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Sonoma County Income Property Report

Hello Friends,

The First Quarter (1Q) RealFacts rental report has been released and it is time to take a look at the 1Q Sonoma County rental and sales data. I am mailing this report out a little later than usual because I felt it important to wait for the decision of the Santa Rosa City Council regarding rent control and discuss it in this newsletter.

If this is the first time you have received our newsletter, the goal of this report is to provide rental and sales trend information to Sonoma County income property owners. We all have unique financial goals and need to make our decisions armed with the best information available.

RENTAL MARKET

The average Sonoma County asking rent for apartments was \$1,716 by the end of the 1Q of 2016. This represents a negligible quarter over quarter gain of .016% and a year over year increase of 8.2%.

Sonoma County (Santa Rosa-Petaluma) rent ranking was #8 out of 26 California Metropolitan Statistical Areas (MSAs) for the period ending 1Q 2016. For the second consecutive quarter the rent growth ranking for the same reporting period was #10 out of 26.

The occupancy factor for the quarter ending 1Q 2016 was unchanged from the prior quarter at 95.4%. While the occupancy rate is considered strong in any market, it is noteworthy that the current rate is still at its lowest level since 2011. For the second consecutive quarter, Sonoma County was ranked #20 out of 26 California MSAs for occupancy ranking and was outperformed by Chico (97.9%), Stockton (97.4%), Sacramento (96.7%), Vallejo-Fairfield (96.1%), Napa (96%), San Francisco-Oakland, (95.8%), San Jose (95.7%). The Sonoma County occupancy factor peaked in 2013 at 97.4%, while the 4-year change was -1.1%.

The Sonoma County occupancy growth ranking slightly increased from #25 out of 26

California MSAs to #24 by the end of the 1Q of 2016. The only California MSAs with lower occupancy growth were Visalia-Porterville (-2.0%) and Oxnard-Thousand Oaks (-2.2%).

Overall, the 1Q numbers show us that the rental market has continued the trend of stabilization for the second consecutive quarter. This stabilization is evidenced by the leveling vacancy factor and relatively flat quarter-over-quarter rental growth. These numbers also show us that Sonoma County's rental growth and occupancy rates continue to be well behind most of the other California MSAs.

SANTA ROSA RENT CONTROL UPDATE

On May 3rd, 2016 the Santa Rosa City Council, on a vote of 4 to 3, passed a Rent Control and Just Cause Eviction Ordinance. This action will cap rent increases on older 3+ unit apartments at 3% annually and will "protect renters from unfair evictions."

Rent control will affect all 3+ unit apartment buildings built BEFORE 1995 which are located within the Santa Rosa city limits. Of the approximately 70,000 3+ unit apartment buildings in this particular area, only 13,386 units will be affected.

RENT CONTROL ORDINANCE HIGHLIGHTS

- 3% annual increase in rent during the moratorium period.
- This provision may be retroactive to January 1st 2016.
- The Housing Authority will serve as the arbitration board for the "Just Cause Eviction" provision.
- The cost of the program is likely to exceed \$2 million annually.
- The affected landlords and tenants will pay the cost of the program.
- Single-family residences, duplexes and triplexes where the owner occupies at least one of the units will be exempt.
- This ordinance will sunset when the vacancy rate reaches 5%.

EXCEPTIONS

- Units constructed after February 1, 1995.
- Units which are separately alienable from the title of any other dwelling (single-family homes and condominiums.)
- Commercial units.
- Duplexes
- Triplexes, where at least one unit is owner occupied.

The moratorium does not regulate the initial rent at which a unit is offered once it has been vacated.

SONOMA COUNTY INDICATORS

In January, the Sonoma County Economic Development Board (EDB) released the Local Economic Report.

Per this report: *"The Sonoma County economy will grow at a faster pace in 2016. Area vintners and tourism-related industries will take advantage of more favorable consumer fundamentals, whereas healthcare will capitalize on the growing demand. Longer term, the county's high living standard and steady in-migration will support spending, putting Sonoma County ahead of the state and U.S. in output growth."*

Per this report, Sonoma County continues to be a competitive place to do business, with a high quality of life and unemployment rate of 4.4%, which is well below California's average of 5.9%. Compared to the greater Bay Area, Sonoma County has lower commercial property lease rates, lower tax rates, lower property values, lower rental values and lower costs of living. These factors make Sonoma County more ripe for growth compared to counties like Marin, Alameda and San Francisco Counties.

Sonoma county has an average migration of 3,900 people a year, with most of these migrants coming from San Francisco, San Rafael, Oakland and Los Angeles. 2015 proved to be a slow year for new construction, with only 636 single family and multi-family permits issued. This is a 4% decline from the previous year (663 permits). On the bright side, the projections for the end of 2016 forward show a healthy number of new housing starts, which will help keep pace with growth (Please see Sonoma Indicators Table.)

All of this data combined shows us that the housing "crisis" is in the process of working itself out, as new inventory comes online and the vacancy and rental rates stabilize. While the four members of the Santa Rosa City Council have found a convenient scapegoat in

Sonoma County Average Asking Rents

Quarterly Trend

	1Q2014	2Q2014	3Q2014	4Q2014	1Q2015	2Q2015	3Q2015	4Q2015	1Q2016	1 Yr Change	4 Yr Change
AVERAGE	1431	1521	1579	1567	1613	1690	1719	1718	1716	8.20%	38.50%
Studio	898	927	946	973	996	1038	1066	1066	1096	10.00%	35.20%
1 Bd 1 Bth	1242	1322	1386	1382	1420	1482	1522	1499	1539	8.40%	40.90%
2Bd 1 Bth	1432	1550	1546	1540	1624	1656	1683	1705	1759	8.30%	42.00%
2Bd 2 Bth	1671	1758	1839	1840	1858	1986	2003	2014	2004	7.90%	34.80%
2Bd 1Th	1572	1719	1766	1674	1795	1847	1824	1856	1890	5.30%	33.70%
3Bd 2Bth	2009	2045	2179	2171	2177	2286	2332	2345	2436	11.90%	36.60%
3Bd Th	1943	2002	2045	2095	2143	2182	2242	2212	2155	0.60%	23.40%

Statistical data provided by RealFacts

1st Quarter 2-4 Unit Sales

City	Street Full Address	Listing Date	Sale Date	Listing Price	Selling Price
Forestville	8261 Trenton Rd	10/27/15	2/5/16	549,000	475,000
Healdsburg	2109 S Fitch Mountain Rd	8/14/15	1/21/16	549,000	529,000
Healdsburg	802 Fitch St	2/29/16	3/21/16	675,000	759,000
Petaluma	888 S Petaluma Blvd	11/18/15	2/5/16	695,000	635,000
Santa Rosa	746 Beaver St	3/25/15	1/8/16	649,000	625,000
Santa Rosa	1009 link Ln	9/3/15	2/3/16	649,900	580,000
Santa Rosa	730-732 Morgan St	9/12/15	2/16/16	475,000	465,000
Santa Rosa	733 North St	9/24/15	3/15/16	799,000	754,250
Santa Rosa	3300 Fulton Rd	9/25/15	4/7/16	499,000	490,000
Santa Rosa	4228-4230 Miles Ave	9/29/15	1/7/16	429,000	407,000
Santa Rosa	477 Inglewood Dr	10/2/15	3/30/16	435,000	428,000
Santa Rosa	200 Chestnut St	11/25/15	1/21/16	375,000	355,000
Santa Rosa	4453-4455 Yukon Dr	12/8/15	3/30/16	545,000	494,000
Santa Rosa	505 Olive St	11/17/15	3/7/16	368,000	385,000
Santa Rosa	1100-1110 Mission Blvd	1/12/16	2/17/16	475,000	475,000
Santa Rosa	600 College Ave	1/15/16	3/18/16	403,400	386,949
Santa Rosa	1027-1029 Butte Dr	2/4/16	3/21/16	495,000	480,000
Sonoma	17075 Sonoma Hwy	3/30/15	3/9/16	750,000	755,000
Sonoma	17261 Sonoma Hwy	3/30/15	3/3/16	399,000	585,000
Sonoma	618-620 Oak St	10/23/15	2/24/16	618,000	618,000

1st Quarter 5+ Unit Sales

City	Street Full Address	Units	Listing Date	Sold Date	Listing Price	Selling Price
Healdsburg	210 Fitch St	6	10/13/15	1/8/16	1,850,000	1,850,000
Santa Rosa	918 Sunset Ave	6	9/22/15	2/13/16	1,015,000	1,015,000
Santa Rosa	213-227 Todd Rd	7	10/9/15	1/24/16	1,500,000	1,425,000
Santa Rosa	2519 Corby Ave	9	11/17/15	2/22/16	1,350,000	1,230,000
Santa Rosa	905 Spencer Ave	5	12/14/15	2/2/16	750,000	720,000
Santa Rosa	429 8th St	7	12/15/15	1/29/16	1,595,000	1,567,500
Santa Rosa	1315-1321 Lia Ln	10	1/10/16	3/15/16	5,300,000	5,300,000

"greedy landlords," their own lack of foresight and leadership to pave a path to the fast-tracking of building permits to help meet a growing population is the true culprit. Unfortunately the grasping of basic economic principles is not a prerequisite for running for city council.

2-4 UNIT SALES

Sonoma County 2-4 unit sales saw a 19.6% year-over-year increase by the end of the 2nd quarter of 2016. This is down from the 22.8% year-over-year increase seen at the end of the 4Q of 2015. Quarter-over-quarter sales for the period ending 1Q 2016 saw a 21% decrease from the 4Q of 2015. Before we hit the panic button, it is important to note that the quarter over quarter numbers are a bit of an anomaly. The average list price during the 4th quarter was \$655,286, with a total of 44 units sold. The average list price during the 1st quarter of 2016 was only \$541,615, with 20 units sold. As of this date there are 49 total units listed, with an average list price \$670,160. These numbers tell us that the first quarter numbers are not indicative of the overall market trends.

CRUNCHING THE NUMBERS?

As of this date there are 49, 2-4 unit properties listed for sale in Sonoma County. Out of these, 25 are currently under contract.

The average days on the market for properties under contract is 64, while the average days on the market for properties not under contract is 53. The average list price for the properties under contract is \$684,320, while the average list price for properties not under contract is \$655,410.

The average sales price for 2-4 unit properties sold during 1Q 2016 was \$534,060. The average list price was \$541,615, which represents a negligible -1.39% list to sold price ratio. If we apply even a conservative -3% list to sales price ratio to the current under contract properties, we can reasonably predict that the 2Q of 2016 will see a sales increase of aprx 2.5% or better from the 4Q sales of 2015. Again, we are throwing out the first quarter numbers of 2016 since the list and sales prices were unusually low.

While current inventory levels appear to be increasing above recent averages, the days on the market has decreased, which tells us that demand is meeting the increased supply. Overall, these statistics tell us that we have relatively "normal" market conditions, which has provided us with a balanced sales market. Market conditions will likely remain stable for the next quarter or two, providing that the current absorption rates hold and interest rates do not increase.

5+ UNIT SALES

Listings



SW Santa Rosa Triplex

List Price \$499,900

Check out our 3D Tour

www.487HearnAve.com



NW Santa Rosa Fourplex

List Price \$760,000

Check out our 3D Tour

www.2307HeidiPlace.com



NW Santa Rosa 6-Plex

List Price \$1,200,000

Check out our 3D Tour

www.1650LanceDr.com

Sonoma County 5+ unit sales saw a year-over-year increase of 12% by the end of the 2Q of 2016. During this period there were 31 units sold with an average of 64 days on the market. This is a big improvement over the 4Q 2015 year-over-year numbers, which had an average of 146 days on the market with only 21 units sold.

As of this date there are only 10, 5+ unit buildings listed for sale in Sonoma County. 5 of these properties are under contract, with an average days on the market of 96 and an average list price of \$2,202,000. All in all, these numbers tell us that we are still in a seller's market for these types of properties. As a result, it is reasonable to predict that the next quarter or two will favor sellers if inventory levels remain in check.

RENTAL VALUE PROJECTIONS

A significant amount of the rental gains that were seen in Santa Rosa over the last 12 months have been a direct result of owners raising rents to protect against pending rent control. Based on my experience on the ground, these increases have had less to do with actual market conditions and more to do with owners' fears of getting stuck with below market rents and subsequent lower property values.

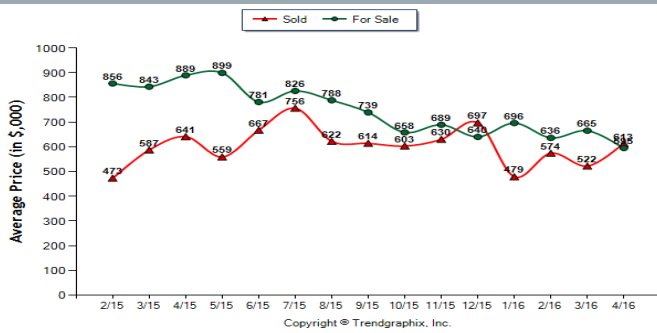
Based on what we have seen in rent controlled cities such as San Francisco and Berkeley, it is fair to assume that the majority of owners of rent controlled properties will look to maximize rents upon the vacancy of units. It is likely that we will see owners hold

Sonoma County Indicators

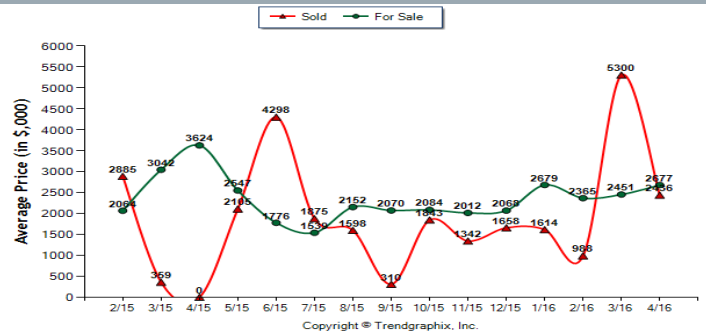
2009	2010	2011	2012	2013	2014	INDICATORS	2015	2016	2017	2018	2019	2020
21.5	21.8	22.3	22.3	22.6	23.4	Gross metro product (C09\$ bil)	23.9	24.8	25.7	26.5	27.2	27.8
-6.1	1.2	2.4	-0.0	1.4	3.3	% change	2.2	3.8	3.6	3.2	2.5	2.2
173.6	169.9	171.8	175.1	183.6	192.2	Total employment (ths)	197.2	201.3	204.1	207.0	209.3	210.7
-7.8	-2.1	1.1	1.9	4.8	4.7	% change	2.6	2.1	1.4	1.4	1.1	0.7
9.5	10.6	9.9	8.6	6.8	5.6	Unemployment rate (%)	4.4	3.8	3.5	3.6	3.7	3.9
-5.6	2.0	6.4	7.6	2.8	3.8	Personal income growth (%)	6.1	6.7	6.7	5.9	4.5	4.2
61.4	59.5	59.7	60.2	62.0	67.8	Median household income (\$ ths)	71.5	73.9	76.9	79.9	82.3	84.5
479.5	484.7	487.7	490.8	495.4	500.3	Population (ths)	505.7	511.1	516.3	521.4	526.6	531.8
1.4	1.1	0.6	0.6	0.9	1.0	% change	1.1	1.1	1.0	1.0	1.0	1.0
4.1	3.5	1.6	2.0	3.2	3.6	Net migration (ths)	4.2	4.2	4.0	3.9	3.9	3.9
371	287	449	312	453	419	Single-family permits (#)	416	793	1,192	1,338	1,279	1,297
71	190	183	248	593	244	Multifamily permits (#)	220	101	334	360	334	343
201.7	194.1	180.2	180.0	208.5	239.6	FHFA house price (1995Q1=100)	261.3	274.0	285.1	295.3	305.7	319.4

Statistical data provided by The Sonoma County Development Board

2-4 Unit Average Price Sales vs Sold



5+ Units Average Price Sales vs Sold



out for top dollar for as long as necessary, even though some market conditions might otherwise call for rent reductions. As tenants in rent controlled units will likely occupy for extended periods of time and owners will likely hold out for top rental value of vacant units, it is likely that the tightening of the supply will spill over onto the non-rent control governed units, as inventory continues to be strangled.

As discussed earlier, the occupancy rate in Sonoma County was 95.4% for a second consecutive quarter. Even though the Santa Rosa City Council has included a provision that would rescind rent control if the vacancy factor reaches 5%, there is little chance that we will see it go away anytime soon, since the council could not agree on what barometer it will use to ascertain rates. Even though there is a very large amount of new construction coming online, it is my opinion that the market will absorb these units as fast as they are released in the short term. Knowing that owners will not

likely significantly reduce rents any time soon, it is my opinion that the 2nd and 3rd quarters of 2016 will continue the trend of stability. It is too early for me to ascertain the long term effects of rent control, so I will stick with a short term projection for now.

SALES MARKET PROJECTION

As noted in my previous report, history tells us that the California sales market can usually be predicted to 7-year cycles. Sooner or later the market will find a reason to correct towards the bottom and top of each cycle. While I do not see this correction happening before the next election, it is my opinion that this market will not be exempt from the Newtonian law of "what goes up must come down." Since the loans that have been issued over the last few years have been "safe," it is my opinion that any correction will be modest assuming that there are not any extraneous circumstances. It remains my opinion that the cause of the next

market correction will likely be the result of the FED's decision to increase the Federal Funds rate. On a local level, the institution of rent control, coupled with the data that shows that the rental market is showing signs of stability, means that future rate increases will no longer be offset by rising rents as we have seen over the last couple of years. As a result, would-be investors will likely look for opportunities in other markets where capitalization rates are higher. During retracting markets it is common for investors to protect their equity by completing 1031 exchanges out of volatile markets and re-investing into areas that have not been subject to wild valuation swings. While this strategy may not produce significant short term appreciation, often it can protect against significant portfolio value loss.

All in all, my opinion remains that 2016 will prove to be a fairly balanced market. The Sonoma County market will continue to be a very desirable place to live and own. We will also continue to receive real estate investors fleeing from the very expensive Greater Bay Area market. Qualified buyers will continue to find suitable purchase inventory and sellers will be able to sell, providing that the property is listed in accordance with the competition.

DEAR READER,

If you are planning on selling your property sooner or later, Erika and I would appreciate the opportunity to provide you with an obligation-free comparative market analysis and marketing proposal. Obtaining the highest possible price for your property takes careful consideration. Our market analysis includes an "as is" value, as well as partially repaired and fully repaired values. We provide a comprehensive list of recommended repairs and obtain competitive bids that will help you achieve the best possible return on your investment. If a repaired strategy is pursued, we will oversee all repairs.

As usual, we are a phone call or email away if you have any questions. As seasoned agents we will always have your best interests at heart.

Thank you for your loyalty.

Sincerely,

David Rendino
Direct: (707) 696-3742



Marlon Flores
Mortgage Consultant



When you refinance your house, do you pay capital gains on the cash you take out?

Cash-out refinance loan is an excellent way to access large sums of cash. If you have the equity, you can use the cash-out refinance to get money for debt consolidation, remodeling, paying for college or just about anything else. Furthermore, pulling money out of your house is tax-free and you frequently can write off the interest you pay on the loan.

What about on investment homes? The above applies, until you sell your home! Yes, when you sell your home you will have to pay capital gains on all that cash you accessed. However, between now and then, you can pull money out of that rental and not worry about paying Uncle Sam until it is time to sell.

Please feel free to contact me for your cash out loan, or your new investment multi-unit home purchase loan.

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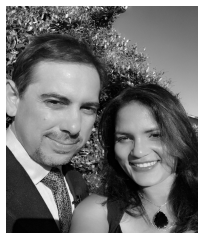
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The Sonoma County Income Property Report

1st Quarter 2016



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

1. To inform investors on the current Sonoma County rental market trends.
2. To provide important information on the Sonoma County sales market for all multi-unit properties.
3. To provide information about the overall real estate market outlook for Sonoma County.

Never miss our newsletter...

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Whatever your needs are, always make sure to work with an expert that has vast experience and a solid track record in this challenging market. There is too much at stake to use someone who requires on the job training.

David Rendino
Realtor

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♦ Income Property Specialist ♦ Accredited Commercial Professional
♦ Certified Distressed Property Expert ♦ Single Family Residence Professional



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Habla español?

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