

PROPERTY OWNER

NEWSLETTER FOR PROPERTY OWNERS AND MANAGERS

Pacific Beach • Mission Beach • Ocean Beach • La Jolla • Clairemont • Mission Hills • Hillcrest to Kensington

LEGAL UPDATE

Since last spring's newsletter there have been many changes in California Law. One stealth issue has arisen that all owners need to carefully consider. This was a subtle change in the discrimination laws that should affect how and who you rent to. It is the first issue I tackle below.

The other two issues have been well publicized, but I want to discuss some nuances and ramifications for the local market. Those issues are the new 60-day notice for rent increases and what is happening in the area of toxic mold.

Discrimination Law Change

Watch out for this little known change in the law: The California Civil Code section 12955 has been amended as follows with the change underlined:

Continued on page 7

MULTI-FAMILY OUTLOOK FOR 2001-2002

This past year exceeded expectations for the third year in a row. So now what are the expectations? This is a look at the various factors that make up the operation of rental housing in San Diego.

Economic Environment

The economic environment appears strong in California and San Diego. Unemployment is very low. There are many companies re-locating to San Diego. As always much of this good news is in small chunks or does not garner the headlines that bad news does.

Net in-migration continues although not at the pace of the 1980's, but in the beach areas a steady pace of newcomers arrives. San Diego came out of the recession late so I believe the economic climate is still very good. A review of tenants income and debt load leads me to believe they can still pay more in rent. A High tech recession and energy costs are the two areas to watch. I think they are both overstated in what will be their overall effect.

Apartment Vacancies

See the included vacancy table on page 2. This table is for City of San Diego premium rental areas. Vacancy rates have remained at the same level for the last three years and represent the minimum turnover time plus some minimal structural vacancy.

Rental Price Levels

See the included rental value table on page 7. It shows that increases over the last year have been very strong.

Expenses

All expenses are discussed as a percentage of income. Since rents have been going up this tends to moderate or lower the expense percentage, but how this percentage relates to income is important to understand income properties bottom line so it is the best to analyze expenses.

Water: The price of water is on the move again. It has increased steadily

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"Religious freedom is my immediate goal, but my long-range plan is to go into real estate."

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ABOUT CAL-PROP INVESTMENTS AND MANAGEMENT

Cal-Prop Investments and Management provides high quality service to real estate owners and investors in the premier rental areas of San Diego since 1987. Cal-Prop is a full service source that focuses on providing the results owners and investors desire. Please explore this issue and/or call for back issues.

VACANCY REPORT

AREA	Units Reporting	Vacancy			% of Units Turning Over		
		DEC	JAN	FEB	DEC	JAN	FEB
Pacific Beach	300	1.5%	1.7%	2.0%	1.0%	1.7%	2.7%
Mission Beach	95	1.9%	2.0%	1.9%	4.0%	1.33%	4.0%
Ocean Beach	50	1.9%	2.0%	1.8%	3.5%	3.0%	3.4%
Mission Hills Hillcrest Kensington	94	2.2%	2.0%	2.5%	6.4%	4.3%	2.1%
Clairemont	20	1.5%	1.8%	1.6%	1.0%	1.5%	1.5%
La Jolla	50	0.4%	0.2%	0.2%	0.5%	0.5%	0.4%

IS YOUR ON-SITE MANAGER PROVIDING YOU WITH RESULTS?

Cal-Prop has continually come in contact with owners of rental property from eight to fourteen units where the owner has a person on-site managing the property. The on-site manager typically gets a free or reduced rent apartment and then is paid for extra maintenance and/or grounds work performed. Often these managers have been on the property a long time and were probably very effective at one time. What Cal-Prop has seen happen is this: Over time the manager realizes that keeping the rents low makes for less work for him or her. Tough decisions get passed on immediate-

ly to the owner and the owner keeps doing more and more of the work necessary. Many aspects of the position are not handled in a professional manner. All of this while paying more for the on-site than an owner would for professional management. The net effect is reduced net income relative to what a property could produce, continual owner hours spent unnecessarily and increased risk for tenant claims due to lack of knowledge of new laws or unprofessional behavior.

Cal-Prop has a solid history of immediately creating better performance after taking

over for on-site managers. In 1998 we took over 20 units all in four unit buildings on Chalcedony in Pacific Beach and immediately increased the rents \$50,000 per year. In 1999 we took over 14 units on Felspar and immediately increased the rents \$25,000 per year. Back in 1989 we took over eight units on Sapphire St and doubled the rents immediately. All of these properties had long-term on-site managers. Often a manager has served you well, but it is time for a change. Call Cal-Prop for a thorough analysis of how your building can perform at its best.

PUTTING A VALUE ON YOUR TIME

A frequent objection to property management is that it is too expensive. It probably is too expensive if you put no value on your time, but if you value your time read the following analysis.

Let's take an example. Owner Smith has four units and does his or her own management. Two one-bedrooms and two two-bedrooms with a monthly gross rent of \$4200 at a 6.5% management fee would be \$273 per month. If you work managing your property an average of one hour per day, which given all of the book-

keeping, driving to the bank, inspecting the property, coordinating the maintenance, fielding tenant calls, leasing the units, preparing for taxes and all the other details involved is a reasonable number. What are you paying yourself? \$273 divided by 30 hours per month is roughly \$9 per hour. If someone offered you a part time job at \$9 per hour what would be your response? You would probably consider the offer unpalatable. I submit that if you value your time at any reasonable value you would turn your properties over for management.

Total Income	\$ 4 2 0 0
Management Fees	<u>X 6.5%</u>
Total Fees	\$ 2 7 3
One Hour per Day per Month	30 hrs
÷ by Fees	\$ 2 7 3
Cost of One Hour of Your Time	\$ 9.10

Free Rental Property Analysis
Call Rick at (858) 483-3534 or
e-mail rick@cal-prop.com

TURN HIGH EQUITY INTO INCOME

If you have a house, condominium or a two or three-unit building that has little debt, chances are you have enough equity to double your return on that equity. You have a great asset. From this asset you can create an empire if you are willing to take the risks involved with utilizing a 1031 tax deferred exchange. If you call, me I can send you a 1031 Exchange Analysis that I created. This package of information explores the process, parameters and possibilities of making this type of transaction. So if you have a nice free and clear high equity property why would you want to exchange to a larger property? In most cases you can trade up and maintain about the same cash flow at first, but over a five or ten year period you can double your cash flow, double your equity build and increase your depreciation. Often overall you can triple your rate of return over a ten-year period. Triple your rate of return in an investment you know and understand: San Diego real estate. Please call me so I can show you how this can be accomplished.

Rick Thornton 858-483-3534 ext 13.

OUTLOOK

Continued from page 1

that last three years from 1.64% to 1.77% to 1.89% in 2000. The City has announced that water prices will increase 15% over the next three years.

Gas & Electric: In 2000 this cost actually dropped as a percentage of income to .61% from .63 and .65 the two previous years. Currently for 2001 it is at 1.13%. The overall effect on owners is therefore small. The question is its effect on tenants. From my survey that effect has been minimized now that the cold weather is over by tenants conserving. The effect of these prices has been vastly overstated and the sky is not falling.

Maintenance: Maintenance can be a highly elective cost. Maintenance as defined for this analysis includes all painting, plumbing, cleaning and general maintenance exclusive of large projects. Over the past year we found owners doing a lot of projects while they felt good about the rental increases. A range between 6 and 10% of income should generally be spent to maintain your property.

Trash: The three year trend is down as a percentage of income: .43%, .39% and .34%. This should remain under control.

Insurance: These costs are decreasing as a percentage while increasing in the gross.

Carpet cleaning, advertising and legal services are all down due to less turnover and the improving market.

New Construction

Large projects are being completed in North County, Mission Valley and Downtown. Demand overhand from overbuilding is common malady of a recession. Some clouds are appearing in this area.

Valuation Trends

Values now reflect today's price plus a factor for the coming year. Buyers are willing to pay this premium. Remember if you bought at the top in 1990 and held until today your return was outstanding. Do not be dissuaded by high prices particularly if you are trading up. It continues to be a great time to trade up if you have sufficient equity. Reposition for the boom market 2003-2010.

Forecast for 1999

Economic: Solid and sustainable.

Apartment Vacancies: Will remain at a minimum, which is turnover time only. Some landlords can obtain premium rents if they are willing to take up to 3-4% vacancy and take a riskier (credit problems, etc.) tenant.

Rental Price levels: Increasing by 7-10%.

Expenses: Continued lowering as a percentage of income. If you have not already completed an exterior paint or re-roofed go for it.

New Construction: It appears to be keeping pace with demand with possible excess building.

Valuation: Extremely high. You need to know projected rents well to know if you are buying right.

Conclusion

A good market for Sellers and those trading equity up. Buyers can still be optimistic just assume you have a couple of tough years as soon as you buy and be able to weather that storm and you will be well positioned for the great boom of 2003-2010.

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1246 Agate St • Pacific Beach

- ▼ Single Family Home ▼ 1246 Agate St
- ▼ Unique living style ▼ 1 bedroom plus office
- ▼ Double car garage, view ▼ Hardwood & new kitchen

\$450,000



4600 Lamont St #4-223 • Pacific Beach

- ▼ 2 Bedroom 2 bath ▼ Condominium
- ▼ @ The Plaza ▼ Overlooks the pool
- ▼ Excellent condition ▼ Extremely affordable, low HOA fees

\$245,000



1516 Missouri St • Pacific Beach

- ▼ Four units ▼ West of Ingraham St
- ▼ Built in 1987 ▼ All unit 3 bdrm 2 bath
- ▼ Runs very smooth, low maintenance



2038 Balboa Ave • Pacific Beach

- ▼ Great high traffic location ▼ Free standing commercial
- ▼ Loads of parking ▼ Office or home/office

\$375,000



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What is the best way to value apartments?

The best way to value apartments is to use all of the methods available and then take an average of those methods. The available methods are gross rent multiplier (GRM), price per square foot, price per unit, and capitalization rate.

Gross Rent Multiplier

Gross rent multiplier is the most widely used method to value apartment buildings. It is the most widely used because the information necessary to make a good decision based on GRM is easily available. By taking the annual income of a given property and multiplying by a factor (the market multiplier) you arrive at a buildings value. For example a building with \$50,000 in gross income times the market multiplier of 10 gives a property value of \$500,000. If you know market rents for units you can then apply the market multiplier to arrive at the value of a given property. The market

multiplier of course varies by the location of the property and the strength of the market. What is a good multiplier for a given area and a given time is for another article.

Price per Square Foot

Price per square foot is a very accurate measure of a building when you can find good information on comparable sales of similar square footages and the numbers provided in the comparables are accurate. This method eliminates the errors made in utilizing price per unit when comparable one bedrooms are 500 square feet and your units are 700 square feet.

Price per Unit

Price per unit is a good method for quick analysis, but there are significant pitfalls. What if one building has all one bedrooms at 500 square feet and the second building has all one bedrooms at 700 square feet. The price per unit method would value them the same.



Call Rick at
(858) 483-3534 or
e-mail rick@cal-prop.com

Take the Cal-Prop Eviction Quiz

Answer True or False

1. If rent is due on the first of each month the first day the 3-day notice to pay or quit can be given is the second of the month?
 True False
2. I can include late charges on my 3-day notice to pay or quit?
 True False
3. The tenant left a bicycle and a dresser worth about \$350. I can dispose of these however I wish.
 True False
4. I can serve my tenants a 30-day notice to vacate even though they have six months to go on their lease because they violated the lease terms.
 True False
5. I know where my tenants work, but when I went to post the 3-day they were not home. I posted the 3-day then mailed it and this is sufficient.
 True False
6. Certified mail is not sufficient for proper service on a 3-day notice.
 True False
7. I am required to keep all of my tenant applications seven years.
 True False
8. I should include the names of all residents including those under the age of 18 on the 3-day notice.
 True False
9. If a tenant has requested repairs or made a claim of habitability I should be very careful about serving a 3-day notice.
 True False
10. A retaliatory eviction should clearly be avoided and can lead to an expensive judgment against the Landlord.
 True False

Answers on page 6.

RENTAL REPORT BY COMMUNITY

Dwelling Type		Apartment					Condo		House		
BR/BA		S/1	1/1	2/1	2/2	3/2-3	1/1	2/1-2	2/1	3/2	AVE ANN INCR
PACIFIC BEACH	RANGE										
	AVG	711	830	1370	1425	1821	905	1595	1591	2440	18.4%
OCEAN BEACH	RANGE										
	AVG	642	788	1299	•	•	•	•	1438	2400	19.1%
MISSION BEACH	RANGE										
	AVG	755	895	1450	1550	2200	•	•	1697	2450	21.4%
LA JOLLA	RANGE										
	AVG	825	986	1532	1852	•	•	•	•	2666	23%
CLAIREMONT	RANGE										
	AVG	610	648	796	•	1075	•	1275	•	1483	8.2%
KENSINGTON MISSION HILLS HILLCREST	RANGE										
	AVG	675	765	1100	1273	1621	•	1150	•	•	23%

Maintenance Man *continued from page 8*

in the past to have more problems and the cost of one repair can increase the life cycle cost (cost per year over the life of the product) well beyond the cost of purchasing a slightly better product. I suggest you call Karen at Aztec Appliance at 619-236-0616.

Stoves: New stoves run from between \$300 and \$320 tax, delivery and installation. Electronic ignition saves the tenant significantly on their gas bills and is much safer. The tradeoff is more repairs in the future, but overall it is worth that cost.

Refrigerators: The new refrigerators are very energy efficient. If you have a refrigerator over fifteen years old the tenant can save as much as \$30 per month in electrical by having a new fridge. 16 cubic feet run about \$440 tax, delivery and installation and an 18 about \$515 to 540.

Dishwashers: Older dishwasher are hard to repair and expensive to repair. The new ones are very inexpensive at \$268

including tax, delivery and installation.

Microwaves: Only repair a high-end unit in a single family home or condominium and then only if the unit is under five years old. The technology has advanced and the prices have come down and repairs so difficult that replace is the decision 90% of the time.

Tip: Cal-Prop has experienced significant defect and reliability problems with General Electric and/or Hotpoint (made by GE) products. We have experienced the same problems repeatedly: Dishwashers that catch on fire, refrigerators where the freezer drain hold constantly plugs, Washing machines where the drum belt wears out. We suggest avoiding these products. There are a number of good alternatives.

For questions to the Maintenance Man, write Joe Trudeau, Cal-Prop, 4406 Bayard St, San Diego, CA 92109 or e-mail joe@cal-prop.com or call Joe at 858-483-3534 ext 16.

Answers to Eviction Quiz (page 4)

For evictions I recommend Attorney Rick Alter at 619-233-8428.

- 1-T But make sure the 3-day expires after your grace period.
- 2-F Unless your rental agreement calls late charges additional rent.
- 3-F Items left behind over \$300 require special handling.
- 4-F Check with Cal-Prop on how to get around this situation.
- 5-F If you know where they work you are required to go to their place of work.
- 6-T
- 7-T
- 8-F Do not include anyone under the age of 18, but include all other names.
- 9-T
- 10-T

LEGAL

Continued from page 1

It shall be unlawful:

(a) For the owner of any housing accommodation to discriminate against or harass any person because of the race, color, religion, sex, sexual orientation, marital status, national origin, ancestry, familial status, source of income, or disability of that person.

(n) To use a financial or income standard in the rental of housing that fails to account for the aggregate income of persons residing together or proposing to reside together on the same basis as the aggregate income of married persons residing together or proposing to reside together.

There is additional text and changes, which I would send to anyone on request. So what is the impact? Watch out for “harassment” of any of these protected classes. Harassment can be very broadly defined. When in doubt keep communication in writing. It is almost impossible to “harass” someone in writing unless of course you make an overt remark. Do not discriminate based on sexual orientation. This has probably been unlawful in California for some time and it is now explicit in the statute. It has never been good business practice to harass or discriminate based on sexual orientation so examine your practices and make any change needed. Finally source of income and aggregate income can also be problematic. For example can you as a policy not rent to students? If the student has verifiable income from his parents it would appear not. Many owners out there exclude students. My interpretation is that you are putting yourself at risk for a lawsuit. Cal-Prop uses a rent guarantee form that has eliminated problems with students. I suggest you consider some way of accepting students. Cal-Prop has always rejected applicants where one applicant makes the lion share of the money. This aggregate income clause now invalidates that reason. We now look for other legal ways to eliminate prospects that have uneven income amounts.

60-day Notice

You are probably aware of the new state law that requires owners of rental property to give tenants a 60-day notice

when the increase in rent exceeds 10 percent of the rental value. Read on about why this notice is really 65 days and 35 days for notices under the 10 percent increase.

What you must do:

- For an increase in rent that is greater than 10 percent you must provide the tenants with at least 60-days advance notice. This is if you personally serve the tenant. How many owners hand deliver their tenants rent increases? I hope not many. Cal-Prop never personally serves a rent increase. If you post and mail it must be 65 days advance notice for over 10 percent or 35 days if under 10 percent.
- If more than one increase is given in a calendar year and the total amount of the increases exceed 10 percent then for the second increase the 60-day period is in effect.
- Although this new section does not state you must also post when you mail a notice it is advisable to continue to post and mail any notice that is mailed as opposed to personally served.

Toxic Mold

Just when you thought it was safe to go back in the water... The hysteria machine that brought you asbestos and many other scares has found something new. There are multiple bills pending on the issue of toxic mold in Sacramento and one will surely pass. This puts us past the point of debating whether this is a real problem and into the realm of how to handle mold to avoid negative repercussions.

What you should do:

- *Do not panic:* Most buildings have some mold. It is a natural substance that flourishes on cellulose-type materials: drywall, carpet, drapes, framing. In other words your entire building.
- *Know the conditions:* Floods, leaks and areas of poor ventilation all lead to conditions that can be conducive to the growth of mold. When these conditions

exist you must first correct the condition i.e. the leak or moisture penetration first and then go after the mold.

- *Have a policy:* If you have a written policy, communicate that policy to the tenants, follow your policy for any impacted tenants and this will eliminate 90% of the problem. If you get a tenant that seems to be using the problem as a general grievance complete your mold policy and go the extra mile and then when appropriate and legal give them notice to vacate.
- *Be proactive:* Cal-Prop now includes mold inspection in our annual inspections with SDG&E where we inspect the wall heaters, check for water leaks and check the condition and operability of the smoke detectors.
- *Eliminate problems:* In Southern California with its long summers it should not be difficult to eliminate mold. Painting over the mold is rarely a permanent solution although the additives available now are quite effective. Open up the area where the mold is present and eliminate any water source. Instead of painting it over, take down the drywall and dry out the area completely and then re-drywall. It is just as cheap in the long run and eliminates the problem.
- *Caveat:* This article only advises on buildings fewer than 15 units where three or less units have a problem. If you have a building-wide problem completely different tactics are usually necessary.

Good luck and as always be sure to consult with an attorney for any and all specific legal situations. I recommend Jean Heinz of Heinz and Feinberg for all issues pertaining to real estate. She can be reached at 619-238-5454.



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5 Reasons to List with Rick Thornton

• Sell Your Home at Top Value

Forget the agent that has sold the most. Find the one that has sold the best.

• Provide a Turnkey Solution

Most properties need some repairs or improvements prior to marketing. Cal-Prop provides one-stop shopping. We even discount some of the repairs off the commission.

• Sell Investment Property for Top Value

I will help you sell like the pros. Maximize the rent and your return. Our track record is outstanding.

• Sell Your Condominium for Top Value

Three identical condominiums in Pacific Beach sold at the same time. One for 295k one for 299k and the one I sold at \$305,000. Which owner was best represented?

• Sell Your Home Despite Obstacles

Every real estate transaction has obstacles. Overcoming them is my specialty.

Ask the Maintenance Man!

How do I decide whether to repair or replace an appliance?

The repair or replace dilemma pertains to many of the components of rental housing from plumbing fixtures to roofs. Whether to repair or replace is a complex economic decision based on estimated remaining life of the component, replacement cost new, previous repair history, life cycle costs, the effect on tenant relations and aesthetic concerns. In this article I will discuss appliances with respect to the repair or replace dilemma.

When receiving a call about a non-functioning appliance the first check to see if the appliance is covered under warranty. Many of the parts of a refrigerator are covered much longer than the initial overall one-year warranty. Next review the history of the unit. Have other repairs been made? The amount and type of

previous repairs needs to be considered. Then obtain an estimate of the cost to make the current repair. Cal-Prop's in-house maintenance does this at no cost to our owners.

Appliance Rescue at 800-277-5426 charges \$10 for a service call estimate.

Is the estimate less than or more than 33% of the cost of replacing the part with a new appliance? Cal-Prop uses the 33% rule, but you may choose a different threshold. We use the 33% rule because the advantages of new appliances have become very persuasive. Those advantages include: The cost of new appliances has dropped dramatically in the last ten years, the energy efficiency of the appliances pays for the cost of the appliances (even if the tenant pays utilities you still reap the benefits: a tenant knows the total cost of a particular unit including utilities not just the rent), aesthetically pleasing appearance, better reliability, minimizing tenant calls and hassles and safer operation (electronic ignition for stoves).

Following are some tips on buying each type of appliance. I strongly suggest not always going with the least expensive available. These appliances have shown



Joe Trudeau
Senior Maintenance Foreman



continued on page 6.