



THE RENDINO TEAM

EXPERIENCE ♦ INTEGRITY ♦ RESULTS



THE SONOMA COUNTY INCOME PROPERTY REPORT Q1 2020

Hello Friends,

We hope this report finds you healthy, comfortable and well supplied during these trying times. 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 (Santa Rosa - Sonoma - Petaluma - Windsor - Rohnert Park) rent for apartments for the 1st quarter of 2020 was \$1,675, with an effective rent per sq. ft. of \$2.06. This represents a year-over-year rent decrease of -0.96% and a slight increase of .29% from the 4th quarter of 2019. The occupancy factor for the 1st quarter of 2020 was 94.8%. The 2nd quarter to date shows an average rent of \$1,673 and an average occupancy factor of 94.8%, which is consistent with a stable rental market.

It is too early to tell how the COVID-19 pandemic will ultimately affect rents. Rent control and the Anti Price Gouging ordinance were already putting the brakes on a leveling market. The second quarter to date figures indicate that we should expect flat rents through the rest of the quarter. While construction of new rental units has been slowed by COVID-19, it seems clear that Shelter in Place and the inability for tenants to easily relocate will prevent the vacancy factor from creeping up in the short term.

SONOMA COUNTY EFFECTIVE RENTS **

Santa Rosa, Sonoma, Petaluma, Windsor, Rohnert Park CoStar projections highlighted.

PERIOD	STUDIO	1 BED	2 BED	3 BED
2020 Q4	\$1,084	\$1,484	\$1,774	\$2,369
2020 Q3	\$1,125	\$1,546	\$1,849	\$2,469
2020 Q2 EST	\$1,178	\$1,638	\$1,959	\$2,604
2020 Q2 QTD	\$1,249	\$1,515	\$1,800	\$2,037
2020 Q1	\$1,260	\$1,515	\$1,801	\$2,044
2019 Q4	\$1,250	\$1,515	\$1,793	\$2,037
2019 Q3	\$1,245	\$1,528	\$1,810	\$2,046
2019 Q2	\$1,235	\$1,521	\$1,815	\$2,022
2019 Q1	\$1,226	\$1,499	\$1,790	\$2,017

2-4 UNITS SALES

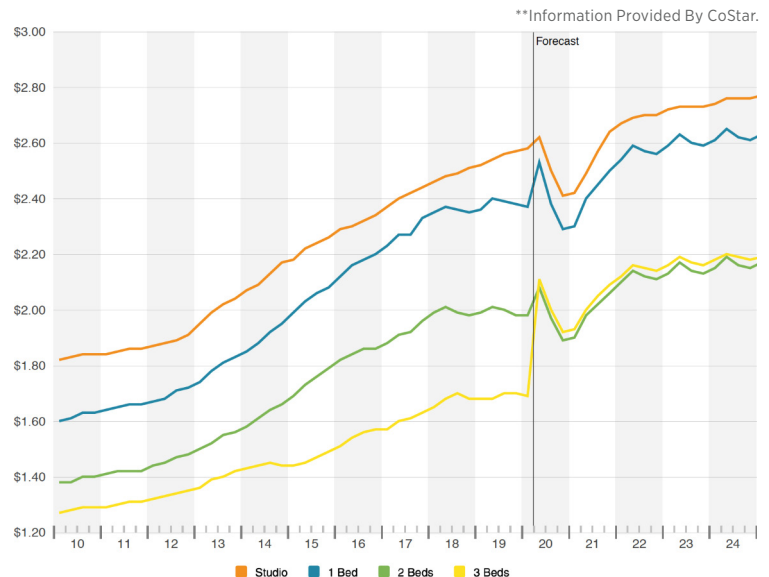
The average sales price for the 1st quarter of 2020 was \$758,370. This represents a -10.1% decrease from the period ending 4 Q of 2019, and a -18.5% year-over-year decrease from the 1st Quarter of 2019. The average price per unit (PPU) for the 1st quarter was \$285,943, which is down -7.54% from the 4th quarter of 2019, which recorded an average PPU of \$309,270.

The average days on the market (DOM) for 2-4 units in the 1st quarter of 2020 was 42. This represents a -65% decrease from the same quarter of 2019. This decrease in marketing time shows us that there was solid demand for 2-4 unit properties as we started off the year. It is important to note that this demand came in response to the decline that we saw in average sales prices. Even before

the COVID-19 pandemic, the declining values indicated that the market was starting to favor buyers. While lower interest rates helped increase cash-flow, the statewide rent control measures spooked many buyers out of the rental business and values declined accordingly.

Presently the average DOM of the active listings is 113 and 119 for properties under contract. Compared to the average DOM seen during the first quarter of 2020, it is evident that the Shelter in Place order and the inability to enter occupied units has had a significant effect on increased marketing time.

MARKET ASKING RENT PER SF BY BEDROOM **



2-4 UNITS SALES

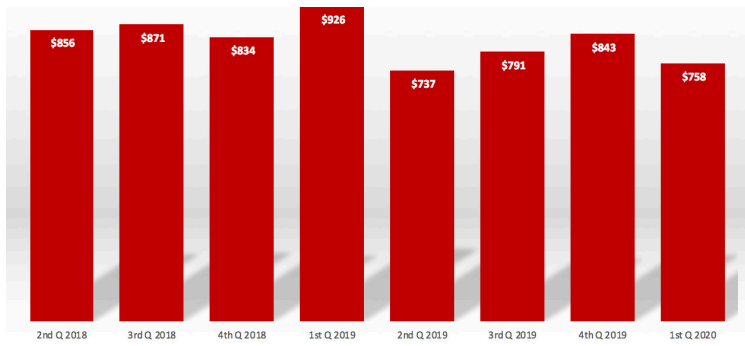
Listings highlighted sold by The Rendino Team

Area	Street Full Address	Units	Bldgs	List Price	Sale Price	Sale Date
Cloverdale	402 Butler Ct	2	1	\$659,000	\$595,000	2/5/20
Cotati	8190 Arthur St	4	4	\$995,000	\$970,000	2/13/20
Cotati	8175 Arthur St	4	4	\$1,155,000	\$1,050,000	1/16/20
Healdsburg	322 Grant St	4	1	\$999,999	\$980,000	2/6/20
Petaluma West	650 Liberty Rd	2	2	\$994,500	\$850,000	2/13/20
Santa Rosa Northeast	123 Leland St	2	2	\$679,000	\$642,500	3/5/20
Santa Rosa Northeast	866 Sonoma Ave	3	4	\$1,150,000	\$1,150,000	2/9/20
Santa Rosa Northeast	1231 Hidden Creek Pl	2	2	\$649,900	\$640,000	2/6/20
Santa Rosa Northeast	1233 Hidden Creek Pl	2	2	\$659,900	\$650,000	2/6/20
Santa Rosa Northeast	1467-1469 Maple Ave	2	2	\$595,000	\$600,000	2/7/20
Santa Rosa Northeast	2090 Nordyke Ave	3	2	\$650,000	\$665,000	3/10/20
Santa Rosa Northwest	1019-1021 Butte Dr	2	1	\$649,000	\$649,000	3/30/20
Santa Rosa Northwest	2930 Lutztown Ct	2	1	\$530,000	\$515,000	2/28/20
Santa Rosa Northwest	2171 Meadowbrook Ct	4	1	\$1,010,000	\$900,000	2/14/20
Santa Rosa Southeast	4001 Bennett Valley Rd	3	1	\$885,000	\$885,000	1/30/20
Santa Rosa Southeast	1371-1373 Gordon Ln	2	1	\$799,000	\$785,000	3/2/20
Santa Rosa Southeast	1570 Neotomas Ave	2	1	\$679,000	\$770,000	2/5/20
Santa Rosa Southeast	2368 Tachevah Dr	3	1	\$895,000	\$875,000	3/17/20
Santa Rosa Southwest	2510 Kenton Ct	4	1	\$850,000	\$836,000	1/16/20
Santa Rosa Southwest	801 West Ave	2	1	\$585,531	\$586,000	2/12/20
Santa Rosa Southwest	919-919 1/2 Link Ln	2	2	\$654,000	\$599,000	3/12/20
Santa Rosa Southwest	2509 Corby Ave	3	2	\$880,000	\$700,000	2/14/20
Sebastopol	306 Edison St	2	2	\$575,000	\$550,000	2/24/20

CURRENT SNAPSHOT

As of this date there are 42, 2-4 unit properties listed for sale in Sonoma County. Only 14 of these properties are under contract. The average list price for the properties not under contract is \$902,174, while the average list price for properties under contract is \$702,321. The average price per unit (PPU) for the active listings is \$347,981. The average PPU for the properties under contract is \$223,466, with an average DOM of 113. This nearly tripling figure is a direct result of the Shelter in Place order, which prevents buyers and inspectors from entering occupied units. Anecdotally, we have seen pent up buyer demand for our listings. However, most buyers are not willing to purchase sight unseen, and most sellers are not willing to allow their listings to be tied up with a due diligence period tied to the release of the Shelter in Place order. Basically, this segment of the market is largely at a standstill until we are able to enter occupied units. Napa County has amended its SIP order to allow for interior showings of listings and it is likely that Sonoma County will follow suite shortly. This should jump start this stalled segment of the market.

2-4 UNITS AVERAGE FOR SALE VS SOLD PRICE*



*Information Provided By Barels.

Q2 2020 PROJECTION

The 1st quarter numbers continued the trend of a correcting sales market; however, it is possible that we will see a lot more inventory hit the market at the end of the Shelter in Place order, which could cause an accelerated correction. The average sales price during the 1st quarter of 2020 was \$758,370 and the average list price for properties under contract is presently \$702,321. The average list-to-sales price ratio has consistently been around 1% over the last 6 quarters, and if this ratio continues to hold true, we could be looking at a decline in the second quarter up to -7.4%. Please note that this metric for determining market projections has been very stable over the years. However, it is likely that it will break down this quarter because of the expectation that we will have a significant increase in inventory during the second quarter as the SIP is removed.

It is safe to say that the COVID-19 pandemic will provide short term stress on the 2-4 unit market. While it is possible and even likely that we will record a second quarter decline in values, low interest rates will greatly help mitigate these declines. Strict statewide rent control measures and fears that tenants may not be able to pay their rent will weigh into buyer's decision-making process. Further, the extension of the 1031 exchange identification period until 7/15/20 has remove the immediate urgency to repurchase for many buyers. Of equal weight will be the desire of many would-be buyers to lock in unprecedented interest rates and re-deploy money from the equities market, which has proven to be unstable at best. Many investors have a long-term outlook and understand the benefits of leveraging cash-flow positive assets at low interest rates. These types of long-term investors are able to look past short-term uncertainties and understand that market appreciation is not the sole reason to invest. They understand that California will always be a desirable place to live and given enough time, appreciation will come back. While we believe we will see declines in the second quarter, it is our opinion that we will see a leveling and possible reversal in the third and fourth quarters, as investors take advantage of historically low interest rates.

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 of the sold comps to help us determine market trends.

There were only 5, 5+ unit properties sold in Sonoma County during the 1st quarter of 2020. The average sales price was \$ 4,798,800.00, with an average of \$210,277 per unit, which represents a quarter-over-quarter increase of 6.7% from the prior quarter. The average DOM for these sales was 231 days. The average cap rate for the properties sold during this reporting period was 4.96 on current rents. This represents a -30.1% decrease from the prior quarter number of 7.1%.

5+ UNITS SALES

Area	Street Full Address	Units	Bldgs	Sale Price	Price / Unit	Sale Date
Sonoma	124 Boyes Blvd	14	3	\$2,100,000	\$150,000	1/1/20
Cloverdale	424 Cloverdale Blvd	5	1	\$1,300,000	\$260,000	11/20/20
SW Santa Rosa	2425 Corby Ave	22	3	\$3,875,000	\$176,136	12/1/19
NW Santa Rosa	4380 Daywalt Rd	5	4	\$788,000	\$157,600	10/1/20
Windsor	8690 Old Redwood Hwy	7	3	\$1,525,000	\$217,857	11/1/20
Rohnert Park	7539 Boris Ct	28	3	\$7,150,000	\$255,357	1/1/20
NE Santa Rosa	740 Mendocino Ave	5	3	\$870,000	\$174,000	1/20/20
Windsor	9940 Starr Rd	23	2	\$4,108,888	\$178,647	2/20/20

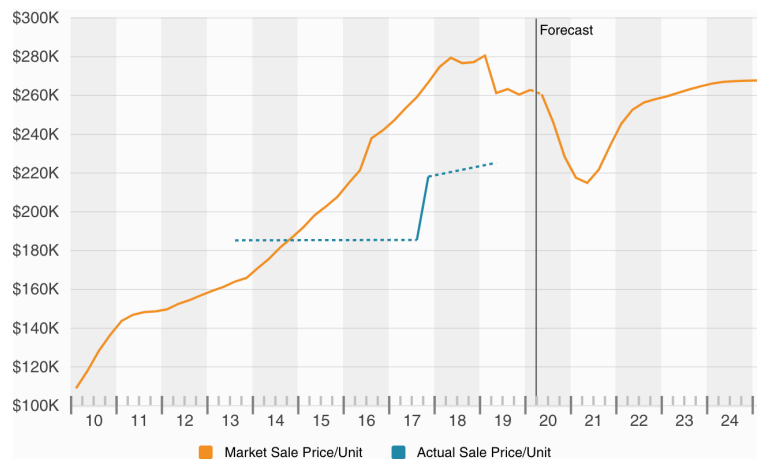
CURRENT SNAPSHOT

There are presently 8, 5+ unit buildings listed for sale in Sonoma County. None of these properties are under contract and the average days on the market is 269 days. The average list price is \$3,488,750, which represents \$296,118.89 per unit. We are dealing with very little data of properties not in escrow, so we will not read too much into these figures.

5+ UNITS OUTLOOK

CoStar, the largest commercial database, previously reported that since the last 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 2019. Costar had adjusted their projections to show a decline in sales for the rest of 2020 and all of 2021. They stated that the pricing power will likely be restrained, as buyers and lenders potentially take to the sidelines to maintain caution during the early stages of this new economic period. Sales volume fell significantly in 2019, to its lowest level since 2011. At this point we do not have any reason to disagree with this projection, especially in lieu of the pandemic. Please note that these projections do not include new construction units or 4 to 5 star properties. This projection will be either shortened or lengthened, depending on the length of the pandemic and SIP.

MARKET SALE PRICE & ACTUAL SALE PRICE PER UNIT



GOVERNOR NEWSOM'S EXECUTIVE ORDER HALTING EVICTIONS AND LOCKOUTS

The California Association of Realtors has provided a summary of Governor Newsom's executive order, which we are providing below. This moratorium bans the enforcement of eviction orders for residential renters affected by COVID-19 through May 31, 2020. Landlords may not evict tenants for nonpayment of rent, and law enforcement or courts may not enforce evictions. Tenants must declare

in writing, no more than seven days after the due date, that they cannot pay all or part of their rent due to COVID-19. Technically this order still allows an eviction to be filed, but the tenant would not have to answer for 60 days. The tenant must retain documentation but is not required to submit it to the landlord in advance. Also, the tenant remains obligated to repay the full rent in a timely manner once the moratorium is lifted. What is considered a timely manner may depend on the city or county where the property is located.

SONOMA COUNTY EVICTION ORDINANCE

In addition to the statewide order, Sonoma County has adopted its own Eviction Defense Ordinance. This ordinance creates a legal defense for all renters who can demonstrate that their failure to pay rent is due to the coronavirus pandemic. Tenants who use this defense are required to share that information with their landlord, who in turn is suggested to submit a forbearance claim for mortgage relief.

Here are some key highlights of the ordinance:

1. The ordinance prevents evictions for the duration of the locally declared emergency and for 60 days after it ends to allow tenants time to make up unpaid rent.
2. The ordinance directs the Sonoma County Housing Authority to extend deadlines for housing assistance recipients and applicants in order to provide stability for community members housed with a critical subsidy.
3. The ordinance is considered urgent based on the closure or extreme restrictions on local businesses, severe loss of income for many residents who depend on wages or business income to pay rent, and substantial medical expenses for some community members.
4. The ordinance highlights the suspension of in-person classes across all Sonoma County School Districts as an additional hardship for working parents who must adjust work schedules and take time off, whether paid or unpaid.

It's important to note that the moratoriums and county ordinance don't prevent all evictions: Landlords can still evict tenants if they believe that it is necessary to ensure the health and safety of the tenant or other residents. A tenant with federally subsidized housing cannot be evicted until July 25th. Further, a tenant cannot be evicted if the landlord has a federally backed mortgage and/or receives low-income housing tax credits. In both events, a landlord cannot charge late fees.

IRS EXTENSIONS FOR 1031 EXCHANGES

- **1031 EXCHANGES:** If an investor has taken the first step of a like-kind exchange by selling the down-leg property, and either the 45-day or the 180-day deadline falls between April 1st and July 15th, the deadline has been extended until July 15, 2020.
- A sole proprietor who pays quarterly estimated taxes now has until July 15th to file their second quarter payment. As a result of an earlier IRS notice, first quarter estimated tax payments have already been extended until July 15th. This means that any individual or corporation that has a quarterly estimated tax payment due on or after April 1, 2020, and before July 15, 2020, can wait until July 15th to make that payment without penalty.

WHAT IS FORBEARANCE?

Forbearance is vague at best and there is not enough legislation enacted to protect investor mortgagees who receive forbearance. While forbearance will not have an immediate negative impact on credit scores, the banks may be able to decline future loans for applicants who have received forbearance. Entering into a forbearance agreement with Fannie Mae or Freddie Mac comes with strict terms and conditions, including restrictions on eviction proceedings, and the terms of forbearance are typically non-negotiable. Because we have not seen suitable protections for landlords, we cannot recommend that investors seek and receive forbearance without first consulting an attorney and CPA.

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EXPERTISE AND MARKETING MATTERS

It is uncertain how the COVID-19 pandemic will change the market in the short and long term. The depth of the change will depend largely on the length of the outbreak and the effectiveness of government to jump start the economy, without causing more harm than good. Knowledge is power, and if you do not have the time or will to educate yourself on the fine points of rent control, COVID-19 and other landlord related legislation, surround yourself with the very best professionals who can help you navigate through these challenging times.

If you are considering selling, the right plan coupled with the very best marketing campaign matter more now than at any time in a decade. While there are many unknowns, we do know that change is inevitable. Sales and purchases will continue, and making good decisions is the key to being able to thrive in the new market. California will continue to be appealing to many investors seeking a fair return and a stable rental condition.

Here are a few questions you should ask yourself prior to selecting an agent:

1. **Does the agent have vast experience in this segment of the market?** Ask to see a 5-year production report for properties like yours. Make sure that these numbers reflect their production only, not the office. Ask the agent to detail their experience during the last financial crisis, so that you will know how they will help you navigate this market.
2. **Does the agent have an understanding of the market?** Ask a few pointed questions which you already know the answer to. Ask about current cap rates for comparable properties, rental and sales trends, price per unit and per foot of comparable properties. How do your rents compare to market rents? Ask to see some current comps.
3. **How will he/she present your property in its best light?** In a market where many buyers have more knowledge than real estate agents, it is important to know how your agent will answer buyer objections. Do a little role-playing and see how he/she answers your tough questions and matters of negotiation.
4. **Ask to see detailed examples of marketing packages.** During normal markets, just listing on the MLS and hoping for a great offer is not enough. Find out exactly how he/she is going to safely and virtually market the property, and make sure to ask to see sample offering memorandums with pro forma income and expense statements.

DOES BUYING AN INVESTMENT PROPERTY STILL MAKE SENSE IN THE WORLD OF COVID?

When recession seems imminent, it causes a lot of people to assume that property values will drop. In fact, prices have increased during three of the last five recessions. Single and multifamily housing may still be less volatile than many instruments available to investors. That said, some changes in investment property financing have come down from Fannie Mae and Freddie Mac and there is new guidance moving forward.

The good news is that it is still possible to use rents to help qualify for the purchase of a single family or multi-residential property. In fact, most of the pre-COVID guidelines remain unaffected to this day.

More restrictive measures for refinances have been implemented. Here are a few of these changes below.

- No cash out refinances at this time.
- Owners must obtain signed letters from the tenants stating they are not in forbearance.
- Owners must provide proof that the last 3 months of rent has been paid.

Rate and term refinances are a no brainer right now for owners looking to increase cash flow without raising rents. To find out if it makes sense to explore a purchase or refinance, its best to talk to an expert, such as myself to see if you qualify.



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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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