



# Monthly Newsletter

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## The rental market in Santa Maria and the Five Cities is strong and rents are rising.

The rental market in Santa Maria and the Five Cities is strong right now, with few vacancies. As we review rental amounts with our clients before making renewal offers, we are presently advising property owners to consider modest rent raises. Nothing too aggressive, the market is not going bonkers, but rents are rising and we do recommend increases in most circumstances.

On the topic of rent raises, we cannot emphasize enough that keeping rents *slightly* below market is good for tenant retention and a wise strategy for reducing turnover expenses. However, the word *slightly* is an important qualifier. Too much of a good thing is no longer good.

Keeping rent too much below market is problematic because it will eventually result in landlord/tenant conflict, especially now with statewide rent control and just cause requirements for ending a tenancy. The new law punishes owners who keep rents well below market because those owners are now prohibited from changing course and also cannot end a tenancy except under specific conditions that usually do not apply if the objective is merely to raise rents.

On top of this, for an income property that is priced well below market the impact on sales value can easily be hundreds of thousands of dollars if the amount that rents can be increased is limited by rent control. A property owner may not anticipate selling anytime soon but it can be a tough pill to take to learn that the cost of your generosity over the years was not only forgone income but also hundreds of thousands of dollars in asset value.

It can also be a real shock to a tenant's budget if all of a sudden they must come up with far more money per month or change their living standards, which is what eventually when there is a change of ownership. The far easier approach for everyone is to adjust by a relatively small amount every year while keeping the rate about 5% below market. This incentivizes good tenants to stay while avoiding the problems described above. It also allows tenants to avoid a shocking situation where they need to adjust their lifestyle quickly because of something that is completely out of their control.

## **San Luis Obispo rents are steady and massive amounts of new inventory is on the horizon.**

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This is an unusual situation because in previous business cycles it has always been the opposite. San Luis Obispo has traditionally had a slow growth approach to new housing and when demand outstrips supply we have seen high income families in the Bay Area and Southern California bid prices up for the kids who are attending Cal Poly with ripple effects throughout the town. The issue now is that the slow growth politics of prior years seems to have changed. There is lots of new construction and even more is on the way.

Demand for single family homes within walking distance of campus remains strong and that is to be expected because you cannot build more such homes.

However, on the apartment and condominium side of things, the demand is far more steady. We are renting apartments and condos but mostly without rent increase and the quality of housing needs to be competitive with new construction.

Our advice to clients in San Luis Obispo is to err on the side of caution, improve your properties if possible, and focus on occupancy this year. In the future, as new properties that are in the pipeline get built, we will just have to wait and see how the market responds.

More workers from outside the area may continue moving to San Luis Obispo for remote work options if that trend continues. Or not. It is hard to say what to expect.

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## **Online payments, electronic applications, and electronic leases are gaining acceptance.**

At California West, approximately 70% of the rents that we receive are paid online. Furthermore, we have begun sending electronic leases to tenants and that is working really well in our San Luis Obispo office.

Our Arroyo Grande office has the ability to send electronic leases as well but we have been slower to push that option on tenants, as we work through the kinks in San Luis Obispo with its heavy student population that tends to appreciate such things.

Finally, through the pandemic we have been insisting on emailed applications with payment for the processing fee via credit or debit card. That process seems to be working well and will likely outlast Covid-19.