



Sacramento, California

U.S. Department of Housing and Urban Development | Office of Policy Development and Research | As of July 1, 2006



Summary

Housing Market Area



The Sacramento, California Housing Market Area (HMA) is coterminous with the Sacramento metropolitan area, which includes Sacramento, Yolo, El Dorado, and Placer Counties and Sacramento, the capital city of California, and which borders the state of Nevada. Sacramento and Yolo Counties are within California's Central Valley agricultural area, renowned for its tomatoes, grapes, and wine.

Market Details

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Economy

Nonfarm employment in the HMA rose steadily during the past 12 months, bringing the unemployment rate to one of the lowest levels since 1990. All sectors grew except information and other services sectors. Jobs in the professional and business services sector, which was the fastest growing sector during the past 12 months, increased by 4.2 percent, but the rate is expected to moderate during the forecast period. Jobs in the government sector, the largest employment sector in the HMA, expanded moderately in the past 12 months but are expected to increase faster in the forecast period.

Sales Market

As of July 2006, the home sales market is balanced, returning to a more normal level after record sales in 2004. Higher interest rates and elevated prices have brought sales activity down from the 2004 level. As sellers are starting to make more price concessions throughout the HMA, the markets for new and existing homes are expected to tighten during the 3-year forecast period. Demand is estimated for approximately 47,200 sales units during the next 3 years (see Table 1).

Rental Market

The rental market remains balanced but has tightened somewhat over the past 12 months because of increased in-migration, decreased rental unit construction, and the conversion of rental units into condominiums. Annual rent increases averaged approximately 2 percent across the HMA, and rent concessions are frequently limited to 0.5 to 1 month's free rent. During the forecast period, approximately 12,150 new rental units will be needed for a balanced rental market (see Table 1).

Table 1. Housing Demand in the Sacramento HMA, 3-Year Forecast, July 1, 2006 to July 1, 2009

	Sacramento HMA	
	Sales Units	Rental Units
Total Demand	47,200	12,150
Under Construction	7,575	2,550

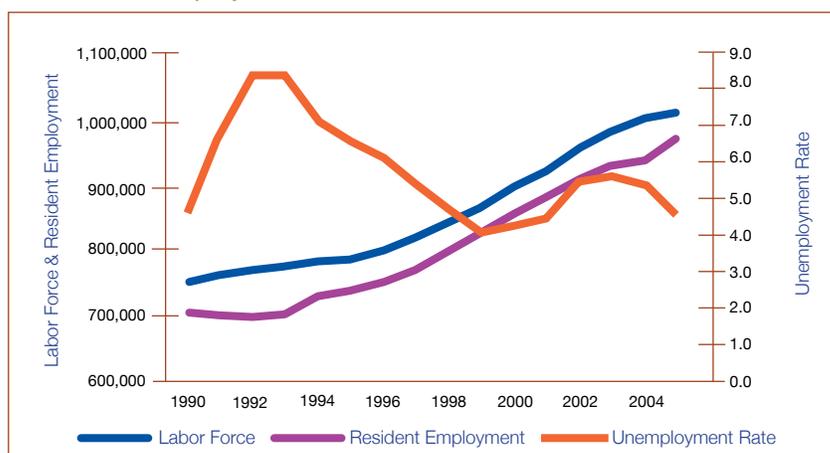
Notes: Total demand represents estimated production necessary to achieve a balanced market at the end of the forecast period. Units under construction as of July 1, 2006. Source: Estimates by analyst

Economic Conditions

During the 12 months ending June 2006, nonfarm employment averaged 889,000 jobs, an increase of 20,000 jobs, or 2.4 percent, from the previous 12 months. Nonfarm employment increased by an average of 18,200 jobs each year from April 2000 to

June 2006. The unemployment rate was 4.7 percent during the past 12 months, down from 5.0 percent during the previous 12 months, and lower than the approximately 6 percent rate in 1990 and 2000. Figure 1 shows the trends in labor force, resident employment, and the unemployment rate since 1990.

Figure 1. Trends in Labor Force, Resident Employment, and Unemployment Rate in the Sacramento HMA, 1990 to 2005



Source: U.S. Bureau of Labor Statistics

Table 2. 12-Month Average Employment in the Sacramento HMA, by Sector

Employment Sector	12 Months Ending June 2005	12 Months Ending June 2006	Percent Change (%)
Total Nonfarm Employment	868,500	889,000	2.4
Goods Producing	120,700	124,900	3.5
Natural Resources, Mining, & Construction	72,600	75,000	3.3
Manufacturing	48,100	49,900	3.7
Service Providing	747,800	764,100	2.2
Trade	124,100	127,200	2.5
Transportation & Utilities	23,200	23,600	1.7
Information	20,500	19,600	-4.4
Financial Activities	62,000	64,100	3.4
Professional & Business Services	100,200	104,400	4.2
Education & Health Services	86,400	87,700	1.5
Leisure & Hospitality	80,800	83,600	3.5
Other Services	28,800	28,700	-0.3
Government	222,000	224,900	1.3

Note: Numbers may not add to total due to rounding. Based on 12-month averages through June 2005 and June 2006.

Source: U.S. Bureau of Labor Statistics

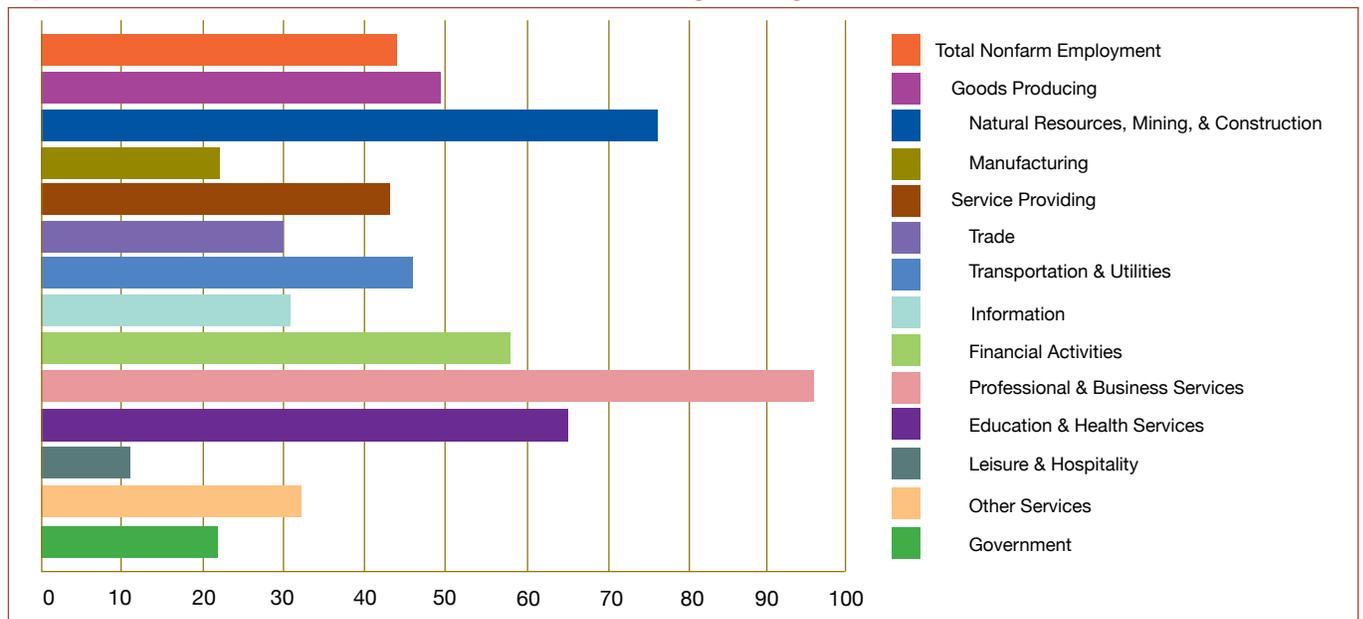
Job growth during the past 12 months resulted mainly from a 4.2 percent increase in employment in the professional and business services sector, a 3.7 percent expansion in the manufacturing sector, and a 3.5 percent increase in the leisure and hospitality sector (see Table 2). In response to strong demand for professional, technical, scientific, and administrative workers, the number of jobs rose most rapidly in the professional and business services sector, increasing from 100,000 jobs to 104,000 during the past 12 months. Manufacturing jobs increased primarily because a new building material plant, CertainTeed, added approximately 500 jobs. In the forecast period, QUIKRETE® is expected to open another construction-related manufacturing plant. The construction sector expanded at a modest pace during the past 12 months relative to its long-term trend because of an increase in unsold housing inventory across the HMA; however, during the forecast period job growth in this sector is expected to be stronger as unsold inventory is decreasing in response to builders' lowering sales prices, which began in the 2nd quarter of 2006. Figure 2 shows growth for all sectors from 1990 through the 12-month average ending June 2006.

Because Sacramento is the state capital, the government sector accounts for a large number of jobs in the HMA (see Figure 3). Government employment rose from 222,000 to 225,000, or 1.3 percent, from the previous 12-month period ending June 2005. To meet the growing demand for public services from the increases in population, both state and local government employment have increased during the 12 months ending June 2006, adding 1,700 and 2,200 jobs,

respectively, and are expected to continue to increase during the forecast period.

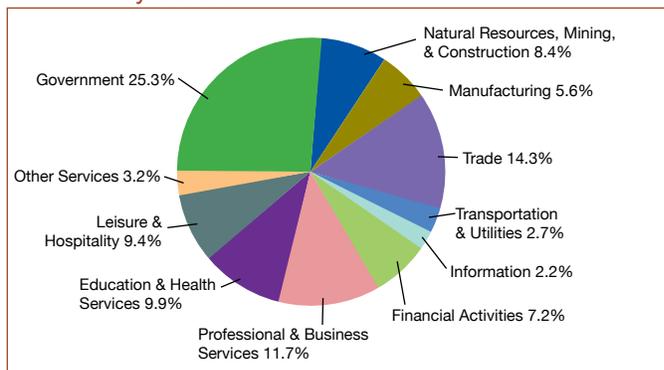
The leading employer in the HMA is the University of California, Davis (UCDavis) with approximately 12,700 jobs (see Table 3). UCDavis and the California State University in Sacramento (CSUS) with approximately 2,350 employees provide a stable influence on employment in the HMA. In Spring 2006,

Figure 2. Sector Growth in the Sacramento HMA, Percentage Change, 1990 to Current



Note: Current is based on 12-month averages through June 2006.
Source: U.S. Bureau of Labor Statistics

Figure 3. Current Employment in the Sacramento HMA, by Sector



Note: Based on 12-month averages through June 2006.
Source: U.S. Bureau of Labor Statistics

Table 3. Major Employers in the Sacramento HMA

Name of Employer	Employment Sector	Number of Employees
University of California, Davis	Education Services	12,678
Hewlett-Packard	Manufacturing	9,561
UC Davis Health System	Health Services	7,028
Intel Corporation	Manufacturing	6,500
Sutter Health Sacramento and Sierra Region	Health Services	5,041
CHW/Mercy Healthcare Sacramento	Health Services	4,897
SBC Communications Inc.	Information	4,703
Bank of America	Financial Activities	3,592
Target Corporation	Retail Trade	3,408
Wells Fargo	Financial Activities	2,928

Source: Moody's Economy.com, Inc., 2006

enrollment at UC Davis and CSUS was 28,000 and 27,000 students, respectively, about the same as the previous year's figures. Other major sources of employment include two casinos—Cache Creek Casino Resort in Yolo County, with approximately 2,500 workers, and Thunder Valley Casino in Placer County, with approximately 1,800 workers. The former McClellan Air Force Base is now a business park specializing in “smart” U.S. military weapons.

The HMA's small information sector, with approximately 20,000 jobs, is influenced by the high-technology industry in neighboring Silicon Valley. Intel Corporation, with

approximately 6,500 jobs in the HMA, is extending high technology into the medical arena in the city of Carmichael. Other high-technology employers include Hewlett-Packard and the NEC Corporation, which are located in the city of Roseville. Between the cities of Davis and North Sacramento, the corridor of Highway 50 is attracting many high-technology firms specializing in biotechnology, agriculture, food, medicine, and environmental sciences.

During the forecast period, employment is forecast to grow at approximately the same 2.4-percent rate as during the period from 2000 to the current date.

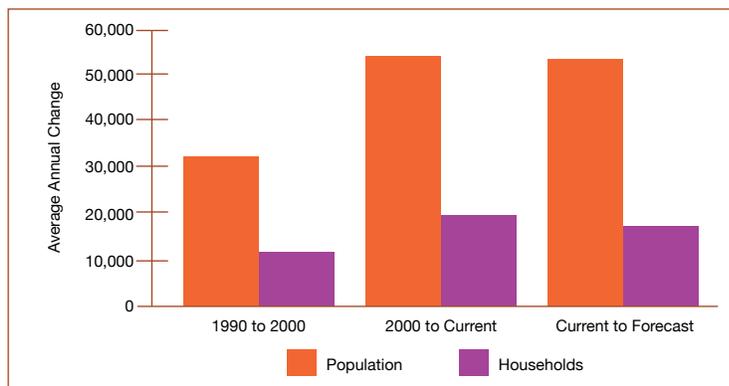
Population and Households

As of July 1, 2006, the population of the HMA was estimated at 2,135,200, indicating an average annual gain of 2.7 percent since the 2000 Census compared with a 2-percent annual gain in population from 1990 to 2000 (see Figure 4). From 2000 to 2006, net in-migration averaged 40,100 people annually,

more than twice the annual rate of migration that occurred during the 1990s (see Figure 5). The Census Bureau reports that Elk Grove in Sacramento County is the fastest growing city in the United States, with a population growth rate of 11.6 percent from 2004 to 2005. Affordable housing in Elk Grove has attracted buyers from the San Francisco Bay Area and other areas with higher home prices. Since 2000, Placer County has had nearly twice the growth rate of the other counties due to the availability of land for development in the cities of Lincoln, Rocklin, and Roseville.

As of the current date, the number of households in the HMA totaled 787,000, an average annual increase of 19,500 since 2000, or 2.7 percent, compared with 10,885, or 1.8 percent, annually from 1990 to 2000. From 2000 to the current date,

Figure 4. Population and Household Growth in the Sacramento HMA, 1990 to Forecast

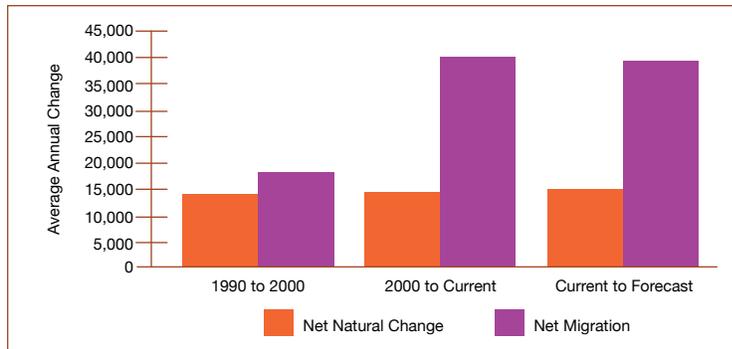


Sources: 1990 and 2000—U.S. Census; current and forecast—estimates by analyst

the percentage of owner-occupied households increased from 61 to 64 percent, with higher levels in Placer, El Dorado, and Yolo Counties than in Sacramento County because of rapid building in their master planned communities.

Households headed by young people are moving to the HMA because of relatively lower home prices compared to the neighboring San Francisco Bay Area. Households headed by elderly people consider Placer and El Dorado Counties attractive for retirement.

Figure 5. Components of Population Change in the Sacramento HMA, 1990 to Forecast



Sources: 1990 and 2000—U.S. Census; current and forecast—estimates by analyst

Economic and demographic factors indicate that population and households will expand during the forecast period. During the next 3 years, population is forecast to increase by 53,650, or 2.5 percent, a year, only slightly less than the annual rate of 2.7 percent from 2000 to the current date. During the next 3 years, the number of households is forecast to increase by an average annual change of 18,950, or 2.4 percent. Household size has been declining in Placer County due to the increasing number of households headed by the elderly, especially in the retirement community of Sun City.

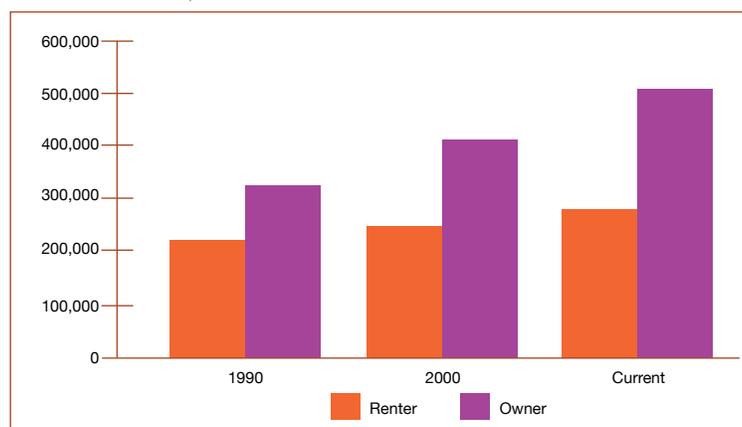
Housing Market Trends

Sales Market

The single-family housing market has become moderately soft, reflecting higher prices, slower sales, increased inventory, and higher interest rates. According

to The Gregory Group, 9,150 new homes were sold during the past 12 months, a 33-percent decrease from the 13,700 new homes sold during the previous 12 months and 30 percent less than the annual average of 13,100 new homes sold from 2000 through 2002. Since 2000, the homeownership rate increased from 61.3 to 63.7 percent with a significant increase in the overall number of owner-occupied households (see Figure 6). During the past 12 months, approximately 31,600 existing homes were sold in Sacramento, Placer, and El Dorado Counties, a 21-percent decrease from the record sales volume in 2004 but 21 percent more than the average sales volume during the

Figure 6. Number of Households by Tenure in the Sacramento HMA, 1990 to Current



Sources: 1990 and 2000—U.S. Census; current—estimates by analyst

past 10 years. Sellers have tripled incentives over the 2005 level, offering incentives valued from \$15,000 to \$100,000 per unit throughout the HMA. Already, the incentives have started to slow the decline in sales that occurred during the 12-month period ending June 2006.

As of the current date, the median sales price for new homes ranges from a low of \$485,580 in Placer County to a high of \$623,730 in El Dorado County. According to the NATIONAL ASSOCIATION OF REALTORS®, the median sales price for existing single-family units in the Sacramento metropolitan area increased by only 1 percent from a year ago to \$380,600 as of July 2006, significantly less than the 19-percent increase from 2004 to 2005.

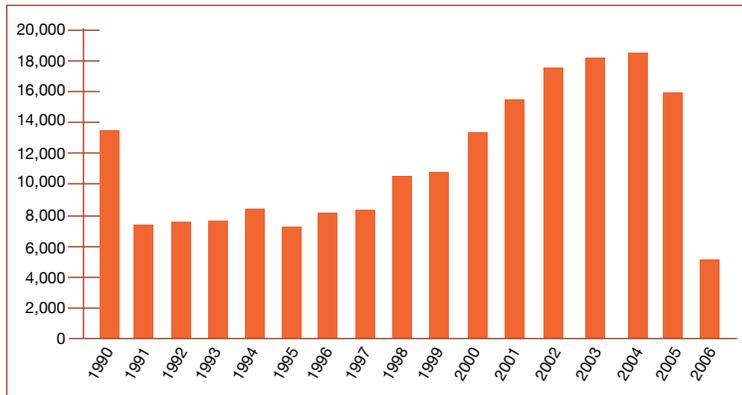
More than 50 percent of the homes permitted are in Sacramento County, primarily in the Elk

Grove, Rancho Cordova, and Rancho Murietta areas. Placer County accounts for approximately 30 percent of the homes permitted. Retirees are attracted to the Sun City area of Placer County and the El Dorado Hills area of El Dorado County, gateways to Lake Tahoe and the Sierra foothills. Figure 7 shows single-family building permits from 1990 through the first half of 2006.

Condominiums account for approximately 10 percent of new home sales in Sacramento and Placer Counties. Several new projects with approximately 7,000 units are in the planning stage and are expected to enter the market in the next 2 years, responding to the widespread demand for affordable sales units.

The demand for sales housing during the forecast period is estimated at 47,200 units for a balanced market. Table 4 shows the demand by price range.

Figure 7. Single-Family Building Permits Issued in the Sacramento HMA, 1990 to 2006



Notes: Includes only single-family units. Includes data through June 2006.

Source: U.S. Census Bureau, Building Permits Survey

Table 4. Estimated Demand for New Market-Rate Sales Housing in the Sacramento HMA, July 1, 2006 to July 1, 2009

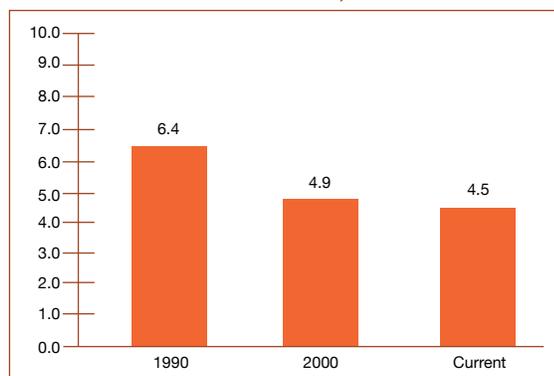
Price Range (\$)		Units of Demand	Percentage of Total
From	To		
250,000	274,999	2,350	5.0
275,000	299,999	4,250	9.0
300,000	349,999	5,675	12.0
350,000	399,999	5,675	12.0
400,000	449,999	5,675	12.0
450,000	499,999	4,700	10.0
500,000	549,999	4,700	10.0
550,000	599,999	3,775	8.0
600,000	649,999	2,350	5.0
650,000	699,999	1,900	4.0
700,000	749,999	1,900	4.0
750,000	799,999	1,900	4.0
800,000	and higher	2,350	5.0

Source: Estimates by analyst

Rental Market

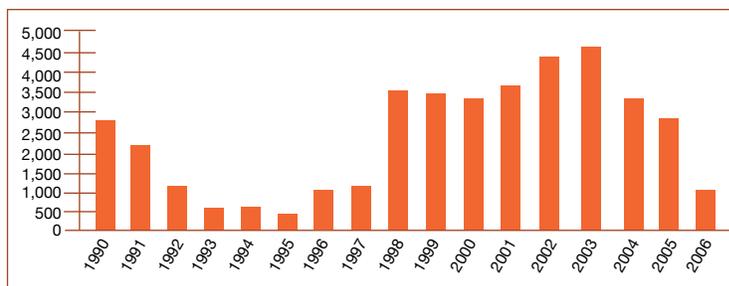
The rental market in the Sacramento HMA has remained balanced due to in-migration, the decrease of apartment construction, and the conversion of apartments to condominiums. The rental vacancy rate was 4.5 percent in July 2006 (see Figure 8). Because the rental market is balanced, rents have increased only modestly during the past year. The current rent for a typical two-bedroom apartment is \$1,050. According to RealFacts data, for the past 12-month period rents have increased by approximately 2 percent for the HMA. Concessions currently consist of 0.5 to 1 month's free rent.

Figure 8. Rental Vacancy Rates in the Sacramento HMA, 1990 to Current



Sources: 1990 and 2000—U.S. Census; current—estimates by analyst

Figure 9. Multifamily Building Permits Issued in the Sacramento HMA, 1990 to 2006



Notes: Includes all multifamily units in structures with two or more units. Includes data through June 2006.

Source: U.S. Census Bureau, Building Permits Survey

Areas with a larger concentration of older rental units, such as in the North Sacramento, Florin Road West, and West University areas in Sacramento County, tend to have higher vacancy rates. Rents in those areas range from \$700 to \$1,009 according to Reis, Inc. The city of Davis has high rents with low vacancy because of the strong demand from the student population. In Placer County, where condominium conversions were numerous, asking rents are approximately \$1,056 and the vacancy rate is 5.4 percent.

In Sacramento County, conversion of rental units into condominiums followed national trends, falling from 1,875 in 2005 to approximately 700 units through June 2006. Approximately 50 percent of the new multifamily units permitted are in Sacramento County, which averaged 2,100 annually from 2000 to the current date, and which is likely to account for a higher share of multifamily units permitted in the forecast period. Placer County, which has issued permits for an average 1,350 multifamily units annually since 2000, is expected to account for the second largest share of new multifamily building activity in the forecast period. Figure 9 illustrates multifamily building permits since 1990.

The rental market is expected to tighten during the forecast period as both population and household growth continue, home prices remain high, and apartment construction continues to be moderate.

The demand for rental units during the forecast period is estimated at 12,150 units. This estimate accounts for losses to the rental inventory and changes in tenure. Table 5 provides a noncumulative breakdown of the demand estimate by number of bedrooms and rent level.

Table 5. Estimated Demand for New Market-Rate Rental Housing in the Sacramento HMA, July 1, 2006 to July 1, 2009

1 Bedroom		2 Bedrooms		3 or More Bedrooms	
Monthly Gross Rent (\$)	Units of Demand	Monthly Gross Rent (\$)	Units of Demand	Monthly Gross Rent (\$)	Units of Demand
825	3,650	1,050	6,075	1,200	2,425
875	3,200	1,100	5,050	1,250	2,200
925	2,950	1,150	4,625	1,300	1,975
975	2,650	1,200	4,125	1,350	1,700
1,025	2,350	1,250	3,600	1,400	1,400
1,075	1,975	1,300	3,050	1,450	1,250
1,125	1,650	1,350	2,550	1,500	1,100
1,225	1,300	1,450	2,075	1,600	800
1,325	1,050	1,550	1,350	1,700	583
1,425	850	1,650	900	1,800	410
1,525	660	1,750	600	1,900	340
and higher		and higher		and higher	

Notes: Distribution above is noncumulative. Demand shown at any rent represents demand at that level and higher.

Source: Estimates by analyst

Data Profile

Table DP-1. Sacramento HMA Data Profile, 1990 to Current

	1990	2000	Current	Annual Average Change (%)	
				1990 to 2000	2000 to Current
Total Resident Employment	693,136	815,041	981,700	1.6	3.0
Unemployment Rate (%)	6.1	6.2	4.6		
Nonfarm Employment	618,204	806,227	889,000	2.7	1.6
Total Population	1,481,102	1,796,857	2,135,200	2.0	2.7
Total Households	556,448	665,301	787,000	1.8	2.7
Owner Households	328,106	407,719	500,950	2.2	3.3
Percent Owner (%)	59.0	61.3	63.7		
Renter Households	228,342	257,582	286,050	1.2	1.7
Percent Renter (%)	41.0	38.7	36.3		
Total Housing Units	609,904	714,984	837,133	1.6	2.6
Owner Vacancy Rate (%)	1.5	1.3	1.4		
Rental Vacancy Rate (%)	6.4	4.9	4.5		
Median Family Income	\$51,900	\$54,006	\$65,400	0.4	3.1

Note: Median family income data are for 1989, 1999, and 2006.

Sources: U.S. Bureau of Labor Statistics; U.S. Census Bureau; U.S. Department of Housing and Urban Development; estimates by analyst

Data Definitions and Sources

1990: 4/1/1990—U.S. Decennial Census

2000: 4/1/2000—U.S. Decennial Census

Current date: 7/1/2006—Analyst's estimates

Forecast period: 7/1/2006–7/1/2009—Analyst's estimates

Demand: The demand estimates in the analysis are not a forecast of building activity. They are the estimates of the total housing production needed to achieve a balanced market at the end of the 3-year forecast period given conditions on the as-of date of the analysis, growth, losses, and excess vacancies. The estimates do not account for units currently under construction or units in the development pipeline.

For additional data pertaining to the housing market for this HMA, go to www.huduser.org/publications/pdf/CMARTables_SacramentoCA.pdf.

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This analysis has been prepared for the assistance and guidance of the U.S. Department of Housing and Urban Development (HUD) in its operations. The factual information, findings, and conclusions may also be useful to builders, mortgagees, and others concerned with local housing market conditions and trends. The analysis does not purport to make determinations regarding the acceptability of any mortgage insurance proposals that may be under consideration by the Department.

The factual framework for this analysis follows the guidelines and methods developed by HUD's Economic and Market Analysis Division. The analysis and findings are as thorough and current as possible based on information available on the as-of date from local and national sources. As such, findings or conclusions may be modified by subsequent developments. HUD wishes to express its appreciation to those industry sources and state and local government officials who provided data and information on local economic and housing market conditions.

For additional reports on other market areas, please go to www.huduser.org/publications/econdev/mkt_analysis.html.