CAL-PROP
MANAGEMENT INC

Summer 2005

# PROPERTY OWNER

NEWSLETTER FOR PROPERTY OWNERS AND MANAGERS

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

## LEGAL UPDATE

### Just Cause Eviction Ordinance in San Diego

*On March 30, 2004, the San Diego City Council voted in favor of adopting a "Just Cause" Eviction Ordinance. The ordinance takes effect on April 29, 2004 and will impact all terminations initiated on or after that date.*

### How the Ordinance Works

This ordinance applies ONLY to tenants who have lived in a rental unit for more than two years. The ordinance is retroactive, meaning owners must provide a specific "cause," as allowed by the ordinance, when terminating tenancies of those residents who have lived in their

*Continued on page x*

## INSIDE THIS ISSUE



CAL-PROP
MANAGEMENT INC
4406 Bayard Street • San Diego, CA 92102
Phone (858) 483-3534 • Fax (858) 270-4066
e-mail: rickt@cal-prop.com

## QUALITY PROPERTY MANAGEMENT INCLUDING FREE ASSET MANAGEMENT

While stockbrokers grow on trees, and real estate agents seem to fall out of them to help you buy or sell a property, locating the right person with whom to conduct long-term real estate investment planning, particularly when one owns just one investment property, is not so easy. Cal-Prop Investments and Management fills that need with our Asset Management Program, which has been crafted specifically with the needs of smaller investors in mind.

As our relationships with our clients grew, strategizing together for the long-term prosperity of our investors naturally flowered into a formalized, personalized asset management system that we believe to be the most comprehensive and trustworthy system in the field. Read on to learn more.

### Dr. X

Two years ago, Dr. X read our annual newsletter and came to the Cal-Prop office in Pacific Beach to discuss his concerns. He had three properties in the area, and had been with the same manager for about twelve years. The philosophy of this management company was to do as little as possible in terms of maintenance of the property, and to not keep apace with rent values, with the idea that these strategies would minimize move-outs. It worked for a while. But when Dr. X, came into our office he said he wanted to take a comprehensive look at his properties and possibly take a new direction. Dr. X and I performed a walkthrough inspection of all three of his properties. Property A was a well located 8-unit near Mission Bay, in very poor condition and with low rents. Property B was also well-located, a 9-unit with very spacious floor plans

*Continued on page 10*

*"It's not all peaches and cream, although I'll admit it is mostly peaches and cream."*



### ABOUT CAL-PROP MANAGEMENT, INC.

Cal-Prop Investments and Management has provided 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. Our services include: property management, sales, tenant placing, construction and maintenance, grounds and free consulting. Please explore this issue and feel free to call for back issues or obtain back issues on-line at **www.cal-prop.com**.

# VACANCY REPORT

| AREA * | Units Reporting | Vacancy | | | % of Units Turning Over | | |
|---|---|---|---|---|---|---|---|
| | | MARCH | APRIL | MAY | MARCH | APRIL | MAY |
| **1** | 708 | 2.69% | 2.25% | 2.60% | 2.96% | 2.25% | 2.82% |
| **2** | 169 | 3.37% | 5.08% | 3.74% | 3.55% | 4.14% | 5.26% |
| **3** | 133 | 3.07% | 2.18% | 2.03% | 0.78% | 2.34% | 4.68% |
| **4** | 97 | 1.47% | 3.71% | 1.16% | 4.12% | 2.06% | 2.95% |
| **5** | 141 | 6.53% | 5.62% | 3.78% | 3.57% | 2.70% | 5.40% |
| **6** | 24 | 2.38% | 2.16% | 1.00% | 4.76% | 4.76 | 0 |

* **1**. Pacific Beach, Mission Beach, Ocean Beach, La Jolla; **2**. Mission Hills, Hillcrest, Bankers Hill, University Heights, Kensington
**3**. Clairemont, Mission Valley, Bay Park, Point Loma, Old Town; **4**. North Park, College, South Park, Golden Hill, Paradise Hills
**5**. La Mesa, Serra Mesa, San Carlos, El Cajon, Spring Valley, Casa De Oro; **6**. North County, Scripps Ranch, Encinitas, Chula Vista, Mira Mesa

## Market Trends

*Market Trends is a quick overview of the trends and changes to the San Diego apartment market. Just a short few years ago you thought you owned apartments only to find out you owned condominiums in the making. The trends and the market are on the move and it is wise to keep up at least in terms of knowledge. Some topics in the news or on the move:*

### *Bubble, The*

San Diego is always listed along with Boston, the Bay Area, the LA Basin and Honolulu as one of the leading indicators and/or areas most likely to be experiencing a bubble in terms of real estate prices. I rarely see an article on "The Bubble" that speaks with any type of economic backbone about what drives real estate prices other than interest rates. Population in a given geographic area, the income the population receives and jobs, drives real estate prices on the demand side. Zoning and the quantity of new housing drives prices on the supply side. Merging these factors would give you an appropriate measure of housing value. I have not seen these done. It may be too complicated to measure. For certain the "affordability index" is a garbage statistic. I believe prices are reasonable given the financing climate, but that new housing is keeping up with the demand. If the Fed were to change the financing climate with either increased interest rates or changed lending rules this could change.

Remember in the last real estate recession it began in the Fall of 1989 and prices peaked in the fall of 1991 and fell about 5% per year for 5 years. Prices in real estate do not fall in one day like the stock market.

### *Condominium Conversion*

The amount of apartments converted and soon to be converted is so large the market may have a hard time digesting the supply. Converted condo prices will adjust to eliminate the backlog, but long term if you have a building with two bedrooms or more it will always be ripe for conversion. See the condominium conversion article elsewhere in this newsletter.

### *Development*

Many owners with developable property are selling out because they have aging physical structures. This market is a great time to move out of your property if it can be developed. See the article on Joint Ventures in this newsletter if you want to capture some of the equity due to the development potential.

### *Downtown*

This is the doom and gloom section of the newsletter. Overbuilding within this sub-market is happening and inevitable. Do not buy a downtown condo for investment unless you are prepared for a long-term hold. How the oversupply within this sub-market will affect the overall market for real estate and rentals is difficult to determine. I predict significant price declines for this sub-market starting in 2007.

### *Interest rates*

The country and the world are awash in capital. In the US there is over $7 trillion dollars in liquid assets. When you add the large amount the European baby boomers and the Asian countries are saving this means interest rates will be low for another ten years at least. Because of low inflation when the economy slows it now brings interest rates down. Adjustable rate mortgages have outperformed fixed rates since they were introduced in the early eighties.

### *New Residents*

Since we manage over 1000 units in San Diego including the beach areas we tend to see the influx of young people from other states. This influx seems to have picked up again. Although many new residents do not stay more than a year or two we are becoming a hot choice among the young who bring money, energy and skills.

### *Third Homes*

Whereas owning a second home used to establish one as a person of means or one that had "made it". The current trend among many of the wealthy is now the third home trend. Many of these are in vacation locations or just cities that are

*Continued on page 3*

# THE SAN DIEGO HOUSING SHORTAGE & SILENT MARCH TOWARDS LOCAL RENT CONTROL

*By Tani Means*

I don't think the fact that San Diego has an affordable housing crisis is a secret to anyone. The attempts to resolve it are debated from City Council to individual tasks forces throughout the County. Everyone agrees that housing has gotten too expensive not just for the very poor but reaching to our teachers, our health care workers, pretty much to any of our much needed service industries. I'm not just talking about the affordability to buy your own home, which may never happen in this area for many people, but being able to find an affordable, comfortable rental property is also becoming challenging. In light of this wouldn't it make sense to do everything possible to encourage people who have rental properties or people who are considering renting out their first home some incentive to retain those properties. Of course it would! So why is it some members of the San Diego City Council seem intent on making laws that would discourage naïve first time landlords from keeping these properties. Several of the Council members have already said that they are in favor of Rent Control and have introduced the first steps towards this ridiculous travesty of property owner's rights.

Effective April 29,2004 Council voted in the first foot in the door to Rent Control when they approved the Just Cause Eviction ordinance. Some of the Council members upon their own admission didn't really understand what it was all about, apparently never owning a rental or being involved in the process of rental management. Under these circumstances they should have become more informed but personal legal problems seemed to interfere with this.

Some tenants mistakenly believe Rent Control is the answer to affordable housing. They believe that once the "greedy" landlords are curbed and not given the liberty to raise rents at will, there will be more reasonably priced properties. This has been proven completely wrong in areas that already have Rent Control.

Some of the most expensive rental markets in the United States are products of Rent Control. New York City, San Francisco, and Berkeley have some of the highest rents in the country. Berkeley, a college town where the students banded together years ago to acquire rent control in the 70's has some of the same students, now highly paid professionals, living in the student voted rent controlled properties because those units, due to Rent Control, are still such a deal. Who's greedy now? Where do the current poor students go? New to the community they need to search for units close to the college that are affordable but because of rent control the same people from 30 years ago are still living in them.

This is just one example of the danger in controlling the market. The housing market, like any market, controls itself according to the law of supply and demand. We need more affordable housing but Rent Control is not the answer. Making it easier for property owners to deal with tenants is. Lessening the time it takes to do an eviction, weakening some of the supposed "habitability" issues, going back to a 30 Day Notice as opposed to the 60 Day Notice, and especially getting rid of the Just Cause Eviction Ordinance are a few of the ways a property owner may be enticed into owning income units again. If fewer owners were scared away by California and particularly San Diego's pro-tenant laws, it would be certain that more rental properties would come available. With more owners electing to become landlords and more units on the market rents would be allowed to naturally level out and become more affordable.

Rent Control is not only dangerous and disruptive but it is UN-American. Property owners have rights too. Let's make sure they are also protected.

***Tani Means*** is single-family rental specialist for Cal-Prop Management having owned her own property management business from 1986 until it was sold in 2000 with an emphasis on single-family units and the special requirements of the less seasoned investor. She is highly involved in the Government Affairs Committee of The San Diego Association of Realtors and an avid proponent of the rights of property owners.

### *Travel Tips: The Pontalba Apartments*

One of the best real estate touring trips (consult with your accountant about the deductibility) is New Orleans. It is easy to steer clear of the rowdies and New Orleans is home of the Pontalba Apartments. Built in the 1840's by the Baroness Michaela Almonaster de Pontalba there are twin structures that flank both sides of Jackson Square. They are now a mixed-use building and are reputed to be the oldest apartments in America. Also, the Garden district is one of the great real estate walking tours.

## RENTAL REPORT BY COMMUNITY

| Dwelling Type | | Apartment | | | | | Condo | | | House | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| AREA* | BR/BA | S/1 | 1/1 | 2/1 | 2/2 | 3/2-3 | 1/1 | 2/1-2 | 3/2-3 | 2/1-2 | 3-4/2-4 |
| **1*** | RANGE | 450-975 | 750-1375 | 950-1825 | 1450-2200 | 1295-2000 | 900-1775 | 850-2475 | 1750-3990 | 1225-2200 | 1650-4075 |
| | AVG | 768 | 965 | 1330 | 1675 | 1975 | 1111 | 1649 | 2102 | 1603 | 2110 |
| **2*** | RANGE | 675-775 | 655-1150 | 725-1220 | 1000-1395 | 1395-1595 | • | 1050-1995 | • | 875-1395 | • |
| | AVG | 746 | 805 | 1013 | 1185 | 1495 | • | 1202 | • | 1135 | • |
| **3*** | RANGE | 480-635 | 465-1250 | 800-1200 | 995-2200 | • | 765-1095 | 800-1495 | 1250-1325 | 1500-1650 | 1200-2395 |
| | AVG | 580 | 864 | 1067 | 1168 | • | 871 | 1142 | 1287 | 1590 | 1824 |
| **4*** | RANGE | 585-635 | 675-900 | 895-925 | 800-950 | 1025-1495 | 995-1295 | 850-1225 | 1500 | 995-1295 | • |
| | AVG | 610 | 850 | 910 | 925 | 1225 | 875 | 1080 | 1500 | 1192 | • |
| **5*** | RANGE | 600-625 | 725-900 | 775-900 | 900-995 | 1085 | 1125 | 1095-1390 | • | 800-1295 | 950-2100 |
| | AVG | 662 | 790 | 850 | 992 | 1095 | 1125 | 1242 | • | 1028 | 1665 |
| **6*** | RANGE | • | • | • | • | • | 1200-1600 | 1150-1875 | 1615-1750 | 1475-1550 | 1500-2495 |
| | AVG | • | • | • | • | • | 1400 | 1375 | 1682 | 1512 | 1910 |

* **1**. Pacific Beach, Mission Beach, Ocean Beach, La Jolla; **2**. Mission Hills, Hillcrest, Bankers Hill, University Heights, Kensington
**3**. Clairemont, Mission Valley, Bay Park, Point Loma, Old Town; **4**. North Park, College, South Park, Golden Hill, Paradise Hills
**5**. La Mesa, Serra Mesa, San Carlos, El Cajon, Spring Valley, Casa De Oro; **6**. North County, Scripps Ranch, Encinitas, Chula Vista, Mira Mesa

## *CONDOMINIUM CONVERSIONS*

### *How it affects you and how you can profit*

Whatever happened to the apartment market? The plain old apartment market has morphed in the Condominium Conversion market. As we all know the price of homes and real estate has sky-rocketed since 2000. Everyone has their favorite fish story about the property they almost bought, but that one got away. It was almost always overpriced. Can the small to small portfolio investor profit from the current condominium conversion market? If an investor is looking to sell out the answer is definitely yes.

You can reap a price for your property with gross multiples between 12 and 20 times gross depending upon your location. These multiples are right now at all time records.

A second way to benefit is by putting on the condominium papers yourself. I can help you accomplish this quite easily. If you complete the paperwork you can reap an addition profit over and above what you would sell for because the property is ready for a converter to begin construction rather than waiting the 14-18 months. The converter does not have to tie up their capital and can begin construction immediately which is why the seller can obtain an additional premium. As the owner you could also convert, upgrade and sell your own units.

Cal-Prop will facilitate this process for you so that you can maximize your profit. Cal-Prop would do all of the general contracting and sale of the units and there are no other fees involved. A rule of thumb is that you would profit $50,000 to $85,000 per unit after all costs are accounted for. Although some of the condominium converters in San Diego send out material that hints vaguely that you could not utilize a IRS 1031 tax deferred exchange if you convert your own units.

Please do not take the advice of someone that wants to buy your property. Call Rick Thornton for a free consultation on how you can profit.

*"I came , I saw, I subdivided."*

# NEW TAX LAW LIMITS YOUR ABILITY TO TRANSFER A RENTAL INTO A PRIMARY RESIDENCE

IRC Section 1031 allows an investor to defer capital gain taxes (and depreciation recapture) upon the sale of a property "held for productive use in a trade or business or investment" if the investor reinvests exchange equity into another investment property. IRC section 121 allows for capital gain tax exclusion upon the sale of a personal residence of up to $250,000 if a taxpayer is single, and $500,000 if a taxpayer is married, if the residence has been owned and used by the taxpayer as his principle residence for an aggregate of two of the preceding five years.

In the past several years, savvy taxpayers have been using both tax code sections together by selling and buying a rental house through a 1031 tax deferred exchange, later converting the replacement property rental house into a principle residence, and then two years later, selling the house and excluding all of the gain under IRC section 121. Obviously the Treasury Department has perceived this tax planning strategy as a loophole, and therefore a provision to restrict this practice was recently passed into law.

The American Jobs Creation Act of 2004, otherwise known as HR4520 was signed into law by President Bush on October 22, 2004. The law does basically what its name implies: passes a series of provisions that jumpstart job growth and positively impact U.S. business. Included in the HR4520 is a provision that mandates a five year holding period requirement before a rental house previously used as a replacement property may be sold under IRC section 121. Under this provision, a taxpayer who exchanges into a rental house under IRC Section 1031 and then later converts the replacement property into a principle residence, is not allowed to exclude gain under the principle residence exclusion rules of IRC §121 unless the sale occurs at least five years from the date of its acquisition through the exchange.

The provisions for the new law are effective for personal residence sales occurring on or after October 22, 2004, so taxpayers who previously acquired their current residence through a tax deferred exchange within the past three years will have to wait at least another two years before selling the home and excluding gain under IRC section 121, assuming the taxpayer meets the two out of five year occupancy test. For example, taxpayers who are now living in a house they acquired through an exchange two years ago will now have to wait another three years before selling the house under IRC Section 121.

In accordance with the 1997 Taxpayer's Relief Act, it should also not be forgotten that the depreciation recapture taxes will still be owed for the portion of time the house was used as a rental property after May 6, 1997. For example, if a taxpayer acquired a house through an exchange five years ago, rented the house for three years, and has now lived in it the last two years, gain may be excluded under IRC Section 121, but taxes will still be owed on the total amount of depreciation taken or allowable for those three years the house was held as a rental.

In light of HR 4520, and the continuing depreciation recapture tax rule, taxpayers who plan to convert a rental into a principle residence should be prepared to hold the new property a minimum of five years from the date of acquisition through the exchange, and should allocate money for the taxes they will owe on the depreciation they take while the house is a rental property. With proper planning and tax advice everyone wins.

For the full text of Conference Committee Report on H.R. 4520, you can visit: *http://waysandmeans.house.gov/media/pdf/hr4520/hr4520confreptlegtext.pdf.*

## Six Reasons to 1031 Exchange Up in This Market

1 If you have a land value property you can sell to a developer and trade into apartments in good areas and reap better cash flow, re-leverage and increase depreciation.

2 If you own a single-family home that is paid off or nearly paid off you can exchange up into apartments in good areas and reap better cash flow, re-leverage and increase depreciation.

3 If you own apartments with significant equity you can trade into commercial buildings that are much less management intensive.

4 If you own any property you can trade up to position yourself for the next great run up in rents and values. It is not certain when this will happen, but you will be in position if you act now.

5 Sell your apartments with significant equity to condominium converters for top dollar and buy into out of state cash flow.

6 Sell your apartments with significant equity to condominium converters for top dollar and buy into a TIC (Tenant in Common) property. These are large partnerships that are management free with very good cash flow.

## 1818-32 Hornblend • Pacific Beach

- ▼ Eight new condominiums
- ▼ Finished winter of 2005
- ▼ Garages
- ▼ Armstrong design & construction
- ▼ Upgrades and high quality
- ▼ Great central location

**$750,000 to $850,000**

## 818-32 Chalcedony St • Pacific Beach

- ▼ One block to beach
- ▼ Can Condo convert
- ▼ 12 garages
- ▼ 150x125 lot
- ▼ 10 two bedrooms
- ▼ Best PB location

**$4,250,000**

## 8965 Switzer • Spring Valley

- ▼ Close to schools
- ▼ All two-bedroom units
- ▼ Can condo convert
- ▼ 36 parking
- ▼ Huge lot

**$2,385,000**

## 7656 Normal Ave • La Mesa

- ▼ 5 Units
- ▼ 1700 sq ft 4/2 House
- ▼ Newer bldg in back
- ▼ 14,800 sq ft lot
- ▼ Two units 3/2 w/ frplc
- ▼ Two units 2/2

**$1,095,000**

## 1516 Missouri St • Pacific Beach

- ▼ Three bedroom 2.5 bath
- ▼ North PB quiet, central
- ▼ Townhouse
- ▼ Tandem parking
- ▼ New carpet, appliances
- ▼ Sharp, low hoa

**$649,000**

## 745 Dover & 746 Devon Ct Mission Beach

- ▼ South Mission Beach
- ▼ New Construction
- ▼ Incredible floor plans
- ▼ Easy stroll to beach/bay
- ▼ Upgrades & high quality
- ▼ Available winter 2006

**$1,200,000 to $1,600,000**

## 3225 Monair • Clairemont

- ▼ Two bedroom 1.5 bath
- ▼ Classic Clairemont location
- ▼ Flat
- ▼ Parking space
- ▼ Very clean
- ▼ Great complex: pool, tennis

**$389,000**

## 4069 Lamont St • Crown Point

- ▼ Three bedroom 2.5 bath
- ▼ North PB quiet, central
- ▼ Townhouse
- ▼ Tandem parking
- ▼ New carpet, appliances
- ▼ Sharp, low HOA

**$649,000**

CAL-PROP
INVESTMENTS INC

**(858) 483-3534**

# Top Ten Reasons to Invest in San Diego

**1** Next generation industries such as biotechnology, wireless and consumer electronics all have a strong presence in San Diego County and the young school of USCD (founded in 1960) plus the other campuses of SDSU, USC, Point Loma Naz, etc are a great asset and focal point of this future economic growth. Tech employment is in biosciences, telecommunications, defense, computers and electronics, software and environmental technology.

**2** At least 10% of our economy is driven by economic activity in Northern Baja. This makes the San Diego region a much larger force when you add in the population and economy of northern Baja. This is a long-term advantage to San Diego. Power plants and LNG (Liquefied Natural Gas) can be approved and built in Mexico, which will significantly help our energy needs.

**3** *The Port of San Diego:* Sooner or later the LA basin ports will become too busy and San Diego will tap this underutilized asset. Sooner or later Miramar or another site will become San Diego's airport opening up Lindbergh for redevelopment ending Lindbergh Field's reign as the most convenient large airport in the world, but giving San Diego a world-class airport.

**4** *Population growth.* San Diego is still the least crowded major city of the three large metropolitan areas in California; The Bay area and the Los Angeles basin being the others. Although, we would love to keep it at its current size growth is inevitable since it is still so livable.

**5** No military base closings in the most recent BRAC realignment. Defense is the second largest industry in San Diego and military spending will not shrink for at least a decade due to the new threats around the globe.

**6** San Diego is among the safest cities in the country. San Diego violent crime dropped nearly 18 percent in the first quarter of 2005 despite having one of the smallest big-city police forces in the nation with about 1.6 officers per 1000 residents.

**7** Home ownership rates are increasing. Home ownership percentages have reached record highs in San Diego to about 65% mostly due to the condominium conversion phenomenon.

**8** San Diego has an incredible diverse and flexible economy including military, tourism, international trade and high tech.

**9** Office space vacancies are dropping to 10%. This portends jobs, which portends a strong market. Drive around and one notices a lot of buildings that will be stocked with employees seem to be being built in San Diego.

**10** The climate. This past winter excepted.



## Joint Venture

Highest and best use is one of the time-honored principals of real estate. With the significant rise in values in San Diego over the last decade many owner and investors of real estate find that they own property in which the full potential of their property lies in building, renovating, upgrading or condominium conversions. The question then becomes how can the owner benefit from this equity or profit potential.

Most investors do not have the specific expertise necessary to tap this wellspring of potential. Often they could do it, but the learning curve costs of a project would significantly decrease the net gain.

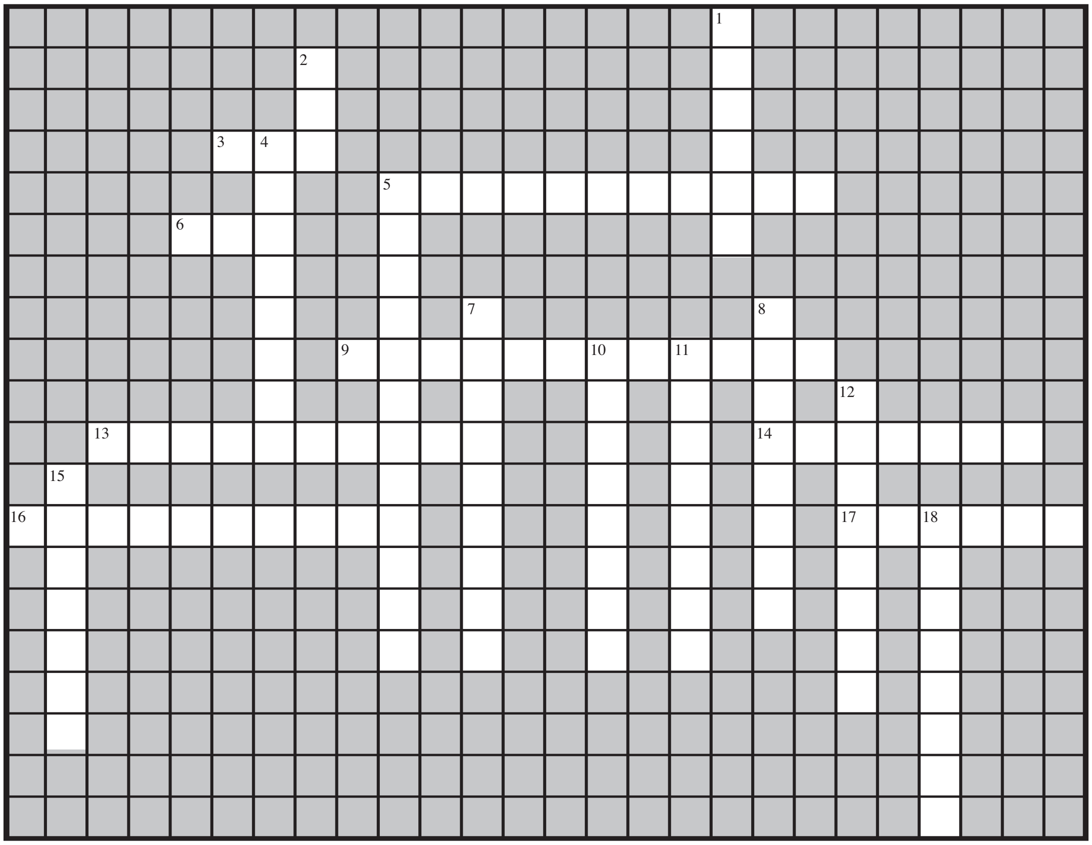
Cal-Prop has developed contacts or abilities that the investor can leverage to assist them in any of these areas. For renovating we are licensed general contractors and have competed five major and a dozen cosmetic renovations over the past two years. We are also in the process of completing three condominium conversions for our current clients. If your property has the potential for full development we have formed a strategic alliance with the number one builder in Pacific Beach and have eight projects under way. Our strategic partner completes both the designing and the building, which is extremely effective, because instead of two sources: architect and contractor you are dealing with one entity.

Please contact Rick Thornton, if you want to explore the benefits of a joint venture.

### *Joint Venture Partners Needed*

I have a strong design/build partner that is looking for investors with $500k to $1m plus to invest in highly profitable new construction. If you are this type of client please contact **Rick Thornton at 858-483-3534 Ext 13.**

# CAL-PROP CROSSWORD PUZZLE




**Down**

1. what's fair
2. highest and best
4. deferred
5. expression of gratitude
7. not the head of the school
8. three most important things (one word)
10. state of curiosity
11. $25 million in 2004 sales by this realtor
12. borrowing
15. every property needs more
18. net income

**Across**

3. its simple
5. third party
6. tenant in common
9. like getting old
13. condominium
14. features
16. hardest part of owning real estate
17. time to open

*For puzzle answers, go to www.cal-prop.com/answers*

## MARKET TRENDS

*Continued from page 2*

different from the person's home city. The second home and the third home phenomenon are affecting San Diego. Many of the new construction absorption is by second and third homebuyers.

### *TIC's (Tenant in Common)*

Up until recently the most common way to purchase large properties with a number of individuals was through a REIT or Real Estate Investment Trusts. These vehicles have a number of drawbacks and limitations such they must push out a certain percentage of their cash flow and Securities Law binds them. Recently TIC's or Tenant In Common properties have become popular. Typically, an investor with a minimum of $100,000 to $1,000,000 to invest joins together with other similar investors and purchases large properties that are often considered A or trophy properties. The advantages are the return on equity and the total elimination of active management. The drawbacks are liquidity, the management group takes large percentages of the profit, exit strategy and buying into markets with which you have limited knowledge. TIC's can be a good vehicle for the right investor.

*Please check out Cal-Prop's new updated web site:*

- Our real-time rental list with photos
- Newsletter archive with newsletters going back to1999

***www.cal-prop.com***

*Continued from page 1*

and lots of parking within eight blocks of the ocean. But it was in extremely poor condition and had not low but extremely low rents. Property C was in teardown condition and again had extremely low rents.

This portfolio represented a great deal of unrealized potential. Dr. X. asked for my recommendations, which were as follows: Property A had to be rehabilitated immediately, and I outlined both — light and full-rehabilitation scenarios. Property B needed minimal rehab but a raise in rents as part of a five-year plan to hold and increase the value of the property. Property C was a teardown, but again represented enormous opportunity under three possible scenarios. In one, the owner could contract with a designer-builder to construct a new property. Two, he could undertake a joint venture with a designer-builder. In option C, he could sell to a developer and complete a 1031 exchange for a newer property.

Dr. X looked at the options and decided upon the following strategy: major rehab on Property A, a light rehab with maximum rent increases for Property B and the sale of property C with completion of a 1031 Tax-Deferred Exchange. The result of these moves was astounding. The major rehab on Property A yielded an increase in net income from $12,000 per year to $42,000 per year as well as a beautifully rehabilitated building that added value to the entire neighborhood. The yearly income of Property B soared from a net of $16,000 per year to $32,000 per year and from then on benefited from the decreased liability that an up-to-date and well-maintained building brings. Property C doubled its net income from $5,000 to $10,000 per year and with these proceeds Dr. X was able to purchase two high-quality, well-located buildings, which in turn increased his personal income very substantially.

### Ms P

Ms P has three properties with 4 units each in Pacific Beach that she had purchased through Cal-Prop in 1991. All three were tremendous locations. She had weathered the storms of the mid-nineties' market and she was about to retire with significant equity. She needed some cash to pay into a long-held retirement plan, which would increase her retirement income stream. The year was 2004 and interest rates were very low. Her variable loans had a 7% floor. Together Ms P and I reviewed all of the options, including selling and paying taxes; selling and carrying paper; converting to condominiums; doing a refinance; and finally doing a re-financing and repositioning of the property into luxury apartments. In the end, Ms P chose the last option. We refinanced, pulled enough equity to perform a buy-up on her retirement plan, and completed a full remodel of the units for $350,000. As a result, her net cash flow on the units skyrocketed from $25,000 per year to $60,000 per year.

*Dr. X looked at the options and decided upon the following strategy: major rehab on Property A, a light rehab with maximum rent increases for Property B and the sale of property C ...The result of these moves was astounding.*

### Retired D

Mr. D has owned his apartments for over 20 years. They are in an extremely good beach location, but are aging rapidly. Mr. D is retired and wants to cut down his involvement in oversight and management. Mr. D. has a very attractive Prop 13 property tax payment and owns the property free and clear. Based on the property's value in today's market, the return based on current equity is 3.25%. After consulting with Mr. D., Cal-Prop assisted Mr. D in selling his buildings to a condominium converter for an extremely attractive price. He also completed an IRS 1031 Tax-Deferred Exchange in a Tenant-in-Common (TIC) property. The TIC yields him and management-free 8% return on his money. TIC's can be found with 7 to 10% return in California and across the country. This is an extremely attractive option for increasing one's wealth, and Mr. D., is presently very happy that he took advantage of the 1031 Tax-Deferred Exchange.

### Entrepreneur T

Entrepreneur T. owned four apartment buildings in Spring Valley, Ocean Beach and City Heights. He had recently purchased a vocational school and wanted to use his equity to purchase a hotel in a unique plan to synergize a training site for the new school and running of the hotel. Mr. T took advantage of the strong market and running of the hotel. Mr. T took advantage of the strong market to sell to condominium converters and sold two buildings, enacting an IRS 1031 Tax-Deferred Exchange.

### Small Business Owner R

Small business owner R and his two brothers received a property in Trust from their father that was free and clear and in an outstanding location. He also owned a house in Clairemont. The four-unit free and clear was placed under Cal-Prop's management, and the net income was maximized. The house had enough equity to provide for a trade-up. A 1031 Tax-Deferred Exchange was utilized. Together we traded their property up to an even better location with a newer building and for an equivalent cash flow. Additionally the newer building had far fewer maintenance issues in its future. Mr. R was very happy with the results.

These real life examples provide a good picture of what Cal-Prop can do for you, whether you have one property or a portfolio of properties. Please feel free to contact Rick Thornton at rickt@cal-prop.com or 858-483-3534 ext. 13. We will systematically evaluate your needs and goals, and devise a strategy that will work for you.

## LEGAL UPDATE

*Continued from page 1*

unit since April of 2002. Under the Ordinance any landlord who attempts to terminate a tenancy shall provide the resident a written notice to quit or terminate which recites the specific grounds as provided by Section 98.0730 of the Ordinance.

The requirements of this ordinance do not apply to agency owned or government subsidized units such as "Section 8" tenancies.

### The "Causes"

Under the new Ordinance, a rental owner or manager must be able to provide that one of the following ten "just cause" reasons as defined by the Ordinance exists before a tenant will be required to vacate the premises.

1. *Nonpayment of Rent.* Rental owners and managers can serve a Three Day Notice to Pay Rent or Quit in the event of the tenant's non-payment of rent.

2. *Violation of Obligation of Tenancy.* The tenant has violated a lawful and material provision of the rental agreement. Rental owners and managers can serve a Three Day Notice to Perform Covenant or Quit in the event the tenant is committing a material breach of the rental agreement.

3. *Nuisance.* The tenant is committing, or permitting a nuisance on the rental premises, or is causing damage to the rental unit or to the common areas of the housing complex, or is creating unreasonable interference with the safety and/or enjoyment of any of the other residents of the housing complex.

4. *Illegal Use.* The tenant is using or permitting the rental unit to be used for an illegal purpose.

5. *Refusal to Renew Lease.* The tenant refuses to execute a written extension of a lease after written request by the rental owner. The written request by the owner or manager must be made within the time frames required under the lease or state law and must offer the tenant a new lease which is similar to the old lease in its duration and its provisions.

6. *Refusal to Provide Access.* The tenant has refused to give the rental owner reasonable access to the rental unit for the purpose of making repairs or improvements, or for the purpose of inspection as permitted or required by the lease or the law, or by the purpose of showing the rental unit to any prospective purchaser or mortgagee. A Three Day Notice to Perform Covenants or Quit may be served by the owner to require the tenant to supply the owner with reasonable dates and times for entry.

7. *Owner or Relative Occupancy.* The landlord, including his/her spouse, parent, grandparent, brother, sister, child, grandchild (by blood or adoption), or a resident manager plans to occupy the unit as their principle residence. (This "cause" was inadvertently left out of the initial ordinance; the city attorney has indicated that this provision will be added.)

9. *Correction of Violations.* The rental owner or manager, after having obtained all necessary permits from the City of San Diego, seeks to recover possession of the rental unit for necessary repairs or construction. The rental property owner or manager must be prepared to prove that the removal of the tenant from the rental unit is reasonably necessary to accomplish the repair or construction work.

10. *Withdrawal of Residential Rental Structure from the Rental Market.* If the rental owner or manager intends to withdraw all rental units, in all buildings or structures on a parcel of land, from the rental market, then the appropriate Notice to Quit may be served.

### Serving the Notice

The notice served, whether it is a Three-Day, Thirty, or Sixty-Day Notice, must state the grounds noted above under which the rental owner is proceeding. In an unlawful detainer action, the tenant may raise as an affirmative defense any violation or noncompliance with the provisions of this Ordinance.

## MAINTENANCE MAN

*Continued from page 12*

$500. Generally this will eliminate condensation problems for this wall.

**8** Inspect and repair roofs yearly. Prevent roof leaks that lead to water damage and mold problems. Most roof leak problems are a confined to a specific area and can be remedied without having to completely re-roof.

**9** Replace bath fans with new fans. Tenants often do not open bath windows to provide ventilation adequate to avoid moisture damage and mold. Bath fans can be found for $20 to $120 depending on the quality you choose to install.

**10** Repairing walkways and steps. Eliminate trip and fall hazards to protect the tenants and protect the owner from legal liabilities.

CAL-PROP MANAGEMENT INC
4406 Bayard Street
San Diego, CA 92109

PRESORT STD.
U.S. POSTAGE
**PAID**
MEDIADIRECT.

## 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 service. We even credit some of the repairs to the commission.

### • Sell Investment Property for Top Value

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.

Call Rick Thornton at (619) 483-3534 ext 13 or e-mail rickt@cal-prop.com

# ASK THE MAINTENANCE MAN!

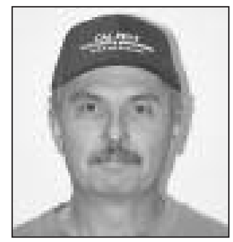
## Top Ten Preventative Maintenance Tips

*Here is a list of inexpensive preventative maintenance tips to utilize in the ongoing care and maintenance of your aging property.*

1 Add a mildew retardant product to your paint when you paint your bathroom. At $3.30 per gallon of paint this is extremely cost effective.

2 Replace angle stops and supply lines while your unit is available during a unit turnover. Each angle stop and stainless steel braided supply line set costs about $13.00 and takes about one hour of labor. The failure of these items can lead to water damage, mold problems and eventual sub-floor replacement. There are new products available such as the quarter turn valve design, that are much more durable and reliable. If these items are replaced it facilitates the efficiency of future plumbing repairs.

3 Inspect gas furnaces and appliances yearly. San Diego Gas and Electric provides free inspections each year in the fall. This can prevent fires, asphyxiations and other major disasters.



*Joe Trudeau*
*Senior Maintenance Foreman*

4 Check smoke detectors annually. A replacement battery costs $2.50 and a new detector costs from $10.00 to $25.00. We typically put in the more expensive model because they last about five years. The cheaper models can need replacement every one or two years therefore the life cycle cost of the more expensive unit is less.

5 Install tub drain screens wherever possible particularly if the tub no longer has a drain screen. Helps prevent drain stoppages. A rubber drain screen costs $2.00.

6 Check and install window and sliding door locks. This helps discourage theft and assaults. This was a new law passed a few years ago so you want to be in compliance.

7 Insulate exterior walls. This is less expensive than you think. If you have moisture problems on a specific wall, it's usually a north wall; you can inject insulation for $300 to

*Continued on page 11*