



Monthly Newsletter

December 2023

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Legislative review: important new laws for rental property owners in 2024.

Security deposits. For most residential tenancies, starting on July 1, 2024, security deposits may not exceed one month of rent. This new law is not retroactive, so deposits in excess of this amount will not have to be returned to tenants if collected prior to July 1. Keep in mind that security deposits include pet deposits. **Recommendation:** we recommend that owners who choose to accept pets make sure to charge appropriate pet rent to compensate for the additional wear and tear of the animal, especially considering that additional security deposits are no longer allowed. As for setting security deposit amounts, we recommend that property owners charge the full one month of rent.

Entity reporting requirements. The federal government is now requiring all newly formed LLC's and other entities to file documents declaring all beneficial owners. Existing entities must file the form prior to January 1, 2025. The purpose of this new law is to combat money laundering and tax evasion by making it harder to create shell companies to hide money. Penalties for non-compliance include fines and criminal prosecution. **Recommendation:** we recommend that you speak with an attorney about this if you hold your rental property in an LLC or other legal entity.

Just cause eviction. The California legislature is clamping down on property owners who use a "substantial remodel" or "family move-in" as a pretext for ending a tenancy when there is no true intent to ever move a family member into the property or to substantially remodel the property. As a result of property owners using these reasons as a pretext for ending bad tenancies, there are new notice requirements and penalties for non-compliance. **Recommendation:** we recommend case-by-case consideration whenever there is a need to end a bad tenancy because there is no one-size-fits-all solution to dealing with bad tenants. Coming up with a pretext for ending a tenancy will almost always back-fire badly and the best approach is usually the most direct approach, which is to identify the true problem and deal with that problem. In the end, it is often helpful to strategize with an eviction attorney as well.

Occupancy rates and rental demand.

The rental market is stable. We expect rent increases as leases expire, but nothing extraordinary in the coming months.

Occupancy rates for local cities where we manage more than 20 units:

City	December 2023	December 2022
Arroyo Grande	94.4%	95.2%
Atascadero	94.5%	98.6%
Grover Beach	89.3%	94.9%
Los Osos	91.7%	100.0%
Lompoc	96.2%	97.4%
Nipomo	100%	93.5%
Oceano	100%	98.5%
Pismo Beach	66.7%	86.5%
San Luis Obispo	96.4%	96.8%
Santa Maria	98.5%	96.9%
Shell Beach	88.5%	91.7%

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Financial statements for December will include the full month, for tax reporting purposes.

At California West, we usually send out financial statements to our clients near the end of the month, around the same time as we send regular monthly distributions.

The reason for preparing and sending financial statements before the end of the month is partly logistical and partly to time it with distributions. We find that timing it with distributions makes sense so that our clients can see exactly why they are receiving whatever amount we are able to send each month. In addition to that, though, our accounting workflow is very intense at the beginning of the month as we receive lots of rent checks at that time. Therefore, we are less able to focus on preparing and auditing financial statements when we are busy posting rent payments to our system and depositing those payments at the bank.

All that said, the month of December is unique in that we like to provide a full calendar year of financial reporting on a single document to our clients to aid in tax preparation. Therefore, although we sent distributions in late December we are not sending financial statements until early January, after we've had a chance to post all our rent receipts for the month.