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SPRING 2024 MARIN MARKET UPDATE

Michael Burke has specialized in selling Marin's residential income property for 50 years. He is one of the few agents to limit his practice to this market segment. Michael's wife Pamela, who has been assisting for years in the background, has joined Michael as an active licensed agent.

Income property sales require an expertise that not all agents have. Many sales involve tax-deferring techniques requiring more than a casual knowledge of tax laws and practice. Income and expense statements must be analyzed, leases must be reviewed, and tenant estoppels drawn. Showing an income property takes understanding and tact. One cannot tour agents and buyers through a rental property without risking a tenant uprising.

Whether you are selling a duplex or a large apartment complex, you deserve to have a specialist in Marin's income properties representing you. Michael and Pam have been representing sellers for 50 years and are the top-producing agents in this field.

Disclaimer: The opinions expressed in this newsletter are those only of Michael and Pamela Burke, not necessarily those expressed by Golden Gate Sotheby's International Realty.

lower end of the range. Cap rates run between 4.5% - 5.5%, depending upon the size and location of the property. Smaller premium properties will sell at, or for less than, a 4.0% rate.

Apartment Sales

The level of sales activity in apartment building sales dropped this year. The lack of sales is most notably due to the rise in interest rates in 2023. With interest rates falling, the market rebounded somewhat going into the end of the year. There were only 24 sales of 4+ unit buildings in 2023 compared to 40 in 2022 and 38 in 2021. Duplexes and triplex followed along the same lines with only 54 sales in 2023, compared to 100 sale in 2022 and 138 sales in 2021.

Interest Rates

Interest rates sky-rocketed throughout 2022 and 2023 with numbers peaking at over 7% a few months back. By the end of this past year, rates fell a full percentage point. The Federal Reserve seems to be on hold with its rate increases; it may even indicate a path of reducing rates. There is no longer the threat of an imminent recession on the table. The 10-year Treasury Bills, which rose to over 5% this last year, have fallen to below 4%. With this drop in rates, we are experiencing a new surge in sales.

Rising interest rates affect income property pricing in a somewhat different way than home sales. The anticipated return one expects on a property increases as interest rates increase. If one can get a high rate of return on a safe 10-year Treasurers Bill, then the rate of return on one's real estate

investment must be equally higher. To achieve a higher return given the same income, the price must be reduced. So, why are prices not dramatically falling? Offsetting these changes in expected rates of return are expected rising rents from an inflationary economy.

Apartment building loans are divided into two types: 2-4 units and 5+ units. 2-4 unit loans still enjoy a possible 30-year fixed rate term. 5+ unit loans have interest fixed for 3-7 years then rates adjusting for the balance of the 30-year term. The 2-4 unit loans mirror the residential market. The 5+ unit loans are available on a 3-7 year fixed rate of around 6.0% - 7.0%. Call for a current quote as these change daily.

Statewide Rent Control

The Tenant Protection Act of 2019 (AB-1482) went into effect January 1, 2020. AB 1482 limits the amount that you can raise rents on existing tenants during any 12-month period. While you may raise rents up to two times a year, your total increase in any 12-month period cannot be more than 5% plus the April cost-of-living index. For the Bay Area, this cost-of-living index was 4.2% in April 2023, allowing for a maximum annual rent increase of 9.2%.

Also included in this law are Just Cause Eviction protections for tenants. Tenants can only be evicted for a "Just Cause," like non-payment of rent. An owner wanting to move into their unit is considered Just Cause. No longer can you vacate your duplex before putting it on the market for sale. This applies only to tenants in

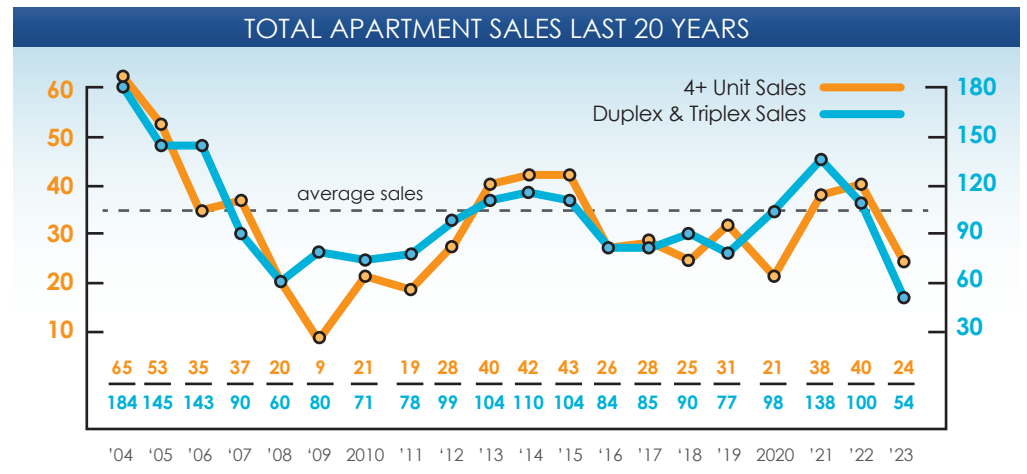
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The latest CoStar Group rental survey shows that, in the fourth quarter of 2023, Marin's average apartment rents are at \$2,772 per month. Rents have remained relatively flat over the last two years. CoStar's long-range forecast predicted that rents would be flat this year and then rise again in 2025 to a level of \$3,357 in 2028 (more than 21% over the next five years or about 4% per year).

The vacancy rate has risen slightly over most of the previous year or two; now it rests at the current level of 5.0% (previously 4.6%, as of a year ago). This level of vacancy rate supports the idea that rental rates will remain relatively steady this year before rising at a more moderate rate in the foreseeable future.

Marin Apartment Values

Marin duplexes are selling between 15-18 times their reasonable annual market income (GRM), 4-plexes at 14-16 GRM, small apartment buildings at 13-15 GRM, and mid-sized complexes at about 12-14 GRM. Premium locations will be at or above the upper end of this range, and inferior locations (or "problem properties") will be at or below the



Data source: MLS & Tax Records. Data is deemed reliable but accuracy cannot be guaranteed.

place for more than 12 months – a nice safety net.

Fairfax Rent Control and Just Cause Eviction

On November 2, 2022, the Fairfax Town Council enacted two ordinances affecting all Fairfax properties being rented. Fairfax is the first town in Marin to adopt such ordinances and is the smallest community in the State to do so. Their ordinances are also the most restrictive of any other California community.

Single family homes and apartment units built after 1995 are exempt from the rent control portion, as are ADUs with the owner occupying one unit. For all others, rents are to be rolled back to May 2, 2022. Annual increases in rent are limited to 75% of the cost-of-living index. This index is currently at 4.2%, allowing for increases of 3.15%. Two years ago, the index was 1.1%, which would have allowed for almost no increase in rents at all.

These two ordinances will seriously affect property values in Fairfax. Few will want to invest here and put up with this. They will place their money elsewhere. It will also significantly slow any new development or the addition of ADUs to single family homes.

We have been fighting this. A small group of property owners and myself have formed a non-profit corporation and political action committee (Keep Fairfax Fair). These efforts are being funded by the larger Fairfax apartment owners. While we were not able to get the Town Council to back down or overturn the ordinances, we were successful in getting a Ballot Initiative signed and submitted to the Town Council with over 1000 signatures. We are now on the November 2024 ballot for the voters to decide.

Larkspur Rent Control

The City of Larkspur has become the second municipality in Marin to establish a more restrictive rent control ordinance. Larkspur limits annual rent increases to 5% plus the cost-of-living index, not to exceed 7%. Like Fairfax, they have also established more restrictive language than the State in their Just Cause for Eviction portion. As with Fairfax, a group of voters was able to get a referendum signed to put this on the ballot for a vote – the way it should be done.

These local rent control ordinances are being pushed through by a group called DSA (Democratic Socialists of America), who are attempting to get rent control approved throughout Marin County. This is a scary situation that must be stopped. Your voices need to be heard. Please write to your city or town's Town Council or show up to speak at their meetings. If you want to see something scary, look up the DSA website.

San Anselmo

Over the last year or so, San Anselmo has gone back and forth on considering Rent Control. This last month, they have once again taken it up seriously. They are split on whether to proceed or on how much to limit rents. This is a moving target. Please make sure to go to the current meetings and let your voice be heard. There is little opposition being raised to the DSA's attempt to add San Anselmo to the list of Maring towns with rent control.

New Laws 2024

Effective July 1, security deposits will be limited to one month's rent.

Effective April 1, you will not be able to evict a tenant to move a family member into the unit if there is another vacant unit available.

Effective January 1, AB1418 prohibits evicting a tenant because of the tenant's association with suspected criminal activity or other nuisance activity.

Effective January 1, under SB 267, if a tenant has a governmental rent subsidy, and can demonstrate that with the subsidy they can afford the apartment, you cannot use their credit history as a means of turning them down.

Effective January 1, SB 712 prevents landlords from prohibiting their tenants from owning and charging in their apartment e-bikes and scooters.

Old Law – One Year Left

Senate Bill 721, enacted in 2018, requires that all apartment buildings three units and above have their decks and elevated walkways inspected and repaired. The deadline for this to happen is rapidly approaching – January 1, 2025. You have this year to get it done. The decks and walkways must be inspected by a qualified inspector (engineer, etc.). Decks must be repaired for any dry rot or unsafe conditions, and be certified as safe by the inspector. The full text of this law is available on our website – MarinApartments.com – under "Resources."

If you have not done so recently, check out our website, www.MarinApartments.com. Aside from highlighting all our current listings, the site offers information on all of Marin's income properties for sale, up to date recent and historical apartment sales, rent surveys, and a wealth of information for those thinking of buying or selling soon. The website also features a link to sign up for weekly email updates of all Marin apartment buildings that are currently for sale, that have sales pending, and those recently sold.

FREE PROPERTY VALUATION

Marin Market Update & Rental Survey is a quarterly publication mailed to Marin apartment building owners. Call for a free no obligation evaluation of your building's value in today's market.

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*If your property is currently listed, this is not intended as a solicitation of that listing.
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