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Mortgage rates are rising and that will impact the local economy and rental market.

One of the greatest advantages of owning real estate is the ability to acquire an investment with other people's money. That said, the highly leveraged nature of real estate investment means that interest rates have a big impact on the health of the overall real estate market.

When acquiring property with other people's money, it is of course necessary to pay interest to the lender in exchange for a loan. In recent years, the federal government has been attempting to stimulate investment in real estate and other areas of the economy by keeping interest rates at historically low levels through the use of various monetary policy tools. That monetary policy is now changing and rates are rising.

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Locally, we are seeing a rush of development activity as developers try to complete projects before they become unaffordably expensive as a result of higher rates. This rush of activity is stimulating the local economy but will likely trail off as it becomes more difficult to justify new development projects at higher interest rates in the future.

We are also likely to start seeing more real estate inventory pile up on the market as it becomes more difficult to purchase at existing prices and sellers have to adjust their expectations downward. That usually takes time.

From a rental perspective, higher rates are a mixed bag. On the one hand, as it becomes more difficult to buy a home that stimulates demand for rental properties because people who would otherwise be purchasing property are stuck renting until they can afford to buy at higher rates or until sellers reduce the price of the housing that is for sale. Nevertheless, a generally weaker economy is certainly not good for the rental market and will put pressure on rents. Overall, the combined effect will most likely be a levelling off of rents at current levels for the foreseeable future.

Summer expenses will be coming in San Luis Obispo

The turnover season in San Luis Obispo is approaching and that means property owners should anticipate lighter cash flow for all properties where there is a change of tenants.

Our turnover season in San Luis Obispo is between late June and early September, with most of the turnover occurring in either July or August. This is because of Cal Poly's academic schedule and the fact that students tend to move only during the summer months.

We encourage our property owners to keep a sharp eye on their financial statements especially at this time of year so there are no unwelcome surprises over the next few months. Turnover results in vacancy and repair expenses, neither of which are good for cash flow. We also have to refund security deposits to departing tenants and that can be a hit to cash flow as well.

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Often, maintenance repairs can be billed back to tenants if the repairs were a result of more than ordinary wear and tear. However, ordinary wear and tear is an expense that property owners must be prepared to pay for without reimbursement from former tenants.

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In the case of paint, it is generally accepted that an interior paint job should last three years and that, when necessary, tenants may be charged for no more than a pro-rated share of the cost to repaint a property, after taking into account the fact that a paint job should last only three years. If a property is well cared for then a paint job may last much longer than three years but that is not the generally accepted rule for a typical property. If there is ever a dispute, the three year figure is what will most likely be used to determine the useful life of a paint job.

With floors, it depends on the type of floor in question. A tile floor should last much longer than carpet. For ordinary carpet floors, the useful life is generally considered to be seven years. Realistically, though, in San Luis Obispo the useful life for carpets is far less than seven years if renting to college students because they tend to be very hard on such floors. That unusually hard wear and tear is something for which they can be charged. Things that we often see and for which tenants may be charged are burn marks on the floor and stains from spilled beverages. Stains can often be cleaned but burn marks require patching or full replacement if they are too bad.

The bottom line is that turnover will be coming in the next few months and property owners should prepare accordingly to make sure there are no unwelcome surprises when cash flow is less than the ordinary amount.

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