



Monthly Newsletter

April 2018

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California West's lease and rental agreements now require that tenants obtain renter's insurance.

For many years, as part of our standard rental agreement and lease, California West has **recommended** that tenants obtain renter's insurance. That recommendation is now a requirement.

In the event of disaster, renter's insurance provides tenants with a way to recover reimbursement for damage to their personal belongings. Property owner policies generally do not cover such damage. Therefore, we strongly recommend to tenants that they purchase a separate renter's insurance policy to protect themselves in the event of a disaster.

In addition, if a tenant causes injury or damage to a property through negligence (i.e. leaving a candle burning that results in a fire, etc.) then a renter's insurance policy may provide a way for that tenant to reimburse the landlord or the landlord's insurance company for the injury or damage.

Lately, we have noticed other local property management companies advertising that they now require renter's insurance. In light of this, we have decided to adopt the same policy. Also, it is a policy that many apartment communities in large metropolitan areas have had for many years.

In the few weeks since we implemented the new policy, we have not heard any real complaints from prospective tenants and it does not seem to be a deterrent to renting.

All of that said, the biggest issue we anticipate with this new requirement is that there is no perfect way to enforce the policy. We include the requirement in our standard rental agreement and lease and we advertise the requirement on our advertisements. However, since this is an obligation that requires follow through by tenants, they may still fail to obtain a policy or cancel a policy despite our requirements to the contrary. Nevertheless, we feel that requiring insurance is better than not requiring insurance. Hopefully most tenants will make the wise decision of complying with the new policy.

Softness in the rental market.

The rental market is strange right now. We are receiving fewer applications than in recent years and the applications we receive are often of lesser quality than we have come to expect. However, at the same time, we are achieving higher rents on certain units.

In San Luis Obispo, the volume of applications is down dramatically this year versus last year but we are still receiving applications and successfully pre-leasing at about the same rate as in recent years. Our concern, though, is that the pipeline of applications will dry up and we may experience difficulty filling units as our list gets shorter.

Units that are priced between \$1,100 and \$2,500 seem to be sitting on the market longer than expected, with the possible exception of well priced two bedroom units.

In San Luis Obispo we also have a few vacant apartments that are sitting on the market without any interest but that is likely due to the time of year and is not unusual because vacancies outside of the summer months in San Luis Obispo are generally difficult to fill.

Despite all this, certain units have achieved far higher rents than we were expecting. For example, a three bedroom / two bathroom condominium near campus recently rented for \$3,500 which we thought would be a stretch but we had multiple groups applying for the unit. So, for desirable units there is still strong demand. The market is just weaker in certain ways than we have seen in recent years.

In the Five Cities market, we are noticing a similar dynamic. Certain units have sat on the market longer than we expected and then once they were rented we all of a sudden received several inquiries for no particular reason. We are also seeing less credit-worthy applicants than we have come to expect.

The strongest demand right now seems to be at the low-end and high-end of the market. Units that are priced between \$1,100 and \$2,500 seem to be sitting on the market longer than expected, with the possible exception of well priced two bedroom units.

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Finally, mostly as an aside, the market in Grover Beach for commercial space is heavily impacted right now by the recent marijuana ordinance. None of the properties that we manage allows marijuana use but we are seeing tenants who have been displaced from other properties move over to ones that we manage. This makes for strong commercial demand in that particular area.

In terms of overall strategy, our approach in the coming months will be to retain existing tenants by recommending against rent increases except in extraordinary circumstances.

To the extent that there is turnover, though, we will want to make sure that we achieve market rates from new tenants.