



Monthly Newsletter

January 2018

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At California West, one of the services that we provide to our clients is a periodic review of rental rates. In a stable market, as we have now, that review generally occurs on an annual schedule.

For student properties in San Luis Obispo, our periodic rent review usually occurs in January and February for rent increases between June and September. For non-student rentals in San Luis Obispo, we usually conduct the review at the same time of year but for increases in April or May.

For our Arroyo Grande office, the two times of year when we usually conduct rent reviews are February and September for increases in April and November, respectively.

There are always properties that do not fit into this schedule but the annual schedule exists to make sure that we conduct our reviews periodically and are looking at rates on a regular basis.

In both of our offices, we are currently recommending rent increases only for units that have fallen behind market rates for whatever reason. The most common reason why a unit falls behind market is if we have long term tenants whose rents we have been gradually increasing over the past several years but not as fast as the overall market. For those units, we will recommend continuing increases because the market remains strong and stable.

That said, we will most likely recommend no rent increases for units that have had turnover within the last 12-24 months because the market has not changed much over that period of time and, if the tenants are working out well, it makes sense to encourage good tenants to commit to stay for another 12 months at current rates to avoid unnecessary turnover expense.

As always, our clients are welcome to drop us an e-mail or otherwise contact us to confirm their intentions regarding rent increases or if they have any questions about their properties.

Marijuana use is a hot topic, especially in Grover Beach.

With California's new law legalizing the use of marijuana, and the Grover Beach ordinance allowing for dispensaries in certain areas, we are receiving questions from potential tenants of property that might be eligible for commercial use.

Our advice to clients who own such property is to not allow marijuana use at such properties. The new California statute expressly allows landlords to discriminate in this manner at the landlord's discretion.

The biggest problem with allowing marijuana use is that there is a political fight between the federal government and local authorities on this subject. Jeff Sessions, the U.S. Attorney General, recently announced his intention to begin enforcing federal prohibitions on marijuana use. We have not yet seen any actual enforcement but it is best to avoid the risk of that happening.

The political climate is changing and political support for legal marijuana is growing. However, marijuana is not currently legal at the federal level and some additional rent is simply not worth the risk of a federal seizure of your property for violation of federal drug laws.

Our advice to clients who own property that may be used for marijuana under California law is to not allow such use because of the risk of federal prosecution.

Financial statements in January will include 1099's for 2017.

As in previous years, we are including Form 1099's with January's financial statements. These forms report the amount of income that we collected from tenants on behalf of our clients during 2017. In connection with these 1099's, we encourage our clients to review the Tax Information insert that we are sending with the January financial statements because it explains how we come up with this number and how it may include both rent and prepaid rent.

Also, please note that even though we changed accounting software mid-year, your year-to-date income and expense information is correct on your December 31, 2017 financial statements because we brought over balances from the previous accounting software. Therefore, as in past years, you should use your December Cash Flow statement to help prepare taxes.

Finally, the 1099 amount is not necessarily the same as the amount of money that we disbursed to you throughout the year. For example, some clients may ask us to hold back money in our trust account to save up for a future repair. However, we must still report the rental income on your Form 1099 even if it includes money that is being set aside for future repairs or some other purpose.

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