



THE RENDINO TEAM

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THE SONOMA COUNTY INCOME PROPERTY REPORT Q4 2019

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. While we typically strive to release our reports towards the beginning of the quarter, we delayed the release of this report to ensure that we have provided the most up to date information regarding the new statewide rent control and eviction law (AB 1482). We hope that you will find the information herein useful.

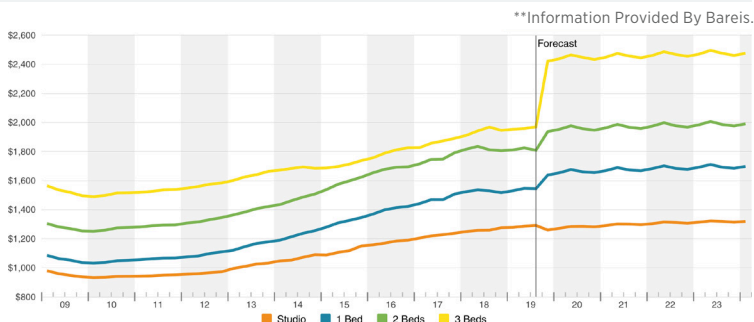
RENTAL MARKET

The average Sonoma County (Santa Rosa - Sonoma - Petaluma - Windsor - Rohnert Park) average rent for apartments for the 3rd quarter of 2019 was \$1,682, with an effective rent per sq. ft. of \$2.07. This represents a year-over-year rent increase/decrease of 0% and a slight increase of .35% from the 2nd quarter of 2019. The occupancy factor for the 3rd quarter of 2019 was 95.5%. The 4th quarter to date shows an average rent of \$1,672 and an average occupancy factor of 95.7%, which is consistent with a leveling rental market.

SONOMA COUNTY AVERAGE ASKING RENT **

Period	Studio	1 Bed	2 Bed	3 Bed
2020 Q1	\$1,279	\$1,630	\$1,903	\$2,322
2019 Q4	\$1,268	\$1,616	\$1,891	\$2,306
QTD	\$1,479	\$1,564	\$1,777	\$2,249
2019 Q3	\$1,477	\$1,579	\$1,784	\$2,272
2019 Q2	\$1,477	\$1,584	\$1,793	\$2,225
2019 Q1	\$1,466	\$1,552	\$1,778	\$2,224
2018 Q4	\$1,466	\$1,549	\$1,759	\$2,240
2018 Q3	\$1,441	\$1,573	\$1,796	\$2,299
2018 Q2	\$1,444	\$1,586	\$1,829	\$2,257
2018 Q1	\$1,438	\$1,579	\$1,812	\$2,221
2017 Q4	\$1,425	\$1,554	\$1,772	\$2,182
2017 Q3	\$1,419	\$1,512	\$1,721	\$2,143
2017 Q2	\$1,412	\$1,512	\$1,724	\$2,147
2017 Q1	\$1,392	\$1,488	\$1,700	\$2,105
2016 Q4	\$1,377	\$1,460	\$1,676	\$2,123
2016 Q3	\$1,377	\$1,470	\$1,683	\$2,108

MARKET ASKING RENT PER UNIT **



2-4 UNITS SALES

The average sales price for the 3rd quarter of 2019 was \$785,000. This represents a 3.2% year-over-year increase for the period ending 3Q 2019, and a -6.36% decrease from the 2nd Quarter of 2019. Please note that this is the 3rd consecutive quarter of value declines. The average price per unit (PPU) for the 3rd quarter was \$295,797, which is up 2.56% from the second quarter of 2019, which saw an average PPU of \$288,391.

One of the most significant changes this quarter has been the increasing Days On The Market (DOM) of the sold data. As we have previously reported, it is important to keep an eye on these numbers, as they provide insight into changing market conditions. Diminished DOM will typically point to a seller's market, while an increasing DOM will indicate more of a buyer's market.

The average days on the market (DOM) for 2-4 units in the 3rd quarter was 84, which is up 52.7% from the same quarter of 2018. The average DOM for 3-4 units was 134 during the 3rd quarter of 2019, which is up a whopping 272% from the same quarter of 2018. The increase of DOM for 3-4 units tells us that there is presently less demand for these types of properties, possibly due to concerns over rent control since owner occupied duplexes will be exempt from rent control. Fortunately, there were fewer 3-4 units sold during the 3rd quarter than 2-unit properties, so we should not make too much of this increase until we have more data. We will continue to track these numbers and will report in future reports.

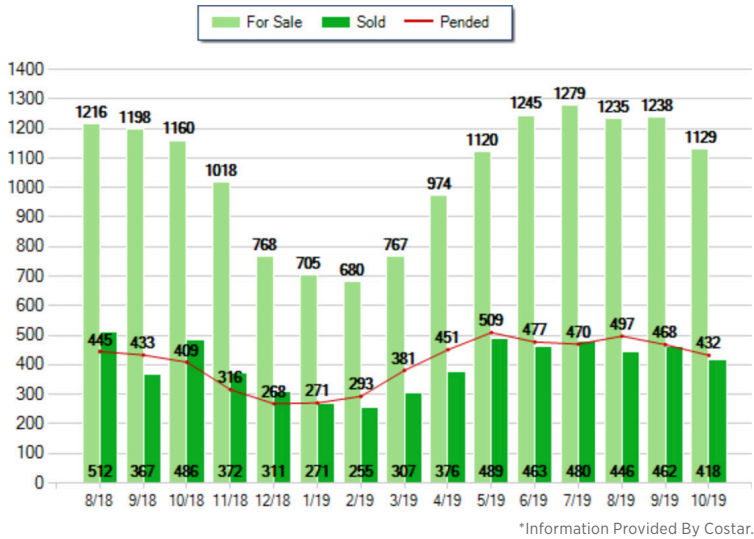
2-4 UNITS SALES

Area	Street Full Address	Units	Bldgs	DOM	List Price	Sale Price	Sale Date
Healdsburg	218 Lincoln St	3	2	279	\$950,000	\$900,000	9/17/19
Petaluma West	607 7th St	3	2	426	\$1,490,000	\$1,490,000	7/30/19
Petaluma West	310 Payran St	4	2	76	\$1,090,000	\$1,025,000	7/19/19
Petaluma West	143-145 Badger Hill Ln	2	2	57	\$869,000	\$845,000	7/12/19
Petaluma West	306 Walnut St	2	1	14	\$450,000	\$485,000	10/1/19
Russian River	21568 Starrett Hill Dr	2	1	63	\$265,000	\$290,000	8/22/19
Santa Rosa-Northeast	323 10th St	4	1	134	\$845,000	\$800,000	7/10/19
Santa Rosa-Northeast	527 Mendocino Ave #F	2	1	131	\$450,000	\$440,000	8/2/19
Santa Rosa-Northeast	756 Church St	2	2	131	\$869,950	\$855,000	9/12/19
Santa Rosa-Northeast	2003 Slater St	2	1	17	\$595,000	\$630,000	8/2/19
Santa Rosa-Northeast	5965-5967 Montecito Blvd	2	1	38	\$714,000	\$685,000	9/20/19
Santa Rosa-Northeast	1816-1816A Arbor Ave	2	2	7	\$599,999	\$500,000	8/30/19
Santa Rosa-Northeast	695 Lewis Rd	4	3	38	\$899,000	\$899,000	9/21/19
Santa Rosa-Northwest	101 Olive St	4	1	134	\$1,000,000	\$950,000	8/28/19
Santa Rosa-Northwest	2306 Heidi Pl #1-4	4	1	158	\$1,100,000	\$1,015,000	9/13/19
Santa Rosa-Northwest	391 Brockhurst Dr	2	1	68	\$639,950	\$622,000	8/14/19
Santa Rosa-Northwest	2330-2332 Heidi Pl	2	1	63	\$540,000	\$520,000	8/21/19
Santa Rosa-Northwest	3975-3977 Black Oak Dr	2	2	27	\$735,000	\$715,000	9/27/19
Santa Rosa-Southeast	4465-4467 Hoen Ave	2	1	49	\$849,000	\$839,000	8/23/19
Santa Rosa-Southwest	3895 Walker Ave	4	5	78	\$915,000	\$900,000	8/3/19
Santa Rosa-Southwest	1870 west Ave	3	2	36	\$850,000	\$886,000	7/19/19
Santa Rosa-Southwest	4141 Langner Ave	2	2	21	\$699,000	\$700,000	9/17/19
Sebastopol	7540 Meadowlark Dr	2	1	29	\$749,000	\$759,000	7/30/19
Sonoma	20556 Birch Rd	4	2	25	\$1,250,000	\$1,200,000	7/24/19
Sonoma	18736-18738 Railroad Ave	2	1	36	\$710,000	\$700,000	9/4/19
Sonoma	935 Donald St	2	1	42	\$781,000	\$760,000	8/1/19

CURRENT SNAPSHOT

As of this date there are 56, 2-4 unit properties listed for sale in Sonoma County. Only 18 of these properties are under contract, with an average of 94 days on the market. The average list price for the properties not under contract is \$794,500, while the average list price for properties under contract is \$846,688. The average price per unit for the active listings is \$331,665.

2-4 UNITS AVERAGE FOR SALE VS. SOLD PRICE*



Q4 2019 PROJECTION

The 3rd quarter numbers continued the trend of a correcting sales market; however, it is possible that we will see a stabilization of values by the end of the 4th quarter of 2019.

The average sales price during the 3rd quarter of 2019 was \$785,000, and the average list price for properties under contract is \$846,688. The average list-to-sales price ratio has consistently been around 1% over the last year, and if this ratio continues to hold true, we could be looking at value increase of up to 8% by the end of the 4th quarter of 2019. Before we spike the football in celebration, it is important to note that the quarter-over-quarter numbers contain relatively low inventory, and we just came off of 3 consecutive quarter loses. The year-over-year numbers are a better indication of market performance, and we will report on this number in the 1st quarter of our 2020 newsletter.

FORECAST SCOREBOARD

Frequent readers will note that our previous report called for a 3rd quarter loss “up to 10% by the end of the 3rd quarter of 2019”. While technically correct, we will give ourselves a grade of a C+ with a deduction for not being specific enough. This quarter we are being a little more bold and are calling for a 6.5% quarter-over-quarter increase. Please make sure to place your bets in Las Vegas by 12/30/2019!

5+ UNITS SALES

As usual, we do not read too much into the sales trend data for 5+ units due to low inventory levels. Instead, we prefer to track the average price per unit and cap rates to help us determine market trends.

There were only 5, 5+ unit properties sold in Sonoma County during the 3rd quarter of 2019. The average sales price was \$5,126,600, with an average of \$341,773.333 per unit, which represents a quarter-over-quarter increase of 28.5% from the previous quarter. The average DOM for these sales was 67 days. Most sales stated market rents. The average cap rate for the properties sold during this reporting period was 4.9 on current rents. This represents a -11.39% decrease from the previous quarter number of 5.53. This increase was not necessarily indicative of market conditions and was mostly influenced by the sale of 1301 Prentice Dr, which was a prime 21 unit complex located in Healdsburg.

5+ UNITS SALES

Area	Street Full Address	Units	Bldgs	List Price	Sale Price	Sale Date
Healdsburg	1301 Prentice Dr	21	2	\$8,000,000	\$7,950,000	8/16/19
Petaluma West	408 Keller St	6	2	\$2,100,000	\$1,955,000	11/7/19
Rohnert Park	7400 Bridgit Dr	38	4	\$6,900,000	\$6,700,000	8/16/19
NE Santa Rosa	2315-2335 Lomitas Ave	28	2	\$8,285,000	\$8,240,000	9/9/19
Sebastopol	4380 Daywalt Rd	5	5	\$800,000	\$788,000	10/9/19

CURRENT SNAPSHOT

There are presently 10, 5+ unit buildings listed for sale in Sonoma County. This represents a -61% decrease in inventory from the 2nd quarter. Three of these properties are under contract, with an average list price of \$3,345,900, which represents \$209,118.75 per unit. The average cap is 5.1% on current rents.

5+ UNITS OUTLOOK

CoStar, the largest commercial database, previously reported that since the recession, the price per unit of 5+unit apartment complexes has risen from \$117,000 per unit to \$296,000 per unit by the end of 2018. This represents an increase of over 140%.

CoStar is projecting flatline pricing over the next few years and we have no reason to disagree with this prediction. As statewide rent control is poised to commence on 1/1/2020, we are finding that more and more of our clients are looking to take their investments out of California and/or are looking at 1031 exchange alternatives, such as Delaware Statutory Trusts and Monetized Installment Sales. Per request, we will be reporting further on these options in our next report.

AB 1482 (CHIU) - RENT CAPS

AB 1482 was signed by the Governor on October 8, 2019 and will take effect on January 1, 2020. This new law imposes rent caps on some residential rental properties in California. It also imposes “just cause” eviction requirements that apply after tenants have occupied the unit for a certain period of time. The law exempts certain properties from the rent caps and just-cause requirements, including (1) most single-family homes and condominiums, and (2) housing built within the last 15 years.

The California Apartment Association (CAA) has done a fantastic job educating their members on the impending rent control law. We are providing their important summary below. Please refer back to this early and often, or contact us with any questions.

Rent Cap: 5% + CPI

In any 12-month period, a property owner can increase the rent up to 5 percent, plus the regional percentage change in the cost of living (CPI), or 10 percent, whichever is lower. In certain circumstances, two increases within a 12-month period may be allowed, so long as together those increases don’t exceed the rent cap.

The law applies to all rent increases occurring on or after March 15, 2019. If the owner increases the rent by more than the permissible amount between March 15, 2019, and January 1, 2020, both of the following apply:

- The rent on January 1, 2020 must be rolled back to the rent as of March 15, 2019, plus the maximum permissible increase allowed under AB 1482.
- The landlord, however, is not required to refund any rent paid between March 15, 2019, and January 1, 2020 that exceeded the allowed increase.

VACANCY DECONTROL

For a new tenancy in which no tenant from the prior tenancy remains in lawful possession of the residential real property, the owner can establish the new rent at any amount. The 5 percent plus CPI cap applies to all increases for that new tenancy thereafter.

PROPERTIES SUBJECT TO AB 1482 RENT CAPS

AB 1482 requires the following specific notice to be provided (in no less than 12-point type) to (1) all new and renewed tenants (in the lease or separately) starting July 1, 2020, and (2) existing tenants no later than August 1, 2020:

“California law limits the amount your rent can be increased. See Section 1947.12 of the Civil Code for more information. California law also provides that after all of the tenants have continuously and lawfully occupied the property for 12 months or more or at least one of the tenants has continuously and lawfully occupied the property for 24 months or more, a landlord must provide a statement of cause in any notice to terminate a tenancy. See Section 1946.2 of the Civil Code for more information.”

PROPERTIES EXEMPT FROM AB 1482 RENT CAPS

OWNER-OCCUPIED DUPLEXES

A duplex in which the owner occupied one of the units as the owner’s principal place of residence at the beginning of the tenancy, so long as the owner continues in occupancy.

AB 1482 (CHIU) - JUST CAUSE EVICTION

AB 1482's just-cause provisions prohibit a landlord from (1) terminating a month-to-month tenancy or (2) choosing not to renew a fixed term lease, without providing an allowed reason for termination. The provisions do not apply until the end of the first 12 months of tenancy or 24 months, as outlined below. During this time, the landlord's ability to terminate the tenancy or to decline to renew a lease are unchanged from preexisting law.

PROPERTIES EXEMPT FROM AB 1482 JUST CAUSE

Properties exempt from the rent caps under AB 1482 are also exempt from its just-cause provisions (as well as the relocation payment requirements, as outlined below).

Additional owner-occupied properties are also exempt (accommodations in which the tenant shares a bathroom or kitchen facilities with the owner and also single-family owner-occupied residences, including a residence in which the owner occupant rents or leases no more than two units or bedrooms, including, but not limited to, an accessory dwelling unit or junior accessory dwelling unit). With respect to local just-cause ordinances, AB 1482 does not apply if the property is already subject to an ordinance enacted on or before September 1, 2019. Later enacted local just-cause ordinances control if they provide greater protections to the tenant.

APPLICATION OF JUST CAUSE

AB 1482's just-cause requirements apply after a tenant has continuously and lawfully occupied the unit for 12 months. If any additional adult tenants are added to the lease before an existing tenant has continuously and lawfully occupied the unit for 24 months, then just cause applies if either of the following are satisfied:

- All the tenants have continuously and lawfully occupied the unit for 12 months or more.
- One or more tenants in the unit has continuously and lawfully occupied the unit for 24 months or more.

There are two categories of just cause: at-fault just cause (where the tenant did something wrong), and no-fault just cause.

AT-FAULT JUST CAUSE INCLUDES ALL OF THE FOLLOWING:

- Default in the payment of rent.
- A breach of a material term of the lease, as defined.
- Maintaining, committing, or permitting a nuisance, as defined.
- Committing waste, as defined.
- The tenant had a written lease that terminates on or after January 1, 2020, and after a written request or demand from the owner, the tenant has refused to execute a written extension or renewal of the lease for an additional term of similar duration with similar provisions.
- Criminal activity by the tenant on the residential rental property, including any common areas, or any criminal activity or criminal threat, on or off the residential rental property, that is directed at any owner or agent of the owner of the property.
- Assigning or subletting the premises in violation of the tenant's lease.
- Refusal to allow the owner to enter the unit as authorized under the law, as defined.
- Using the premises for an unlawful purpose, as defined.
- An employee's failure to vacate the unit after the employee has been terminated.
- When a tenant fails to deliver possession of the unit after providing the owner written notice of his or her intention to terminate the lease, which the owner has accepted in writing.

NO-FAULT JUST CAUSE INCLUDES ANY OF THE FOLLOWING:

- An owner's intent to occupy the unit, including the owner's spouse, domestic partner, children, grandchildren, parents, or grandparents.
- For leases entered into on or after July 1, 2020, the owner can use this cause only if the tenant agrees in writing to the termination or if a specific provision is included in the lease. (An owner may add this language to the lease.)
- Withdrawal of the residential property from the rental market.
- An order relating to habitability that necessitates vacating the property, an order issued by a government agency or court to vacate the property, or a local ordinance that necessitates vacating the property.

- Intent to demolish or to substantially remodel the residential real property.
- Relocation Disclosure and Payment for No-Fault Termination
- AB 1482 requires the landlord to make a relocation payment to the tenant if the termination is for a "no-fault just cause."

The landlord must do one of the following:

- Make a direct payment to the tenant equal to one month of the tenant's rent (in effect when the notice of termination is issued), within fifteen calendar days of service of the notice
- or waive in writing the payment of rent for the final month of the tenancy, prior to the rent be coming due.

The owner must notify the tenant of the tenant's right to a relocation payment or rent waiver. If the owner elects to waive the rent for the final month of the tenancy, the notice must state the amount of rent waived and that no rent is due for the final month of the tenancy.

RELOCATION PAYMENT NOT REQUIRED

Relocation assistance is not required when:

- It is determined by any government agency or court that the tenant is at fault for the condition that triggered the order or need to vacate.
- The tenant fails to vacate after the expiration of the no-fault notice to terminate the tenancy. Any payments already provided to the tenant are recoverable as damages in an action to recover possession.

The rent caps and just-cause provisions remain in effect until January 1, 2030.

BRAVE NEW WORLD FOR APARTMENT OWNERS

While there is a lot of uncertainty on how rent control will affect the housing market, one guarantee is that there will be lots of short term confusion concerning the ins and outs of AB 1482. It is important to surround yourself with stellar real estate professionals, such as real estate attorneys, Realtors and property managers before making any big changes to your leases. In many cases, we are recommending property management to our clients. It is our opinion that well informed investors will thrive in this changing market, while many will leave themselves exposed to legal risk. Knowledge is power, and if you do not have the time to educate yourself on the fine points of rent control, choose a property manager who is both educated and appropriately staffed to accommodate the challenges that landlords will face.

This Holiday season the two largest government sponsored enterprises in the mortgage world, Fannie Mae and Freddie Mac, celebrated early by announcing their plans to raise the maximum conforming loan limit in 2020. This new maximum will be \$510,400 nationwide and \$765,600 in high cost areas. Well happy New Year. This marks the fourth straight year that has seen an increase after they had remained stagnant for an entire decade. From 2006 to 2016 the conforming loan limit held at \$417,000. In 2017 we saw the first increase, and every year since it has climbed. Under the mandates of the 2008 Housing and Economic Recovery Act (HERA) the conforming loan limit is to be adjusted every year to reflect the changes in the average price of a home in the U.S. Data shows that home prices increased by 5.38% on average between the third quarter of 2018 and the third quarter of 2019. Therefore the previous maximum limit was raised by that amount. What does this mean for buyers and sellers? Conforming loans are easier to get qualified for, have less strict credit and income requirements, and require a lower down payment in most cases when compared to a Jumbo loan. A jumbo loan would be anything above the conforming limit, or High balance loan limit in those High cost areas. This means more buyers for those homes in this price point which means an easier time getting your property sold.

YEAR	HISTORICAL CONVENTIONAL LOAN LIMITS					HIGH AREA COST
	SINGLE FAMILY	TWO FAMILY	THREE FAMILY	FOUR FAMILY	SECOND LOAN	SINGLE FAMILY
2019	\$ 510,400	\$ 653,550	\$ 789,950	\$ 981,700	\$ 255,200	\$ 765,600
2019	\$ 484,350	\$ 620,200	\$ 749,650	\$ 931,600	\$ 242,175	\$ 726,525
2018	\$ 453,100	\$ 580,150	\$ 701,250	\$ 871,450	\$ 226,550	\$ 679,650
2017	\$ 424,100	\$ 543,000	\$ 656,350	\$ 815,650	\$ 208,500	\$ 636,150
2016	\$ 417,000	\$ 533,850	\$ 645,300	\$ 801,950	\$ 208,500	\$ 625,500



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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.

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