



The Sonoma County Income Property Report

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STABLE RENTAL MARKET

By the end of the first quarter of 2006, the average Sonoma County asking rent was \$1,111. This number represents a 2.8% one year change in rents. More importantly, it also represents the fifth straight quarter of slightly improving rents. The vacancy factor by the end of the first quarter of 2006 was a healthy 6.6%.

TENANTS CONTINUE TO RENT

The continued rise in interest rates has contributed to our improving rental market. For every quarter point that interest rates rise, a significant number of first time home buyers get locked out of the possibility of home ownership. I have personally seen a large drop-off in tenants providing 30 day notice to my property management company in order to pursue a purchase. Rising interest rates will only ensure that this trend will continue in the

coming quarters.

SONOMA COUNTY RENTAL MARKET SET FOR GROWTH?

It is my belief that the stage is finally set for the Sonoma County rental market to achieve the ever-elusive "perfect balance" in the coming quarters. This "perfect balance" point is commonly accepted to be a 5 to 6% annual rent growth and 5 to 6% vacancy rate. According to Real Facts, a company that tracks local and national rental trend, some other MSAs (Metropolitan Statistical Areas) that have already achieved this "perfect balance" are Los Angeles, Las Vegas, Phoenix, Seattle, Reno/Sparks and Oxnard/Ventura. Along with Sonoma county, Fresno and Albuquerque are poised to join these markets in the coming quarters.

there are 105 active 2-4 multi-unit buildings on the market. Of those, 44 have had recent price decreases and have been on the market for an average of 86 days. This is a lot of inventory to absorb, so it seems evident that our best immediate proposition is for flat sales and our worst proposition seems to be a continued slide. It is also noteworthy to mention that of our present listing inventory, many consist of sellers "testing" the market by pricing it at the highest sales comps and not adjusting for the downturn. Sellers who are serious about achieving a sale can definitely still do so, providing they make some kind of adjustment in list price for the recent decline.

WHAT TO EXPECT IN THE LONG TERM

Christopher Thornberg, the senior economist for the UCLA Anderson School of Business has stated in his most recent analysis of the Sonoma County economy that he believes we are in a real estate "bubble". He believes that we are currently susceptible to a total of 20 to 30% drop in real estate value. Taking into consideration our approximate 10% drop to date, we could be looking at another 10 to 20%. He also believes that the rest of 2006 will bring us a sideways market and that our biggest declines will come in 2007. Some main reasons for these predictions are possible inflation, rising interest rates, lack of local job growth, lack of local payroll growth and too much personal debt.

MULTI-UNIT SALES DECLINE

Sales for the first quarter of 2006 fell by 4.3% from the fourth quarter of 2005. Sales for the last six months have dropped by an astounding 9.5%.

Some Sonoma County cities have fared better than others. Sales for the first quarter in Santa Rosa fell by 2.75% while sales in Rohnert Park fell by a staggering 7.8%.

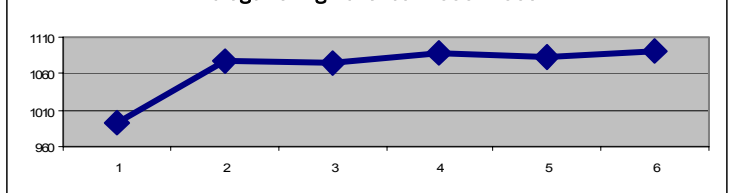
WHAT TO EXPECT IN THE SHORT TERM

It seems clear that by the end of the year we will continue to see a flat or declining sales market. At the present time,

Rental Trends of Sonoma County

	2000	2001	2002	2003	2004	2005
Studio	\$ 635	\$ 694	\$ 705	\$ 700	\$ 694	\$ 678
Jr 1 Bd	\$ 959	\$ 992	\$ 959	\$ 917	\$ 882	\$ 914
1 bd/1 bth	\$ 861	\$ 933	\$ 929	\$ 946	\$ 944	\$ 941
2 bd/1 bth	\$ 1,045	\$ 1,135	\$ 1,123	\$ 1,114	\$ 1,092	\$ 1,098
2 bd/2 bth	\$ 1,143	\$ 1,239	\$ 1,222	\$ 1,247	\$ 1,248	\$ 1,265
2 bd Th	\$ 1,109	\$ 1,209	\$ 1,236	\$ 1,273	\$ 1,244	\$ 1,233
3 Bd/ 2 bth	\$ 1,390	\$ 1,490	\$ 1,519	\$ 1,519	\$ 1,493	\$ 1,557
3 Bd Th			\$ 2,270	\$ 2,065	\$ 1,943	\$ 1,685

Average Asking Rent Year 2000-2005



PROTECT YOUR EQUITY

I have been strongly recommending that owners who have adjustable rate mortgages coming due in the near term, and who are planning on holding their investment for 3 to 5 years, refinance into a long-term fixed rate mortgage. Rising interest rates, coupled with loss of equity from a declining market, could lead to a large

foreclosure rate. Remember, real estate is cyclical. If it happened before, chances are that it will happen again.

WHEN SELLING, PRICE IT RIGHT

While the great seller's market of the past five years is over, we are still presently in a fairly balanced market. Pricing a property at

the current market value should ensure a sale in a reasonable amount of time. The first two weeks of a listing period are still the most valuable. Even to this day, I am still receiving multiple offers on properties priced at market value.

2006 1st Quarter Income Property Sales

Santa Rosa—Rohnert Park—Cotati—Petaluma—Healdsburg—Windsor

Source: Sonoma County MLS

2-4 units

Area	Address	Price
Santa Rosa	1484-1488 West Ave	\$ 760,000.00
Santa Rosa	1537 Camden Ct	\$ 620,000.00
Santa Rosa	2740 Tachevah Dr	\$ 760,000.00
Sonoma	534-536 Joaquin Dr	\$ 750,000.00
Sebastopol	8730-8732 Oak Grove	\$ 510,000.00
Sebastopol	4157 Shook	\$ 485,000.00
Russian River	17407 Orchard Ave	\$ 375,000.00
Russian River	19123 F St	\$ 325,500.00
Santa Rosa	829 W College Ave	\$ 629,000.00
Santa Rosa	1351 Kowell Ln	\$ 675,000.00
Santa Rosa	2549 Corby Ave	\$ 599,000.00
Santa Rosa	1931 Crosspoint Ct	\$ 639,000.00
Santa Rosa	540 Riley St	\$ 710,000.00
Santa Rosa	913 Cherry St	\$ 639,000.00
Santa Rosa	1223 Beaver St	\$ 530,000.00
Santa Rosa	600 Pacific Ave	\$ 782,500.00
Santa Rosa	920 Beaver Ln	\$ 605,000.00
Santa Rosa	611 Nason St	\$ 620,000.00
Healdsburg	830 Prince Ave	\$ 640,000.00
Cotati/Rohnert Park	6830 Country Club Dr	\$ 715,000.00
Cotati/Rohnert Park	194-200 Avram Ave	\$ 759,000.00
Cotati/Rohnert Park	296-298 Lincoln Ave	\$ 575,000.00
Cotati/Rohnert Park	8754 Lund Hill Ln	\$ 770,000.00
Cotati/Rohnert Park	925 Civic Center Dr	\$ 740,000.00
Cotati/Rohnert Park	270 Arlen Dr	\$ 700,000.00

5+ units

Area	Address	Price
Sonoma	442-462 Saunders	\$ 2,100,000
Santa Rosa	1650 Lance Dr	\$ 900,000
Sonoma	17475 Sonoma Hwy	\$ 1,155,000
Santa Rosa	633 King St #19	\$ 2,450,000
Cotati/Rohnert Park	7018-7032 Santero	\$ 1,300,000
Sonoma	1365 Dawn Hill Rd	\$ 1,198,000
Santa Rosa	1155 Evans Dr	\$ 1,050,000
Santa Rosa	2305 Mcbride Ln	\$ 2,250,000
Windsor	8645 Old RedwoodHwy	\$ 1,495,000
Santa Rosa	2701-2719 Tachevah Dr	\$ 1,300,000



WHY CHOOSE DAVID RENDINO?

- *Income Property Expert*
- *Huge Buyer Network*
- *24/7 Local And National Exposure*
- *Competitive Commission Schedule*
- *Bilingual Service For Changing Demographics*

In this competitive market with 3,396 local agents, a shrinking buyer base and the biggest listing inventory since the mid 90s, you can't afford to list with an inexperienced agent who will merely place your listing on the MLS and sit back and wait for offers. My experience and buyer base allows me to achieve sales, where others can't. I offer my clients financial strategies to meet their short and long term

My New Listings



Landmark for sale!

- 2 parcels being sold together.
- 3 bread and butter ground floor retail suites.
- Stable leasing history

\$1,200,000



Pride of Ownership 4-Plex

- 2 bed 1 bath flats.
- Upside in rent potential.
- over \$50,000 in recent upgrades!
- Detached laundry facility.
- Detached carports.

\$795,000



Prime Santa Rosa 4plex in turn-key condition

- Separate laundry facility.
- Excellent location.
- Priced below market!!

\$639,950



Santa Rosa

Duplex

- 2 Bedroom, 1 Bath units.
- Attached garages.
- Oversize city lot.

\$499,950



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The Sonoma County Income Property Report

2ND Quarter 2006

INVESTOR

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

To inform investors on the current Sonoma County rental market trends.

To provide important information on the Sonoma County sales market for multi-unit buildings.

TIME TO SELL OR TRADE UP?

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

(707) 696-3742

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