



THE RENDINO TEAM

EXPERIENCE • INTEGRITY • RESULTS



THE SONOMA COUNTY INCOME PROPERTY REPORT Q2 2021

Hello Friends,

We hope this report finds you healthy and filled with optimism as we slowly start to get back to "normal." If this is the first time you have received our newsletter, this report aims 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 2nd quarter of 2021 was \$1,794, with an effective rent per sq. ft. of \$2.32. This represents a year-over-year rent increase of 6.22% and an increase of 4.97% from the 1st quarter of 2021. This is the largest jump in reported rental increases since the second quarter of 2015. The occupancy factor for the 2nd quarter of 2021 was 96.2%. Presently, the 3rd quarter to date shows an average rent of \$1,918 and an average occupancy factor of 96.1%. These figures can likely be attributed to a post-pandemic value bump, while the vacancy factor remains in line with traditional metrics.

SONOMA COUNTY EFFECTIVE RENTS **

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

PERIOD	STUDIO	1 BED	2 BED	3 BED
2021 Q3 EST	\$1,253	1 Bed	2 Beds	3 Beds
2021 Q3 QTD	\$1,352	\$1,720	\$2,065	\$2,561
2021 Q2	\$1,352	\$1,686	\$1,920	\$2,374
2021 Q1	\$1,344	\$1,686	\$1,920	\$2,374
2020 Q4	\$1,353	\$1,630	\$1,815	\$2,341
2020 Q3	\$1,334	\$1,602	\$1,806	\$2,320
2020 Q2	\$1,332	\$1,605	\$1,788	\$2,306
2020 Q1	\$1,323	\$1,597	\$1,791	\$2,312
2019 Q4	\$1,307	\$1,584	\$1,781	\$2,290
2019 Q3	\$1,300	\$1,592	\$1,770	\$2,295
2019 Q2	\$1,293	\$1,601	\$1,784	\$2,325
2019 Q1	\$1,283	\$1,608	\$1,808	\$2,286
2018 Q4	\$1,279	\$1,586	\$1,794	\$2,308
2018 Q3	\$1,266	\$1,577	\$1,780	\$2,301

Despite statewide rent control, the Anti-Price Gouging ordinance, and Governor Newsom's 3-month extension of the Covid-19 Eviction Moratorium, the 3rd quarter to date figures indicate that we should expect an increase in rents through the rest of 2021. Costar predicts that the 3rd quarter is going to bring effective rents of \$1,918. If accurate, this will represent a quarter-over-quarter increase of 6.91%. It is important to note that these projections do not take into account the recently extended eviction moratorium, which could negatively impact the rental market and postpone the eventual rental increases into 2022.

2-4 UNITS SALES

The average sales price for the 2nd Quarter of 2021 was \$977,388. This represents a 25.68% increase from the period ending 1Q of 2021 and an 8.85% year-over-year increase from the 1st Quarter of 2020. The average price per unit (PPU) for the 1st quarter was \$370,079.13, which is up 17.14% from the 1st quarter of 2021, which recorded an average PPU of \$315,923. While our prior report noted a -7% decline in values by the end of 4Q 2020, the year-over-year increase is an encouraging sign.

The average days on the market (DOM) for 2-4 units in the 2nd quarter of 2021 was 66. This represents a -31.25% decrease from the same quarter of 2020. This is very promising, as it is evident that well-priced income-producing units are being absorbed at a much faster rate than we have experienced in the last few years. We are now back to "normal" conditions after the spike seen during the early months of the 2020 shelter in place ordinance, where properties sat on the market for more extended periods of time.

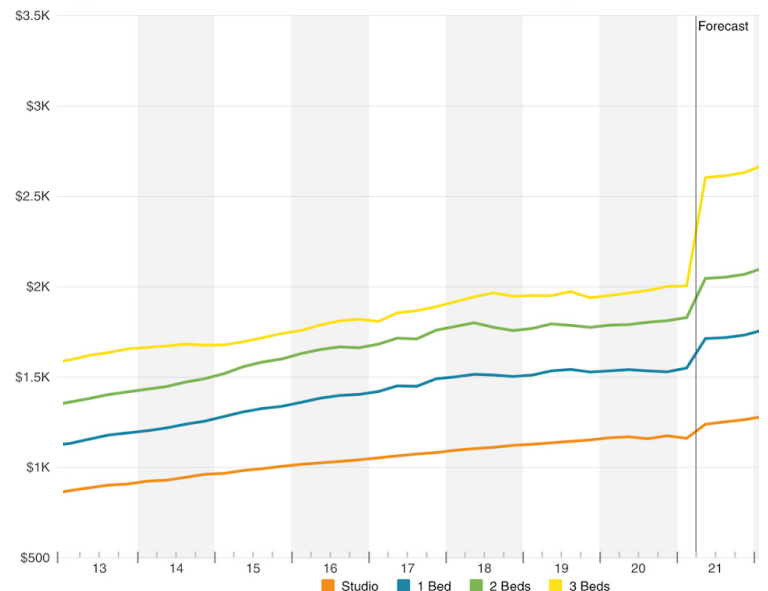
CURRENT SNAPSHOT

As of this date, there are 38, 2-4 unit properties listed for sale in Sonoma County. 17 of these properties are under contract. The average list price for the properties not under contract is \$1,068,762, while the average list price for properties under contract is \$870,053. The average price per unit (PPU) for the active listings is \$407,406.48, with an average DOM of 57. The average PPU for the properties under contract is \$355,741.46, with an average DOM of 55.

MARKET ASKING RENT PER SF BY BEDROOM

Santa Rosa - Sonoma - Petaluma - Windsor - Rohnert Park

Source - CoStar



Q3 2021 PROJECTION

We continue to see upward momentum for the 2-4 unit segment of the market. This is mainly due to recent higher-end duplex and triplex sales, which are often purchased for the purposes of multi-generational and owner-occupied housing solutions. These types of properties tend to echo the single-family market trends, which everyone knows has been a runaway freight train over the last year. Based on the solid sales trend performance, in addition to the promise of continued low interest rates, low inventory, and low absorption rates, we feel reasonably confident that market conditions will continue to favor sellers through the rest of 2021. Of course, a significant rise in interest rates and further rent control measures could hamper this momentum, so we will continue monitoring and reporting.

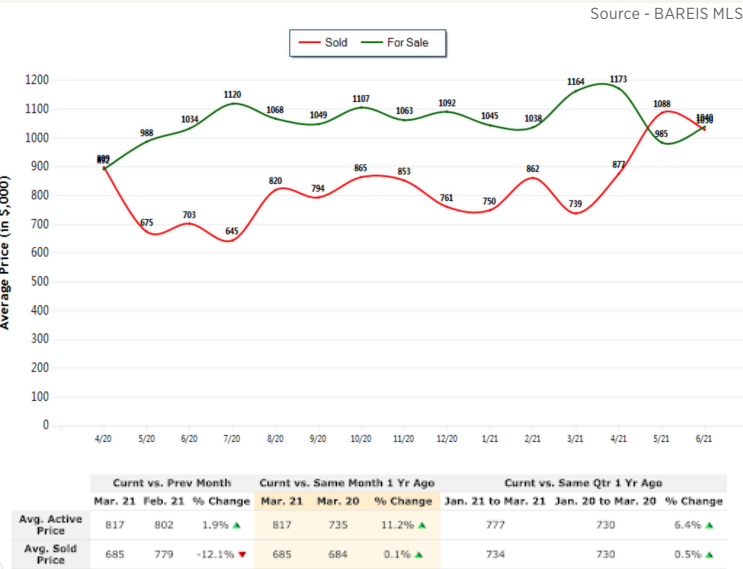
As discussed, the average sales price during the 2nd quarter of 2021 was \$1,068,762, while the average list price for properties under contract is presently \$870,053. On average, the list-to-sale price differential has been 1-2% over the last several years. If this differential holds true, we will likely see a large quarter over quarter increase by up to 10% by the end of the 3rd Quarter of 2021.

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, since Sonoma County inventory levels are limited. It is also important to remember that the 1st quarter brought a decline of -4.9%, which helps to put the 3rd quarter projection into perspective. 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 see if the recent increases are the beginning of a new trend or an anomaly in a previously flat market.

2-4 UNITS SALES

CITY	STREET ADDRESS	UNITS	LISTING PRICE	SOLD DATE	SOLD PRICE
Cloverdale	489 W 2nd St	2	599,900	6/18/21	600,000
Rohnert Park	925 Civic Center Dr	4	1,150,000	4/28/21	1,060,000
Rohnert Park	1232 Southwest Blvd	3	895,000	5/21/21	920,000
Rohnert Park	706-712 Lincoln Ave #4	4	1,150,000	6/24/21	1,200,000
Rohnert Park	900 Civic Center Dr	4	1,125,000	6/4/21	1,095,000
Healdsburg	396-398 Foreman Ln	2	2,225,000	5/7/21	2,064,000
Healdsburg	440 Lincoln St	2	899,000	5/10/21	885,000
Healdsburg	1305 Prentice Dr	2	820,000	5/14/21	760,000
Healdsburg	303-305 Matheson St	3	2,295,000	4/22/21	2,295,000
Petaluma	313 Kentucky St	4	1,445,000	6/4/21	1,300,000
Petaluma	503-507 Jefferson St	2	519,000	4/6/21	515,000
Petaluma	349-351 Wilson St	2	519,000	4/6/21	515,000
Petaluma	345-347 Wilson St	2	519,000	4/6/21	515,000
Russian River	15452 Riverside Dr	2	525,000	4/23/21	539,000
Santa Rosa	713-715 Mill St	2	799,000	5/21/21	785,000
Santa Rosa	1816 Arbor Ave	2	749,900	4/26/21	730,000
Santa Rosa	4402 Culebra Ave	4	1,080,000	4/20/21	1,056,650
Santa Rosa	728 Mcconnell Ave	4	1,325,000	6/8/21	1,280,000
Santa Rosa	6119 Montecito Blvd	4	979,000	5/28/21	1,050,000
Santa Rosa	4420 Culebra Ave	4	1,150,000	5/20/21	1,175,000
Santa Rosa	663 Doyle Park Dr	2	870,000	6/9/21	874,000
Santa Rosa	902-906 Morgan St	3	825,000	6/18/21	925,000
Santa Rosa	113 W 6th St	3	830,000	6/11/21	830,000
Santa Rosa	312-314 Hewett St	2	750,000	4/20/21	740,000
Santa Rosa	2325 Heidi Pl	2	1,095,000	6/2/21	1,100,000
Santa Rosa	323 Hewett St	3	775,000	6/4/21	780,000
Santa Rosa	3961 Black Oak Dr	2	925,000	5/18/21	1,125,000
Santa Rosa	2900-2908 Tachevah Dr	2	899,000	4/3/21	900,000
Santa Rosa	2435 Teaberry St	2	835,000	5/19/21	810,000
Santa Rosa	2350 Tachevah Dr	3	995,000	4/5/21	980,000
Santa Rosa	532 South Ave	2	499,800	4/15/21	450,000
Santa Rosa	3501 Moorland Ave	2	1,099,000	5/17/21	1,050,000
Santa Rosa	3234 Moorland Ave	2	600,000	6/8/21	585,000
Sebastopol	8921-8923 Shirley St	2	519,000	6/23/21	677,000
Sonoma	754-756 W Spain St	2	1,099,000	4/6/21	1,100,000
Sonoma	822-824 3rd St W	2	1,095,000	6/14/21	1,100,000
Sonoma	21-23 Chase St	2	1,150,000	5/19/21	1,100,000
Sonoma	18786-18788 Polley Ln	2	1,377,000	6/14/21	1,332,500
Sonoma	665 Oregon St	2	1,150,000	6/8/21	1,060,000
Sonoma	172 Northside Ave	4	1,450,000	6/30/21	1,300,000
Windsor	1036 Polaris Dr	2	839,000	6/26/21	860,000

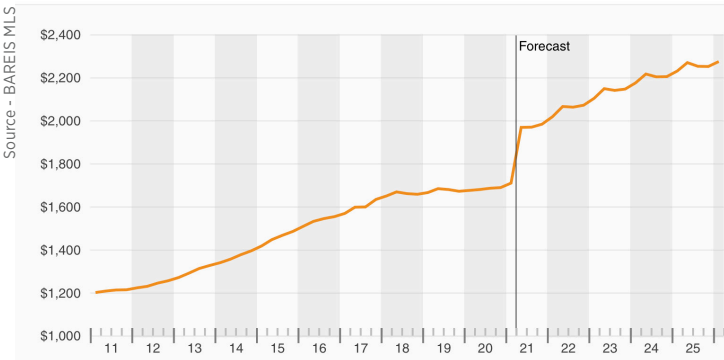
2-4 UNITS AVERAGE FOR SALE VS. SOLD PRICE



5+ UNITS SALES

There were only 3, 5+ unit properties sold in Sonoma County during the 2nd quarter of 2021. The average sales price was \$1,650,000, with an average price per unit of \$216,965. This represents a quarter-over-quarter decrease of -24.56% from the 1st quarter of 2021 and a -16.43% year over year decrease. The average DOM for these sales was 810. The average cap rate for the properties sold during this reporting period was 5.1% on current rents.

MARKET ASKING RENTPER UNIT



CURRENT SNAPSHOT

At the time of this report, there are 19, 5+ unit buildings listed for sale in Sonoma County. 8 of these properties are under contract, with an average days on the market of a whopping 221 days. The average list price for the properties under contract is \$2,231,286, which represents \$208,253 per unit. The average list price for the properties not under contract is \$3,778,091, which represents \$266,424 per unit. The average days on the market for the properties not under contract is 193.

5+ UNITS SALES

CITY	STREET ADDRESS	TYPE	UNITS	SOLD PRICE	PRICE/UNIT	SALE DATE
Santa Rosa	515 S E St	MF	21	PND	N/A	6/16/2021
Rohnert Park	706 Lincoln Ave	MF	7	\$1,200,000	\$171,429	6/11/2021

5+ UNITS OUTLOOK

While we never draw too many conclusions on market trends when looking at such little data, It is noteworthy that 2021 to date is showing increased inventory over the 2020 pandemic levels, where many buyers and sellers took a “wait and see” approach. Presently there is a significant enough amount of properties in escrow, which if closed will help us determine the direction of our market for the rest of 2021 and into 2022.

It is our opinion that the investors who own multiple-unit apartments might eventually be rewarded once the Covid related restrictions are removed. This is due in part to the lack of new construction activity, which has declined rapidly since peaking in 2019. Presently, we only have 77 market rate units underway, which is not nearly enough to meet rental demand. Additionally, there is now a significant number of investors, both private and publicly traded, who are venturing into fractional housing and conversion of single family rentals to short term rentals. This includes companies such as Pacaso and Airbnb, both of which essentially remove single family residences from the rental supply. It is not likely that this housing inventory will be replaced anytime soon, since the barrier to entry is too high for investors to make any sort of meaningful return at present valuations. The lack of available homes may in turn eventually place greater demand on bread and butter apartments, as many housing providers continue to remove units from the market due to continued rent control measures.

EVICTIION MORATORIA UPDATE

On June 28, 2021, Governor Gavin Newsom approved a three-month extension of California’s COVID-19 eviction moratorium. The state’s eviction moratorium had been scheduled to expire along with SB 91 on June 30th, but will now run through the end of September. Most experts believe that this moratorium will most likely be extended at least one more time until the end of the year.

Here are some highlights of the extension published by the California Association of Apartment Owners:

Limits new local eviction moratoria:

The new law prohibits cities and counties from adopting new eviction moratoria from now through March 2022, although existing local moratoria can remain in effect, such as in the City of Santa Rosa. By preempting local governments, the bill will ensure consistency in eviction policies across the state and prevent some cities from implementing more onerous local eviction moratoria.

More time to pay 25%:

Under the bill, tenants who've completed a declaration of COVID-19 hardship will receive three more months to pay 25% of the rent owed during the pandemic. If they do so, they will stay protected against eviction for those rental arrears. However, they still owe the rent. Tenants who have failed to produce a completed declaration of COVID-19 hardship can still be evicted for nonpayment of rent, just as under SB 91.

Owners must apply for funding before evicting.

Beginning Oct. 1, 2021, owners can start to serve tenants with a three-day notice to pay rent or quit. AB 832 does, however, require rental owners to verify they have applied for rental relief funding and have waited at least 20 days. If the owner hears nothing from the government or the tenant about the funding within those 20 days, the owner can proceed with an eviction.

Under the new law, rental owners will be paid 100% of back rent owed by qualifying tenants, up from 80% in SB 91. Those who have already received the 80% will automatically receive the remaining 20%. Although rental assistance is still reserved for tenants earning less than 80% of the area median income, the state is making some exceptions for higher-earning renters who can show a loss of wages due to COVID. CAA is requesting state dollars to help owners who have been saddled with tenants who have not paid, who have left owing money, and who don't and never would have qualified for funding.

OUR LISTINGS



32 UNITS
CAP 5.9%

APARTMENT COMPLEX
\$9,660,000
1620HerbertSt.com

1620 HERBERT ST, SANTA ROSA, CA 95401



16 UNITS
CAP 5.2%

4 PLEXES
4 BUILDINGS
\$1,050,000 PER
6200Montecito.com

6200 MONTECITO BLVD, SANTA ROSA, CA 95409

EXPERTISE AND MARKETING MATTERS

Despite the challenges that we have endured during 2020 and into 2021, it is our feeling that the investment market will continue to provide good opportunities for disciplined investors. There will always be a need for rental housing, and it is our belief that savvy investors will understand how to navigate the ever changing market conditions and find opportunities.

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, matters 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 thriving in changing markets. California will continue to be appealing to many investors seeking a fair return and a stable rental condition regardless, of the current state of affairs.

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. How will the agent navigate access to units while staying compliant with Covid-19 and other tenant rights?
- 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 examples 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: FANNIE MAE TIGHTENS LENDING STANDARDS FOR INVESTMENT PROPERTIES

On April 1st it got a bit tougher to obtain mortgages on investment properties and second homes. These changes come as amendments to the agreement between Fannie Mae and the US Treasury and impose new risk mitigation rules that Fannie Mae and Freddie Mac will have to follow. In order to mitigate risk, Fannie and Freddie responded by putting a cap on how many investment, and second home loans lenders can sell to them and instituted a 7% cap on their entire portfolios devoted to investment and second home loans. These types of loans will now be required to receive Fannie's highest rating of "Approve/Eligible" through their automated underwriting system. Additionally, in an effort to slow the investment and second home purchase market, Fannie and Freddie raised interest rates for these types of loans. Combined Fannie Mae and Freddie make up 85% of the US market, so it is clear that these changes will affect the market as a whole, allowing portfolio lenders to raise their rates and tighten their underwriting standards and still remain in the conversation.

Feel free to reach out to me if you have any questions or would like to know if you meet the guidelines for a refinance or purchase loan.



Marlón Flores

Mortgage Consultant NMLS ID #779895

707-981-4152

mflores@summitfunding.net
summitfunding.net/mflores



765 Baywood Drive Suite 237A Petaluma CA 94954 Branch NMLS ID# 1014308 | Summit Funding, Inc. NMLS ID# 3199

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David & Erika Rendino

Income Property Specialists
DRE# 01252035 01465104

707.696.3742

derendino@gmail.com

RendinosRealEstate.com

@Rendinos

@rendinosrealestate

@rendinosrealestate



THE SONOMA COUNTY INCOME PROPERTY REPORT Q2 2021



RE/MAX MARKETPLACE

8220 Old Redwood Hwy, Cotati, CA 94931

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®

(707) 696-3742



- Income Property Specialist
- Accredited Commercial Professional
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