CALIFORNIA WEST
real estate management

Monthly Newsletter

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In this issue

- **Market update: rents are increasing at around 3% per year.**
- **Insurance issues continue.**
- **Credit quality on applications is deteriorating now that applying costs no money to the applicant.**

Market update: rents are increasing at around 3% per year.

At all three of our offices, we are seeing relatively stable rents but slower rent growth than our clients have come to expect in recent years. One challenging dynamic that is specific only to the San Luis Obispo market is that there is a lot of new construction that is depressing demand in very specific submarkets. But it seems very localized, as in half mile radius type situations, and we do not see similar issues in other markets.

In many cases, we have been raising rents significantly at turnover and then have to back off the asking price when no qualified interest materializes at the new higher rates. As a back of envelope approximation, rents are basically increasing in line with overall statewide inflation, as measured by the consumer price index ("CPI").

The statewide CPI from February 2024 to February 2025 was 3.1% and that is close to an accurate representation of rent growth locally. This is similar to last year, when CPI was 3.2% from February to February.

Sidenote/Reminder: April to April CPI is what matters for the statewide rent control calculation, which is 5% plus CPI. The April CPI numbers are reported in mid-June and the new calculation takes effect starting on August 1, which gives landlords a couple weeks to post 30 day notices at the new rates. We will notify our clients when the new numbers are available.

When reviewing rental rates with our clients, we are still recommending in many cases that they test rents at the full 8.8% increase allowed by law for existing tenants because many units have fallen behind, due to rent control and long term tenants. We are recommending increases more in line with inflation for units that have been rented within the past year or two.

With rent control in place, it is important to keep rents at market because otherwise it becomes very difficult to later change course. In the same vein, with rent control in place it is best to test market rates and get as high as possible because the alternative is falling behind and never catching up.

Insurance issues continue.

In California, insurance companies are increasingly using aerial images, including those captured by drones, for policy decisions like risk assessment, policy non-renewal, and rate increases. A recently proposed new law, Assembly Bill 75, seeks to regulate this practice, requiring insurers to notify homeowners about aerial imaging and provide the images upon request. The bill also limits how insurers can use aerial images, particularly those older than 45 days, unless verified by an in-person inspection.

From personal experience, we are finding that insurance companies are requiring new roofs; demanding that tenants remove all clutter from backyards; and insisting on the removal of outdoor sheds as a result of these aerial images.

Several brands of electrical panels are also considered uninsurable or may face challenges getting insurance coverage due to safety concerns and historical issues with their manufacturing and design. These include Federal Pacific Electric (FPE) Stab-Lok panels, Zinsco/Sylvania panels, Challenger panels and Bulldog Pushmatic panels.

Bottom line: nothing is getting easier when it comes to obtaining and maintaining insurance in California.

Credit quality on applications is deteriorating now that applying costs no money to the applicant.

Our Arroyo Grande and Lompoc offices are reporting more applications from people who are clearly not approvable. In all likelihood, this is significantly due to the shift from applicants paying a fee for processing to the new policy where they pay no fee. Applicants do not really need to consider whether they are truly able to afford an apartment or house before applying.

From a process handling perspective, our administrative staff reviews all rental applications for completeness and asks a property manager whether to continue processing when the submissions are incomplete or when there is no proof of income or very little proof of income. Our property managers work with our clients on making those sorts of decisions.

Although we are also seeing this at our San Luis Obispo office, it is to a lesser extent. The likely explanation is that our San Luis Obispo office caters to a different tenant mix. Cal Poly students typically have families who can support them and students do not arrive at Cal Poly without any sort of financial plan. Therefore, the mere fact that they are attending Cal Poly means that they can afford housing that is situated around Cal Poly. This is of course not always the case, but it is more true than in other areas.

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