



# Monthly Newsletter

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## **Cal Poly's new dorms and shifting enrollment are impacting the rental market in San Luis Obispo.**

We are definitely seeing a shift in the San Luis Obispo rental market. Whereas recent years have seen a very strong market for landlords, we are now seeing a shift to more of a tenant's market. It is still a healthy market with no major prior reductions but conditions are changing.

As in any industry, the two factors that impact rental prices are supply and demand. On the supply side, new inventory pushes prices down and less inventory pushes prices up. On the demand side, if there are more residents looking for rental housing then that pushes prices up and vice versa.

At Cal Poly, we saw a hit on the supply side a couple years ago when a mudslide took out the Fremont dorm and removed 275 beds from the market.

This year we are seeing the opposite happen as Cal Poly completes construction of a new dormitory with 1,475 beds. There are a number of other much smaller developments also currently coming online. This new supply certainly helps explain the relative softness that we have been feeling in the San Luis Obispo rental market lately.

On the demand side, last year in the Fall of 2017 Cal Poly reports that they enrolled 5,247 freshmen plus 40 transfer students on projections of 4,451 and 922 respectively. In other words, the University had an unexpected spike in freshmen enrollment and a corresponding reduction in transfer enrollment.

Even though the net effect was essentially zero change in total enrollment, the change in how it was allocated did impact the rental market. Freshmen usually receive their acceptance letters early in the year and transfers later in the year. This means that last year we felt greater demand when we do the majority of our pre-leasing in March and April. This year we did not feel that additional demand but should see more demand now as transfer students look for housing. Projections this year are for 4,486 freshmen and 893 transfers. It certainly feels from our perspective as if the University is more on target this year than they were last year.

## Lessons from an eviction.

At California West, we rarely have to go through the full eviction process but it is sometimes necessary. The best way to avoid an eviction is with adequate screening at the front end, by staying on top of delinquencies when tenants fail to pay on time, and by telling tenants to move when circumstances change and they are no longer suitable for a property.

*After many delays, this eviction took just over 6 months to complete. Most evictions take 3-6 weeks.*

We recently went through the longest eviction in memory and it serves to emphasize a few points. After many delays, this eviction took just over 6 months to complete. Most evictions take 3-6 weeks. The biggest delay arose because the tenant filed a federal bankruptcy petition that put a temporary stop to the state court eviction lawsuit. The property owner could have paid an attorney to file a motion in bankruptcy court asking for permission to proceed despite the bankruptcy action but the cost of doing so was prohibitively expensive under the circumstances so the property owners had to wait it out.

In hindsight, there are a few lessons from this experience. First, it is really important for tenants to qualify on income. We usually recommend to our clients that tenants should earn 2.5 - 3.0 times the rent in monthly income. This problem tenant was a retiree with substantial retirement assets but, in hindsight, insufficient retirement income. That said, he paid his rent well enough for a long time. He moved into the property in 2011 and just spent all his assets before refusing to move when he no could longer afford the rent.

Second, we should have been more aggressive in telling this tenant to move when it became obvious that he was straining to pay his rent. Acting sooner would have made it easier for this tenant to find a different place to live, before he spent all his money. We may have still ended up with an eviction but often we have found that firmly telling people to move, with the necessary notices, is an effective alternative to eviction, especially if the tenant still has other options.

Finally, prior bankruptcies are a red flag. This tenant had a prior bankruptcy but a 700+ credit score when he applied with us in 2011. Nevertheless, during the financial crisis of 2008-2010 we saw many people file for bankruptcy who now make good tenants.

This particular case did settle on the day of trial with forfeiture of the security deposit, a small cash payment toward rent, and an enforceable agreement to move within a few days. The owners lost a considerable amount of rent and had to go through far too much headache but we now have possession of the property and that is what really matters.

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