Monthly Newsletter

December 2013

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2013 rental recap and projections for next year.

This past year saw a strong rental market for each of California West's offices, in San Luis Obispo and Arroyo Grande.

In San Luis Obispo, the market was supported by strong demand from Cal Poly students. The university had its largest freshman class ever and converted 472 beds that would normally be reserved for continuing students, and made them available to freshmen. This resulted in stronger demand for off-campus housing and higher rents.

Cal Poly's President, Jeffrey Armstrong, also announced that he would like to see total enrollment increase by 4,000-5,000 students over the next few years.

To accommodate these new students, Cal Poly plans to build a 1,400 bed dormitory that is tentatively scheduled for completion by the 2018-19 academic year.

For next year, California West anticipates continuing strong demand in San Luis Obispo and higher rents.

In Arroyo Grande, the Five Cities, Santa Maria, and Nipomo, we also saw a very strong rental market in 2013. In mid-2013, our Arroyo Grande office had its shortest rental list in 30+ years of managing local properties. On top of that, California West has more rentals under management than at any previous time.

In response to this strong demand, California West implemented rent increases for many of our clients who did not wish to fall behind the market. Over the second half of 2013, the market has loosened up, though it is still strong.

An improving local economy should continue to support a strong rental market and higher rents from Santa Maria to the 5 Cities.

California West periodically reviews rents and consults with our clients when we believe that increases may be appropriate.

Expect more red tape for financing in 2014.

In January 2014, the Dodd-Frank Act becomes effective and it adds additional regulation to the mortgage market.

One of the problems which led to the 2008 financial crisis was that homeowners were obtaining loans which they could not afford and lenders were making loans that had no realistic chance of ever being repaid. The only "winners" were the brokers who made commissions on the origination of these loans.

From 2004 to 2008, 20% of loans in some parts of California were "negative amortization" loans. These would allow a borrower to pay less than the principal and interest each month, so the total amount of the loan was constantly increasing.

The Dodd-Frank Act imposes additional rules on who may originate certain loans and creates more red tape if you are attempting to obtain financing for your investment property.

Under appropriate circumstances, a negative amortization loan may be a good temporary financing option. But bad things were bound to happen when negative amortization loans were 20% of the entire mortgage market in parts of California.

Other problems arose because loan originators were using "stated income" and never actually verified that borrowers were able to repay the loans that they were obtaining. So, mortgage fraud was easy to accomplish and, at many institutions, was an accepted practice because it led to more loan origination fees.

As a result of all this, we now have regulation which attempts to prevent people from making bad decisions. The Dodd-Frank Act imposes additional rules on who may originate certain loans and some borrowers will be required to attend counseling as part of the mortgage process. For still others, there may simply be more documentation that is necessary to verify their ability to repay.

The bottom line is more red tape if you are attempting obtain financing for your investment property.

Retain year-end financials for taxes.

The financial statements that California West is sending this month should be retained for taxes. These statements summarize all the rental income and expenses for the year and will match with the 1099's that we must file in January.

Make sure to retain these statements to help with tax preparation later next year.

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