CALIFORNIA WEST
real estate management

Monthly Newsletter

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Landlords can choose whether to accept reusable credit reports under newly signed law.

Governor Newsom has signed a bill allowing prospective tenants to submit reusable credit reports while applying for rental housing, although the decision of whether to accept these reports will be voluntary on the part of the landlord. In other words, the law is directed mostly at credit reporting agencies and not so much at landlords. The intent is that the credit reports would appear on a credible third-party website that rental owners can access at no cost.

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This new program is something that we will consider using but only if there is a credible third party website that we trust where we can access the reports. Furthermore, using these reports is unlikely to change what we charge for application fees because we already subsidize that cost to some extent, but we will review those costs and adjust our pricing if there is an opportunity to do so. Credit reports are only part of the cost for processing applications. Our staff must also contact previous landlords, which takes time and resources, as does the process of verifying income and assets.

An advantage to applicants if we do choose to utilize the new program is that they will not have multiple hard inquiries on their credit report if they are applying with multiple managers and landlords.

Credit screening is an important part of the application process, but we have no hard and fast rule when it comes to credit scores. If an applicant has an 800 credit score then there is not going to be anything of concern on the report and if the score is 500 then there will obviously be something of concern. But those are extremes. Anything in between requires careful consideration. Unexpected medical debt is less concerning than an unpaid utility bill. If someone is unable to plan for a $50 utility bill and get it paid on time then that person is far more likely to be a credit risk versus someone who had an unexpected illness and who is now working on paying everything off, with adequate income to do so.

In sum, we will only accept these new reports if we can be sure that they are genuine and reliable, since credit history is a critically important part of our screening process.

Insurance coverage for homes in rural areas is becoming a very big challenge to obtain and maintain.

Insurance providers are becoming quite scarce for rural homes in California as a result of significant losses in recent years arising from wildfires.

We have a client who owns a home in San Luis Bay Estates and whose policy was canceled. Another client whose home in Bassi Ranch had considerable difficulty obtaining insurance when purchasing the property that we now manage. We have also heard reports of similar issues in Varian Ranch and other rural areas around the area.

It is always hard to predict the future, but at present the rise in interest rates is only helping the rental housing market.

Good solutions are not always readily available. The state of California offers what is called a "Fair Plan" but it can cost tens of thousands of dollars in annual premium and gives only very limited coverage. Allstate has been the best option lately. They still seem willing to write some policies. Hopefully that lasts.

Our advice to clients is to shop around and make sure to keep the grounds maintained as much as possible to avoid fire risk that results in non-renewal by skittish insurance companies.

Mortgage Rates Approach 7 Percent for the First Time in Over a Decade.

By some measures, mortgage rates are 250 percent of what they were at the start of 2021.

What this means for rental housing is two-fold. First, the cost to acquire or refinance a rental property mortgage is far greater today than it has been in recent years. Most of our clients have owned their properties for many years and if they are acquiring new property it is usually at a relatively slow pace. So, this factor is not so much of an issue for us and our clients.

Second, though, renters who are comparing the cost of continuing to rent versus the cost of buying a home will be more inclined to continue renting unless home prices come down by enough to offset the higher mortgage costs. This seems to us as if it will result in more renters staying where they are. Anecdotally, we continue seeing very strong rental demand and the continuing rise in interest rates is only helping in that regard.

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