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January 6, 2016

Dear Valued Client:

On behalf of our staff we sincerely hope you had an enjoyable holiday season and are looking forward to the New Year.

Attached are your reports for December 2015. They contain all the income we received and expenses we incurred on your behalf for the period August through December 2015. Your July reports should have the 1st 7 months' worth of data for 2015. Both reports should be provided to your tax preparer for inclusion in the computation of your 2015 taxes along with the IRS Form 1099 which we will send you later this month. The reason you have to use two reports is because we changed software programs in August and it was not possible to bring forward the individual line-item balances. For those properties receiving 1099's or 1096's (or similar forms) from the Housing Authorities (for Section 8 tenants) or mortgage companies (for those properties we pay the mortgage), we will send them to you as soon as they are received.

Although the rental market slowed considerably in the last couple of months (who wants to move just before the Holidays?) we are hopeful about 2016. Overall, and discounting the holiday period, the rental market appears pretty strong. We will continually look at current rental rates, tenant leases, and the overall market and, as appropriate, look to raising rents and renewing leases in 2016. Please let us know if you DO NOT want us to raise rents or sign new leases with your tenants. Also, please understand that if you decide to sell your property or do something else with it, if your tenant is on a lease, the lease takes precedent over a sale. For tenants on a month-to-month tenancy (typically after their initial lease expired), we usually have to give them a 60-Day Notice. For Section 8 tenants, a 90-Day Notice is required. Conversely, tenants, on a month-to-month tenancy, only have to give us a 30-Day Notice.

A quick note about new laws and rules for 2016 and beyond, and their impact on your property. All new smoke detectors and CO alarms must now have 10 year batteries. That includes all "turns" and other major renovations. Also, by January 1, 2019, ALL toilets must be low-flow. This typically applies to older houses/condos/apartments (e.g., those built before 1994.) We also have higher efficiency requirements for new water heaters and higher SEER ratings for HVAC replacements. These new mandates will increase your maintenance expenses. Period. If we can fix the water heater or HVAC at a reasonable cost we'll usually recommend that but in many cases parts aren't available and replacement is the only option. The toilet upgrades are required; the battery, water heater, and HVAC requirements are only for replacements. The battery issue is also required for all turns.

For the low-flow toilet requirements, during the next 2-3 years we will look at installing the low-flow toilets when we have major plumbing repairs or during a turn. For example, for properties with 2 bathrooms, we may replace one toilet during a turn and then track the 2nd toilet for replacement as it gets close to the mandatory dates (January 1, 2017 for single family houses and January 1, 2019 for apartments.)

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Another issue that's become a hot button in the Fresno area is vacant, boarded up, and non-maintained properties. The City of Fresno recently passed a new building ordinance dealing with vacant buildings. Properties in certain areas require the boarding up of doors and windows to prevent break-ins during the time they are vacant. This is becoming a bigger issue as the weather turns cold. There have been fires (including some deaths) and other VERY HIGH visibility activities occurring at these vacancies. We used to be able to board-up the properties with plywood. No longer. The City now forbids plywood and requires clear Plexiglas coverings on all doors and windows that are visible from the street. The cost of the Plexiglas is significantly higher than the plywood. The boarding up of the property also makes it more difficult for our leasing agents to show the property. With a boarded up property we must have a maintenance person available to open up the unit to show. Again, this only applies to properties in certain areas.

The other hot button involves non-maintained properties, or at least the perception of it. A large apartment complex recently lost gas (for hot water & heat) for over a month due to the deterioration of the gas lines. During the follow-up investigation many other code violations were found. The overwhelming majority were never reported by the tenants. Regardless, the owner was painted as a slum-lord and vilified in the press and public opinion. The point is that we cannot afford to delay repairing habitability issues. The press is primed to jump on any actual or perceived instances of landlords not fulfilling their obligations. Enough said.

We're optimistic about the future and specifically about the state of the rental market in this area. Contrary to the hue and cry of some of the local tenant organizations, the Central Valley continues to have some of the most affordable housing in the region. The issue isn't "affordable housing" as much as the ability of residents to find and retain decent jobs. Again, we'll continue to monitor our rental rates and adjust as necessary to fill vacancies and solicit/retain decent tenants.

We appreciate your referrals and I again thank you for your business and pledge to continue to manage your property as if it were my own. On behalf of our staff we wish you and yours a very Happy New Year. We hope 2016 is a healthy, happy, safe and prosperous year for all!

Please call or email me if you have any questions.

Sincerely,

Terry A. Fox, CPM®

Owner/Broker

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Enclosures

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