



Monthly Newsletter

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In this issue

- **Rent control remains a popular topic of discussion in Sacramento.**
- **Higher end finishes are proving more desirable than in previous years.**
- **The rental market is softer than in recent years.**

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Rent control is a topic that remains on the agenda in Sacramento despite one such measure having been defeated last year in a statewide election.

Most economists, liberal and conservative, agree that price controls such as being considered now in Sacramento are a poor solution that will likely result in housing shortages and other problems. However, the political appetite for a quick solution to the increasing cost of housing continues to make rent control a popular topic of discussion in California and elsewhere in the country. Oregon implemented the first statewide law imposing rent control in the country last year.

Last year's California ballot initiative would have weakened a statewide ban on certain types of rent control. This ban is known as "Costa-Hawkins" and was enacted by voters in 1995. Under Costa-Hawkins, cities are prohibited from imposing rent control on many forms of housing. There are exceptions and the defeated ballot initiative would have expanded those exceptions.

One of the laws currently under consideration in our state capital would apply to every rental unit in California and would limit annual rent increases to 5% plus the rate of inflation. Proponents argue that this is a fairly modest proposal. However, opponents respond that when cities have implemented this sort of ordinance in the past it has tended to change over time. Currently, San Francisco limits rent controlled housing to increases of 60% of inflation, Berkeley is 65%, and Santa Monica is 75%.

In the markets that we serve on the Central Coast of California, there is no rent control except for mobile home space rentals and we have not seen any strong political appetite for imposing additional rent control in our local area.

As property managers, we obviously do not want the government telling us how to set rents. We prefer to make that decision with our clients and based on market forces. We also do not want to make a bad problem worse and price controls are widely viewed by economists as an ineffective solution to high prices because of the unintended consequences that will result. Regardless, we are keeping an eye on Sacramento to see what happens.

Higher end finishes are proving more desirable than in previous years.

In past years, the return on investment for higher end finishes has not been very high but that seems to be changing.

Previously, the benefit of installing something like plank floors or granite counters was mostly from a durability perspective and not so much driven by higher rents. New paint and new carpet has always been worth the money but higher end finishes are now helping as well. Paying attention to details such as new door hardware, new light fixtures, and accent walls to offset more than just white walls is also important. In some cases, even new cabinets are worth the investment.

The potential return from doing more than just carpet, paint, and general maintenance repairs is greater now than we have seen previously.

As we work through our pre-leasing season in San Luis Obispo, one of our most popular rentals of the season so far was a nicely remodelled house in an unexceptional but nice location that generated 9 groups of applications. This year we are seeing 1-3 groups applying for most of our houses, which is very low compared to recent years. It was notable to us that the biggest difference in this particular home was its finishes and the fact that it was just remodelled.

In sum, the potential return from doing more than just carpet, paint, and general maintenance repairs is greater now than we have seen previously.

The rental market is softer than in recent years.

In San Luis Obispo, we've been backing off of some the rent raises that we were attempting to achieve and have seen a real softening in interest versus prior years.

We are seeing this both in terms of the number of people who express interest in the places that we are advertising and also in total applications that we've received. The best explanation for this is probably that there is simply an increase in inventory and options for renters versus what existed in recent years.

In our Arroyo Grande office, which serves a far different market because it does not feel much impact from the University, we recently had three pages of available units. A more typical size for our list is 1 - 1.5 pages.

The bottom line is that rents are not increasing like they were a few years ago and we've even had lower expectations for some properties that were more aggressively priced.

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