



# THE RENDINO TEAM

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## THE SONOMA COUNTY INCOME PROPERTY REPORT Q3 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. Please excuse us for being a little tardy with this issue, as we were waiting for more information on the eviction moratorium, which was finally released on September 1st. We have provided this information therein. 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 2nd quarter of 2020 was \$1,675, with an effective rent per sq. ft. of \$2.05. This represents a year-over-year rent decrease of -0.35% and a slight increase of .48% from the 1st quarter of 2020. The occupancy factor for the 2nd quarter of 2020 was 94.07%. The 3rd quarter to date shows an average rent of \$1,693 and an average occupancy factor of 94.8%, which is consistent with the fact that very little has happened during the shelter in place order.

### SONOMA COUNTY EFFECTIVE RENTS \*\*

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

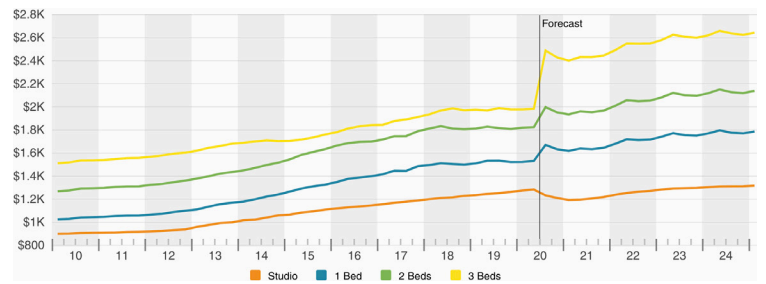
PERIOD	STUDIO	1 BED	2 BED	3 BED
2020 Q3 EST	\$1,228	\$1,659	\$1,988	\$2,466
2020 Q3 QTD	\$1,283	\$1,537	\$1,835	\$1,959
2020 Q2	\$1,275	\$1,520	\$1,808	\$1,963
2020 Q1	\$1,267	\$1,511	\$1,803	\$1,948
2019 Q4	\$1,254	\$1,508	\$1,787	\$1,938
2019 Q3	\$1,244	\$1,522	\$1,801	\$1,975
2019 Q2	\$1,235	\$1,513	\$1,807	\$1,951
2019 Q1	\$1,225	\$1,490	\$1,781	\$1,954
2018 Q4	\$1,219	\$1,482	\$1,771	\$1,954
2018 Q3	\$1,207	\$1,492	\$1,793	\$1,973
2018 Q2	\$1,200	\$1,499	\$1,819	\$1,952
2018 Q1	\$1,191	\$1,486	\$1,799	\$1,922
2017 Q4	\$1,179	\$1,474	\$1,777	\$1,894
2017 Q3	\$1,170	\$1,431	\$1,725	\$1,873
2017 Q2	\$1,160	\$1,431	\$1,729	\$1,862

It is too early to tell how the COVID-19 pandemic will ultimately affect rents. As was predicted in our previous report, the second quarter of 2020 brought us flat rents. Rent control and the Anti-Price Gouging ordinance were already putting the brakes on a leveling market before COVID. The 3rd quarter to date figures indicate that we should expect flat rents through the rest of the quarter, if not through the remainder of 2020. The COVID-19 pandemic has slowed the construction of new rental units, placing more demand on a housing supply already ill-equipped to meet growing demand. Additionally, the moratorium on evictions and a general unwillingness of tenants to move during the Shelter in Place will all but guarantee a low vacancy factor through the end of the 3rd quarter of 2020 and likely through the rest of the year. Even though Sonoma

County is still under the Price Gouging Ordinance and Statewide Rent Control, history shows us that rent-controlled cities will eventually find a way to increase with the demand, as owners are rarely willing to accept sub-market rents out of fear of diminished resale value.

While the long term housing market may have a rosy outlook, the pandemic and increasing political climate will likely continue to squeeze housing providers until at least the end of the pandemic. While we personally feel that the moratorium on evictions is a just legislation, housing suppliers who seek forbearance in turn will ultimately be punished at future dates when applying for new loans. For now, housing providers will continue to take it on the chin, while the banks continue to be immune from financial responsibility.

### MARKET ASKING RENT PER SF BY BEDROOM \*\*



Source - CoStar

### 2-4 UNITS SALES

The average sales price for the 2nd quarter of 2020 was \$748,279. This represents a -1.3% decrease from the period ending 1Q of 2020, and a -9.12% year-over-year decrease from the 2nd Quarter of 2019. The average price per unit (PPU) for the 2nd quarter was \$264,775, which is down -7.4% from the 1st quarter of 2020, which recorded an average PPU of \$285,943.

The average days on the market (DOM) for 2-4 units in the 2nd quarter of 2020 was 96. This represents a 71% increase from the same quarter of 2019. This increase in marketing time is clearly the result of the shelter in place order, which provided restrictions on the showing of occupied and vacant units. It is important to note that the 2nd quarter of 2020 continued the trend of a declining sales market, which began in 2019 when Statewide Rent Control measures were announced. Even the extremely low interest rates that are greatly helping the residential market do not seem to be helping the multi-unit market too much, as there are fewer people willing to be housing providers in this rent controlled environment.

### CURRENT SNAPSHOT

As of this date, there are 64, 2-4 unit properties listed for sale in Sonoma County. 32 of these properties are under contract. The average list price for the properties not under contract is \$1,055,063, while the average list price for properties under contract is \$920,352. The average price per unit (PPU) for the active listings is \$377,602, with an average DOM of 86. The average PPU for the properties under contract is \$387,516, with an average DOM of 79. Inventory is approximately 50% higher than at this time last quarter.

Generally speaking, increased inventory levels over a sustained period of time will result in declines; however, it is likely that much of the inventory that came online in 2Q 2020 was due to the unwillingness of many sellers to place properties on the market while there were significant COVID related restrictions on showing units. Presently, we are seeing reasonable demand for properly priced and marketed units, while “pie in the sky” listings continue to collect days on the market.

AREA	ADDRESS	UNITS	SOLD ON	SOLD PRICE
Cotati	8458 Loretto Ave	2	6/22/20	\$740,000
Healdsburg	512 Prince Ave	4	4/14/20	\$975,000
Healdsburg	303 Matheson St	3	4/10/20	\$1,100,000
Healdsburg	516 Fitch St	4	4/27/20	\$1,400,000
W Petaluma	537-539 Upham St	2	8/1/20	\$780,000
Russian River	14543 Canyon 2 Rd	4	6/22/20	\$344,000
Russian River	14323 Old Cazadero Rd	2	7/8/20	\$495,000
Russian River	15220 Canyon 3 Rd	2	8/28/20	\$280,000
Russian River	21527 Moscow Rd	2	7/29/20	\$360,000
NE Santa Rosa	3835-3837 Hwy 12	2	4/16/20	\$408,000
NE Santa Rosa	811 Howard St	2	6/16/20	\$890,000
NW Santa Rosa	623 Clover Dr	4	5/4/20	\$660,000
NW Santa Rosa	205-209 Iowa St	2	4/30/20	\$870,000
NW Santa Rosa	1820-1830 Terry Rd	2	4/13/20	\$735,740
NW Santa Rosa	229-231 West 6th St	2	6/18/20	\$720,000
NW Santa Rosa	303 Boyce St	2	4/1/20	\$650,000
NW Santa Rosa	1327 Crestview Ct	3	7/28/20	\$840,000
NW Santa Rosa	1141-1143 Guaymas St	2	6/17/20	\$690,000
NW Santa Rosa	2373-2375 Heidi Pl	2	7/31/20	\$593,500
SE Santa Rosa	5874 Melita Rd	2	7/9/20	\$660,000
SE Santa Rosa	2813 Saint Paul Dr	4	7/1/20	\$910,000
SE Santa Rosa	1486-1488 Post Ranch Rd	2	6/19/20	\$736,000
SW Santa Rosa	2585 Kenton Ct	4	7/1/20	\$703,333
SW Santa Rosa	2368 Kenton Ct	4	7/1/20	\$703,333
SW Santa Rosa	2571 Kenton Ct	4	7/1/20	\$703,333
SW Santa Rosa	527 Olive St	2	5/26/20	\$400,000
Sebastopol	2140 Coffee Ln	4	5/23/20	\$950,000
Sebastopol	7887 Swartz Ave	4	4/19/20	\$1,360,000
Sebastopol	68 Front St #1-2	2	8/26/20	\$410,000
Sonoma	18050-18052 Greger St	2	6/12/20	\$530,000
Sonoma	658 Walnut Ave	2	6/24/20	\$725,000
Sonoma	644-646 Craig Ave	2	6/26/20	\$750,000
Sonoma	845 Verano Ave	2	7/31/20	\$700,000
Sonoma	415 W Napa St	4	7/31/20	\$1,275,000

### Q3 2020 PROJECTION

The 2nd quarter numbers continued the trend of a correcting sales market, and as predicted, increased inventory came on the market once Shelter in Place orders were eased. This increased inventory accelerated the correction, at least in the short term. The average sales price during the 2nd quarter of 2020 was \$748,279 and the average list price for properties under contract is presently \$920,352. The average list-to-sales price ratio has been approximately 1-2% over the last year and a half, and if this ratio continues to hold true we could see an increase in values of up to 20% by the end of the 3rd quarter of 2020. It is very important to note that sales trend data should be looked at over a period of a year or more, and a single quarterly increase or decrease could be the result of a few unique sales that should be taken with a grain of salt. It is also important to remember that the second quarter brought a decline of -7.4%, which flattens out the V shaped curves that are observed when looking at quarterly sales data. While low interest rates will likely play a positive role in the eventual 3rd quarter growth, we will have to wait until the end of the year to be able to ascertain the direction of the market. Ultimately, inventory levels will dictate the direction of the market.

Source - BAREIS

### 5+ UNITS SALES

While there is never adequate inventory of 5+ unit sales to draw reasonable conclusions on market trends, the second quarter was especially interesting, with only 1 property sold. Typically, we only track price per unit (PPU) and cap rates for this segment of the market, but given that the only sale was a private party transfer, we will take a hard pass at analyzing 5+ unit trends for 2Q 2020. We could surmise that the lack of sales was the result of buyer trepidation over the eviction moratorium and lenders pulling back to issue loans during the financial crisis; however, any inferences would be anecdotal at best.

### CURRENT SNAPSHOT

At the time of this report there are 18, 5+ unit buildings listed for sale in Sonoma County. Only 4 of these properties are under contract and the average days on the market is 53 days. The average list price is \$2,349,750, which represents \$170,891 per unit. This is the largest amount of inventory available for sale that we had in over 10 years. The average list price for the properties not under contract is \$3,242,700, which represents \$245,659 per unit. The average days on the market for the properties not in contract is 172. It will be interesting to see if the average price per unit drops below \$200,000. We will report on this in our 4Q newsletter.

Source - CoStar

### EVICTION MORATORIUM

As multiple housing protection bills navigate the state Legislature, state and local policy makers are looking at options to help unemployed renters stay housed with state eviction courts resuming Sept. 2. While many cities have decided to extend the filing of evictions, the Sonoma County courts are now scheduled to start on the 2nd of September.

Two proposals had been working their way through the state Capitol for the past few months, and local elected officials have been looking to Sacramento first before adopting new policies.

Senate Bill 1410 would have given tax credits to landlords to cover missed rent payments. They could sell the credits on the secondary market for cash. Tenants would have until 2024 to start paying back missed rent.

Senate Bill 1436, if enacted, would have halted evictions for nonpayment of rent due to pandemic-related hardships until 90 days after the current state of emergency is lifted, or through April 2021, whichever is earlier. It would also provide mortgage forbearance, essentially delaying payments, for landlords and homeowners. AB 1436 would have forced rental property owners to defer rent payments for tenants who are either unable or unwilling to pay for housing during the COVID-19 pandemic. The legislation would let tenants skip rent payments without providing any proof that they have been negatively affected by COVID-19, making the bill tantamount to a government-sanctioned rent strike.

On August 28, 2020, AB 3088, a compromise bill intended to prevent a wave of evictions and foreclosures in California was announced by Governor Gavin Newsom. AB 3088 at first glance appears to be a less-burdensome alternative to Assemblyman David Chiu's AB 1436, dubbed the COVID-19 Tenant Relief Act of 2020.

The new proposal allows landlords to evict tenants who cause nuisances or other threatening behavior to their neighbors. It also allows owners to terminate tenancies of renters who have the means to pay rent, but refuse to do so. The bill also offers eviction protections to tenants with legitimate financial hardships due to COVID-19.

**The California Apartment Association released a summary of the new law: [SEE NEXT PAGE]**

## EVICCTIONS

- 1 CTRA prohibits a landlord from evicting a resident for non-payment of rent or other charges that came due between March 1, 2020 and August 31, 2020 if the resident provides the landlord with a declaration stating their finances have been negatively affected by the COVID-19 pandemic. "High-income" residents, as defined, can also be required to provide documentation of their COVID-19-related hardship, provided the landlord follows a specific procedure.
- 2 Landlords are also prohibited from evicting a resident for non-payment of rent or other charges that came due between September 1, 2020 and January 31, 2021 if the resident does the following: (1) provides the landlord with a declaration stating their finances have been negatively affected by the COVID-19 pandemic (and documentation, if required for a high-income resident); and, (2) by January 31, 2021, pays 25 percent of the rental payments due between September 1, 2020 and January 31, 2021 that were missed because the resident experienced COVID-19-related financial distress.
- 3 Landlords are required to give an informational notice about the new law to any residents who, as of September 1, 2020, have missed one or more payments that came due between March 1 and August 31, 2020.
- 4 Requires a landlord to give a 15-day notice before seeking to evict for any unpaid rent or other charges due between March 1, 2020 and January 31, 2021. The 15-day period does not include Saturdays, Sundays, or judicial holidays.
- 5 Extends "just cause" protections under AB 1482 to all residents until February 1, 2021, with limited exceptions. Eviction for demolition or "substantial rehabilitation" is limited to circumstances necessary to comply with health and safety laws.
- 6 Prohibits any unlawful detainer actions for non-payment of rent or other charges (regardless of when due) prior to October 5, 2020.
- 7 Prohibits unlawful detainer actions against residents with COVID-19-related financial distress for non-payment of rent and other charges due between September 1, 2020 and January 31, 2021 until February 1, 2021.

## EFFECT ON LOCAL EVICTION MORATORIUM

- 1 Local eviction moratoria adopted in response to the COVID-19 pandemic that are set to expire before January 31, 2021 can remain in place until the end of their term but cannot be extended or renewed with an effective date prior to February 1, 2021.
- 2 If a local eviction moratorium provides for repayment of back due rent to begin after March 1, 2021, or ties repayment to the end of the state of emergency or local emergency, that repayment period is required to start on or before March 1, 2021 and end by March 31, 2022.
- 3 Repayment periods that are set to begin prior to March 1, 2021 cannot be extended.
- 4 The legislature declares that nothing in the new law shall be construed to provide the legislature's understanding of the legal validity of any specific local ordinance.

## COLLECTIONS

- 1 Allows unpaid rent and other charges due between March 1, 2020 and January 31, 2021 to be collected through small claims court. Existing small claims court limits do not apply.
- 2 These small claims cases may not be filed before March 1, 2021.

## EXPERTISE AND MARKETING MATTERS

It is uncertain how AB 3088 will affect the market in the long and short term. Clearly there are many housing providers who are choosing to take their investments out of California, while others are opting to enter or remain in the market. Clearly the length of the COVID-19 pandemic and crippling legislations will determine the overall short term and long term health of the market. As we always say: knowledge is power. 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. Regardless of the current state of affairs, 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 samples of offering memorandums with pro forma income and expense statements.

### Has COVID 19 affected mortgage lending?

#### Is it harder to get a mortgage due to COVID?

#### Is now the time buy or refinance to take advantage of low interest rates?

The answer to all these questions, though it may seem contradictory? Yes.

From the beginning of the Pandemic in the US, to the first waves of shelter in place orders throughout most states, the hit to the economy was quickly evident.

But what does that mean for the average home buyer and investors?

- Cash out loans and investment loans require a 700 fico minimum
- Maximum number of mortgages one single bank can carry is 4. (Investors can still finance up to 10 mortgages, however, they can only finance up to 4 with one single entity).
- Layard verification of employment. For W2 employees, a paystub is required every time a borrower gets paid through the loan process. For self-employed folks, year to date bank statements are required to show business cash flow along with a year to date P&L, balance sheet, and letter from CPA or tax preparer confirming the strength of the business.

The verifications of employment has been the hardest part for clients. Under normal circumstances this was still done but due to the increased likelihood of layoffs, furloughs, and changes in pay due to COVID, lenders have placed a higher priority on confirming the employment status of borrowers at multiple times throughout the transaction.

To ensure you still meet the guidelines for a refinance or purchase transaction in these changing times talk to a trusted loan consultant.



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This communication is for informational purposes only; this is not a commitment to lend. All loans are subject to buyer and property qualification. All programs, rates and fees are subject to change or cancellation at any time and without notice. Contact Summit Funding, Inc. to learn more about mortgage products and your eligibility.

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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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