

Marin County Residential Rental Report

Introduction

Home sales data for Marin County (or any other county) is readily available, but not so for leasing. I have been a realtor in Marin County since 2007 with a particular focus on leasing. Since 2018, I have tracked home rental listings (as publicly advertised on the internet) by month and by town (Tiburon, Mill Valley, Corte Madera, Larkspur, Greenbrae, Kentfield, Ross, San Anselmo and San Rafael). I thought it would be useful to share with the community some basic data, trends and relevant analysis. With better understanding and knowledge we can make a better home rental community. The data may also answer some common questions that I hear all the time.

How large is the Marin residential real estate market?

Inventory is a (if not the best) unit of measure for scale. What does the data say? There have been as many as 142 homes for rent (August 2019) and as few as 32 (February 2022). Here are the averages for the peak months (April to September):

2019 Average 126 homes for rent
2020 Average 99 homes for rent
2021 Average 65 homes for rent
2022 Average 78 homes for rent

The data shows that the overall size of the market has contracted roughly 50% from 2019 to 2021, but has trended upward slightly in 2022.

What has caused the market to contract?

I don't have a definitive answer, but I suspect it relates to the robust sales market Marin has seen the past 3 years. This is mostly attributable to historic low interest rates and flight from San Francisco. A lot of prospective tenants chose to buy rather than rent and many landlords chose to capitalize on the rising sales market. Of course, Covid has been a contributing factor as many people decided it was time to plant roots outside an urban environment. A recent article published by the SF Chronicle referenced IRS data that tracked movement of people from San Francisco to other counties. The top 4 destinations were:

Marin, CA 4,694
Santa Clara, CA 4,179
King County, WA 1,701
New York County, NY 1,519

Marin home sales data also appears to support a scenario of home sales increasing and impacting rental inventory:

Total homes sold in 2019... 1580
Total homes sold in 2020...1637
Total homes sold in 2021...1949
Total homes sold through September, 2022...1070

The two data points together suggest a measurable spike in people moving to Marin and buying homes the past several years.

If the rental market has been contracting what does this mean and is it cause for concern?

There is logic to sales volume increasing while rental inventory declines. Housing is a human need so if people are buying/owning there should be fewer people renting. But all economies are cyclical so at some point rental home inventory will increase. But common sense says that prospective tenants will have less inventory to choose from and landlords will have more pricing leverage. Ironically, the same is likely happening with the sales market as low inventory is driving sales prices higher. Whatever new housing Marin adds (very little) it will not affect general supply demand dynamics when there is steady demand for Marin housing and no measurable increase in supply. Rising interest rates likely will slow the sales market.

Is the rental market seasonal? If so, how much?

Yes, but not as much as one might think. The peak months (April-September) average only 20% more inventory than (January-March and October- December). For example, in 2019 there were a total of 761 homes for rent during peak months vs 611 for the non peak period.

In addition, Covid disrupted the normal seasonality of the market with very little activity due to restrictions in March-May with spurts of activity much later in the year.

Do home rental prices track home sales prices?

Home rentals “roughly track” the sales market from a price/value perspective. In other words, when home sales prices go up, rental prices do as well. Though just like sales, the rentals market can be “highly localized”. I had a situation in Tiburon in early 2019 when I had 3 homes with a monthly rental price of \$12,000. There were also 4 other homes on the market in the same price range. They were all well appointed homes but the “localized competition” required some pricing flexibility by the owners.

The rental market is more sensitive to the physical condition of the home since tenants have limited to no ability to “improve” the home. There is no “fixer upper” market for rentals. On a related note, I tell owner/landlords to budget money for home maintenance to address wear and tear. Of course, any improvements made to a home will preserve and enhance the value of the home for rental and for sale.

What towns have the most rental homes? Top 4 towns by number of rental homes:

San Rafael
Mill Valley
Tiburon
San Anselmo

It's not a huge surprise that the number of homes for rent aligns with the population size. One interesting note is San Anselmo is close to Larkspur in population but has many more homes for rent (roughly double for a typical month). The top 4 towns represent roughly 70% of home rental inventory. Larkspur, Greenbrae, Kentfield and Ross have very little home rental inventory comparatively.

Is owning and renting in Marin County a good investment?

Marin County has a robust residential rental market. Specifically, Marin consistently draws people to the county for both temporary living (corporate relocations) as well as permanent moves (very common for young families to move from SF to Marin to raise a family). What this means is Marin always has a consistent demand for housing. Many of my clients have owned their home for many years and have moved away or to smaller homes. They use their home for rental income. With Proposition 13 limiting property tax increases, renting a home in Marin becomes a very solid investment. Prices trend upward and costs are contained and predictable. So, if you buy a home in Marin and your living location plans change, you can transition easily without losing financially. And if you move away, you can return.

A word about property taxes and Proposition 13

Under Proposition 13, all real property has established base year values, a restricted rate of increase on assessments of no greater than 2% each year, and a limit on property taxes to 1% of the assessed value (plus additional voter-approved taxes). Consider the real dollar impact of this when comparing Marin to two counties in the State of New York which have no limit on property tax increases (no state law).

A 2,673SF house valued today at \$2,500,000 in Marin County has a property tax bill of \$18,000. Purchased in 2002.
A 2,400SF house valued today at \$800,000 in Suffolk County, NY has a property tax bill of \$16,000. Purchased in 1989. Tax rate is 2.3%.

A 3,051SF house valued today at \$616,000 in Albany County, NY has a property tax bill of \$18,000. Purchased in 1998. Tax rate 2.1%.

Upon initial purchase, the tax is more than double for the two counties in NY, but that doesn't tell the more meaningful story. By limiting the allowable tax increase, Prop 13 creates the scenario of increasing property values while constraining costs (property taxes are typically the second biggest cost after the mortgage). Over 20+ years slight increases get compounded over the period. As costs increase, it limits buying power thereby limiting price appreciation. Here in California it has the effect of enabling more buying power. Many people point to the lack of increase in the housing stock as driving real estate prices higher, but the less obvious reason is Prop 13.

https://en.wikipedia.org/wiki/1978_California_Proposition_13

Will prices go down? Have they ever gone down in Marin?

Real estate markets are very much a local dynamic. Almost every day an article is posted about the national real estate market, but who cares what the real estate market is doing in Phoenix or Tampa or even San Francisco. What matters is your Marin home. Based on my analysis, Marin County sale prices dropped from 2001-2002 (dotcom bubble and 9/11) and 2008-2009 (real estate driven recession caused by easy credit and lax lending standards). In most towns, prices dropped by less than 10% and only for 12-18 months before increasing. In 2022, the real estate market is being impacted by a significant increase in interest rates and a contracting economy (as measured by GDP). The low interest rate cycle supported price increases as the cost of ownership was lower. While rising interest rates will impact the sales market, the economic conditions are much different than in 2008-2009. Inventory is low, unemployment is low and people are still looking to move to Marin. Over the next 12-18 months, my prediction is the market will flatten but any declines will be marginal and for a short duration.

If demand is always strong for home rentals, should I lease the home myself rather than hiring an agent?

My analysis indicates that roughly one third of home rentals are rented by the owner. Anecdotally, I can say that the main reason is to avoid paying the agent's fee. However, as a landlord myself, I believe this overlooks what should be a more important variable and that is the quality of a tenant. An experienced agent will take all the necessary steps (credit report, financials, background verification, word of mouth, etc.) to ensure a quality tenant. My experience also suggests that prospective tenants prefer to interface with a real estate professional rather than directly with a homeowner during the leasing process. They are much more willing to speak candidly regarding any issues or concerns with the home. This is a huge help in avoiding any expectation disconnects. Most landlord/tenant discord is based on poor and/or lacking communication. A good agent eliminates that. For perspective, an \$7,000 monthly home rental is a "lifestyle impacting" \$84,000 investment so prudent people do not take the decision lightly.

I intend to rent a home prior to purchasing, how difficult is it to find a rental? How competitive?

Quality rental homes that are priced competitively rent quickly. In fact, the best homes rarely get advertised publicly (they rent via word of mouth through realtors that focus on rentals). Unlike homes for sale though, there are no "bidding wars". Many homes do receive multiple applications but invariably at the asking price and not above, so price

is not the determining factor in tenant selection. Factors such as credit worthiness, financial/professional stability, personal profile, term of lease, etc. are the selection criteria.

Key observations

Marin home rental market inventory has been contracting likely due to home sales increasing

Marin home rental market is consistently strong and has experienced rising prices as with sales

Proposition 13 is a key driver of home price appreciation and helps contain cost escalation

Supply/demand dynamics suggest that owning a Marin home is a good long term investment

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