LIVING LEGACY
FINANCIAL & INSURANCE SERVICES

Business Owner Newsletter

WHEN TENANTS STOP PAYING

What California landlords need to know about nonpayment, evictions, and protecting your rental income

Even in a post-pandemic world, nonpayment of rent remains a leading issue for landlords. In 2026, eviction procedures are still tightly regulated and one mistake can delay recovery for months or worse, lead to liability.

Changed Rules for No-Fault Evictions & Just-Cause Requirements

- Under the continuing statewide protections (for example tied to AB 1482's just-cause eviction and rent cap provisions), landlords need a valid "just cause" reason to evict tenants after 12 months of tenancy, even when not for non-payment.
- For no-fault evictions such as owner move-in or withdrawal from the rental market (or substantial renovations), strict procedural requirements must be met — notices, documentation, timing or the eviction may be challenged successfully by the tenant.
- As a result, many landlords find no-fault evictions more difficult especially if there are local ordinances overlaying additional requirements.

What this means for you: Before serving a no-fault or just-cause eviction notice (or non-renewal) review local and state law carefully. Ensure you have a legitimate basis, document thoroughly, and follow correct notice and timing procedures.

Required Disclosures, Procedural Compliance & Updated Forms

- Formal eviction filings must comply with updated requirements (notice forms, complaint forms, service rules, response-time windows) under AB 2347 and related statutes.
- If you fail to use the correct forms, properly serve notices, or provide required disclosures (e.g. under rent-control/tenant-protection laws), the case may be dismissed or subject to tenant defense extending the time and cost for you.
- In some cases, tenants may use procedural motions (demurrers, motions to strike) to challenge the complaint's validity which must be heard quickly (often within days), but nonetheless may delay the process further.

What this means for you: Check now that you (or your property manager) have updated your lease forms for compliance with local and state tenant protection laws. You must review your eviction notice templates, understand current timing and service requirements, and use the correct statutory forms. Non-compliant leases and notices can cost weeks or months.

Extended Court Response Times for Tenants

- Under AB 2347 (effective January 1, 2025), tenants now have 10 business days (instead of 5) to respond after being served with an unlawful-detainer (eviction) complaint.
- That extra time gives many tenants a better opportunity to prepare a defense, which means more contested cases — and longer wait times before you can obtain possession.
- If the complaint is served by mail (or through certain protected-address programs), tenants may get additional days beyond the 10.

What this means for you: Don't expect the old fast-turnaround. Plan for longer timelines, possibly budget for extended vacancy periods, and be prepared for a higher likelihood of contested hearings.

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DEALING WITH COMPLEX CO-OWNERSHIP SETUPS

Co-owned businesses come with numerous complexities. One of the biggest challenges for co-owners is determining how to approach the exit of another co-owner, especially when that co-owner cannot or will not exit gracefully.

Let's look at a fictional but representative story about how one co-owned business successfully managed to tie up loose ends before one owner was forced to exit.

Ominous Signs

Frances Nguyen and Frank Billings had been equal co-owners of their business for over 50 years. They each leveraged the other's strengths to cover for their weaknesses. But recently, Frances began to recognize concerning signs in Frank's behavior that she had seen in her own family before.

He was increasingly forgetful and easily agitated, despite his normally even-keel personality. Frank's typical punctuality had begun to turn into lateness and even absence from important meetings.

Though it was difficult, she urged Frank to visit a doctor, something he had not done since they founded the business together. After several batteries of tests, Frank's doctors confirmed Frances's fears: Frank was showing early signs of dementia.

Frank still had the lucidity to understand how his diagnosis affected more than just him. The business relied on both Frank and Frances to function, and up to that point, they had had no plans to change that setup.

Though they kept the news quiet among their employees, Frank and Frances began to plan for a future without Frank. Their problem was that they had no idea where to start.

Remember Me

Frank had always wanted to be remembered as an owner that his employees loved working for. But without a plan for the business to run without him, his legacy was in doubt.

Frank and Frances met with their Advisor Team to determine what they should do with the business to keep it running well despite Frank's declining health.

Their Exit Planning Advisor, Chuck, asked them a question that got to the heart of the matter: "What is your worst fear about this situation?"

Both answered simultaneously: "Our employees will abandon ship if they knew one of us was in trouble."

"I fear that more than I fear dying," Frank added.

"We know that we treat our people well and support their lifestyles better than any of our competitors," Frances said. "We don't want them to think that we can no longer do that."

"And I don't want to be remembered as someone who let my people down," Frank said.

Chuck laid out an overarching plan that he thought would fulfill the three biggest needs that Frank and Frances had:

Ensuring that Frank could exit the business and tend to his health without having to worry about his finances.

Keeping the business running well and employees happy after Frank left.

Positioning Frances to eventually exit smoothly on her terms.

Protecting the Legacy

The first step they took was determining how to replace Frank. Frances was both unwilling and unable to take over Frank's role. She also worried how employees would respond if they began hiring outsiders to take on more responsibilities. And she wasn't sure that any single person within the company could replace Frank.

Their Advisor Team reassured them that they did not need to necessarily find one person to replace Frank. Instead, they recommended building a management team that could take over Frank's responsibilities seamlessly.

Frank and Frances worked closely with the Advisor Team to identify potential candidates for management internally. When they realized that they would need more than internal employees to replace Frank, they extended their search outside the company.

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At this point, it was impossible to keep Frank's health a secret. But much to their surprise, Frank and Frances found that their employees were supportive of their decisions because they communicated the situation so clearly with help from their Advisor Team.

After establishing a next-level management team to replace Frank, the Advisor Team worked to ensure that Frank could maintain a pay structure that would support his health care needs even after he left the business.

Then, the Advisor Team helped Frank leverage both his income and personal finances to ensure that he was as comfortable as possible as he transitioned out of the business.

Finally, at Frances's urging, the Advisor Team helped set up an additional fund through the business that would support Frank's family as his health declined.

Silver Linings

With help from her Advisor Team, Frances managed to onboard and train the next-level managers who would take over for Frank. These managers successfully maintained the company's performance. This positioned Frank to ease his way out of the business without disrupting operations. But there were bumps in the road.

Frank's health declined more quickly than anyone had anticipated. Some business relationships that Frank had fostered over 50 years deteriorated in the near term: During the transition, the business lost two of its 10 largest clients.

And just when things seems like they couldn't get worse, Frank suffered a debilitating stroke in the middle of their planning.

But because they had established the foundation of an Exit Plan, the business did not fail. Though it was rough sailing in the months immediately following Frank's stroke, the next-level management team helped the company pull through and begin growing again. Frances continued to run her portion of the business while her next-level managers purchased shares of Frank's ownership.

Frances maintained majority ownership, per Frank's wishes. And the next-level managers continued to perform so well that Frances could begin planning her exit on her terms.

Start Before It's Too Late

Like Frank and Frances, many business owners react to situations instead of tackling them proactively. And it's understandable: Nobody thinks something terrible is going to happen to them until it happens to them.

But for co-owned businesses, a failure to have a plan can reverberate throughout the entire company. Fortunately, you can begin planning for a co-owners unexpected exit before it's too late.

Though the transition wasn't perfect, Frank and Frances managed to make a bad situation into a situation that they could overcome. With help from their Advisor Team and next-level managers, they were able to begin transitioning Frank out of ownership without disrupting company operations and employee morale.

There were certainly rough times, but Frank and Frances's planning protected the company's operations, eventually led to even more growth, and fulfilled Frank's wish to be remembered as an owner that employees loved to work for.

We strive to help business owners identify and prioritize their objectives with respect to their businesses, their employees, and their families. If you have questions on this topic, we can help with more information or a referral to another experienced professional.

MEET OUR TEAM

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