FOR SALE - MIXED USE ADD VALUE MULTI-FAMILY CONVERSION & EXISTING FULLY LEASED MEDICAL OFFICE

1200 & 1210 SONOMA AVE, SANTA ROSA, CA 95405

Northern California's Premier Commercial Real Estate Firm

PROPERTY SUMMARY

PRICING

	1200 Sonoma Ave (Front Building)	1210 Sonoma Ave (Back Building)	1200 & 1210 Sonoma Ave (Back Building)
Asking Price:	**$1,169,000**	**$1,052,000**	**$2,221,000**
Building Sq. Ft.	8,725+/- Sq. Ft.	3,930+/- Sq. Ft.	12,655+/- Sq. Ft.
Price per Sq. Ft.:	$134 Per Sq. Ft.	$268 Per Sq. Ft.	$175.50 Per Sq. Ft.

SITE

APN:	014-121-023
Total Building Sq. Ft.:	12,655+/- Square Feet
Lot Size:	1.35 +/- Acres 58,806 +/- Square Feet
Zoning & General Plan:	CO - Commercial Office
Parking Spaces:	55 Parking Spaces
Traffic Count	12,087 AADT
Water & Sewer:	City of Santa Rosa

BUILDINGS

	1200 Sonoma Ave (Front Building)	1210 Sonoma Ave (Back Building)
Building Sq. Ft.:	8,725+/- Sq. Ft.	3,930+/- Sq. Ft.
Build Out:	Shell	Medical
Occupancy:	Vacant	Leased to Sutter Bay Medical Foundation
Accessibility:	ADA Accessible	
Building Structure:	Wood Frame & Stucco	
Heating:	Forced Air Central	
Foundation:	Concrete Perimeter	

PROPERTY SUMMARY

Highest & Best Use

Several comparable office buildings in Santa Rosa have been successfully converted to multi-family residential properties, suggesting a viable repositioning strategy for the 1200 building. This analysis assesses whether maintaining both properties as office use or converting the 1200 building to multi-family residential use (while retaining the 1210 building as a medical office) represents the highest and best use, incorporating a 24-month stabilization period for 1200 Sonoma, depreciation, rental 2 income, vacancy rates, operating expenses, reserves, improvement costs, purchase price, debt service at 50% LTV, Year 1 and 7-year pre-tax and after-tax cash-on-cash returns with sale, a 10-year holding period analysis without sale, and taxes on sale proceeds (27% capital gains, 25% depreciation recapture). SEE ATTACHED HIGHEST AND BEST USE ANALYSIS

1200 Sonoma Ave

The front building at 1200 Sonoma Ave, covering 8,725± square feet, is a vacant shell, presenting a unique opportunity for customization. With a significant portion of its interior reduced to stud wall framing, this single-story building is a blank canvas, ready for tailored renovations to suit a variety of uses: Office (Permitted) or Multi-Family Residential (with a Use Permit). The expansive 58,806± square foot lot enhances the property's appeal, offering ample parking and flexibility for future development or tenant-specific improvements. Situated in the heart of Santa Rosa, this property benefits from its proximity to key business and medical hubs, making it a versatile investment with significant value-add potential.

1210 Sonoma Ave

Discover a prime commercial opportunity at 1200 & 1210 Sonoma Ave, Santa Rosa, CA 95404, featuring two office buildings totaling approximately 12,655± square feet on a single 1.35± acre parcel in a desirable Commercial Office (CO) zoning district. The back building at 1210 Sonoma Ave, measuring 3,930± square feet, is in excellent condition and fully leased to Sutter Bay Medical Foundation, a reputable tenant. This well-maintained building offers modern amenities, including ADA accessibility, forced air central heating, and a concrete perimeter foundation, making it ideal for professional or medical office use. With 55 parking spaces and a strategic location in Santa Rosa's thriving commercial corridor, this property provides immediate operational stability for investors or owner-occupants.

RENT ROLL

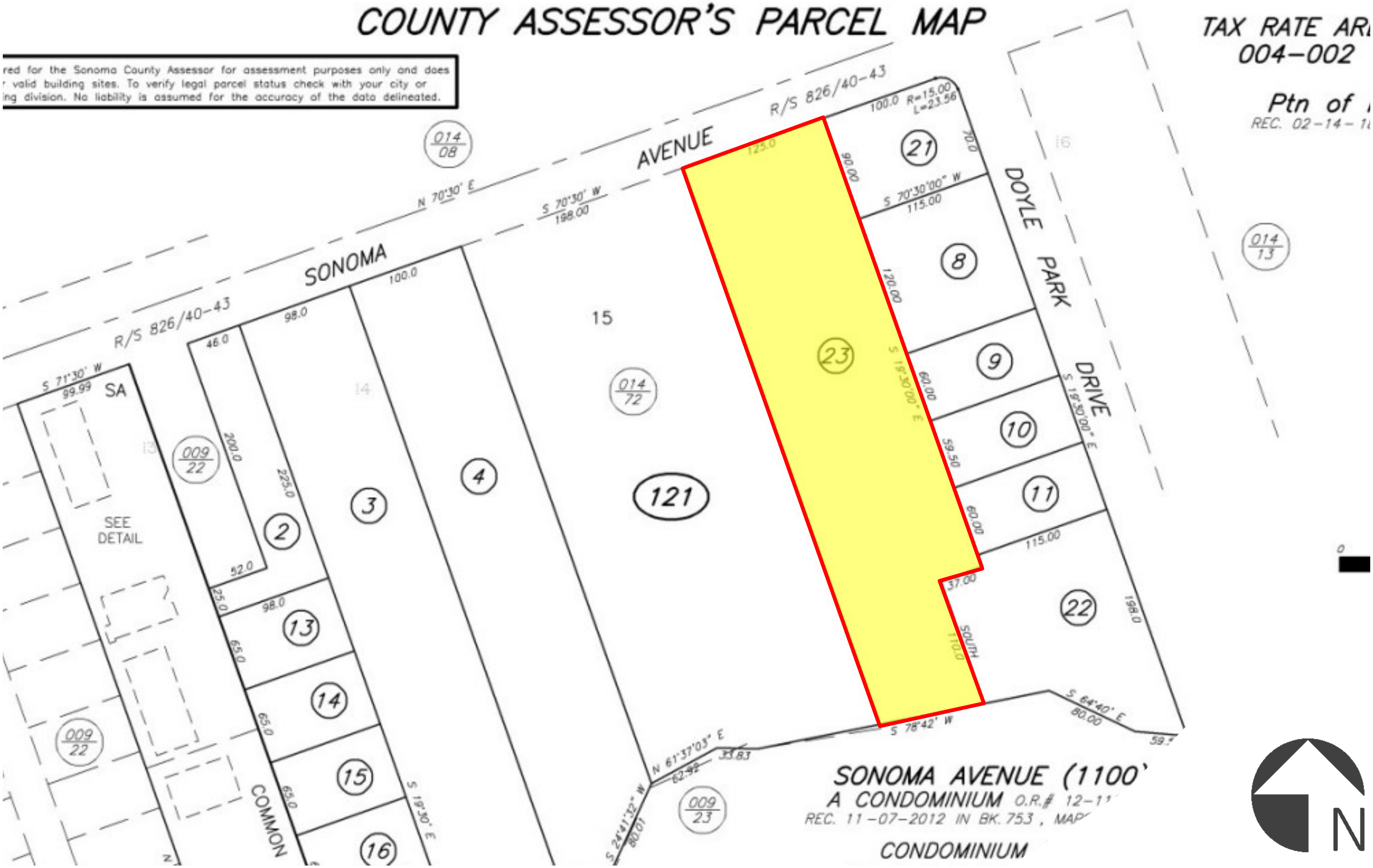
Lease Summary / Rent Roll as of 07/15/2025

1200 & 1210 Sonoma Ave
Santa Rosa, CA

Tenant	Unit	Start Date	End Date	Monthly Contract Rent	Rentable Sq. Ft.	Percent of Subject	Base $ per Sq. Ft. per month	$ per Sq. Ft./Yr per year	Comments
Sutter Health	1210 Sonoma Ave	2/1/2023	1/31/2028	$ 10,006.41	3,930	100.00%	$ 2.55	$ 30.55	Rental Increases: 02/01/26 - $10,006.41 & 02/01/27 - $10,306.60
			Current Monthly Totals:	$ 10,006.41	3,930	100.00%	2.55	$ 30.55	
			Gross Potential Income:	$ 120,076.92			Avg / Mo.	Avg / Yr.	

The above information, while not guaranteed, has been secured from sources we believe to be reliable. Regarding the numbers illustrated above, the only guarantee that the author can make, is that the actual numbers will either be higher or lower than the above. This document was prepared by William M. Severi, CCIM, CPM of North Bay Property Advisors.

PARCEL MAP


COUNTY ASSESSOR'S PARCEL MAP
red for the Sonoma County Assessor for assessment purposes only and does
valid building sites. To verify legal parcel status check with your city or
ng division. No liability is assumed for the accuracy of the data delineated.
TAX RATE AR
004-002
Ptn of
SONOMA
AVENUE
R/S 826/40-43
DOYLE PARK DRIVE
121
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COMMON
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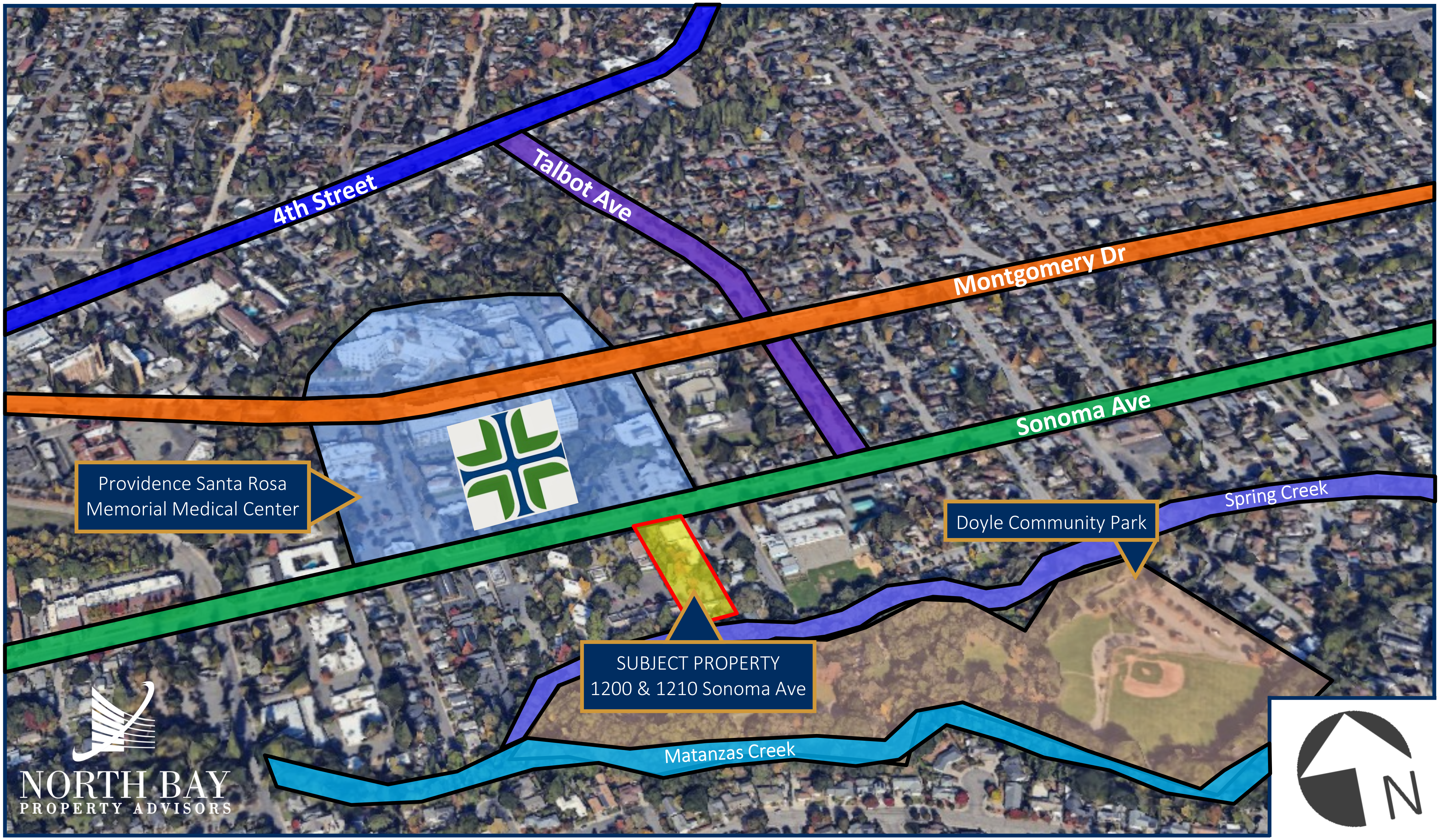
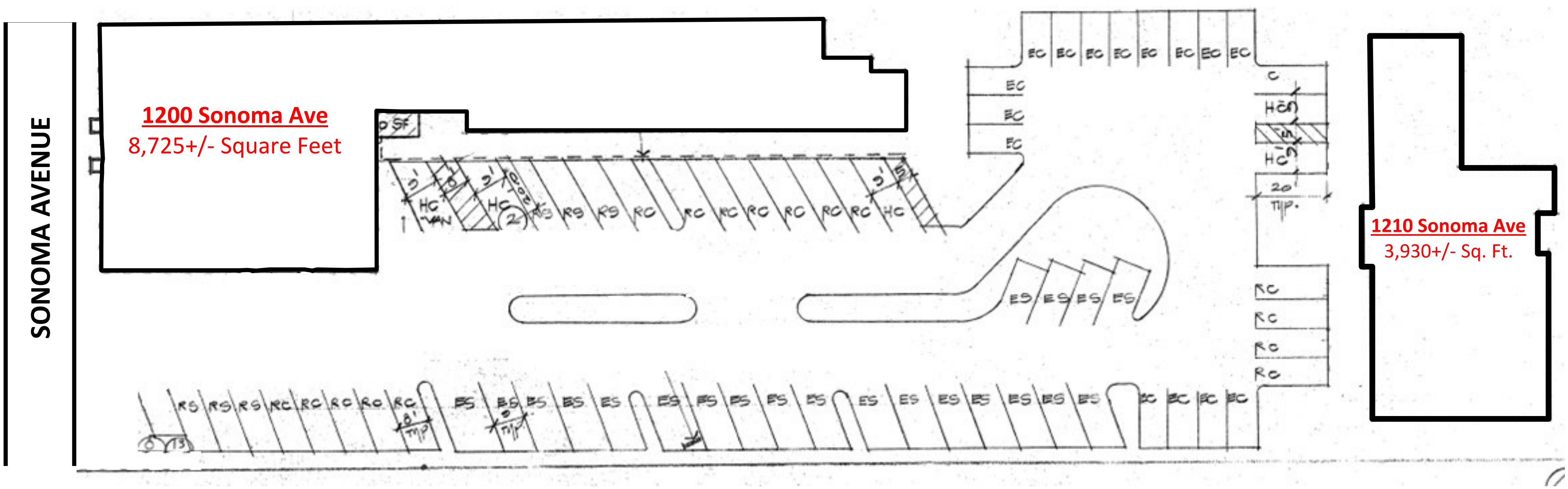
STREET MAP AERIAL



1200 & 1210 SONOMA AVE SITE PLAN



PHOTOS

Exterior (1200 Sonoma Ave)

Exterior (1200 Sonoma Ave)

Exterior (1200 Sonoma Ave)

Exterior (1200 Sonoma Ave)

PHOTOS

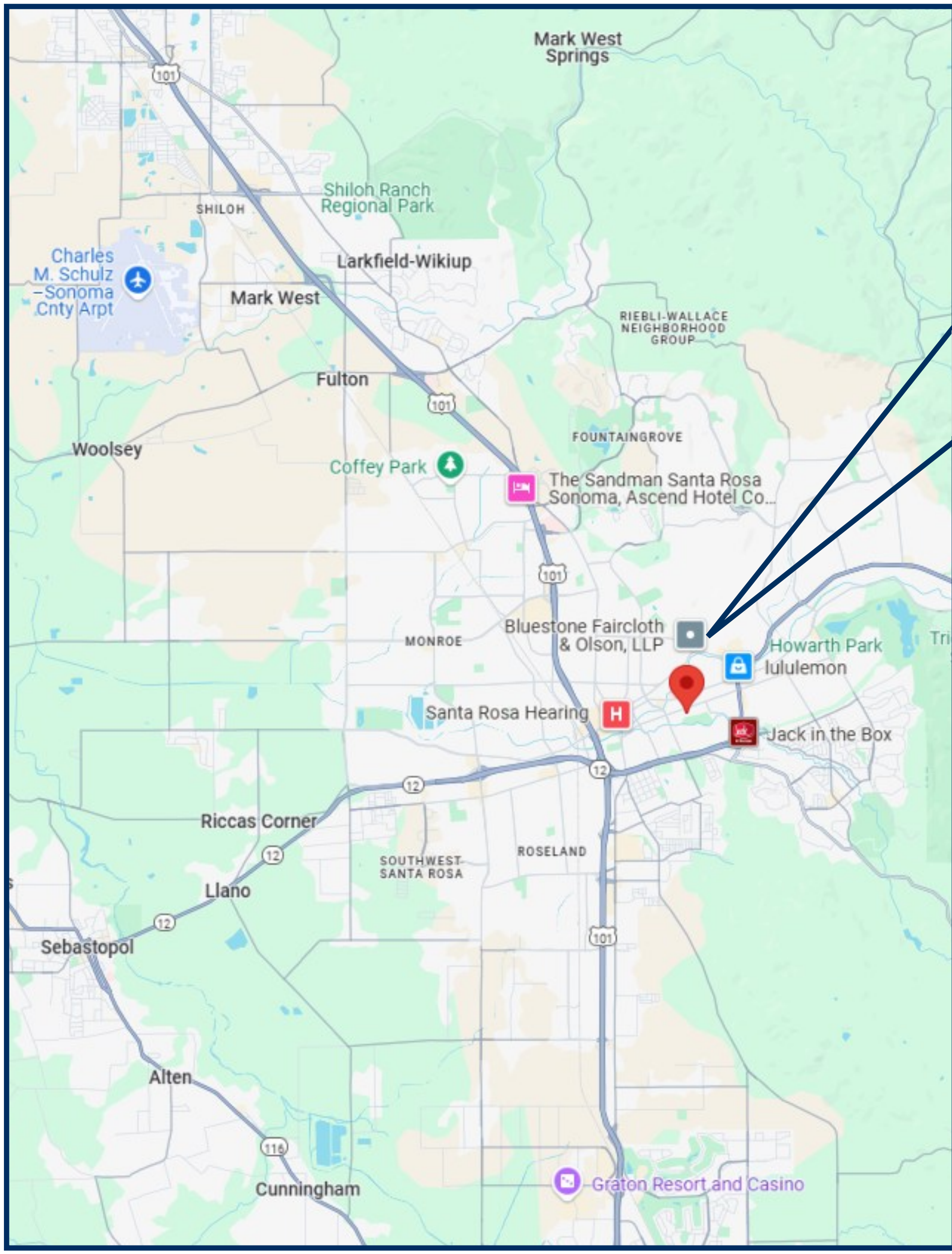

Parking Lot

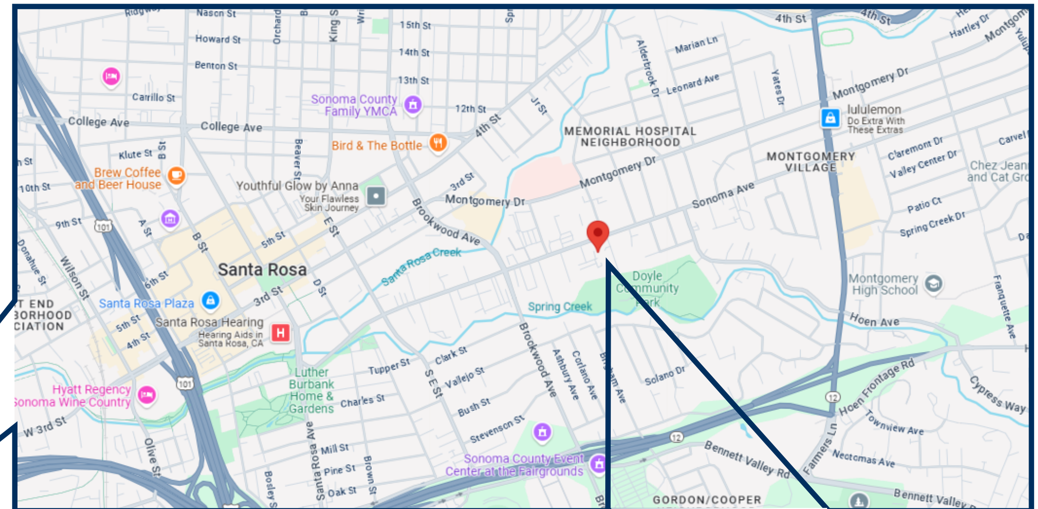
Exterior (1210 Sonoma Ave)


Exterior (1210 Sonoma Ave)


Exterior (1210 Sonoma Ave)

MAPS


Mark West Springs
Shiloh Ranch Regional Park
SHILOH
Charles M. Schulz –Sonoma Cnty Arpt
Larkfield-Wikiup
Mark West
RIEBLI-WALLACE NEIGHBORHOOD GROUP
Fulton
FOUNTAINGROVE
Woolsey
Coffey Park
The Sandman Santa Rosa Sonoma, Ascend Hotel Co...
Bluestone Faircloth & Olson, LLP
MONROE
Howarth Park
lululemon
Santa Rosa Hearing
Jack in the Box
Riccas Corner
SOUTHWEST SANTA ROSA
ROSELAND
Llano
Sebastopol
Alten
Cunningham
Graton Resort and Casino


College Ave
Sonoma County Family YMCA
Bird & The Bottle
MEMORIAL HOSPITAL NEIGHBORHOOD
Montgomery Dr
lululemon
MONTGOMERY VILLAGE
Brew Coffee and Beer House
Youthful Glow by Anna
Santa Rosa
Santa Rosa Plaza
Santa Rosa Hearing
Doyle Community Park
Spring Creek
Sonoma Ave
Montgomery High School
Hoen Ave
Luther Burbank Home & Gardens
Hyatt Regency Sonoma Wine Country
Sonoma County Event Center at the Fairgrounds
Bennett Valley Rd
GORDON/COOPER


1210 Sonoma Ave (Back Building)
1200 Sonoma Ave (Front Building)
Sonoma Ave

LISTING TEAM

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NORTH BAY™
PROPERTY ADVISORS

Highest & Best Use Analysis
1200 - 1210 Sonoma Avenue, Santa Rosa, CA

William M. Severi, CCIM, CPM
North Bay Property Advisors

July 25, 2025

Executive Summary

This analysis evaluates the highest and best use of the properties at 1200 and 1210 Sonoma Avenue, Santa Rosa, CA, comprising an 8,725 square foot (sf) building at 1200 Sonoma Avenue, requiring a 24-month stabilization period, and a 3,930 sf medical office building at 1210 Sonoma Avenue, fully occupied by Sutter Bay Medical Foundation for $122,778 per year on a gross lease basis. The combined purchase price is $2,221,100, with financing at 50% loan-to-value (LTV), amortized over 25 years at 6.5% interest. The purchase price loan is obtained at closing, while the office improvement loan is obtained 6 months after purchase, and the multi- family improvement loan 9 months after purchase. For 1200 Sonoma, occupancy is 0% in Year 1, 75% in Year 2, and stabilized in Year 3+ (5% vacancy for office, 3% for multi-family). The multi-family scenario (converting 1200 Sonoma, retaining 1210 Sonoma as medical office) yields a reconciled value of $6,374,431 compared to $3,547,804 for office use. After accounting for depreciation (27.5 years for multi- family, 39 years for office), a 7-year holding period analysis with sale, including 3% annual rent growth, 2.5% expense growth, 6.5% sale costs, 27% capital gains tax, 25% depreciation recapture, and loan amortization, projects a pre-tax cash-on- cash (CoC) return of 229.22% and an after-tax return of 108.81% for the multi-family scenario, versus 216.25% pre-tax and 58.81% after-tax for office use. A 10-year hold- ing period analysis without sale (Section 4.8) shows sustained positive pre-tax cash flows from Year 2 onward, with the multi-family scenario achieving higher pre-tax cash flows and CoC returns (e.g., Year 10: $255,801, 11.62% CoC; 10-year average: 7.84% CoC) compared to office use ($175,768, 9.96% CoC; 10-year average: 6.54% CoC), confirming multi-family conversion as the highest and best use.

1 Property Overview

The subject properties at 1200 and 1210 Sonoma Avenue, Santa Rosa, CA, consist of two buildings:

- **1200 Sonoma Avenue**: An 8,725+/- sf building zoned Commercial Office (CO), permitting multi-family residential development with a Conditional Use Permit, requiring 24 months to reach stabilized occupancy.
- **1210 Sonoma Avenue**: A 3,930+/- sf medical office building, fully occupied by Sutter Bay Medical Foundation for $122,778 per year on a gross lease basis.

Several comparable office buildings in Santa Rosa have been successfully converted to multi-family residential properties, suggesting a viable repositioning strategy for the 1200 building. This analysis assesses whether maintaining both properties as office use or converting the 1200 building to multi-family residential use (while retaining the 1210 building as a medical office) represents the highest and best use, incorporating a 24-month stabilization period for 1200 Sonoma, depreciation, rental income, vacancy rates, operating expenses, reserves, improvement costs, purchase price, debt service at 50% LTV, 7-year pre-tax and after-tax CoC returns with sale, a 10-year holding period analysis without sale with pre-tax CoC returns, and taxes on sale proceeds (27% capital gains, 25% depreciation recapture).

2 Assumptions

The financial analysis is based on the following assumptions:

- **Total Property Size**: 8,725 sf (1200 Sonoma) + 3,930 sf (1210 Sonoma) = 12,655 sf
- **Purchase Price**: $2,221,100
- **Financing**:
  - Loan-to-Value (LTV): 50% for purchase price and improvement costs
  - Amortization: 25 years
  - Interest Rate: 6.5%
  - Purchase Price Loan: Obtained at closing
  - Office Improvement Loan: Obtained 6 months after purchase
  - Multi-Family Improvement Loan: Obtained 9 months after purchase
- **Stabilization Period for 1200 Sonoma**:
  - Year 1: 0% occupancy
  - Year 2: 75% occupancy
  - Year 3+: Stabilized occupancy with 5% vacancy (Office), 3% vacancy (Multi-Family)
- **1210 Sonoma**: Fully occupied from Year 1, with 5% vacancy applied for valuation
- **Office Use**:
  - 1200 Sonoma Rental Rate Range: $1.75 to $2.75 psf per month (gross lease)
  - 1210 Sonoma Rental Rate: $122,778/year (gross lease)
  - Vacancy Rate: 5%
  - Operating Expense Ratio: 27%
  - Reserve for Replacements: 3%
  - Capitalization Rate Range: 6.0% to 8.0%
  - Improvement Cost: $150 psf (1200 Sonoma only)

- Depreciation: 39 years

- **Multi-Family + Medical Office**:
  - 1200 Sonoma Rental Rate Range: $2.75 to $4.00 psf per month (gross lease)
  - 1210 Sonoma Rental Rate: $122,778/year (gross lease)
  - Vacancy Rate: 3% (1200 Sonoma), 5% (1210 Sonoma for valuation)
  - Operating Expense Ratio: 27%
  - Reserve for Replacements: 3%
  - Capitalization Rate Range: 4.0% to 6.0% (1200 Sonoma), 6.0% to 8.0% (1210 Sonoma)
  - Improvement Cost: $250 psf (1200 Sonoma only)
  - Depreciation: 27.5 years (1200 Sonoma), 39 years (1210 Sonoma)
- **Tax Assumptions**:
  - Marginal Tax Rate: 37% for operating income
  - Capital Gains Tax: 27% (combined federal and state) on sale
  - Depreciation Recapture Tax: 25% on sale
- **7-Year Sale and 10-Year Holding Analysis**:
  - Rent Growth: 3% per year (compounded)
  - Expense Growth: 2.5% per year (compounded)
  - Sale Costs (for 7-year analysis): 6.5% of gross sale price
  - Capitalization Rates: Same as Year 1
  - Loan Payoff (for 7-year analysis): Outstanding balances after 7 years

3 Professional Qualifications of William M. Severi, CCIM, CPM

- **Position**: President and Chief Executive Officer, North Bay Property Advisors, Santa Rosa, CA
- **Experience**: Over 35 years in commercial and investment real estate, with $5 billion in transactional experience, including sales, leasing, property management, appraisal, and lending services in Northern California.
- **Licenses**:
  - California Bureau of Real Estate Broker (Lic #: 01000344)

  - Arizona Real Estate Broker (Lic #: BR55513000)
  - Certified General Real Estate Appraiser (1995–2005)
  - Series 63 and 22 securities licenses (NASAA and FINRA)
- **Designations**:
  - Certified Commercial Investment Member (CCIM), equivalent to a Master's degree in commercial real estate analysis and marketing
  - Certified Property Manager (CPM), Institute of Real Estate Management
- **Education**: Bachelor of Science in Business Administration, Real Estate and Land Use Affairs, California State University, Sacramento
- **Professional Affiliations**:
  - Chairman, Sonoma County Assessment Appeals Board
  - Superior Court Appointed Receiver
  - Member, CCIM Institute
  - Member, Institute of Real Estate Management
  - Member, California and National Association of Realtors
  - Member, Bay Area Real Estate Information Services Network
- **Business History**:
  - Founder, North Bay Property Advisors
  - Former President/CEO, North Bay Commercial Real Estate, Inc. (sold stock in 2008)
  - Previously affiliated with Keegan & Coppin, a leading North Bay commercial brokerage
- **Community Involvement**: Leadership in Sonoma County through the Assessment Appeals Board, a quasi-judicial body appointed by the Sonoma County Board of Supervisors

4 Financial Analysis

4.1 Potential Gross Income (PGI)

The PGI is calculated by converting monthly rental rates to annual for 1200 Sonoma and using the fixed annual rent for 1210 Sonoma.

- **Office Use**:
  - 1200 Sonoma:

    * Low-end: $1.75 psf × 8,725 sf × 12 months = $183,225/year
    * High-end: $2.75 psf × 8,725 sf × 12 months = $287,925/year
  – 1210 Sonoma: $122,778/year
  – Total PGI:
    * Low-end: $183,225 + $122,778 = $306,003/year
    * High-end: $287,925 + $122,778 = $410,703/year
- **Multi-Family + Medical Office**:
  – 1200 Sonoma:
    * Low-end: $2.75 psf × 8,725 sf × 12 months = $287,925/year
    * High-end: $4.00 psf × 8,725 sf × 12 months = $418,800/year
  – 1210 Sonoma: $122,778/year
  – Total PGI:
    * Low-end: $287,925 + $122,778 = $410,703/year
    * High-end: $418,800 + $122,778 = $541,578/year

4.2 Effective Gross Income (EGI)

The EGI accounts for vacancy and the 24-month stabilization period for 1200 Sonoma (0% in Year 1, 75% in Year 2, stabilized in Year 3+).

- **Office Use**:
  – Year 1 (1200 Sonoma at 0% occupancy, 1210 Sonoma stabilized):
    * Low/High-end: $122,778 × (1 - 0.05) = $116,639
  – Year 2 (1200 Sonoma at 75% occupancy, 5% vacancy):
    * Low-end: $183,225 × 0.75 × (1 - 0.05) + $116,639 = $247,112
    * High-end: $287,925 × 0.75 × (1 - 0.05) + $116,639 = $321,785
  – Year 3+ (5% vacancy):
    * Low-end: $306,003 × (1 - 0.05) = $290,703
    * High-end: $410,703 × (1 - 0.05) = $390,168
- **Multi-Family + Medical Office**:
  – Year 1 (1200 Sonoma at 0% occupancy, 1210 Sonoma stabilized):
    * Low/High-end: $122,778 × (1 - 0.05) = $116,639

- Year 2 (1200 Sonoma at 75% occupancy, 3% vacancy):
  - Low-end: $287,925 $\times$ 0.75 $\times$ (1 - 0.03) + $116,639 = $326,105
  - High-end: $418,800 $\times$ 0.75 $\times$ (1 - 0.03) + $116,639 = $421,316
- Year 3+:
  - Low-end: $287,925 $\times$ (1 - 0.03) + $116,639 = $395,926
  - High-end: $418,800 $\times$ (1 - 0.03) + $116,639 = $522,875

4.3 Net Operating Income (NOI)

The NOI is calculated by subtracting operating expenses (27% of EGI) and reserve for replacements (3% of EGI) from the EGI.

- **Office Use**:
  - Year 1:
    - Low/High-end: $116,639 - ($116,639 $\times$ 0.27) - ($116,639 $\times$ 0.03) = $81,647
  - Year 2:
    - Low-end: $247,112 - ($247,112 $\times$ 0.27) - ($247,112 $\times$ 0.03) = $172,978
    - High-end: $321,785 - ($321,785 $\times$ 0.27) - ($321,785 $\times$ 0.03) = $225,249
  - Year 3+:
    - Low-end: $290,703 - ($290,703 $\times$ 0.27) - ($290,703 $\times$ 0.03) = $203,492
    - High-end: $390,168 - ($390,168 $\times$ 0.27) - ($390,168 $\times$ 0.03) = $273,117
- **Multi-Family** + **Medical Office**:
  - Year 1:
    - Low/High-end: $116,639 - ($116,639 $\times$ 0.27) - ($116,639 $\times$ 0.03) = $81,647
  - Year 2:
    - Low-end: $326,105 - ($326,105 $\times$ 0.27) - ($326,105 $\times$ 0.03) = $228,273
    - High-end: $421,316 - ($421,316 $\times$ 0.27) - ($421,316 $\times$ 0.03) = $294,921
  - Year 3+:
    - Low-end: $395,926 - ($395,926 $\times$ 0.27) - ($395,926 $\times$ 0.03) = $277,148
    - High-end: $522,875 - ($522,875 $\times$ 0.27) - ($522,875 $\times$ 0.03) = $366,013

4.4 Property Value Estimation

The property value is estimated by dividing the stabilized NOI (Year 3+) by the capitalization rate.

- **Office Use**:
  - Low-end: $203,492 ÷ 0.08 = $2,543,650
  - High-end: $273,117 ÷ 0.06 = $4,551,950
  - Value Range: $2,543,650 to $4,551,950
  - Reconciled Value: $3,547,804
- **Multi-Family + Medical Office**:
  - Low-end (1200 Sonoma at 6.0%, 1210 Sonoma at 8.0%):
    * 1200 Sonoma NOI: $277,148 - $81,647 = $195,501
    * 1210 Sonoma NOI: $81,647
    * Total Value: $195,501 ÷ 0.06 + $81,647 ÷ 0.08 = $4,278,943
  - High-end (1200 Sonoma at 4.0%, 1210 Sonoma at 6.0%):
    * 1200 Sonoma NOI: $366,013 - $81,647 = $284,366
    * 1210 Sonoma NOI: $81,647
    * Total Value: $284,366 ÷ 0.04 + $81,647 ÷ 0.06 = $8,469,920
  - Value Range: $4,278,943 to $8,469,920
  - Reconciled Value: $6,374,431

4.5 Incorporating Costs and Debt Service

- **Financing Calculations (50% LTV)**:
  - Loan Amount:
    * Purchase Price: $1,110,550
    * Office Improvements (6 months post-purchase): $654,375
    * Multi-Family Improvements (9 months post-purchase): $1,090,625
  - Annual Debt Service:
    * Purchase Loan: $100,820
    * Office Improvement Loan: $59,337
    * Multi-Family Improvement Loan: $99,081

- Year 1 Debt Service:
  - Office Use: \$100,820 + (6/12 × \$59,337) = \$130,489
  - Multi-Family + Medical Office: \$100,820 + (3/12 × \$99,081) = \$125,591
- Year 2+ Debt Service:
  - Office Use: \$100,820 + \$59,337 = \$160,157
  - Multi-Family + Medical Office: \$100,820 + \$99,081 = \$199,901

- **Office Use**:
  - Total Cost: \$2,221,100 + (8,725 sf × \$150) = \$3,529,850
  - Equity Invested: \$1,764,925
  - Net Reconciled Value after Debt Service (Year 1): \$3,547,804 - \$3,529,850 - \$130,489 = -\$112,535
- **Multi-Family + Medical Office**:
  - Total Cost: \$2,221,100 + (8,725 sf × \$250) = \$4,402,350
  - Equity Invested: \$2,201,175
  - Net Reconciled Value after Debt Service (Year 1): \$6,374,431 - \$4,402,350 - \$125,591 = \$1,846,490

4.6 Depreciation and Tax Benefits

- **Office Use**:
  - Depreciable Basis: \$3,085,630
  - Annual Depreciation (39 years): \$79,119
- **Multi-Family + Medical Office**:
  - Depreciable Basis: \$3,521,880
  - Annual Depreciation: \$77,559

4.7 7-Year Sale Analysis

The sale in Year 7 accounts for 3% annual rent growth, 2.5% expense growth, 6.5% sale costs, loan amortization, 27% capital gains tax, and 25% depreciation recapture.

- **Office Use**:
  - Year 7 NOI: \$309,878

- – Year 7 Sale Price: \$5,164,633
- – Net Sale Proceeds (before-tax): \$5,164,633 - (6.5% $\times$ \$5,164,633) - \$1,559,000 = \$3,269,932
- – Taxes: \$583,359
- – Net Proceeds (after-tax): \$3,269,932 - \$583,359 = \$2,686,573

- **Multi-Family + Medical Office**:
  - Year 7 NOI: \$415,294
  - Year 7 Sale Price: \$8,652,792
  - Net Sale Proceeds (before-tax): \$8,652,792 - (6.5% $\times$ \$8,652,792) - \$1,945,000 = \$6,145,361
  - Taxes: \$1,529,442
  - Net Proceeds (after-tax): \$6,145,361 - \$1,529,442 = \$4,615,919

4.8 10-Year Holding Period Analysis (No Sale)

This section analyzes the annual pre-tax cash flows and cash-on-cash (CoC) returns for holding the property through Year 10 without selling, using high-end NOI projections for consistency with the reconciled value (Section 4.4). Cash flows are calculated as NOI minus debt service (Sections 4.3 and 4.5). CoC returns are calculated as annual cash flow divided by equity invested (\$1,764,925 for Office Use, \$2,201,175 for Multi-Family + Medical Office). EGI grows at 3% annually from Year 3 onward, with operating expenses and reserves growing at 2.5% annually. Debt service re- mains constant: \$130,489 (Year 1) and \$160,157 (Year 2+) for Office Use; \$125,591 (Year 1) and \$199,901 (Year 2+) for Multi-Family + Medical Office. The 10-year average CoC returns are 6.54% for Office Use and 7.84% for Multi-Family + Medical Office, reflecting the latter's stronger cash flow performance.

4.9 Cash-on-Cash Returns

- **Year 10 (No Sale)**:
  - **Office Use**:
    - Pre-Tax: 9.96%
  - **Multi-Family + Medical Office**:
    - Pre-Tax: 11.62%
- **10-Year Average (No Sale)**:
  - **Office Use**: See Table 1

Table 1: Annual Pre-Tax Cash Flows and Cash-on-Cash Returns (Years 1–10, No Sale)

Year	Office Use		Multi-Family + Medical Office	
	Cash Flow ($)	CoC (%)	Cash Flow ($)	CoC (%)
Year 1	-48,842	-2.77	-43,944	-2.00
Year 2	65,092	3.69	95,020	4.32
Year 3	112,960	6.40	166,112	7.54
Year 4	121,154	6.87	177,092	8.04
Year 5	126,557	7.17	189,210	8.59
Year 6	135,795	7.69	201,711	9.16
Year 7	145,325	8.24	214,609	9.75
Year 8	155,158	8.79	227,914	10.35
Year 9	165,302	9.36	241,641	10.98
Year 10	175,768	9.96	255,801	11.62
10-Year Avg (%)		6.54		7.84

    * Pre-Tax: 6.54%

  - **Multi-Family + Medical Office**:

    * Pre-Tax: 7.84%

- **7-Year (with Sale)**:

  - **Office Use**:

    * Before-Tax: 216.25%
    * After-Tax: 58.81%

  - **Multi-Family + Medical Office**:

    * Before-Tax: 229.22%
    * After-Tax: 108.81%

4.10 Feasibility and Highest and Best Use

The following subsections provide detailed explanations of the 7-year before-tax cash-on-cash returns for both the Office Use (Section 4.10.1) and Multi-Family + Medical Office (Section 4.10.2) scenarios, outlining the components contributing to the returns reported in Section 4.9.

- **Office Use**:

  - Value Range: $2,543,650 to $4,551,950

  - Reconciled Value: $3,547,804

  - Total Cost: $3,529,850

- Total Annual Debt Service: $130,489 (Year 1), $160,157 (Year 2+)
- Net Reconciled Value after Debt Service: -$112,535
- Year 10 Cash-on-Cash Return (No Sale):
  * Equity Invested: $1,764,925
  * Pre-Tax: 9.96%
- 10-Year Average Cash-on-Cash Return (No Sale):
  * Pre-Tax: 6.54%
- 7-Year Cash-on-Cash Return (with Sale):
  * Before-Tax: $129,210 + $496,466 + $3,269,932 - $1,764,925 = $3,815,683; 216.25%
  * After-Tax: $2,428 + (4 × $41,181) + $2,686,573 - $1,764,925 = $1,037,900; 58.81%
- *Feasibility*: Limited due to negative net reconciled value, modest 7-year after-tax return, and lower pre-tax cash flows and CoC returns in the 10-year holding period (Section 4.8, Year 10: 9.96%, 10-year average: 6.54%).

4.10.1 Explanation of 7-Year Before-Tax Cash-on-Cash Return (Office Use)

The 7-year before-tax cash-on-cash (CoC) return for the Office Use scenario is calculated as $129,210 + $496,466 + $3,269,932 - $1,764,925 = $3,815,683, yielding a CoC return of 216.25% when divided by the initial equity invested ($3,815,683 ÷ $1,764,925 × 100). This represents the total before-tax cash return over the 7-year holding period relative to the equity invested. Below, each component is explained:

- **$129,210: Cumulative Cash Flows (Years 1–3)**: This is the sum of before-tax cash flows from Years 1 to 3, derived from Net Operating Income (NOI) minus debt service (see Sections 4.3 and 4.5):
  * Year 1: NOI = $81,647 (0% occupancy for 1200 Sonoma, Section 4.3); Debt Service = $130,489 (Section 4.5); Cash Flow = $81,647 - $130,489 = -$48,842.
  * Year 2: NOI = $225,249 (75% occupancy, high-end, Section 4.3); Debt Service = $160,157; Cash Flow = $225,249 - $160,157 = $65,092.
  * Year 3: NOI = $273,117 (stabilized, high-end, Section 4.3); Debt Service = $160,157; Cash Flow = $273,117 - $160,157 = $112,960.
  * Total: -$48,842 + $65,092 + $112,960 = $129,210.

- **$496,466: Cash Flows (Years 3–6)**: This represents the sum of before-tax cash flows for Years 3 to 6, accounting for 3% annual rent growth and 2.5% expense growth (Section 4.8):
  - Year 3: $112,960
  - Year 4: $121,154
  - Year 5: $126,557
  - Year 6: $135,795
  - Total: $112,960 + $121,154 + $126,557 + $135,795 = $496,466
- **$3,269,932: Net Sale Proceeds (Year 7)**: This is the before-tax net proceeds from selling the property in Year 7 (Section 4.7):
  - Year 7 NOI: $309,878, calculated by applying 3% annual rent growth and 2.5% expense growth to the stabilized NOI of $273,117 (Section 4.3).
  - Sale Price: $309,878 ÷ 0.06 (high-end cap rate, Section 4.4) = $5,164,633.
  - Sale Costs: 6.5% × $5,164,633 = $335,701.
  - Loan Payoff: $1,559,000 (approximated remaining balance of the purchase price loan ($1,110,550) and improvement loan ($654,375, obtained 6 months post-purchase) after 7 years of amortization at 6.5% interest, Section 4.7).
  - Net Proceeds: $5,164,633 - $335,701 - $1,559,000 = $3,269,932.
- **$1,764,925: Initial Equity Invested**: This is the equity required after accounting for 50% LTV financing (Section 4.5):
  - Total Cost: $2,221,100 (purchase price) + $1,308,750 (improvements) = $3,529,850.
  - Loans: $1,110,550 (purchase price) + $654,375 (improvements, received at 6 months) = $1,764,925.
  - Equity: Initial outlay of $2,419,300 (50% of purchase price + full improvements) reduced by $654,375 at 6 months, resulting in $1,764,925.

The total before-tax cash return is calculated as $129,210 + $496,466 + $3,269,932 - $1,764,925 = $3,815,683. Dividing by the equity invested gives the CoC return: ($3,815,683 ÷ $1,764,925) × 100 = 216.25%. This calculation uses the high-end NOI for consistency with the reconciled value (Section 4.4) and incorporates rent and expense growth for Years 3–6, aligning with Section 4.8.

- **Multi-Family + Medical Office**:
  - Value Range: $4,278,943 to $8,469,920
  - Reconciled Value: $6,374,431
  - Total Cost: $4,402,350
  - Total Annual Debt Service: $125,591 (Year 1), $199,901 (Year 2+)
  - Net Reconciled Value after Debt Service: $1,846,490
  - Year 10 Cash-on-Cash Return (No Sale):
    * Equity Invested: $2,201,175
    * Pre-Tax: 11.62%
  - 10-Year Average Cash-on-Cash Return (No Sale):
    * Pre-Tax: 7.84%
  - 7-Year Cash-on-Cash Return (with Sale):
    * Before-Tax: $217,188 + $734,125 + $6,145,361 - $2,201,175 = $4,895,499; 229.22%
    * After-Tax: $28,522 + (4 × $59,384) + $4,615,919 - $2,201,175 = $2,395,102; 108.81%
  - *Feasibility*: Superior due to positive net value, strong 7-year after-tax return, and higher pre-tax cash flows and CoC returns in the 10-year holding period (Section 4.8, Year 10: 11.62%, 10-year average: 7.84%).

4.10.2 Explanation of 7-Year Before-Tax Cash-on-Cash Return (Multi-Family + Medical Office)

The 7-year before-tax cash-on-cash (CoC) return for the Multi-Family + Medical Office scenario is calculated as $217,188 + $734,125 + $6,145,361 - $2,201,175 = $4,895,499, yielding a CoC return of 229.22% when divided by the initial equity invested ($4,895,499 ÷ $2,201,175 × 100). This represents the total before-tax cash return over the 7-year holding period relative to the equity invested. Below, each component is explained:

- **$217,188: Cumulative Cash Flows (Years 1–3)**: This is the sum of before-tax cash flows from Years 1 to 3, derived from Net Operating Income (NOI) minus debt service (see Sections 4.3 and 4.5):
  * Year 1: NOI = $81,647 (0% occupancy for 1200 Sonoma, Section 4.3); Debt Service = $125,591 (Section 4.5); Cash Flow = $81,647 - $125,591 = -$43,944.
  * Year 2: NOI = $294,921 (75% occupancy, high-end, Section 4.3); Debt Service = $199,901; Cash Flow = $294,921 - $199,901 = $95,020.

    * Year 3: NOI = $366,013 (stabilized, high-end, Section 4.3); Debt Service = $199,901; Cash Flow = $366,013 - $199,901 = $166,112.
    * Total: -$43,944 + $95,020 + $166,112 = $217,188.

- **$734,125: Cash Flows (Years 3–6)**: This represents the sum of before-tax cash flows for Years 3 to 6, accounting for 3% annual rent growth and 2.5% expense growth (Section 4.8):
    * Year 3: $166,112
    * Year 4: $177,092
    * Year 5: $189,210
    * Year 6: $201,711
    * Total: $166,112 + $177,092 + $189,210 + $201,711 = $734,125
- **$6,145,361: Net Sale Proceeds (Year 7)**: This is the before-tax net proceeds from selling the property in Year 7 (Section 4.7):
    * Year 7 NOI: $415,294, calculated by applying 3% annual rent growth and 2.5% expense growth to the stabilized NOI of $366,013 (Section 4.3).
    * Sale Price: $415,294 ÷ 0.048 (blended cap rate for 1200 Sonoma at 4.0% and 1210 Sonoma at 6.0%, Section 4.4) = $8,652,792.
    * Sale Costs: 6.5% × $8,652,792 = $562,431.
    * Loan Payoff: $1,945,000 (approximated remaining balance of the purchase price loan ($1,110,550) and improvement loan ($1,090,625, obtained 9 months post-purchase) after 7 years of amortization at 6.5% interest, Section 4.7).
    * Net Proceeds: $8,652,792 - $562,431 - $1,945,000 = $6,145,361.
- **$2,201,175: Initial Equity Invested**: This is the equity required after accounting for 50% LTV financing (Section 4.5):
    * Total Cost: $2,221,100 (purchase price) + $2,181,250 (improvements) = $4,402,350.
    * Loans: $1,110,550 (purchase price) + $1,090,625 (improvements, received at 9 months) = $2,201,175.
    * Equity: Initial outlay of $3,291,725 (50% of purchase price + full improvements) reduced by $1,090,625 at 9 months, resulting in $2,201,175.

The total before-tax cash return is calculated as $217,188 + $734,125 + $6,145,361 - $2,201,175 = $4,895,499. Dividing by the equity invested gives the CoC return: ($4,895,499 ÷ $2,201,175) × 100 = 229.22%. This calculation uses the high-end NOI for consistency with the reconciled value (Section 4.4) and incorporates rent and expense growth for Years 3–6, aligning with Section 4.8.

- **Potential Net Value Increase**:
  - Year 1 Net Value Increase: $1,846,490 - (-$112,535) = $1,959,025
  - 7-Year After-Tax CoC Difference: 108.81% - 58.81% = 50.00%

5 Conclusion

The conversion of 1200 Sonoma Avenue to multi-family residential use, while maintaining 1210 Sonoma Avenue as a fully occupied medical office, is the highest and best use, driven by higher rental rates ($2.75–$4.00 psf vs. $1.75–$2.75 psf), lower vacancy for 1200 Sonoma (3% vs. 5% in stabilized years), and favorable capitalization rates (4.0%–6.0% vs. 6.0%–8.0% for 1200 Sonoma). The multi-family scenario yields a reconciled value of $6,374,431, exceeding office use's $3,547,804 by
$2,826,627. With a 50% LTV, a 24-month stabilization period (0% occupancy in Year 1, 75% in Year 2 for 1200 Sonoma), and depreciation (27.5 years for multi-family, 39 years for office), a 7-year analysis with sale, including 3% rent growth, 2.5% expense growth, 6.5% sale costs, 27% capital gains tax, 25% depreciation recapture, and loan amortization, yields a pre-tax CoC return of 229.22% and an after-tax return of 108.81% for multi-family, versus 216.25% pre-tax and 58.81% after-tax for office use. A 10-year holding period without sale (Section 4.8) shows the multi-family scenario generating significantly higher pre-tax cash flows and CoC returns (Year 10: $255,801, 11.62% CoC; 10-year average: 7.84% CoC) compared to office use ($175,768, 9.96% CoC; 10-year average: 6.54% CoC). These metrics confirm the multi-family scenario's superior financial performance, leveraging market demand for residential units in Santa Rosa.

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