



Monthly Newsletter

May 2021

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Starting on July 1, 2021, California West is raising its maintenance rate to \$70 per hour. We are also receiving notices of similar such raises from vendors, especially from landscaping companies.

The job market for manual labor is very tight at the moment. Anecdotally, the story is that unemployment benefits are incentivizing people to stay home and avoid work, which is making it tough for employers to find workers. Although no doubt true to some extent, that is likely only part of the story.

There will always be a market clearing rate at which people are willing to work. The problem is that prices are rising across the board and that is not only because people are sitting at home collecting unemployment checks. The problem is bigger than that. For example, according to some reports, the cost of softwood lumber, which is often used for framing in new construction, is now at a record, up over 83% from this time last year.

Much of the rise in prices is a result of the trillions of dollars that are being printed by the federal government and keep getting dumped into the economy. Stimulus payments, unemployment benefits, and PPP loan proceeds are only part of the story. In the next few months we will probably see another trillion or so in infrastructure spending approved by the federal government. On top of that, though, every month the Federal Reserve is buying \$120 billion of loans on the private market with money that it essentially prints in house. They call this "quantitative easing" but, whatever it is called, a resulting rise in inflation should be no surprise. The thing about the Federal Reserve money is that it can be quickly reversed, whereas the trillions in fiscal policy are with us to stay.

When there is a federal policy to dump money into the economy, however it is accomplished, it should come as no surprise that prices rise, as the value of the dollar declines with greater supply. In short, the laws of supply and demand have not yet been suspended due to the pandemic and are unlikely to be suspended anytime soon.

This is all perhaps a long-winded justification for having to raise prices on our clients. Nevertheless, we do need to hire maintenance workers and keep our current staff satisfied, so the increase is necessary to make that happen.

Maximum rent raises on non-exempt rental housing will likely increase starting August 1.

The rule in California since January 1, 2020 is that non-exempt residential landlords may increase rents over any twelve month period by no more than five percent plus the applicable consumer price index, but never to exceed ten percent. The applicable consumer price index looks at price increases on an April-to-April calendar year basis.

The April-to-April increase in prices from 2019 to 2020 was one percent. Therefore, the maximum amount that we can raise rents on tenants of non-exempt residential units is presently six percent, which is five percent plus one percent and does not exceed ten percent.

By sometime in late June we will know how much we can increase rents and that will be the rule for the following twelve months, from August 1, 2021 through July 31, 2022.

As part of SB 91, which was a Covid related law passed in late 2020 impacting residential housing in California, the legislature included a technical fix to clarify that the April-to-April numbers would take effect on August 1 of the following year and be used for the following twelve months. The reason for this is because April inflation numbers are not reported until late June. Therefore, if landlords get those numbers in late June then they can use the numbers by serving notices of rent increase by July 1 to take effect on August 1. Without this legislative fix, last year it was confusing from April to late June to know how much rent could be raised because the inflation numbers were unavailable and the law was unclear on what to do in that circumstance.

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As for the issue of whether a unit is exempt from this law, that basically comes down to if it is a single family home or condo. The exact details of the statute are more complicated so let us know if you have questions and we will tell you whether your property is exempt.

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June 30 will mark the end of California's restrictions on landlords from enforcing notices to pay or quit (unless things change again).

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At present, the state of California presently it impractical to force a tenant to pay rent through enforcement of a notice to pay rent or quit. This started with orders by Governor Newsome and the Judiciary in mid 2020 and was codified in late 2020 by the law known as SB 91. Those temporary restrictions on landlords that were codified in late 2020 are set to expire on June 30, 2021.

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As for what happens starting on July 1, that all depends on whether the legislature extends tenant protections yet again. It does not appear that any extension is likely at this time but the future is uncertain and we will just have to wait and see what happens.

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