



THE RENDINO TEAM

EXPERIENCE • INTEGRITY • RESULTS



THE SONOMA COUNTY INCOME PROPERTY REPORT Q4 2020

We hope this report finds you healthy, comfortable, and of sound mind during this challenging time. 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 3rd quarter of 2020 was \$1,682, with an effective rent per sq. ft. of \$2.06. This represents a year-over-year rent increase of 0.47% and a slight increase of .23% from the 2nd quarter of 2020. The occupancy factor for the 3rd quarter of 2020 was 94.5%. The 3rd quarter to date shows an average rent of \$1,681 and an average occupancy factor of 94.5%. These figures point to a stable rental market, with a vacancy factor inline with traditional metrics. This is good news for both landlords and tenants alike.

SONOMA COUNTY EFFECTIVE RENTS **

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

PERIOD	STUDIO	1 BED	2 BED	3 BED
2020 Q4 EST	\$1,206	\$1,633	\$1,966	\$2,482
2020 Q4 QTD	\$1,288	\$1,525	\$1,815	\$1,962
2020 Q3	\$1,285	\$1,528	\$1,814	\$1,960
2020 Q2	\$1,290	\$1,530	\$1,806	\$1,948
2020 Q1	\$1,283	\$1,523	\$1,799	\$1,943
2019 Q4	\$1,268	\$1,520	\$1,785	\$1,933
2019 Q3	\$1,260	\$1,532	\$1,787	\$1,960
2019 Q2	\$1,247	\$1,523	\$1,803	\$1,941
2019 Q1	\$1,236	\$1,500	\$1,779	\$1,942
2018 Q4	\$1,229	\$1,491	\$1,769	\$1,940
2018 Q3	\$1,216	\$1,499	\$1,788	\$1,958
2018 Q2	\$1,208	\$1,506	\$1,814	\$1,931
2018 Q1	\$1,198	\$1,491	\$1,793	\$1,902
2017 Q4	\$1,185	\$1,480	\$1,771	\$1,874
2017 Q3	\$1,177	\$1,436	\$1,720	\$1,854

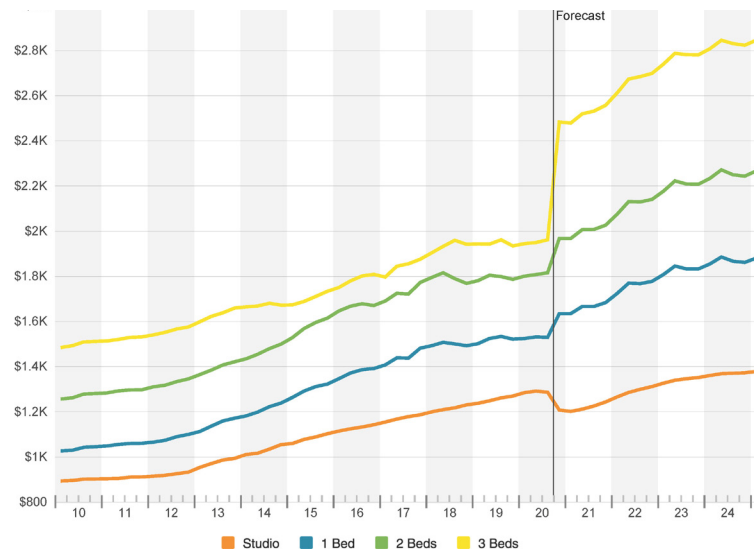
While rents have fallen by more than 30% in San Francisco during the pandemic, the current rental trends are a relief for Sonoma County landlords who have rightfully been concerned during this economic downturn. Telecommuting has adversely affected Bay Area tech-heavy rental markets, while Sonoma County bread and butter rental units have remained virtually unchanged. Rents are holding up better in suburban areas such as Santa Rosa and Petaluma, as renters flee dense cities reliant on public transportation amid the coronavirus pandemic.

Despite rent control and the Anti-Price Gouging ordinance, the 4th quarter to date figures indicate that we should expect a significant increase in rents through the 4th quarter and into the 1st quarter of 2021. Costar predicts that the 4th quarter is going to bring effective rents of \$1,856. If accurate, this will represent a quarter over quarter increase of 10.34%. These numbers are surprising and quite frankly do not reflect our experience on the ground. In fact, we have been experiencing traditionally "normal" rental conditions, where owners have to provide move-in incentives and often have to take several applications before finding qualified applicants. We will soon find out if there was a breakdown in

Costar's reporting, or if in fact, the rental market is in the early stages of growth. You can be sure that we will keep you posted.

MARKET ASKING RENT PER SF BY BEDROOM

Santa Rosa - Sonoma - Petaluma - Windsor - Rohnert Park



2-4 UNITS MARKET

The average sales price for the 3rd quarter of 2020 was \$743,258. This represents a -0.67% decrease from the period ending 2Q of 2020 and a -5.43% year-over-year decrease from the 3rd Quarter of 2019. The average price per unit (PPU) for the 3rd quarter was \$309,610, which is up 16.93% from the 2nd quarter of 2020, which recorded an average PPU of \$264,775.

The average days on the market (DOM) for 2-4 units in the 3rd quarter of 2020 was 106. This represents a 27.71% increase from the same quarter of 2019. This increase in marketing time is clearly the result of COVID, which provided some restrictions on the showing of occupied units. It is important to note that the 3rd quarter of 2020 continued the trend of a declining sales market, which began in 2019 when Statewide Rent Control measures were announced. It is interesting to note that 21 out of the 30 sales recorded in the 3rd quarter of 2020, sold with at least 1 of the units being vacant. A vacant unit in a rent-controlled environment allows for the possibility of an owner/occupied sale, which is popular for end-users seeking additional income or multi-generational housing solutions. Of the 30 sales, only 4 were fourplexes, which accounts for the higher than usual price per unit, since owner-occupied type units tend to fetch higher valuations than bread and butter income units.

CURRENT SNAPSHOT

As of this date, there are 84, 2-4 unit properties listed for sale in Sonoma County. Forty-one of these properties are under contract. The average list price for the properties not under contract is \$1,063,056.98, while the average list price for properties under contract is \$636,634.85. The average price per unit (PPU) for the active listings is \$408,137.95, with an average DOM of 85. The average PPU for the properties under contract is \$334,641.40, with an average DOM of 77. It

is interesting to note that inventory is approximately 83.3% higher than at this time last quarter.

2-4 UNITS SALES

CITY	STREET ADDRESS	BLDNGS	UNITS	LISTING PRICE	SOLD PRICE
Rohnert Park	8722 Lund Hill Ln #27-29	1	4	\$1,200,000	\$1,175,000
Petaluma West	537-539 Upham St	2	1	\$850,000	\$780,000
Russian River	15220 Canyon 3 Rd	2	1	\$280,000	\$280,000
Russian River	21527 Moscow Rd	2	2	\$375,000	\$360,000
Russian River	14323 Old Cazadero Rd	2	2	\$515,000	\$495,000
NE Santa Rosa	3180 Calistoga Rd	2	2	\$619,000	\$610,000
NE Santa Rosa	1717 Mission Blvd	2	2	\$620,000	\$620,000
NE Santa Rosa	832 Montrose Ct	2	1	\$729,900	\$729,900
NE Santa Rosa	1540 Humboldt St	2	2	\$729,950	\$740,000
NW Santa Rosa	2373-2375 Heidi Pl	2	1	\$570,000	\$593,500
NW Santa Rosa	2781-2783 Marlow Ct	2	1	\$624,000	\$620,000
NW Santa Rosa	328-330 Wikiup Dr	2	1	\$649,000	\$650,000
NW Santa Rosa	1327 Crestview Ct	3	1	\$899,000	\$840,000
NW Santa Rosa	1911 Fulton Rd	3	3	\$1,050,000	\$1,000,000
SE Santa Rosa	1215 Jacky Dr	2	1	\$600,000	\$600,000
SE Santa Rosa	1601 Yulupa Ave	2	1	\$629,000	\$625,000
SE Santa Rosa	441 Earle St	3	1	\$669,500	\$650,000
SE Santa Rosa	5874 Melita Rd	2	2	\$735,000	\$660,000
SW SANTA ROSA	475-479 Palmilla Pl	3	1	\$589,900	\$575,000
SW SANTA ROSA	2585 Kenton Ct	4	1	\$750,000	\$703,333
Sebastopol	68 Front St #1-2	2	1	\$399,000	\$410,000
Sebastopol	890 Mcfarlane Ave	3	2	\$999,000	\$950,000
Sonoma	390 Calle Del Monte	2	2	\$635,000	\$650,000
Sonoma	845 Verano Ave	2	1	\$725,000	\$700,000
Sonoma	526 Grove St	2	1	\$750,000	\$715,000
Sonoma	18825-18835 Jami Lee Ln	2	1	\$750,000	\$795,000
Sonoma	13910 Arnold Dr	2	2	\$999,000	\$980,000
Sonoma	57-61 Waterman Ave	3	1	\$1,050,000	\$1,056,000
Sonoma	415 W Napa St	4	1	\$1,200,000	\$1,275,000
Sonoma	171-175 Central Ave	2	2	\$1,495,000	\$1,460,000

Q4 2020 PROJECTION

As discussed, the average sales price during the 3rd quarter of 2020 was \$743,258, while the average list price for properties under contract is presently \$636,634. On average, the list-to-sale price differential has been 1-2% over the last several years. If this differential holds true, we will likely see a large quarter over quarter decrease by up to -15% by the end of Q4 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. It is also important to view the quarter numbers with context, especially pertaining to the Covid-19 crisis.

Increased inventory levels over a sustained period of time generally result in value declines, which is what we see here. While the residential market has surged in the wake of historically low-interest rates, the multi-unit market has not fared as well, since non-owner-occupied interest rates are significantly higher than owner-occupied loans. Many investors who have grown weary of rent control and Covid-19 related rental restrictions are seeking opportunities in less restrictive markets.

WHERE DO WE GO FROM HERE?

It is our view that the corrections that we have experienced represent a buying opportunity for investors who have been waiting for more favorable market conditions. While we will likely see further value declines by the end of the year, it is our opinion that next year will likely bring us more normal and even boring market conditions (we should at least hope). This is all providing that the Covid-19 pandemic comes to a timely end and no further rental restrictions are imposed on housing providers.

2-4 UNITS AVERAGE FOR SALE VS. SOLD PRICE



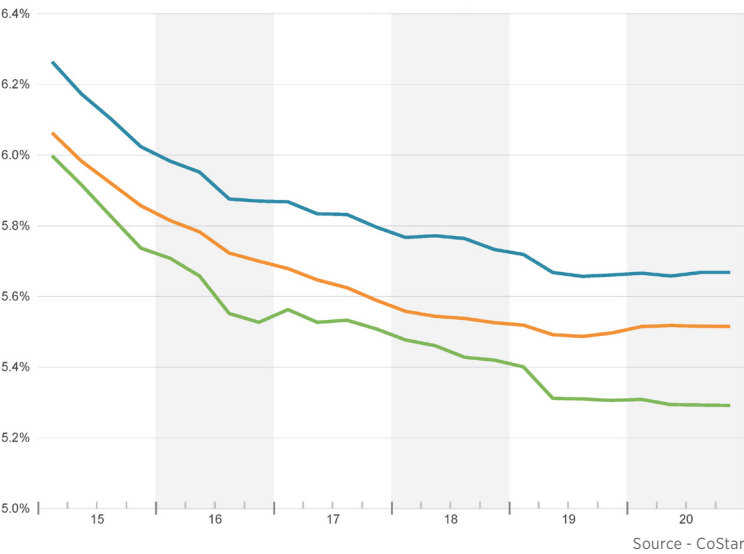
Source - Trendgraphix, Inc.

2-4 UNITS SALES OUTLOOK

	CURRENT VS PREVIOUS MONTH			CURRENT VS SAME MONTH 1 YEAR AGO			CURRENT VS SAME QUARTER 1 YEAR AGO		
	OCT 20	SEP 20	% CHANGE	OCT 20	OCT 19	% CHANGE	AUG 20 TO OCT 20	AUG 19 TO OCT 19	% CHANGE
AVG. ACTIVE	1107	1049	+5.5%	1107	895	+24%	1074	917	+17.1%
AVG. SOLD	883	794	+11.2	883	910	-3%	834	810	+3%

Source - BAREIS MLS

2-4 UNITS MARKET CAP RATE PER STAR RATING



Source - CoStar

5+ UNITS MARKET

There were only 3, 5+ unit properties sold in Sonoma County during the 3rd quarter of 2020. The average sales price was \$6,850,000, with an average of \$240,112 per unit, which represents a quarter-over-quarter decrease of -9.7% from the same quarter of 2019. The average DOM for these sales was 71 days. The average cap rate for the properties sold during this reporting period was 6.17 on current rents.

CURRENT SNAPSHOT

At the time of this report, there are 18, 5+ unit buildings listed for sale in Sonoma County. Only 3 of these properties are under contract and the average days on the market is 53. The average list price for the properties not under contract is \$2,354,200, which represents \$217,981.48 per unit. The average days on the market for these properties is 186. The average list price for the properties under contract is \$1,086,667, which represents \$90,556 per unit. The average days on

the market for the properties in contract is 121. It should be noted that two of the 3 listings are located in the Russian River area, which typically record lower sales prices than the remainder of Sonoma County.

5+ UNITS SALES

CITY	STREET ADDRESS	TYPE	UNITS	SOLD PRICE	PRICE /UNIT	SALE DATE
Santa Rosa	1150 Yulupa Ave	MF	12	\$3,525,000	\$293,750	9/30/2020
Santa Rosa	433 Sonoma Ave	MF	18	\$3,950,000	\$219,444	9/17/2020
Sonoma	140-158 Northside Ave	MF	14	\$2,900,000	\$207,142	9/4/2020
Santa Rosa	1717 Mission Blvd	MF	5	\$620,000	\$124,000	8/11/2020
Santa Rosa	815 Butler Ave	MF	5	\$641,000	\$128,200	7/23/2020

5+ UNITS OUTLOOK

While we never draw too many conclusions on market trends when looking at such little data, it is noteworthy that 2020 has brought us the largest amount of listing inventory in over 10 years. Investors and lenders for larger complexes have clearly moved to the sidelines, as evidenced by the large amounts of listing inventory and limited sales. Lenders are less likely to issue loans during the pandemic due to rent deferment policies and eviction restrictions. Buyers are also less likely to complete a purchase in this uncertain environment. While a vaccine appears to be around the corner, there are no clear indications that confidence in this segment of the market will return right away. It is our opinion that the 1st quarter of 2020 will continue the trend of low sales volume. Only when restrictive measures are eased will most buyers return to buying and lenders return to lending. It is our opinion that the State and Federal government will not quickly ease Covid related rental measures, even when it is unnecessary to continue these policies. Let's face it, the pandemic has given our elected officials the ability to do with the pen what they have been unable to do with legislation. Even though Proposition 21 was defeated by large margins, history tells us that our elected officials will continue to put the screws to housing providers wherever and whenever they can. We hope that history proves us wrong on this.



ELECTION AFTERMATH

California voters took to the polls to decide the fate of the two key propositions on this year's ballot.

PROPOSITION 21 – RENT CONTROL

California voters have **defeated** this statewide rent control measure. This measure would have repealed key provisions of the 1995's Costa-Hawkins Rental Housing Act, authorizing local governments to bring back vacancy controls and capping rents between tenancies. Moreover, it would have allowed cities and counties to apply local rent control ordinances to newer apartments, as soon as they turn 15 years old, and to a greater number of condos and single-family homes.

PROPOSITION 19 – TAX BREAKS

Proposition 19 **passed!** This proposition gives Californians of the age of 55 or older a big property tax break when buying a new home. Proposition 19 will change the rules for tax assessment transfers and will allow eligible homeowners to transfer their tax assessments anywhere within the state and allow tax assessments to be transferred to a more expensive home with an upward adjustment; increase the number of times that persons over 55 years old or with severe disabilities can transfer their tax assessments from one to three; require that inherited homes that are not used as principal residences, such as second homes or rentals, be reassessed at market value when transferred; and allocate additional revenue or net savings resulting from the ballot measure to wildfire agencies and counties.

EXPERTISE AND MARKETING MATTERS

Despite the challenges that we have endured during 2020, it is our feeling that the investment market will turn the corner very soon. There will always be a need for rental housing, and it is our belief that the market is about to find the sweet spot, which will entice investors to re-enter 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 changing markets. 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.
- 5. Is the agent just trying to make a commission, or does he/she truly have your back, even if it is against their own financial interests?** If you ask items 1-4, you will likely get to this answer.

MORTGAGE CORNER

Mortgage giants Fannie Mae and Freddie Mac announced a fee increase earlier in the year that is scheduled to go in effect in the coming months. What does that mean to consumers? Well for buyers looking at purchasing that next investment property, or primary residence, nothing. This rate increase is set for all refinance loans that are sold to them after December 1, 2020. This "adverse market fee" was implemented to cover the projected losses from forbearance, and defaults due to the pandemic, on mortgages they currently own. The good news is that lenders, seeing this increase coming, have likely already quoted you a rate with this additional fee built in. With an announcement like this a lot of people are left wondering are purchase rates going to follow suit. With no crystal ball to consult we're left following the experts.

- Chief Economist of the Mortgage Bankers association forecasts that rates could rise in the year to come, but will remain near historic lows.
- Long term interest rates (Like Mortgages, Mortgage bonds) will reflect the economy's track. An uptick in mortgage rates is usually a sign the economy is improving.

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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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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