



THE RENDINO TEAM

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THE SONOMA COUNTY INCOME PROPERTY REPORT 2018 Q1

Hello Friends,

We hope this report finds you well. 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

Q1 NUMBERS: The average Sonoma County (Santa Rosa—Sonoma—Petaluma—Rohnert Park) effective rent for apartments was \$1,611 by the end of the 4th quarter of 2017. This represented a 6% change from the previous year. The effective rent for apartments by the end of the 1st quarter of 2018 was \$1,631. This represents a quarter-over-quarter increase of 1.24% and a year-over-year increase of 6%. The occupancy factor for the same period was 97.6%, with an occupancy growth rate of 1.3%.

2-4 UNIT SALES

Sonoma County 2-4 unit sales saw a 18.77% year-over-year increase for the period ending Q1 2018. Quarter-over-quarter sales saw a slight decrease of -2.58% by the end of Q1 2018. Sales typically soften during the 4th quarter, so too much should not be read into this slight decrease, especially after such a massive run-up in values.

CURRENT SNAPSHOT

As of this date there are 49 2-4 unit properties listed for sale in Sonoma County. 21 of these properties are under contract, with an average of 82 days on the market. The average list price for the properties under contract is \$777,921, while the average list price for properties not under contract is \$997,495.

Q2 PROJECTION

Given the fact that the average sales price during the 1st quarter was \$797,357 and the average under contract list price for properties currently under contract is \$777,921, reasonable expectations would tell us that the 2nd quarter of 2018 will likely bring relative stability. The average list to sales ratio has been -1.88 over the last four quarters. If we apply this differential, the average sales price by the end of the 2nd quarter of 2017 should decrease by -4.4%. The wild card is the huge differential between the properties that are not currently under contract, which has an average list price close to \$1,000,000. Will we start seeing some of these higher priced properties go into escrow and sell or will we start seeing large reductions and expired and withdrawn listings? The post-fire reality of Sonoma County has turned some of our traditional barometers upside down, so I will refrain from projecting Q2 values at this time and will be watching with great interest. It should be noted that rapidly rising interest rates and Governor Brown's extension of the anti price-

gouging statute, which is keeping rents in check, provide a heavy case that the next quarter will remain relatively flat. Only time will tell and of course we will be there next quarter to report.

5+ UNIT SALES

Sonoma County 5+ unit sales saw a year-over-year increase of 6.8% by the end of the 1st quarter of 2018. This is an impressive figure given that the Q4 year-over-year numbers recorded a decrease of -7.19%. As of this date, there are 11, 5+ unit buildings listed for sale in Sonoma County. Five of these properties are under contract, with an average days on the market of 79 and an average list price of \$2,786,250. While it is always interesting to track this data, there is rarely adequate inventory levels to draw reasonable conclusions on market value trends. However, it is reasonable to assert that the current inventory levels continue to favor sellers and it is likely that this trend will continue through the 2nd quarter of 2018.

BAN ON PRICE-GOUGING EXTENDED

Governor Jerry Brown has again extended states of emergency in areas of both Northern and Southern California affected by last fall's wildfires. The extension keeps in effect the state's anti-price gouging law, which bans rent increases exceeding 10 percent during states of emergency.

In Northern California, states of emergency triggered by October's wildfires were set to expire on Wednesday, April 18th. Brown, however, extended his emergency declaration to December 4th for Lake, Mendocino, Napa, Solano, and Sonoma counties.

Things to know from CAA (The California Association of Apartment Owners)

- The 10 percent cap stays in effect for as long as the state of emergency continues to be in effect. The law states that a proclamation or declaration of emergency lasts for 30 days. Government Code Section 8571, however, allows the Governor to suspend regulatory and procedural statutes where the Governor determines that strict compliance would hinder the mitigation of the effects of the emergency. The Governor has used this power to extend the initial state of emergency period for longer than 30 days. The law also allows the state of emergency to be extended for additional 30-day periods by the Governor, Legislature, or local governments and officials.
- The law applies to any person, contractor, business, or other entity renting or offering to rent housing located in California.
- The law applies to all rental units with an initial lease term of one year or less, regardless of size, location, or age.
- The specific language in the law states that the 10 percent cap is applied to "the price charged... immediately prior to the proclamation or declaration of emergency." With respect to a rent increase for an existing tenant, the 10 percent cap applies to the rent charged to that tenant immediately prior to the state of emergency.
- It is not clear how to determine the 10 percent cap for new tenants moving into vacant units because the law does not specify whether the 10 percent cap is applied to a base of:
 - the rental rate charged to the previous tenant of that unit prior to the state of emergency,
 - the rental rate the rental housing provider was charging to new tenants of similar units immediately prior to the state of emergency, or
 - the rent advertised by the rental housing provider for that unit or similar units immediately prior to the state of emergency.

While the statute does not clearly define how to calculate the 10 percent cap, property owners will need to use their own discretion on a case-by-case basis. It is our recommendation to err on the conservative side and when in doubt contact an attorney for advice. It is our hope that none of our readers will become the test case for California law.

RENTAL TRENDS 2015-2018 QTD*

Quarter	Inventory			Effective Rent			Vacancy	
	Bldgs	Units	Avg SF	Per Unit	Per SF	% Growth/Yr	Percent	% Growth/Yr
QTD	1,971	31,058	836	\$1,631	\$1.99	5.2	2.4	-1.3
2018 Q1	1,971	31,058	836	\$1,626	\$1.98	7.0	2.4	-1.3
2017 Q4	1,971	31,058	836	\$1,604	\$1.95	6.6	3.1	-0.6
2017 Q3	1,971	31,058	836	\$1,558	\$1.90	3.7	3.4	-0.1
2017 Q2	1,970	31,038	835	\$1,551	\$1.89	4.1	3.7	0.0
2017 Q1	1,969	31,002	835	\$1,520	\$1.85	3.9	3.7	-0.2
2016 Q4	1,968	30,942	835	\$1,506	\$1.83	5.0	3.7	-0.1
2016 Q3	1,965	30,800	832	\$1,502	\$1.83	5.7	3.5	-0.1
2016 Q2	1,965	30,800	832	\$1,489	\$1.81	6.2	3.7	-0.1
2016 Q1	1,964	30,796	832	\$1,462	\$1.78	6.2	3.9	0.3
2015 Q4	1,962	30,584	830	\$1,434	\$1.75	6.1	3.8	0.2
2015 Q3	1,961	30,340	829	\$1,421	\$1.73	6.5	3.6	-0.1

COSTA-HAWKINS RENTAL HOUSING ACT

Housing prices are a top issue not just in Sonoma County but throughout the state of California. Simply put, there is not an adequate housing supply to meet the growing demand. Years of poor planning on both State and local levels, coupled with the devastating wildfires in the southern and northern regions, have caused a “perfect storm” of housing supply throughout the state. As a result, California is experiencing higher rental values and increased homelessness than in most parts of the United States. Supporters of a state ballot initiative to expand rent control options for cities across California announced on April 23rd, 2018 that they have gathered enough signatures to qualify the measure for the November 2018 ballot. If passed, the measure would repeal the 1995 Costa-Hawkins Rental Housing Act, which sets limits on the kind of rent control policies cities are able to impose. The law makes it illegal for cities to apply rent caps to any properties built after 1995, when it was passed—or earlier. If a city adopted rent control in 1980, as Oakland and Berkeley did, everything built afterward is exempt from rent control. The law also bars cities from passing rent-control ordinances on single family residences or condos. In addition, the law implements “vacancy control”, which in some cases limits increases that landlords can charge to new tenants.

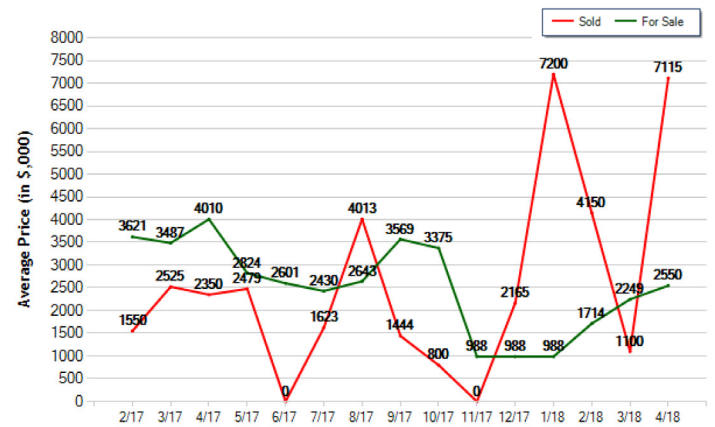
Repealing the law throughout the state could have a significant impact on renters, property owners, and developers alike. In the midst of a statewide shortage of affordable housing, repeal supporters say it will give cities important new tools to protect affordable housing. Opponents argue it could worsen the crisis.

If the secretary of state certifies that the campaign collected enough signatures, voters will weigh in on repealing Costa Hawkins.

MY TWO CENTS

Despite rising interest rates, failed rent control measures, new talk of repealing Costa-Hawkins and the instituted temporary Anti-Price Gouging law, sales prices per unit are at all time highs. Sustained low inventory levels coupled with high demand is ensuring that properly priced properties are being purchased with multiple offers and in many cases overbids. Investors, especially institutional owners are purchasing nearly every large complex that becomes available. Many of these new owners are investing large amount of cash to modernize an older building in order to compete with the newer construction complexes, which fetch top rental values.

2-4 UNIT AVERAGE PRICE**



	Currnt vs. Prev Month			Currnt vs. Same Month 1 Yr Ago			Currnt vs. Same Qtr 1 Yr Ago		
	Apr. 18	Mar. 18	% Change	Apr. 18	Apr. 17	% Change	Feb. 18 to Apr. 18	Feb. 17 to Apr. 17	% Change
Avg. Active Price	1029	977	5.3% ▲	1029	788	30.6% ▲	1008	783	28.7% ▲
Avg. Sold Price	895	847	5.7% ▲	895	615	45.5% ▲	805	644	25% ▲

The feds have stated that they will bring three more rate increases by the end of the year. While this will likely have an adverse effect on the purchase markets (especially 2-4 units), it also means that many renters who were close to having purchasing power will remain on the sidelines for longer periods of time. Many of the large complexes are purchased by cash buyers, so it is feasible that rising interest rates would not have as significant effect on the 5+ unit market.

As previously stated, we are in the middle of a housing shortage. While there has been significant movement in new construction throughout the county, city officials are stating that it will take at least five years to return to pre-fire inventory levels. While we do not pretend to be economists, it is easy to see why the Bay Area will be in the eye of investors for quite some time. Last year's wildfires have all but guaranteed it. ♦

Coming Soon

TOO NEW FOR PHOTO!

Southwest Santa Rosa
Fourplex
2 Bedroom, 1 bath flats
\$925,000

Northwest Santa Rosa
Fourplex
2 Bedroom, 1 bath flats
\$1,095,000

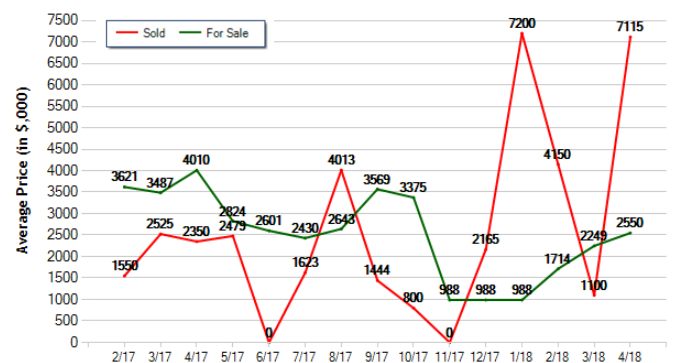
2-4 UNIT SALES**

Area	Street Full Address	Units	Bldgs	Close Date	Listing Price	Selling Price
Cloverdale	116 Railroad Ave Ave	3	2	2/13/18	519,000	519,000
Cloverdale	108 N Jefferson St	2	2	1/9/18	650,000	650,000
Cotati/Rohnert Park	7101 Avenida Cala	4	1	1/25/18	1,250,000	1,250,000
Cotati/Rohnert Park	270 Arlen Dr	4	1	2/27/18	989,000	954,000
Healdsburg	643-645 University St	2	1	1/17/18	969,000	970,350
Penngrove	10266 Old Redwood Hwy	4	4	2/6/18	1,500,000	1,360,000
Petaluma West	313 Kentucky St	4	3	3/16/18	1,125,000	975,000
Russian River	15220 Rio Nido Rd	2	2	2/27/18	449,000	449,000
Russian River	14710 Northern Ave #A,B	3	2	2/16/18	685,000	665,000
Santa Rosa-Northeast	31 Ursuline Rd	2	1	2/9/18	650,000	650,000
Santa Rosa-Northeast	483-485 Macklyn Ave	2	2	1/22/18	649,000	635,000
Santa Rosa-Northeast	759 Mendocino Ave	4	1	1/13/18	1,100,000	1,150,000
Santa Rosa-Northeast	6224-6250 Melita Rd	4	4	1/9/18	1,799,000	1,765,000
Santa Rosa-Northeast	407 Lincoln St	2	1	1/3/18	475,000	475,000
Santa Rosa-Northeast	1834 King St	2	1	2/28/18	499,000	670,000
Santa Rosa-Northeast	649 King St	3	2	2/14/18	649,000	619,000
Santa Rosa-Northeast	756-758 Church St	2	2	2/23/18	799,000	805,000
Santa Rosa-Northeast	1535-1537 Franklin Ave	2	1	3/16/18	750,000	720,000
Santa Rosa-Northeast	5075-5077 Charming Dr	2	1	3/22/18	875,000	875,000
Santa Rosa-Northeast	1259-1253 Calistoga Rd	2	4	3/16/18	915,000	925,000
Santa Rosa-Southeast	1542-1544 Camden Ct	2	1	1/5/18	668,950	654,000
Santa Rosa-Southeast	2208 Mesquite Dr	2	2	2/11/18	710,000	710,000
Santa Rosa-Southwest	2560 Kenton Ct	4	1	3/22/18	895,000	900,000
Sonoma	17353 Park Ave	2	1	2/6/18	595,000	580,000
Sonoma	276-278 W Macarthur St	2	1	1/31/18	649,000	613,000
Sonoma	320-322 E Thomson Ave	2	2	2/27/18	575,000	590,000
Sonoma	871 Oak St	2	2	3/1/18	665,000	650,000
Windsor	142-144 3rd St	2	1	1/18/18	649,900	660,000

5+ UNIT SALES**

Area	Street Full Address	Units	Bldgs	Close Date	Listing Price	Selling Price	Cap (%)
Guerneville	14975 River Rd	6	5	2/23/18		\$ 495,000	
Penngrove	10266 Old Redwood Hwy	6	1	2/6/18	\$ 1,500,000	\$ 1,450,000	
Petaluma West	998 Bodega Ave	11	1	2/2/18	\$ 4,150,000	\$ 4,150,000	
Petaluma West	413-423 Webster St	6	3	1/2/18		\$ 1,675,999	4
Rohnert Park	400 Santa Alicia Dr	202	10	3/2/18		\$ 2,114,520	
Rohnert Park	333 Enterprise Dr	204	13	3/2/18		\$ 21,354,680	
Santa Rosa-Northwest	1620 Herbert St			1/25/18	\$ 7,520,000	\$ 7,200,000	
Santa Rosa-Northwest	1620 Herbert St	32	3	1/25/18	\$ 7,520,000	\$ 7,200,000	4.2
Santa Rosa-Northwest	2378 Heidi Pl	4	5	1/17/18		\$ 12,500,000	4.6
Santa Rosa-Southwest	124 W Robles Ave			3/19/18	\$ 1,100,000	\$ 1,100,000	
Santa Rosa-Southwest	124 W Robles Ave	5	4	3/19/18		\$ 1,100,000	6.38
Santa Rosa-Southwest	638 Cordelia Dr	44	11	1/16/18	\$ 10,000,000	\$ 10,000,000	2.91
Sonoma	736-800 2nd St	33	6	1/10/18		\$ 8,375,000	4.4

5+ UNIT ACTIVE VS SOLD**



	Currnt vs. Prev Month			Currnt vs. Same Month 1 Yr Ago			Currnt vs. Same Qtr 1 Yr Ago		
	Apr. 18	Mar. 18	% Change	Apr. 18	Apr. 17	% Change	Feb. 18 to Apr. 18	Feb. 17 to Apr. 17	% Change
Avg. Active Price	2550	2249	13.4% ▲	2550	4010	-36.4% ▼	2203	3717	-40.7% ▼
Avg. Sold Price	7115	1100	546.8% ▲	7115	2350	202.8% ▲	4122	2238	84.2% ▲

*Statistical information provided by Costar. **Information provided by BAREIS. All listings in RED are by RE/MAX Marketplace.

OUR LISTINGS



10266 Old Redwood Hwy, Petaluma
4 Unit | \$1,595,000



607 7th Street, Petaluma
3 Unit | \$1,600,000



601 N McDowell Blvd, Petaluma
Commercial | \$1,995,000



25 Western Ave, Petaluma
Commercial | \$4,750,000



1203 College Ave, Santa Rosa
2 Unit | \$650,000



3227-3229 Nielsen Ct, Santa Rosa
2 Unit | \$869,900



756-758 Church St, Santa Rosa
2 Unit | \$805,000



8197 Arthur St, Cotati
4 Unit | \$1,260,000



1620 Herbert St, Santa Rosa
32 Unit | \$7,200,000



6600 Redwood Dr, Rohnert Park
Commercial | \$450,000



5075-5077 Charmian Dr, Santa Rosa
2 Unit | \$875,000



2560 Kenton Ct, Santa Rosa
4 Unit | \$900,000

Subprime Loans Are Back!

Here are some of the classics NINA, SISA, and who could forget the NINJA.

The big banks—Chase, Bank of America, and Wells Fargo—have actually been brokering these loans to investors for the past five years. They are now considering offering them as part of their own internal product line, since they have been performing so well.

What does this mean for the real estate market over both the short and long term? Short term: these loans will cause home prices to continue increasing. The reason being, borrowers that were once capped at a certain price point due to their lack of verifiable income and/or assets will now be able to qualify. This means the bidding wars will continue.

Now for the long term: how will these subprime loans perform? Subprime loans are typically 2-5 year terms. This means these borrowers must have an exit strategy, or the ability to extend their terms otherwise I think we all know how that story ends...

If you have any mortgage financing questions, please call us anytime. My team and I are happy to assist you.



Marlón Flores

Mortgage Consultant
NMLS ID #779895

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WHEN WAS THE LAST TIME YOU REASSESSED RENTAL RATES?

We can help you get your property in shape to today's standards and set the rental price right. Our goal is to provide property owners with the greatest possible return on their investment.

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Mention this newsletter for 1ST MONTH'S MANAGEMENT FREE!

Habla español?

Nosotros tambien

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Income Property Specialists

DRE# 01252035/01465104



RE/MAX MARKETPLACE

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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 from beginning to end. We have successfully helped both our multi-unit and SFR sellers achieve extraordinary results and hope for the opportunity to show you how we can do the same for you. 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,
David & Erika Rendino*



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

David & Erika Rendino, REALTORS®

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