



1st Quarter 2014

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Hello Friends, I am a little tardy getting my quarterly report out but I figured better late than never! If this is the first time you have received our newsletter, the goal of this report is to provide rental and sales trend information for Sonoma County income property owners. We all have unique financial goals and need to make our decisions armed with the best information available.

The year 2013 brought us a huge run-up in values, particularly for owner occupied, first time home buyer types of properties. The increased values have brought a little more peace of mind for investors who have watched their property values plummet in previous years. The rise in values made it a little easier for some to refinance mortgages, while many others were still unable to do so due to the crippling lending policies set forth by the Feds. We saw a continued rise in rents and a decreasing vacancy factor, in spite of lackluster job growth. The question is, will 2014 bring us more sales and rent gains? Will interest rates remain artificially low, or will we start seeing a move towards higher rates and a further tightening of credit?

2013 SALES DATA

Looking back at 2013 the sales market felt a lot like the frenzied market of 2005. Inventory levels

were well below "normal," while multiple offers and significant overbids by all cash buyers became the norm. By the end of the year, inventory levels remained low, and investor demand started to level off. While it certainly "felt like" a full recovery, it is important to note that the volume of sales was still at historically low levels and the largest percentage increases for multi-units were for 2-unit properties intended for owner/occupants. Duplex sales increased by 23.1% by the end of 2103, with an average sales price of \$351,000, and fourplexes increased by 8.9% with an average sales price of \$513,000. Buyer demand for units suitable for an owner/occupant were a direct result of the competitive single family market, which spiked because of low foreclosure inventory and low interest rates. So far, 2014 has brought us a less frenzied market and more of a resemblance of a "normal" market. Properly priced properties are receiving multiple offers, while many overpriced properties are not even receiving low offers.

INCREASING RENTAL MARKET

The average Sonoma County asking rent increased from \$1,278 to \$1,438 for the 12 month period ending 4Q 2013. This represents a 12.5% increase over the prior 12 month period.

Sonoma County ranked #8 out of 26 California MSAs for rental growth. The occupancy factor has increased slightly to a very strong 97.2% for the same reporting period.

WHY THE INCREASE?

Sonoma County landlords continue to test the market and push through higher rents, as many would-be buyers remain sidelined due to the tightening of credit and low listing inventory. Furthermore, the addition of thousands of jobs from the Rohnert Park Casino has produced a sustained demand for rental housing in the County.

WHAT TO EXPECT IN THE SHORT TERM?

Look for rents to slightly increase and occupancy levels to remain stable over the next several quarters. While the jobs created by the casino will keep vacancy factors low, it is important to note that the majority of these jobs are low paying and landlords should expect a leveling off of rental values over the next few quarters. It is my opinion that the Sonoma County rental market is not as susceptible to the boom and bust cycles that define the California real estate market as a whole. Sonoma County rents are still a relative bargain compared to the greater Bay Area and I do not feel that we are overly vulnerable to a significant decline any time soon, even if credit would magically loosen up and more tenants were able to become homeowners. At the present time it is not as important as it has been in the past for landlords to offer tenants move-in incentives when units become available for rent. A less than 3% vacancy factor is on par with the lowest rates that I can recall and if there was ever a

Sonoma County Quarterly Trends

	3Q2011	4Q2011	1Q2012	2Q2012	3Q2012	4Q2012	1Q2013	2Q2013	3Q2013	4Q2014	1 Yr. Change
Average	\$ 1,213	\$ 1,218	\$ 1,242	\$ 1,249	\$ 1,275	\$ 1,278	\$ 1,307	\$ 1,335	\$ 1,407	\$ 1,438	12.5%
Studio	\$ 791	\$ 801	\$ 805	\$ 806	\$ 812	\$ 821	\$ 847	\$ 848	\$ 874	\$ 891	8.5%
1 bd 1 bth	\$ 1,061	\$ 1,063	\$ 1,076	\$ 1,081	\$ 1,107	\$ 1,105	\$ 1,128	\$ 1,174	\$ 1,234	\$ 891	12.7%
2 bd 1 bd	\$ 1,181	\$ 1,182	\$ 1,225	\$ 1,225	\$ 1,249	\$ 1,253	\$ 1,279	\$ 1,308	\$ 1,376	\$ 1,435	14.6%
2 bd 2 bth	\$ 1,429	\$ 1,440	\$ 1,459	\$ 1,469	\$ 1,508	\$ 1,510	\$ 1,563	\$ 1,566	\$ 1,669	\$ 1,712	13.4%
2bd TH	\$ 1,331	\$ 1,343	\$ 1,402	\$ 1,410	\$ 1,399	\$ 1,442	\$ 1,482	\$ 1,496	\$ 1,554	\$ 1,566	8.5%
3 bd 2 bth	\$ 1,754	\$ 1,752	\$ 1,745	\$ 1,786	\$ 1,808	\$ 1,796	\$ 1,807	\$ 1,809	\$ 1,875	\$ 1,979	10.2%
3 bd TH	\$ 1,704	\$ 1,705	\$ 1,727	\$ 1,742	\$ 1,713	\$ 1,803	\$ 1,772	\$ 1,828	\$ 1,900	\$ 1,972	9.4%

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time that landlords could save on incentives, such as 1/2 off the first month's rent, now is the time. Landlords should enjoy it while the going is good and make the adjustment back at the first signs of softening rental demand.

MULTI-UNIT SALES

The 1-year average sales price for 2-4 unit buildings by the end of 4Q 2013 was \$399,529. This represents a 7.9% year over year increase. The gain was short of matching the prior 12 month period ending Q3, which increased by 12.5%. As stated previously, the largest gains were for 2-unit properties that were more suitable for owner/occupants. In addition, with only 141, 2-4 units sold, a few exceedingly low or high sales can significantly impact the overall trend when dealing with low inventory levels. However, the average sales price has settled into a reasonable trend over the last several quarters and provides for a decent representation of how the market has been behaving as a whole. Traditional sales continued to outpace REOs and short sales and this trend is expected to continue in the short term. My personal REO inventory is starting to significantly increase and it will be interesting to see if Sonoma County as a whole will see a spike in bank owned sales over the next several quarters. "Extend and pretend" has been the unspoken policy for the lending industry over the last few years and it is my personal opinion that we will see many more foreclosures at the first signs of a leveling off of property values. For now, the strategy of riding the market up has paid off in spades for the lending industry since most of the bad debts have already been written off and any subsequent sales will be seen as profit rather than loss.

WHY IS BUYER DEMAND REALLY DOWN?

California, which is America's hottest market, has suddenly cooled down a bit. Sellers

continue to expect buyers to get caught up in a bidding frenzy, regardless of how much it has run up recently.

So why is demand really down?

Property values and interest rates rose too much too fast, making housing unaffordable for many buyers who would have qualified for a purchase at last year's prices. Unemployment, underemployment, low wages and low FICO scores will all but ensure that we will not see another huge short term spike in values. The new Dodd-Frank lending standards that went into effect on January 10th are making loans even more difficult to obtain. The Federal Reserve has printed all the money it can to stimulate employment, and will eventually be forced to let rates rise, which will further harm affordability.

WHAT TO EXPECT IN THE SHORT TERM

Buyer demand will come back in time and we will eventually see an increase in activity from the low levels we are seeing today. However, with no data out there to support the contrary, I feel that sales volume will be even lower in 2014 than last year.

The recent spike in values has pretty much eliminated the "quick flipping market" in Sonoma County. The notion of buying properties for "pennies on the dollar" is unrealistic and many of these buyers will continue to waste their time searching for the brass ring. I believe that we will see more traditional multi-unit investors, who will purchase for income potential, tax advantages, mortgage leverage and long term value potential.

At the same time, sellers who want to test the market with "I don't really want to sell it" pricing will be equally disappointed as we move to a more balanced market. While

Coming Soon



West Petaluma
3 units/ 1 large lot



Oakmont
SFR/ 4 bed 3 bath/ Large lot

For Sale



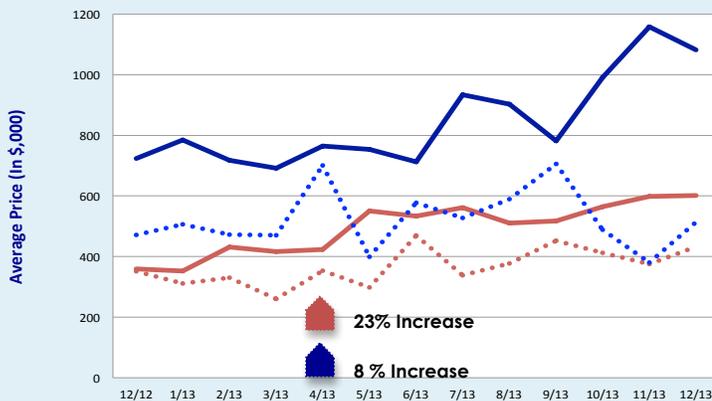
SW Santa Rosa
3 bed/2 bath Detached SFR/
Development Potential



NW Santa Rosa
4 Plex-2 bed/1 bath 4-units

For information regarding any of these upcoming listings, please give me a call: 707-696-3742

2 and 4 Units Average Price For Sale vs Sold



	12/12	1/13	2/13	3/13	4/13	5/13	6/13	7/13	8/13	9/13	10/13	11/13	12/13
2 units-Sold	351	311	330	260	353	298	469	338	377	452	412	375	432
2 units-For Sale	359	352	431	416	423	550	533	561	510	517	564	598	601
4 units-Sold	471	506	472	470	700	399	577	527	589	705	488	380	513
4 units-For Sale	723	785	717	691	765	754	712	934	903	782	991	1158	1082

5+ Average Price For Sale vs Sold



	12/12	1/13	2/13	3/13	4/13	5/13	6/13	7/13	8/13	9/13	10/13	11/13	12/13
5+units-Sold	894	0	2090	1280	1445	975	515	1693	1452	0	1375	699	1070
5+units-Active	1169	1318	1323	1682	1538	1405	1440	1312	1332	1309	1308	1278	1143

October to December 2013 ✦ 2-4 Units Sales

City/Area	Street Full Address	Listing Price	Selling Price	City/Area	Street Full Address	Listing Price	Selling Price
Rohnert Park	946 Camino Coronado	529,000	505,000	Santa Rosa-Northwest	133 10th St	579,900	580,000
Rohnert Park	912 Civic Center Dr	339,000	341,000	Santa Rosa-Northwest	1682-1684 Clover Ct	399,000	420,000
Rohnert Park	1207-1211 Southwest Blvd	389,900	392,000	Santa Rosa-Northwest	2482 Avignon Cir	724,900	745,000
Rohnert Park	115 Arlen Dr	359,900	326,000	Santa Rosa-Northwest	2472 Avignon Cir	724,900	712,500
Rohnert Park	1261-1267 Southwest Blvd	429,950	420,000	Santa Rosa-Northwest	1083 Tijuana Ct	535,000	500,000
Healdsburg	440 Lincoln St	589,000	581,000	Santa Rosa-Northwest	1658-1660 Ridley Ave	389,000	387,000
Petaluma West	100-104 Kent St	359,000	364,000	Santa Rosa-Southeast	430-432 S A St	385,000	375,000
Petaluma West	228-230 Fair St	679,000	620,600	Santa Rosa-Southeast	200 Barbara Dr	440,000	420,000
Russian River	11054 Sunset Ave	455,000	424,125	Santa Rosa-Southwest	1381-1383 West Ave	299,500	289,000
Santa Rosa-Northeast	1572 Beaver St	365,000	311,784	Santa Rosa-Southwest	715 West Ave	529,000	525,000
Santa Rosa-Northeast	1710-1712 4th St	375,000	324,000	Santa Rosa-Southwest	3131 Primrose Ave	799,500	750,000
Santa Rosa-Northeast	3208-3210 Nielsen Ct	500,000	530,000	Santa Rosa-Southwest	1041-1043 Boyd St	308,500	260,000
Santa Rosa-Northeast	718-720 Charles St	310,000	331,000	Santa Rosa-Southwest	183 Barbara Dr	440,000	420,000
Santa Rosa-Northeast	409 College Ave	329,000	320,000	Santa Rosa-Southwest	247 Robin Way	440,000	440,000
Santa Rosa-Northeast	92 Woelfe Dr	449,900	450,000	Santa Rosa-Southwest	148 Eddy Dr	440,000	420,000
Santa Rosa-Northeast	5229-5231 Faight Rd	325,000	205,000	Santa Rosa-Southwest	400 Anteeo Way	419,000	392,516
Santa Rosa-Northeast	413-415 Pheasant Ln	450,000	415,000	Sebastopol	3160-3164 Edison St	419,000	412,000
Santa Rosa-Northeast	108-112 Stanford St	425,000	450,000	Sebastopol	7920 Bodega Ave	440,000	447,500
Santa Rosa-Northeast	5000 Hwy 12	499,000	535,000	Sonoma	18825-18835 Jamie Lee Ln	309,900	388,000
Santa Rosa-Northwest	1573-1575 Lance Dr	499,500	440,000	Sonoma	620-624 Curtin Ln	599,000	650,000
Santa Rosa-Northwest	1219 butte Ct	379,000	377,000				

October to December ✦ 5+ Units Sales

City/Area	Street Full Address	Listing Price	Selling Price
Cloverdale	32110 McCray Rd	699,000	699,000
Cloverdale	146 N East St	899,000	899,000
Healdsburg	109 Sherman St	895,000	895,000
Healdsburg	504 Matheson St	1,899,000	1,690,000
Santa Rosa-Northeast	300 Santa Rosa Ave	895,000	895,000
Santa Rosa-Northeast	4904-4904 Sonoma Hwy	950,000	905,000
Sebastopol	7302-7316 Bodega Ave	1,375,000	1,300,000
Sonoma	16959 Cedar Ct Agua	1,595,000	1,450,000
Windsor	8635 Old Redwood Hwy	1,285,000	1,140,000



We strive to provide effective management and exceptional customer service. We are committed to our clients and tenants and work to build long-term relationships. Ultimately, our goal is to provide property owners with the greatest possible return on their investment.

Our services include

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- Tenant screening
- Efficient rent collection
- 24 hour/7 days a week availability for emergencies
- Serve all necessary legal notices
- Payment of monthly bills
- Supervise property maintenance and repair

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hardly newsworthy, it is my opinion that the short term will show relative stability in sales values. In spite of rising interest rates, there is still plenty of buyer demand to absorb a moderate increase in listing inventory. At the same time there is also a healthy amount of buyer scepticism due to the "what goes up must come down" rules of real estate.

As always, sellers looking to trade up or cash out should educate themselves about current market values, and should set reasonable expectations. Knowing the values and market behavior will eliminate false hope and tenant discomfort. Extensive days on the market could result in higher vacancies, as occupants lose patience and look for stability. There are many online tools available to the general public and anyone can go online to see the listing history of any particular property. As a result, a property owner who is testing the waters may lose credibility with future buyers should the strategy change to a list-to-sell price.

A review of California real estate history will show that there has always been a decline after a huge run up and vice versa. I do not see anything about our current economic outlook that would make me think that the old rules no longer apply. How much or when we will see that decline is anybody's guess. The Federal Government has demonstrated that they will do just about anything to avoid another major decline on their watch. At the same time, interest rates are artificially low and a rise to sustainable levels will all but devastate the housing market as a whole. As discussed earlier, while most of the bad loans have been written off at this point, the banks are eventually going to have to deal with homeowners who have not paid their mortgages, some for several years at this point. Banks may change their ride the market up policy when we start to see numbers that point to a decline in values. Increased REO inventory will always do harm to surrounding property values.

Mortgage Corner



The trend is set; the Feds will continue to reduce economic stimulus. 2014 will be an interesting year as we have seen the Feds transition with a new Chairperson and taking a tighter approach. As the economy trends to "improve", lending guidelines will get tighter with the roll out of the rest of the Frank Dodd Bill by the Consumer Financial Protection Bureau (CFPB) but, don't let this scare you. Although the "Ability to Repay & Qualified Mortgage" rules have caused lenders to increase some of the under writing guidelines, for many buyers using conventional financing (Fannie Mae, Freddie Mac) or FHA loans the Debt to Income (DTI) ratios have remained the same. In fact, the Jumbo Market, usually funded through private money, is where things have gotten tighter with a reduction of the overall DTI to 43%. Since these loan rates are not derived directly from the Bond, Treasures or normal indexes, they tend to be less volatile and pricing for primary homes and Investment Properties is still relatively affordable. So what does this mean for people using Jumbo loans (loans above \$417K not using FNMA & FHLMC)? These are great tools to use while creating wealth and saving money. This coupled with the ability to now use purchase money second loans, asset depletion loans and construction loans will actually make lending easier for qualified buyers and investors. **Next quarter we'll review these products in detail or give me a call and I would be glad to review with you these products....**

Prospect Mortgage is now the 4th largest lender in CA and the #1 Renovation lender in the North Bay market; Contact me today to make sure you have the best in the business.

Paul Pisaro



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Wants and Needs

I have a cash buyer in a 1031 exchange looking for two clean 2-4 unit buildings. NE and SE Santa Rosa is preferred.

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The Sonoma County Income Property Report
 1st Quarter 2014



This newsletter is geared towards Sonoma County multi-unit property owners. The purpose is two-fold:

1. To inform investors of the current Sonoma County rental market trends market for single family residences and multi-unit buildings.
2. To provide important information on the Sonoma County sales for multi-unit buildings.

If you would like a no-obligation market analysis of your building or buyer consultation, please call me, David Rendino, on my cell phone:

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 or email me at
Drendino@mac.com

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Habla español?

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