



Monthly Newsletter

April 2024

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New security deposit requirements are coming soon.

New security deposit rules take effect in California on July 1 under a new law that will further limit the amount of money that landlords may charge residential tenants for a security deposit. At present, landlords may charge no more than 2x the monthly rent for an unfurnished home. Under the new law, that amount will be reduced to 1x the monthly rent. The law is not retroactive, so deposits already in place will not have to be reduced. Also, it is important to note that there is an exclusion within this law for small landlords who own no more than two residential rental properties containing no more than four total dwelling units.

At California West, we serve various submarkets and the impact from this new law will vary depending on the submarket. In San Luis Obispo, where we rent mostly to students, the parents are ultimately where the money comes from and these parents generally have the wherewithal to pay for damages. The only issue is convincing them that the damage is their responsibility, as guarantors, which is usually done with before and after photos. The same is true for higher end rentals that our Lompoc and Arroyo Grande offices manage.

That said, our Lompoc and Arroyo Grande offices also manage lower income properties where tenants are often on far tighter budgets and paying for damage is more of a stretch for them. If someone lacks the means to pay for something then all the proof in the world that it is their responsibility will not matter. This is where the old idiom that “possession is nine-tenths of the law” comes into play. If a landlord already has a deposit in place to pay for damages then the expense gets reimbursed to the landlord from the deposit. Otherwise, as a practical matter, it does not get reimbursed because collections costs are greater than the expense at issue.

One area where we anticipate the most meaningful impact from this new law is when renters want to have pets. We usually recommend that landlords demand higher deposits in those circumstances, but this new law prohibits that since a pet deposit adds to the deposit already received and the total cannot exceed 1x monthly rent. A partial work-around for this will be to investigate if our client is exempt as a small landlord and/or to charge more pet rent to cover expected damage expenses. All told, this is yet another new law that limits landlord rights in California.

Year-over-year rent growth remains strong, alongside price increases for everything else.

Inflation is a thing. As a property management company, we continue to see increases in the price for labor and materials and so also in monthly rent. Along these lines, we decided to compare monthly rent for a 2 bed, 1 bath unit at each of our offices as of April 29, 2023 versus 2024. Here’s what we found:

2 bed, 1 bath unit			
	2024	2023	% Change
Lompoc Office	\$1,241	\$1,086	14%
Arroyo Grande Office	\$1,745	\$1,590	10%
San Luis Obispo Office	\$1,970	\$1,828	8%

Keep in mind that these are units under management by each office, not city surveys. Submarkets exist at each office location. Our Lompoc office manages units in Lompoc. Arroyo Grande covers Santa Maria to Shell Beach, but mostly Arroyo Grande and Grover Beach. San Luis Obispo covers Avila Beach to Paso Robles, but mostly San Luis Obispo.

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We chose the 2 bed, 1 bath configuration because that is a fairly typical type of rental unit that we manage. We will survey different configurations in future newsletters.

Reminder: New rent increase limits will be announced in June, based on inflation from May-to-May.

At present, in San Luis Obispo and Santa Barbara counties the maximum amount that landlords may increase rents is 9.2%.

The Tenant Protection Act of 2019 (aka “AB 1482” or the “TPA”) prohibits an owner of a non-exempt rental home from increasing the rent more than 5% plus CPI, or 10 percent, whichever is lower, over any 12 month period.

The way this works logistically is that CPI is defined to run from May to May of each year. That CPI report gets released in mid-June. This CPI figure is then valid from August 1 through July 31 every year. By making it valid starting in August, that gives landlords an opportunity to give tenants a 30 day notice of change of terms by July 1, to take effect on August 1, after learning the new number in mid-June.

We will announce the new number in our June newsletter.