

SAME PRICE, DIFFERENT DEAL

> 234 HIGH STREET vs 140 BAY STREET

SANTA CRUZ, CA — WESTSIDE

BOTH LISTED AT \$3,200,000 · 10 UNITS vs 8 UNITS

234 HIGH STREET

\$1,364,672

Value created at a 5% cap · 10 units, 1944, master metered

140 BAY STREET

\$262,921

Value created at a 5% cap · 8 units, tenants pay gas/electric

THE CENTRAL QUESTION

Two Westside buildings, the same \$3.2M ask, and going-in cap rates within a quarter point of each other — 3.98% against 3.75%. On the surface they are the same trade. They are not. One carries a \$39,500 master-metered utility bill and nine of ten units below market; the other is already clean, already sub-metered, and already close to its ceiling. **This analysis prices the difference between a fixable problem and a finished building.**



TROY HINDS

831.706.6224

REALTOR® | DRE 01803325

TROY@COLLECTIVEREALESTATE.COM

COLLECTIVEREALESTATE.COM

PREPARED SEPTEMBER 25, 2026

PROPERTY & PERFORMANCE

BOTH AT \$3.2M

	234 High Street Westside · 10 Units · 1944	140 Bay Street Westside · 8 Units · Older
List Price	\$3,200,000	\$3,200,000
Units	10	8
Price per unit	\$320,000 ▲	\$400,000
Average unit size	630 SF	Not available
Year built	1944	Older (vintage)
Unit mix	1 Std · 8 1BR · 1 2BR	8 mixed
Utilities	Master metered (LL pays)	Tenant pays gas/elec ▲
Subsidized tenants	None ▲	2 of 8 (HUD / Section 8)
Currently occupied	10 / 10	8 / 8

> GOING-IN PERFORMANCE

BOTH NORMALIZED TO \$3.2M	234 HIGH	140 BAY
Annual gross rent	\$252,036 ▲	\$208,952
Vacancy (3%)	(\$7,561)	(\$6,269)
Effective gross income	\$244,475 ▲	\$202,684
Total operating expenses	(\$117,163)	(\$82,577)
Expense ratio	47.9%	40.7% ▲
NET OPERATING INCOME	\$127,311 ▲	\$120,107
Going-in cap rate	3.98% ▲	3.75%

> STABILIZED / VALUE-ADD PERFORMANCE

Stabilized NOI	\$195,545 ▲	\$133,253
Stabilized cap @ \$3.2M	6.11% ▲	4.16%
NOI lift from going-in	+\$68,234 ▲	+\$13,146
VALUE CREATED @ 5% CAP	\$1,364,672	\$262,921

Note on assumptions. Both normalized to \$3.2M at 6% management, 3% vacancy, \$300/unit CapEx reserves, and reassessed property taxes. 234 High R&M cleaned to \$1,000/unit (broker had \$800). 140 Bay uses the cleaned 2025 routine maintenance base with janitorial removed (handled in-house). ▲ marks the stronger figure on that line.

CLEANED OPERATING STATEMENT

BROKER PRO-FORMA,
ADJUSTED

Broker pro-forma adjusted for realistic R&M (\$1,000/unit on 1944 vintage), CapEx reserves (\$350/unit), and 3% vacancy. All other line items per the Marcus & Millichap offering memorandum.

REVENUE — IN PLACE

Potential Rental Income	\$252,036
\$21,003 / mo × 12 · 1 Std @ \$1,600 · 8 1BR @ \$2,032 avg · 1 2BR @ \$3,150	
Vacancy & Credit Loss (3%)	(\$7,561)
EFFECTIVE GROSS INCOME	\$244,475

OPERATING EXPENSES

Property Management (6%)	(\$14,668)
Manresa-equivalent rate per OM assumption	
Real Estate Taxes	(\$37,645)
\$3.2M × 1.1401% plus \$1,162.76 special assessment	
Property Insurance	(\$8,000)
Per OM	
Utilities & Trash	(\$39,500)
MASTER METERED — landlord pays electric, gas, water and trash for all 10 units	
Cable	(\$850)
Landscaping	(\$2,000)
Repairs & Maintenance	(\$10,000)
CLEANED — \$1,000/unit; broker carried \$800/unit, light for a 1944 building	
General & Admin	(\$1,000)
CapEx Reserves	(\$3,500)
CLEANED — \$350/unit; broker omitted this line entirely	

TOTAL OPERATING EXPENSES

(\$117,163)

NET OPERATING INCOME (GOING-IN)

\$127,311

3.98% cap rate at the \$3.2M asking price · 47.9% expense ratio

THREE THINGS THE BROKER'S NUMBER DOESN'T TELL YOU

1. Master metering is the single biggest cost driver — \$39,500/yr, or 16% of EGI. Sub-metering electricity and gas is technically straightforward and commonly done in 1940s buildings. This is the number one value-add lever.

2. \$800/unit R&M is unrealistic for an 81-year-old building. Plan for \$1,200–\$1,500/unit plus lumpier capital items: roof, plumbing, electrical, seismic.

3. The 5.52% "market cap rate" headline assumes simultaneous mark-to-market on all 10 units — physically achievable only through tenant turnover or buyouts under AB 1482.

VALUE-ADD SCENARIO ANALYSIS

3-5 YEAR HORIZON

How NOI evolves at each property under realistic execution. The time horizon for full mark-to-market is three to five years given AB 1482 caps and natural turnover.

234 HIGH STREET

SCENARIO	NOI	CAP @ \$3.2M
Going-in (in-place rents) Day one, before any improvements	\$127,311	3.98%
+ Mark-to-market rents Push to OM market rents (\$25K/mo) over 3-5 years via turnover	\$171,045	5.35%
+ Sub-meter utilities Recover ~\$24,500 by billing tenants for electric and gas; landlord retains water, sewer and trash	\$195,545	6.11%

140 BAY STREET

SCENARIO	NOI	CAP @ \$3.2M
Going-in (post-Manresa switch) PM savings already realized; janitorial in-house	\$120,107	3.75%
+ Mark-to-market (non-subsidized only) ~\$200/unit/mo across 6 units; the 2 subsidized units are capped at the HUD payment standard	\$133,253	4.16%

> ESTIMATED CAPEX TO EXECUTE

234 HIGH

Sub-metering install (10 units)	\$60,000-\$120,000
Unit turnover renos (\$15K x 10)	\$150,000
Deferred maintenance reserve	\$50,000-\$100,000
Total	\$260,000-\$370,000

140 BAY

Cosmetic turnover (non-subsidized)	\$30,000-\$60,000
Deferred maintenance	\$40,000-\$80,000
Total	\$70,000-\$140,000

234 HIGH · VALUE PER CAPEX DOLLAR

3.7x – 5.2x

\$1,364,672 created on \$260K-\$370K spent

140 BAY · VALUE PER CAPEX DOLLAR

1.9x – 3.8x

\$262,921 created on \$70K-\$140K spent

RECOMMENDATION FOR A VALUE-ADD INVESTOR

234 High Street

Materially better value-add profile. Going-in caps are similar — 3.98% against 3.75% — but stabilized upside is dramatically larger: roughly **\$1.36M of value creation potential against \$263K at 140 Bay**, a factor of five.

WHY 234 HIGH WINS FOR VALUE-ADD

Mark-to-market spread is 19% (\$21K/mo → \$25K/mo). Nine of ten units sit below market. 140 Bay's spread is closer to 7%, with two subsidized units permanently capped.

Sub-metering is a \$24K/yr NOI lever available only at 234 High. That alone is worth roughly \$490K of value at a 5% cap. 140 Bay tenants already pay their own gas and electric.

Higher absolute rent base (\$252K vs \$209K) means operational efficiencies compound on a larger denominator.

Lower price per unit (\$320K vs \$400K) — 20% more units per dollar invested, in a supply-constrained market with high replacement cost.

RISKS TO THE 234 HIGH THESIS

1944 vintage means real CapEx exposure. Roof, electrical service, plumbing and seismic are all on the table. Budget \$50K–\$100K of unbudgeted surprises in the first 24 months.

AB 1482 and Just Cause limit the speed of mark-to-market. Existing tenants can only be pushed 5% + CPI annually. A full market reset requires turnover, which in Santa Cruz can take five years or more on long-tenured units.

WHY 140 BAY HAS DEFENSIVE APPEAL

Cleaner cash flow story — no master-metered utilities, no major capital projects required, less execution risk.

Subsidized tenants provide stability. HUD pays on time, turnover is low, and rent collection is recession-resistant.

Fewer moving pieces. If the goal is steady cash flow with light management, 140 Bay is the simpler hold.

Sub-metering a master-metered 1940s building is non-trivial. Likely requires PG&E coordination, possibly trenching, and tenant notice. Budget \$6K–\$12K per unit and six to nine months of project lead time.

Going-in negative leverage. At a 3.98% cap against current debt costs of roughly 5.5–6%, year-one cash-on-cash will likely be negative or marginal. Underwrite to a three-year stabilization horizon.

THE HONEST TAKE

For a passive buyer, neither of these pencils at 4% going-in caps against current debt — both require a value-add thesis to justify the price. If executing the value-add, 234 High has roughly four to five times the upside of 140 Bay but requires significantly more capital, time and operational lift. Given a development background and local market knowledge, the execution risk profile favors taking on 234 High. **If buying for passive cash flow, neither is compelling at \$3.2M, and you should walk both unless seller flexibility brings price to a sub-\$2.9M range on either.**

#	APPLIES TO	NOTE
1	Both – normalization	Both properties are normalized to a \$3,200,000 purchase price at 6% management, 3% vacancy, CapEx reserves and reassessed property taxes, so the going-in comparison holds price constant and lets the operating structure do the work.
2	234 High – cleaning	Two adjustments to the broker pro-forma: R&M raised from \$800/unit to \$1,000/unit for a 1944 building, and a CapEx reserve of \$350/unit added where the broker carried none. All other line items are per the Marcus & Millichap offering memorandum. Rents reflect in-place, not the OM's market assumption.
3	140 Bay – expense basis	140 Bay uses the cleaned 2025 routine maintenance base with janitorial removed, since the new manager handles cleaning in-house. Capital projects are excluded, consistent with the reclassified 2025 statement in the operating-history package.
4	Both – CapEx reserve rate	The normalization note states \$300/unit CapEx reserves for both properties, but the 234 High statement carries \$3,500 across 10 units, which is \$350/unit. Settle on one rate before the comparison goes to a lender; the difference is \$500 of NOI at 234 High and moves its going-in cap by about two basis points.
5	234 High – cap rate figure	$\$127,311 \div \$3,200,000$ is 3.98%, and that is the figure used throughout this package. The source thesis text cited ~3.83% in two places. The 3.98% figure is the one the statement supports.
6	140 Bay – two price bases	This comparison prices 140 Bay at its \$3.2M list. The companion operating-history package projects 2026 and 2027 at a \$3.0M purchase, with property taxes reassessed accordingly (\$34,500 vs the \$36,800 a \$3.2M basis would carry). The two documents are answering different questions – do not read the NOI figures across them without adjusting for that.

> DUE DILIGENCE PRIORITIES — 234 HIGH

1	Actual T-12	Trailing twelve months of real operations, not the broker pro-forma
2	Full rent roll	Lease start and end dates plus tenant tenure – this sets the mark-to-market timeline
3	Utility bill history	Ideally 24 months – tests the \$39,500 master-metered figure directly
4	Capital improvement history	What has already been replaced, and when
5	Seismic and roof condition	The two line items most likely to produce a six-figure surprise
6	Sub-metering feasibility	Confirm with PG&E early – the entire thesis rests on this being possible

Order of operations. Item 6 gates the thesis. Sub-metering carries \$24,500 of annual NOI and roughly \$490K of value at a 5% cap – more than a third of the total value creation case for 234 High. Confirm it with PG&E before spending money on the rest of the list.