CALIFORNIA WEST
real estate management

Monthly Newsletter

May 2022

In this issue

- **Rental inventory remains tight, despite an uptick in homes for sale.**
- **California's once-a-year adjustment to maximum rental rate increases will be announced in June, to take effect in August.**
- **California West FINALLY completed an eviction in Santa Barbara County.**

In terms of current rental demand, nothing has really changed over the past month.

Rental inventory remains tight, despite an uptick in homes for sale.

Over the past month, the financial markets have been unsettled. "Freaking out" is the more technical term. The Nasdaq has dropped nearly nine percent over this time, as investors come to realize that the Federal Reserve's war on inflation will mean much higher interest rates and less money supply over the next several months. There is also growing concern of a recession in 2023.

For housing, the Federal Reserve will raise rates and contract money supply until there is a slowdown in activity. That much is clear. What this means for home prices and rental rates and the overall economy is much less certain.

On a more positive note for housing, national statistics show more household formation. The reason for this is partly demographic, as more of the population is now 30-39 years old, but also more work from home arrangements means more household formation. Roommate situations are less feasible when everyone is working from home at least part of the time. Also, as a result of work from home options, people are able to move away from large cities and relocate to smaller communities, like the Central Coast, where housing is less expensive. On the flipside, though, people can move away from California to more affordable parts of the country.

In recent weeks, sales agents have been seeing more inventory but mostly from a lack of sales and not so much from new listings. Inventory remains tight, but is beginning to increase and will likely continue to grow as affordability diminishes with higher interest rates. Higher interest rates do not directly impact rental housing affordability, so in coming months we are likely to see more rental demand as people are forced away from home ownership because of higher rates.

In terms of current rental demand, nothing has really changed over the past month. Rents remain high, up approximately 20 percent year-over-year according to national statistics. Locally, it feels that 20 percent is probably about correct. We continue increasing rents on multifamily properties by the maximum allowed by California law, which is presently 9 percent, and we are seeing very little movement. In fact, less turnover than in a typical market with no rent increases. The single family market is equally strong.

California's once-a-year adjustment to maximum rental rate increases will be announced in June, to take effect in August.

For most rental housing in California, current law prohibits landlords from raising rent more than a certain maximum amount per year and that amount adjusts annually. The maximum amount is 5 percent plus relevant CPI, but never to exceed 10 percent.

In all likelihood, the new CPI number will come in at somewhere around 8 percent, which is where it has been in recent months, and that means rent increases will be capped at 10 percent.

The relevant CPI numbers are announced every year in mid-June and the new number will take effect starting on August 1. Logistically, this means that after landlords get the number in mid-June they will be allowed to serve a 30-day notice of change of rental terms by July 1, to take effect on or after August 1.

Last year, the relevant CPI number came in at exactly 4 percent for San Luis Obispo and Santa Barbara Counties, both of which use the same statewide CPI index. Larger areas, like Los Angeles, have their own CPI index.

In all likelihood, the new CPI number will come in at somewhere around 8 percent, which is where it has been in recent months, and that means rent increases will be capped at 10 percent, since 8 plus 5 is greater than 10 and 10 rent increases may never exceed 10 percent per year, regardless of inflation.

California West FINALLY completed an eviction in Santa Barbara County.

Since the beginning of the pandemic, California West has been battling to evict a nightmare of a tenant in Santa Barbara County. It was a roommate situation where one brother moved out and the remaining brother stopped paying rent. This started immediately before the pandemic.

The brother who remained claimed Covid hardship but, in reality, is simply a drug addict who does not care to work or pay rent. He left the property in horrible condition and we are now in the process of helping the property owners rehabilitate the property.

From the start of the pandemic until September 2021, there was very little that we could do to tackle this problem. Once the moratorium on evictions expired, we filed an eviction lawsuit to start the process. Despite this being a default judgment case, where the tenant did not even appear to contest the eviction, it still took the Santa Barbara Courts and Sheriff more than 6 months to process the eviction.

Since September 2021, we have had better success in San Luis Obispo County in terms of dealing with difficult tenant situations and have successfully processed a handful of evictions. However, the bottom line is that what used to take weeks is now taking months.

San Luis Obispo Office
1380 Broad Street
San Luis Obispo, CA 93401
Ph: (805) 543-9119
E-mail: slo@calwest.com

Arroyo Grande Office
145 S. Halcyon #H
Arroyo Grande, CA 93420
Ph: (805) 489-9400
E-mail: ag@calwest.com

www.california-west.com

Broker: Derek Banducci
DRE Lic. No. 01276163