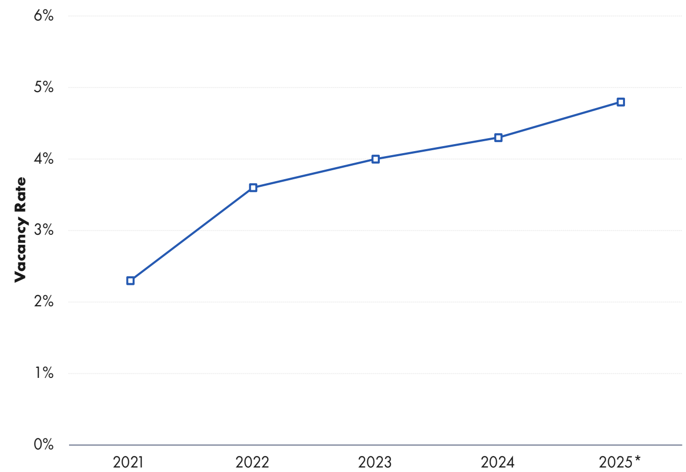
Multifamily investment activity in the Central Valley is expected to gain additional momentum in the second half of 2025, driven largely by a steady flow of smaller transactions. While elevated deliveries are increasing competition among operators, they are also creating new opportunities for investors as properties begin to stabilize. An additional source of fuel for the investment market would be an anticipated decline in interest rates in the second half, which could start to pull some investors off of the sidelines. Underlying property performance is likely to remain stable, supporting a positive long-term outlook for multifamily assets. Counties along key trade corridors, especially San Joaquin County, continue to lead in sales activity and are expected to remain focal points for investment through 2026. As the construction pipeline normalizes by 2027, market conditions should further strengthen across the region.

EMPLOYMENT FORECAST



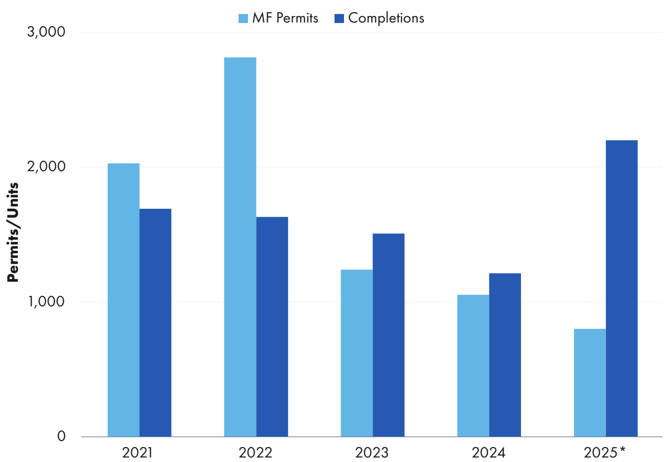
* Year End Forecast
Sources: Northmarq, Bureau of Labor Statistics

VACANCY FORECAST



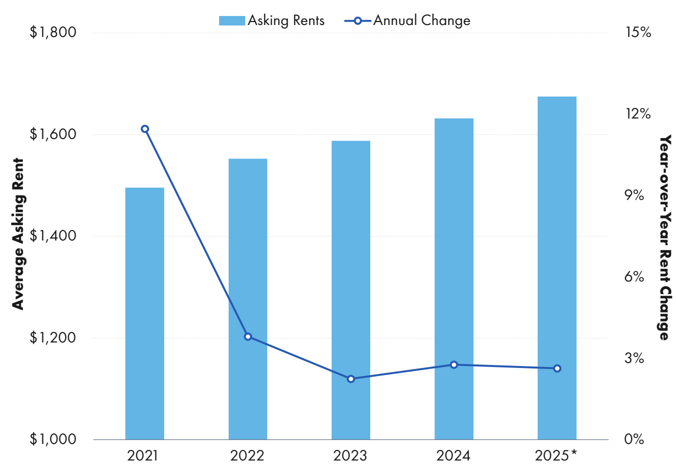
* Year End Forecast
Sources: Northmarq, CoStar, Yardi

CONSTRUCTION & PERMITTING FORECAST



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

RENTS FORECAST



* Year End Forecast
Sources: Northmarq, CoStar, Yardi

FOR MORE INFORMATION, **PLEASE CONTACT**

ROBIN KANE
Managing Director–Investment Sales
559.552.0040
rkane@northmarq.com

BRENDAN KANE
Senior Vice President–Investment Sales
559.552.0041
bkane@northmarq.com

NATHAN PROUTY
Managing Director–Debt & Equity
415.433.0209
nprouty@northmarq.com

BRIANA DEHAAN
Senior Vice President–Debt & Equity
415.433.8840
bdehaan@northmarq.com

PETE O'NEIL, *Director of Research* | 602.508.2212 | poneil@northmarq.com

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