

SONOMA COUNTY INCOME PROPERTY REPORT



3rd Quarter 2014



Hello Friends,

The year is flying by and the Real Facts 3Q rental and sales trend info is in the books. In lieu of our typical quarterly income property report, the end of the year and holiday madness has mandated that I provide you with this more condensed version. If this is the first time you have received our newsletter, the goal of this report is to provide rental and sales trend information for Sonoma County income property owners. We all have unique financial goals and need to make our decisions armed with the best information available.

INCREASING RENTAL MARKET

The average Sonoma County asking rent increased to \$1,579 by the end of the 3rd quarter of 2014. This represents a year over year increase of 12.2%.

In my last report I noted that Sonoma County was ranked #1 out of 26 California MSAs (metropolitan statistical areas) for rental growth. Sonoma County was unable to sustain this pace and dropped to #8 for the quarter ending 3Q 2014.

The occupancy factor remained stable with a strong 97.5% for the same reporting period ending 3Q 2014. Sonoma County was ranked #10 out of 26 California MSAs for occupancy, with San Luis Obispo-Paso Robles recording an unprecedented 100% occupancy rate.

WHAT TO EXPECT IN THE SHORT TERM

It is my opinion that over the next several quarters Sonoma County income property owners will continue to see a strong rental market. This is largely in part due to the jobs added from the extensive construction projects along the 101 corridors.

However, part of the new construction involves 2 new apartment complexes in Rohnert Park and Santa Rosa. These complexes will add an additional 500 units to the rental market and represent the first significant development for rental units in Sonoma County within the last 4 years.

In addition, Brookfield Homes has broken

ground on a huge development with a goal of adding 1,645 units in Rohnert Park over the next several years. While the majority of these units will be single-family residences, the increased inventory will likely have an adverse affect on the occupancy rate.

While it is clear that the long-term effects of these projects will create more competition in the rental housing market, it is reasonable to assume that the occupancy factor and rental growth will favor landlords through 2015.

It is still important to note that compared to the greater Bay Area, Sonoma County rents are a relative bargain. While I believe that we will ultimately see a cooling off of the market, I do not anticipate a decline of epic proportions due to overall affordability and Sonoma County as a whole being a desirable place to live.

2-4 UNIT SALES

Sonoma County multi-unit sales saw an 8.2% year over year increase for the period ending 3Q 2014. However, multi unit sales saw a quarter over quarter increase of 12.6% from the second quarter 2014. The total number of sales for 3Q was 17, while the preceding quarter recorded 24 units sold. It is important to note that when looking at quarterly sales we are dealing with relatively low data and actual market behavior will vary. In the case of the staggering 3Q gains, it is important to note that many of the sales included more properties with acreage and/or prime properties suitable for an owner occupant, with additional income from the remaining units. These types of properties will always fetch a premium over bread and butter income producing units and more of these types of properties were sold in the 3rd quarter than in the 2nd quarter. Having taken that into account, it is still clear that 3Q 2014 was kind to income property sellers.

As of this date there are 39, 2-4 unit units listed for sale in Sonoma County. Out of these, 14 are presently under contract. These numbers tell us that we are still in a balanced market. However, the average list price for the properties under contract is \$482,743. The average sales price by the end of 3Q 2014 was \$602,249. If the under contract properties closed today, the 12.6% gains we saw at the end of Q3 will be erased. The average sales price for 2-4 units in 2Q 2014 was

\$477,023, which is almost exactly in line with the current under contract values. These numbers tell us that the huge spike we saw for 3Q is probably more of an anomaly than representing a trend.

5+ UNIT SALES

Sonoma County 5+ unit sales showed a year over year decrease of approximately 13% for the period ending 3Q 2014.

There has only been 7 of these properties sold in Sonoma County in the second and third quarters of 2014. This extremely low volume is too small to provide a useful quarter over quarter analysis and the year over year snapshot is the best benchmark to use for indication of overall market behavior. As of this date there are only 9 properties listed for sale. These properties have an average days on the market of 218 and an average list price of \$1,753,444.

MULTI-UNIT SALES MARKET OUTLOOK

The Federal Government continues to demonstrate that they will create stability in real estate by any means necessary. The significant drop in interest rates last quarter further enforces this theory. The rates offered today are too good for many investors to pass up and it is my belief that we will see relative stability in the overall market until rates approach 5%. As previously reported, The California Association of Realtors predicts that we will see a national average interest rate of 4.6% through the rest of 2014 and 5.3% through 2015. It is my belief that if this prediction holds up, we will see a correction in the overall market next year. Since I do not believe that our Federal Government will allow another outright crash, my opinion is that we will not see anything like 2006. I do not think there is anybody who believes that the "what goes up must come down" theory no longer applies. Exactly when and how much of a correction we will see is anybody's guess at this point. The numbers provided in this report show "normal" overall market behavior. Future predictions will be mostly anecdotal and a matter of opinion until data provides otherwise.

If you have been on the fence about completing a refinance or sale, I would recommend trying to get your refinance done by the end of the year. If you are planning on selling your property 2015-2016, I would recommend that you get a comparative

Sonoma County Average Asking Rents

	1Q2014	2Q2014	3Q2014	1 Yr. Change
Average	\$ 1,431	\$ 1,521	\$ 1,579	12.2%
Studio	\$ 898	\$ 927	\$ 946	8.3%
1 bd 1 bth	\$ 1,242	\$ 1,322	\$ 1,386	12.3%
2 bd 1 bd	\$ 1,432	\$ 1,550	\$ 1,546	12.3%
2 bd 2 bth	\$ 1,671	\$ 1,758	\$ 1,839	10.2%
2bd TH	\$ 1,572	\$ 1,719	\$ 1,766	13.7%
3 bd 2 bth	\$ 2,009	\$ 2,045	\$ 2,179	16.2%
3 bd TH	\$ 1,923	\$ 2,002	\$ 2,045	7.6%

Average Asking Rents Per Square Footage

	1Q2014	2Q2014	3Q2014	1 Yr. Change
Average	\$ 1.74	\$ 1.84	\$ 1.91	11.7%
Studio	\$ 1.81	\$ 1.85	\$ 1.88	6.2%
1 bd 1 bth	\$ 1.84	\$ 1.95	\$ 2.04	11.5%
2 bd 1 bd	\$ 1.70	\$ 1.83	\$ 1.83	14.4%
2 bd 2 bth	\$ 1.68	\$ 1.77	\$ 1.85	10.1%
2bd TH	\$ 1.48	\$ 1.61	\$ 1.65	13.8%
3 bd 2 bth	\$ 1.67	\$ 1.70	\$ 1.81	16.0%
3 bd TH	\$ 1.34	\$ 1.39	\$ 1.42	8.4%

market analysis so that you can put a plan in place. Getting the highest possible price for your property takes careful consideration and may require some repairs, rent assessment, etc. As always, sellers looking to trade up or cash out should educate themselves about current market values, and should set reasonable expectations. Knowing the values and market behavior will eliminate false hope and tenant discomfort. Extensive days on the market could result in higher vacancies, as occupants lose patience and look for stability elsewhere. There are many online tools available to the general public and anyone can go online to see the listing history of any particular property. As a result, a property owner who is testing the waters may lose credibility with future buyers should the strategy change to a list-to-sell price.

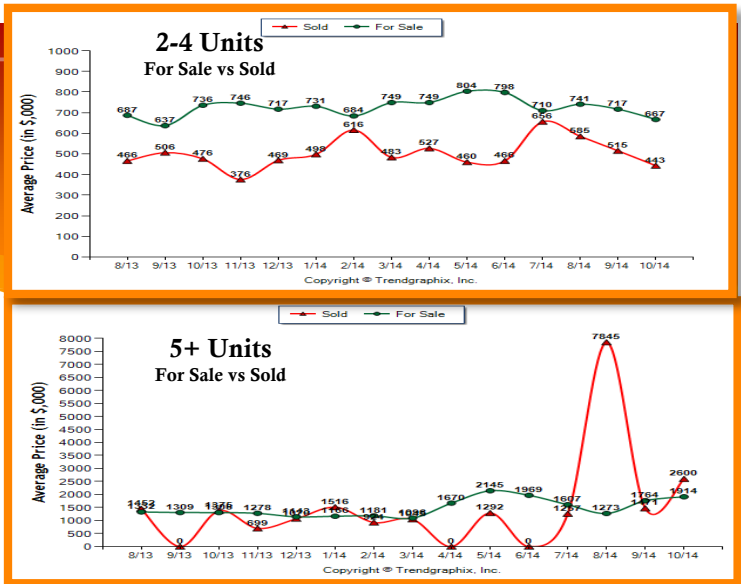
THANK YOU

Erika and I would like to take this opportunity to thank you for taking the time to open and read our newsletter. We appreciate the calls, questions and feedback that we have received over the years. To all of our clients, thank you for your continued support. We consider it an honor and privilege to work with you and earn your trust. Have a great holiday with your families. We look forward to a great 2015!



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The Sonoma County Income Property Report 3rd Quarter 2014



This newsletter is geared towards Sonoma County multi-unit property owners. The purpose is:

1. To inform investors on the current Sonoma County rental market trends.
2. To provide sales information for all 2+ units buildings.
3. To provide you with the Multi Unit Sales Market Outlook



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