

9-1979

Condominium Conversions in the Bay Area

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CONDOMINIUM CONVERSIONS

IN THE BAY AREA

A Report to the Association of Bay Area Governments
and the Department of City and Regional Planning in
Partial Fulfillment of the Requirements for the
Degree of Master of City Planning

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September, 1979

EXECUTIVE SUMMARY

The conversion of rental apartments to condominium ownership has become a growing phenomenon throughout the San Francisco Bay Area.

- As of June, 1979 a total of 20,320 condominium conversions had been approved by local planning departments in the Bay Area.
- Conversion activity is widespread; eight of the nine counties and 45 of the 92 cities in the Bay Area reported some conversion activity.
- The recent growth in the number of conversions has been explosive; the yearly total has doubled each year since 1975 and the 7,390 units approved in the first half of this year is already nearly twice the total for all of last year.
- Conversions represent 1.14% of all occupied housing units, but nearly 37% of all condominium units in the Bay Area.
- Condominium conversions have drastically affected some local housing markets particularly in suburban areas, where rental housing is scarce in relation to for-sale housing; conversions represent 10% or more of the rental stock in at least 13 cities in the Bay Area.
- The erosion of the rental housing stock through conversion to condominiums is heightened by the low level of multifamily construction and the shift to construction of new condominium units.
- It appears that conversion activity in central city markets has grown out of the shortage of rental apartments at prime locations; while in suburban markets, conversions have grown out of the shortage of affordable for-sale housing.

The trend toward conversion to condominiums has grown out of the increasing demand for condominium ownership and the declining profitability of rental apartments.

- Factors affecting the increasing demand for condominium ownership include: changes in household formation and the average size of households, increased household incomes and employment, the increased proportion of "empty-nesters" and retired persons, the maturing of the "baby boom" generation, rising housing costs, and changes in tastes and preferences.
- Factors affecting the declining profitability of rental apartment ownership include: rising operating expenses, rent controls, and changes in tax laws.

- Advantages to the converter include: entrepreneurial opportunities, low acquisition prices relative to new construction, avoids restrictions on new construction, higher market values, and the opportunity to "cash-out".
- Advantages to purchasers include: tax deductions, equity appreciation, security of tenure, relatively low purchase prices, convenience and ease of maintenance, and amenities.

Regulation of condominium conversions has become a growing concern among local policy makers.

- At least 39 jurisdictions in the Bay Area have already adopted specific condominium conversion ordinances, while 18 others are currently in the process of drafting conversion controls.
- Provisions adopted to protect tenants include: notification of tenants, control of rent increases during conversion, tenant consent to conversion, and public hearings on conversion requests.
- Provisions adopted to assist in tenant relocation include: termination of tenancy, lease extensions, relocation assistance, and reimbursement of moving expenses.
- Provisions adopted to upgrade buildings include: compliance with all current codes, improvement of the property for ownership, and design review.
- Provisions adopted to protect purchasers include: preparation of building reports, submission of organizational documents, warranties and a "cooling-off" period at purchase.
- Provisions adopted to facilitate homeownership include: discounts to tenant purchasers, reserve units for low and moderate income households, and downpayment assistance.
- Provisions adopted to protect the rental stock include: prohibiting conversions when the vacancy rate falls below a certain percentage and limitations on the number of applications for conversion accepted.

The shift of rental apartments to condominium ownership is likely to continue and to increase in the future.

- Intervention by policy makers in the housing market to regulate the rate of conversion necessitates a system of monitoring changes in the housing supply and the manner in which the existing stock is allocated into submarkets.
- The data requirements for such a monitoring system include: the number of occupied rental apartment units, new construction, removals and vacancies by rent level and unit size.
- Closer monitoring of changes in the housing market would allow local authorities to regulate the rate of conversion and alleviate its impact in specific submarkets and therein on vulnerable tenant groups.

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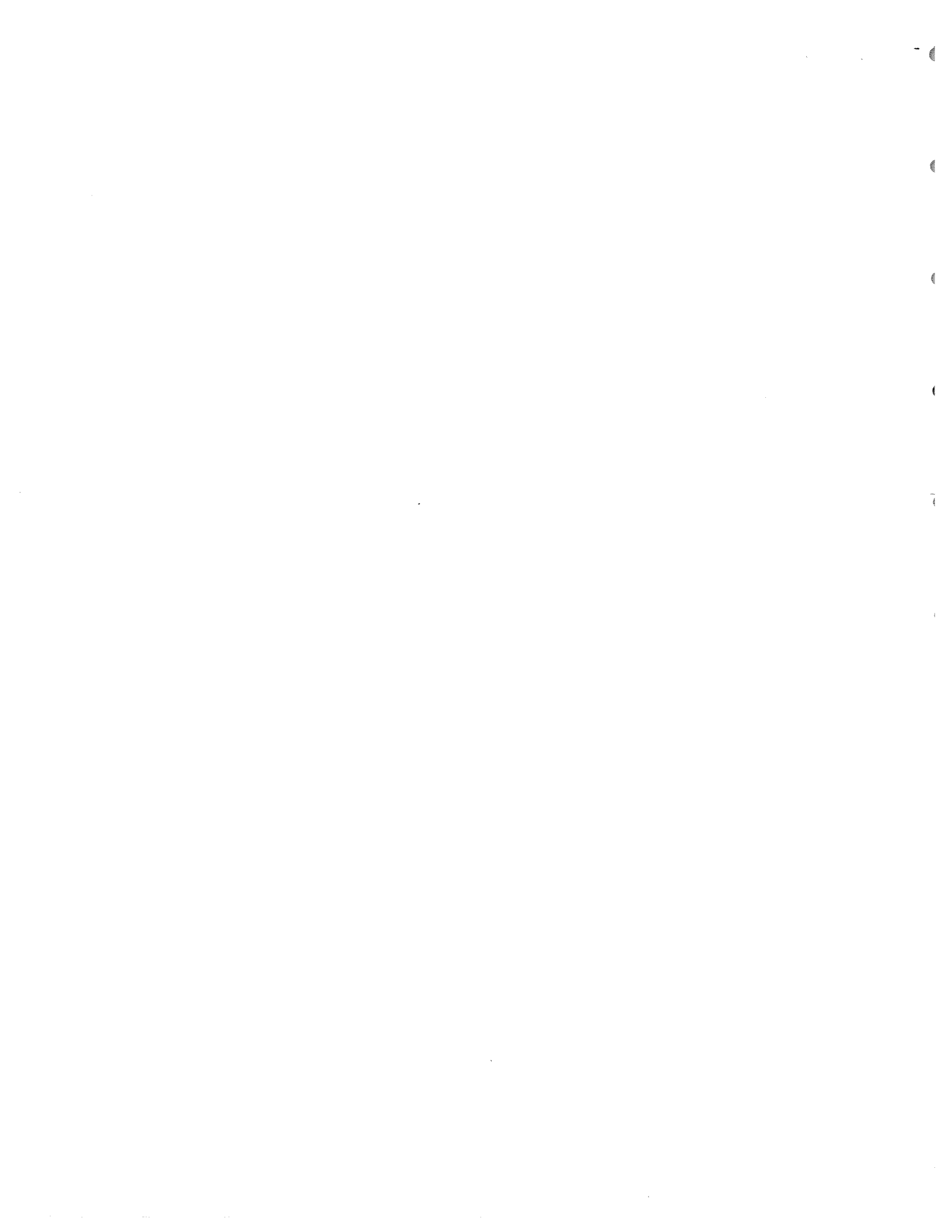
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INTRODUCTION

Scope of the Report

The conversion of rental apartments to condominium ownership has become a growing phenomenon and a major policy issue throughout the Bay Area. Condominium conversions have increased dramatically in recent years, reflecting both a growing and unsatisfied demand for ownership and a mounting crisis in the rental housing market.

Controversy has surrounded the rise in conversion activity as conversions have reduced the supply of rental housing at a time of critically low vacancy rates and depressed levels of new construction in many cities throughout the Bay Area. The conversion process also has generated further problems of tenant displacement and relocation which have begun to command attention from local policy makers. A number of cities have recently enacted special legislation to regulate conversions within their jurisdictions.

This report provides information on condominium conversions as background for further policy making. It is designed to respond to requests from local jurisdictions throughout the Bay Area for information to assist in considering legislation dealing with conversions. It contains a compilation of available data on condominium conversion activity throughout the nine counties and 92 cities in the San Francisco Bay Area; an analysis of the factors which have led to the rapid rise of conversions; and a review of

INTRODUCTION

local regulations governing conversion activity in the Bay Area, with a proposal for a system designed to monitor the effect of conversions on the housing market.

Background of Condominium Ownership

The term, "condominium", defines a form of multiple ownership of real property involving the separate individual ownership of units within a development and the joint ownership of the common elements. Condominium is a Latin word combining dominium or "control" (over a piece of property) and con or "with" (other individuals). As a form of ownership, condominiums have existed for nearly 4,000 years. The earliest known record of a condominium has been traced to Babylonian documents dated to 2000 B.C.¹ Condominium ownership existed in ancient Rome and also was common in Europe during the Middle Ages.²

Legal recognition of the condominium form of ownership has been a relatively recent development in the United States. The traditional abundance of land available for individual detached homes forestalled the adaptation of the condominium concept in the U.S. until the late 1950's and early 1960's when the problems of suburban sprawl and the need to provide for a more efficient use of land became apparent. Puerto Rico in 1958 and Hawaii in 1961 were the first American jurisdictions to enact legislation authorizing the creation of condominiums.³ The enactment of subsequent state statutes was spurred by Congressional adoption in 1961 of Section 234 of the Federal Housing Act, which authorized the Federal Housing Administration (FHA) to insure mortgages for condominiums in states where this form of ownership was legally recog-

nized.⁴ To facilitate the use of this insurance provision, the FHA drafted and circulated a "Model Statute for the Creation of Apartment Ownership", which served as a pattern for a number of state condominium statutes.⁵ By 1968, all 50 states and the District of Columbia had adopted some form of enabling legislation for condominium ownership.

The statutes adopted by most states established requirements for the creation and termination of condominiums, focusing primarily on legal issues of concern to real estate and financial interests. Most of these "first generation" condominium statutes preceded any substantial development or experience in selling condominium units and contained few provisions designed to protect purchasers. The impact of condominiums was not felt until the mid-1970's. In 1970, there were only about 85,000 condominium units in the entire country. By 1975, there were approximately 1.25 million units.⁶ But as condominium construction boomed, a number of problems including sales misrepresentation, poor quality construction and homeowners association operating problems began to emerge.⁷ Many jurisdictions were prompted to enact amendments to their basic condominium statutes and broaden existing regulatory schemes to impose stricter consumer protection requirements on the development and sale of condominium projects. The recent phenomenon of converting existing rental apartments to condominiums has generated further problems and has begun to evoke a similar response in many cities.

Definitions

California enacted enabling legislation for condominiums

in 1963. The statutory definition of a condominium is found in Section 783 of the California Civil Code.

Sec. 783 Condominiums. A condominium is an estate in real property consisting of an undivided interest in common in a portion of a parcel of real property together with a separate interest in space in a residential, industrial, or commercial building or real property, such as an apartment, office or store. A condominium may include in addition a separate interest in other portions of such real property. Such estate may with respect to the duration of its enjoyment, be either (1) an estate of inheritance or perpetual estate, (2) an estate for life, (3) an estate for years, such as a leasehold or subleasehold.

Individuals own their unit in fee simple and the common areas of the condominium project as tenants in common. Condominium units are defined as the airspace encompassed by the interior walls, ceilings and floors. The common areas are the balance of the structure including the supporting walls, corridors, stairways, elevators, roof, foundation and structural parts along with the underlying land and any common facilities within the development. Normally, a homeowners association is formed of the individual unit owners to operate and maintain the common areas.

Other similar forms of multiple housing ownership are defined in the California Business and Professions Code.

Sec. 11003 Planned development. A planned development is a real estate development, as defined in Section 11003.1 of this code, other than a community apartment project as defined in Section 11004 of this code, a project consisting of condominiums as defined in Section 783 of the Civil Code, or a stock cooperative as defined in Section 11003.2 of this code, having either or both of the following features:

(a) Any contiguous or noncontiguous lots, parcels or areas owned in common by the owners of the separately owned lots, parcels or areas consist of areas or facilities the beneficial use and enjoyment of which is reserved to some or all of the owners of separately owned lots, parcels or areas;

(b) Any power exists to enforce any obligation in connection with membership in the owners association as described in Section 11003.1 of this code, or any obligation pertaining to the beneficial use and enjoyment of any portion of, or any interest in,

either the separately or commonly owned lots, parcels or areas by means of a levy or assessment which may become a lien upon the separately owned lots, parcels or areas of defaulting owners or members, which said lien may be foreclosed in any manner provided by law for the foreclosure of mortgages or deeds of trusts, with or without a power of sale.

Sec. 11003.2 Stock cooperative. A stock cooperative is a corporation which is formed or availed of primarily for the purpose of holding title to, either in fee simple or for a term of years, improved real property, if all or substantially all of the shareholders of such corporation receive a right of exclusive occupancy in a portion of the real property, title to which is held by the corporation, which right of occupancy is transferable only concurrently with the transfer of the share or shares of stock in the corporation held by the person having such right of occupancy.

Sec. 11004. Community apartment projects. A community apartment project in which an undivided interest in the land is coupled with the right of exclusive occupancy of any apartment located thereon is subject to the provisions of this part.

Condominiums are often confused with these other hybrid forms of ownership which also incorporate elements of both traditional single family housing and rental apartments. The major difference between a condominium and a planned development is that the underlying land is owned in common in a condominium, while in a planned development both the structure and land are owned separately by the unit owners. Condominiums are further distinguished from cooperatives as owners hold exclusive title to their units as opposed to shares in a corporation which permits them to occupy their unit. Condominium ownership involves a separate divided interest in an individual unit, which distinguishes it from ownership of an undivided interest in a community apartment project with only the right of exclusive occupancy of a unit within the project. Table i-1 summarizes some important distinctions and compares the various forms of multiple housing ownership.

A condominium conversion is a change in the form of owner-

TABLE i-1
COMPARISON OF OWNERSHIP FORMS

	TRADITIONAL SINGLE FAMILY HOUSING	PLANNED DEVELOPMENTS	CONDOMINIUMS	STOCK COOPERATIVES	COMMUNITY APARTMENTS	RENTAL APARTMENTS
INTEREST IN UNIT	Exclusive ownership	Exclusive ownership	Exclusive ownership	Exclusive occupancy	Exclusive occupancy	Exclusive occupancy
INTEREST IN LAND/BLDG	Exclusive ownership	Exclusive ownership	Undivided interest in common	Share of corporation having owner- ship	Undivided interest in common	Non- exclusive use
INTEREST IN COMMON FACILITIES	Not applicable	Non- exclusive use	Undivided interest in common	Share of corporation having owner- ship	Undivided interest in common	Non- exclusive use
HOUSING FORM	Detached units	Detached units Townhouses	Adaptable to all forms	Adaptable to all forms	Adaptable to all forms	Adaptable to all forms
FINANCING	Individual mortgage held by owner	Individual mortgages held by unit owners	Individual mortgages held by unit owners	Single mort- gage held by corporation	Single mort- gage held in common by co- owners	Single mort- gage held by owner
TAX ASSESSMENT	Separate individual assessments	Separate individual assessments	Separate individual assessments	Single assessment on entire property	Single assessment on entire property	Single assessment on entire property
TRANSFER OF INTEREST	Unrestricted	Unrestricted	Usually unrestricted	May be sub- ject to shareholders' right of first refusal	May be sub- ject to co- owners' right of first re- fusal	Subject to lease terms

ship of an existing structure built for rental purposes from ownership by a single legal owner to ownership by many separate individual legal owners as a condominium project. Such a conversion involves both a change in the ownership of the entire development and a shift in the tenure of the individual housing units from rental to ownership status. New multiunit residential structures planned and built as condominium projects involve a change in ownership from one owner or developer to many individual owners as units are sold to purchasers, but do not involve a shift in the tenure of units from rental to ownership status. In some instances, projects originally planned as condominiums have reverted to rental apartments due to slow sales and high foreclosure rates.⁸ Such projects are not considered condominium conversions and are not specifically the subject of this report.

Outline of the Report

The remainder of this report is divided into three major sections.

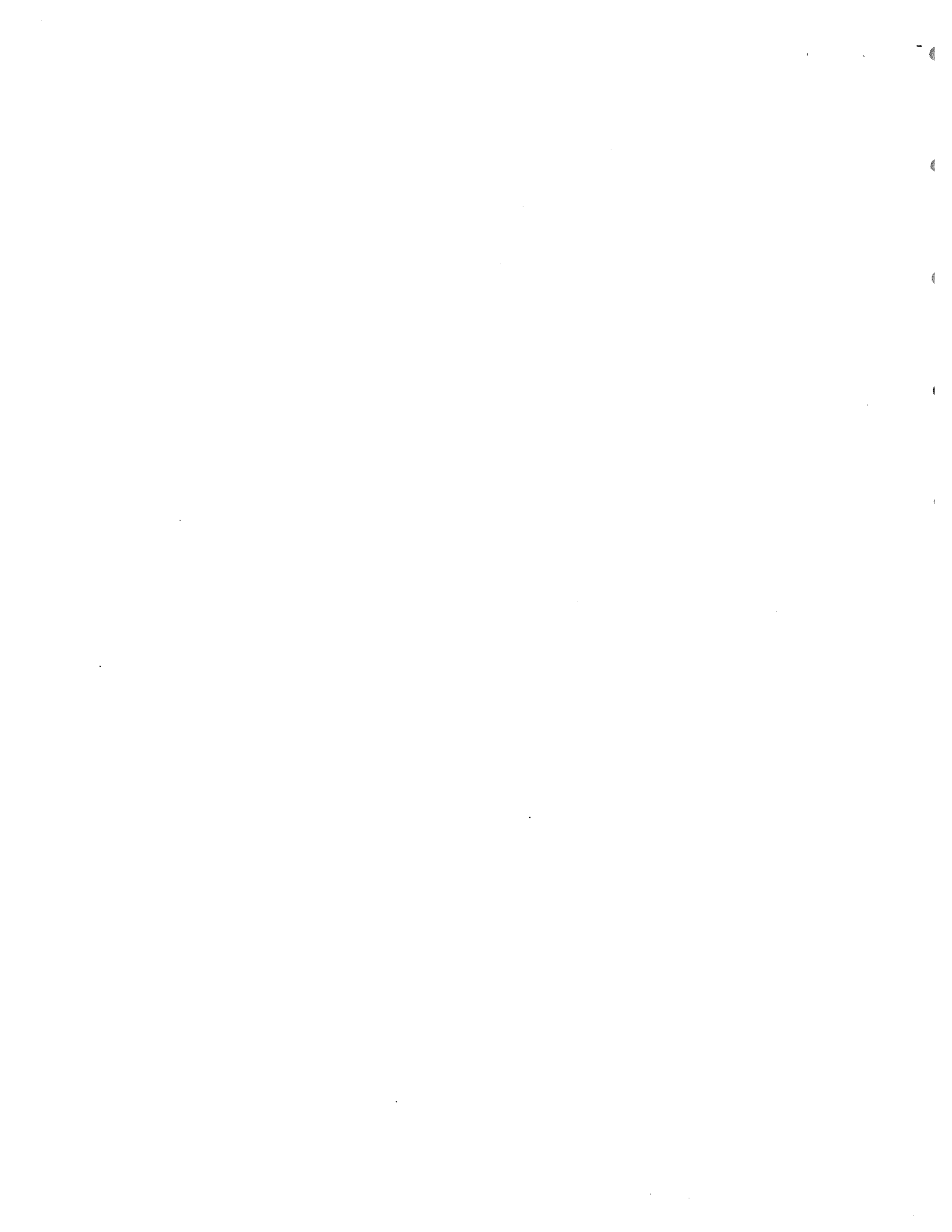
Section I provides a profile of condominium conversion activity in the Bay Area. It consists of a compilation of available data on the number, distribution, rate and impact of conversions in the region. Two general types of conversion markets are identified, based on more detailed data and studies of conversions conducted by cities. San Francisco typifies an older central city market where conversions grow out of the shortage of available rental housing at prime locations in the city. Palo Alto depicts a newer suburban market where the lack of affordable for-sale hous-

ing has spurred conversions.

Section II focuses on the economics of conversions. It outlines the broad socioeconomic changes and factors affecting the housing market which underlie the trend toward conversions. It also details the economic motivations of both the converter and purchaser.

Section III reviews local legislation enacted by cities in the Bay Area to regulate conversions. It outlines the legal framework for local regulation of condominium conversions, then reviews local conversion ordinances adopted by jurisdictions in the region.

The report concludes by offering a framework for organizing data into a system to monitor changes in the housing market and to regulate more precisely the rate of conversion.



SECTION I

CONDOMINIUM CONVERSION ACTIVITY

CONDOMINIUM CONVERSION ACTIVITY

Number of Conversions

There is little data available on condominium conversion activity. Condominium ownership is a relatively recent development in the housing market for which data is scarce. Census data and other traditional sources of housing statistics are of limited value in characterizing condominiums. The number of condominium units included in the 1970 Census represents only a fraction of the units in the current inventory and there is no indication of the number of units originally constructed as condominiums and those converted from rental apartments.⁹

While there is little precise data available, the rapid growth in the number of conversions is clear. The total number of condominium conversions in the U.S. was estimated at approximately 100,000 units in 1975.¹⁰ Recent estimates indicate that over 50,000 units were converted in 1977 alone; 100,000 units in 1978; and 130,000 units are projected for conversion in 1979.¹¹ Table I-1 lists estimates of conversion activity in various markets throughout the U.S.

Local planning departments in the nine counties and 92 cities throughout the San Francisco Bay Area were surveyed in order to determine the extent of condominium conversion activity in the region. Condominiums are considered subdivisions in California and developers intending to convert rental apartments to condomin-

TABLE I-1

CONDOMINIUM CONVERSION ACTIVITY NATIONWIDE

<u>CITY</u>	<u>1977</u>	<u>1978</u>	<u>1979</u>
Atlanta	0	200	1-2,000
Boston	NA	3,000	2,000 (since 1973-8,000)
Chicago	16,000	24,000	24-27,000
Dallas	1,000	4,000	6-8,000
Detroit	0	1,000	2,500
Houston	8,000	4,000	1,500
Los Angeles/Orange County	1,000	3,000	7,000 (since 1973-9,000)
Miami/Fort Lauderdale	NA	2,000	2,000
Minneapolis/St. Paul	1-1,500	2,000	3,000
New York, city	500	500	4,000 (condominiums)
	10,000	20,000	30,000 (cooperatives)
New York, suburban	500	500	4,000 (condominiums)
	500	3,000	4,000 (cooperatives)
Philadelphia	0	500	2,000
Phoenix	0	1,000	2,000
San Diego	1,000	2,000	3,000 (since 1973-4,500)
San Francisco/Oakland	1,500	2,000	2,000 (since 1973-8,000)
Seattle	1,000	4,000	2,000
Tampa/St. Petersburg	NA	2,500	5,000
Washington, D.C.	1,000	2,500	5,000
Washington, suburban	3,000	5,000	7,000
TOTAL NATIONWIDE	50,000	100,000	130,000+

SOURCE: "Undocumented Boom: Conversions Doubled in 1978", U.S. Housing Markets, Advance Mortgage Corporation, April 20, 1979.

iums are required to prepare and submit a tentative map for review by local officials in accordance with the Subdivision Map Act of the State of California.¹² Although the number of tentative maps approved by local planning commissions does not exactly coincide with actual conversions because of cancellations due to lack of demand, financial difficulties and other problems, the data does give important insights into the conversion phenomenon in the Bay Area.¹³

As of June, 1979 there were a total of 20,320 condominium conversions in the Bay Area, based on data received from local planning departments.¹⁴

Distribution of Conversion Activity

Condominium conversion activity is widespread, as conversions have occurred in eight of the nine counties and in at least 45 of the 92 cities in the Bay Area. Conversion activity is particularly extensive in five counties--Alameda, Santa Clara, Contra Costa, San Francisco and San Mateo. Approximately 87% of all condominium conversions in the region have been concentrated in these five counties. Only Napa County has not experienced any conversions to date. Table I-2 details the current inventory of condominium conversions and their distribution in counties and cities throughout the Bay Area.

Approximately 66% of all conversion activity has been concentrated in 10 cities. San Francisco and Oakland are major markets, however condominium conversions are not strictly a central city phenomenon. Suburban areas such as Mountain View, San Mateo, Walnut Creek, Concord, Santa Clara and Larkspur have experienced

TABLE I-2

CONDOMINIUM CONVERSION INVENTORY - JUNE, 1979

<u>CITY/COUNTY</u>	<u>NUMBER OF PROJECTS</u>	<u>NUMBER OF UNITS</u>	<u>PERCENT OF TOTAL</u>
ALAMEDA COUNTY	83	4,907	24.15%
Alameda	0	0	.00
Albany	3	28	.13
Berkeley	NA	253	1.25
Emeryville	1	1,249	6.15
Fremont	6	520	2.56
Hayward	3	166	.82
Livermore	1	124	.61
Newark	0	0	.00
Oakland	65	2,226	10.96
Piedmont	0	0	.00
Pleasanton	NA	NA	NA
San Leandro	3	95	.47
Union City	NA	208	1.03
Unincorporated areas	1	38	.19
CONTRA COSTA COUNTY	50	3,776	18.58%
Antioch	0	0	.00
Brentwood	0	0	.00
Clayton	0	0	.00
Concord	15	892	4.39
El Cerrito	0	0	.00
Hercules	0	0	.00
Lafayette	0	0	.00
Martinez	0	0	.00
Moraga	5	109	.54
Pinole	2	180	.89
Pittsburg	NA	18	.09
Pleasant Hill	NA	400	1.97
Richmond	1	3	.02
San Pablo	0	0	.00
Walnut Creek	15	1,175	5.78
Unincorporated areas	12	999	4.92
MARIN COUNTY	50	1,625	8.00%
Belvedere	0	0	.00
Corte Madera	2	35	.17
Fairfax	0	0	.00
Larkspur	25	695	3.42
Mill Valley	NA	NA	NA
Novato	3	201	.99
Ross	0	0	.00

<u>CITY/COUNTY</u>	<u>NUMBER OF PROJECTS</u>	<u>NUMBER OF UNITS</u>	<u>PERCENT OF TOTAL</u>
MARIN COUNTY			
San Anselmo	0	0	.00
San Rafael	5	282	1.39
Sausalito	13	114	.56
Tiburon	NA	220	1.08
Unincorporated areas	2	78	.38
NAPA COUNTY			
Calistoga	0	0	.00
Napa	0	0	.00
St. Helena	0	0	.00
Yountville	0	0	.00
Unincorporated areas	0	0	.00
SAN FRANCISCO COUNTY	107	2,283	11.24%
SAN MATEO COUNTY	59	2,231	10.98%
Atherton	0	0	.00
Belmont	2	264	1.30
Brisbane	1	20	.10
Burlingame	0	0	.00
Colma	0	0	.00
Daly City	NA	NA	NA
Foster City	0	0	.00
Half Moon Bay	0	0	.00
Hillsborough	0	0	.00
Menlo Park	6	253	1.25
Millbrae	7	133	.66
Pacifica	NA	NA	NA
Portola Valley	0	0	.00
Redwood City	6	113	.56
San Bruno	0	0	.00
San Carlos	0	0	.00
San Mateo	33	1,201	5.91
South San Francisco	2	195	.96
Woodside	0	0	.00
Unincorporated areas	2	52	.26
SANTA CLARA COUNTY	60	4,474	22.02%
Campbell	NA	NA	NA
Cupertino	1	84	.41
Gilroy	4	142	.70
Los Altos	6	69	.34
Los Altos Hills	0	0	.00
Los Gatos	2	84	.41
Milpitas	0	0	.00
Monte Sereno	0	0	.00

<u>CITY/COUNTY</u>	<u>NUMBER OF PROJECTS</u>	<u>NUMBER OF UNITS</u>	<u>PERCENT OF TOTAL</u>
SANTA CLARA COUNTY			
Morgan Hill	0	0	.00
Mountain View	35	1,997	9.83
Palo Alto	9	234	1.15
San Jose	NA	852	4.19
Santa Clara	3	864	4.25
Saratoga	NA	148	.73
Sunnyvale	0	0	.00
Unincorporated areas	NA	NA	NA
SOLANO COUNTY			
	5	713	3.51%
Benecia	NA	64	.32
Dixon	0	0	.00
Fairfield	0	0	.00
Rio Vista	0	0	.00
Suisun City	0	0	.00
Vacaville	2	79	.39
Vallejo	3	570	2.81
Unincorporated areas	0	0	.00
SONOMA COUNTY			
	9	311	1.53%
Cloverdale	0	0	.00
Cotati	0	0	.00
Healdsburg	1	27	.13
Petaluma	0	0	.00
Rohnert Park	3	162	.80
Santa Rosa	2	70	.35
Sebastopol	0	0	.00
Sonoma	3	52	.26
Unincorporated areas	NA	NA	NA
BAY AREA TOTAL			
	423	20,320	100.00%

NA=Not Available

TABLE I-3

MAJOR CONVERSION MARKETS

<u>CITY</u>	<u>NUMBER OF PROJECTS</u>	<u>NUMBER OF UNITS</u>	<u>PERCENT OF TOTAL</u>
San Francisco	107	2,283	11.24%
Oakland	65	2,226	10.96
Mountain View	35	1,997	9.83
Emeryville	1	1,249	6.15
San Mateo	33	1,201	5.91
Walnut Creek	15	1,175	5.78
Concord	15	892	4.39
Santa Clara	3	864	4.25
San Jose	NA	852	4.19
Larkspur	25	695	3.42
Total	274	13,434	66.12%
Bay Area Total	423	20,320	100.00%

a significant amount of conversion activity. These six suburban areas alone account for one-third of the total number of units converted in the region. Table I-3 lists the 10 major conversion markets in the Bay Area.

Rate of Conversion

Condominium conversion activity has spread throughout the Bay Area and has increased at a rapid pace. San Leandro reported one conversion project as early as 1964. A few other cities including Larkspur and Palo Alto first noted conversion activity in the late 1960's.¹⁵ However, the conversion trend did not gather momentum until the early 1970's with the boom in new condominium construction and the increased public acceptance of the condominium form of housing.

Approximately 200 units were converted yearly throughout the Bay Area in 1970 and 1971 in projects located in the cities of Corte Madera (2), Santa Clara, Livermore, Larkspur (2), San Rafael (2), and Redwood City. The number of units converted increased fourfold to over 800 in 1972 as the trend broadened and encompassed more cities. In 1973, over 1,000 units were converted and more than 1,600 in 1974. Conversions dropped sharply to only 567 with the recession in 1975.

Since 1975, the growth in the number of conversions has been explosive. In 1976, over 1,000 units were converted. In 1977, the yearly total doubled to over 2,000 units and in 1978 it doubled again to more than 4,000. In the first half of this year, conversions already number 7,390--nearly twice the total for all of last year. Table I-4 lists the total number of units

TABLE I-4

CONDOMINIUM CONVERSION ACTIVITY (1970-1979)

<u>CITY/COUNTY</u>	<u>TOTAL</u>	<u>1970</u>	<u>1971</u>	<u>1972</u>	<u>1973</u>	<u>1974</u>	<u>1975</u>	<u>1976</u>	<u>1977</u>	<u>1978</u>	<u>1979</u>
ALAMEDA COUNTY	4,907	0	124	521	352	173	67	166	412	1,094	1,998
Alameda	0	0	0	0	0	0	0	0	0	0	0
Albany	28	0	0	0	0	0	0	0	0	12	16
Berkeley	253	-	-	-	-	69	-	-	-	108	76
Emeryville	1,249	0	0	0	0	0	0	0	0	0	1,249
Fremont	520	0	0	124	60	0	0	0	26	226	84
Hayward	166	0	0	0	48	37	0	0	0	81	0
Livermore	124	0	124	0	0	0	0	0	0	0	0
Newark	0	0	0	0	0	0	0	0	0	0	0
Oakland	2,226	0	0	397	222	67	67	155	386	629*	303
Piedmont	0	0	0	0	0	0	0	0	0	0	0
Pleasanton	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA*
San Leandro	95	0	0	0	22	0	0	11	0	0	62
Union City	208	0	0	0	0	0	0	0	0	0	208
Unincorporated	38	0	0	0	0	0	0	0	0	38	0
CONTRA COSTA CO	3,776	0	0	0	80	196	170	496	597	899	920
Antioch	0	0	0	0	0	0	0	0	0	0	0
Brentwood	0	0	0	0	0	0	0	0	0	0	0
Clayton	0	0	0	0	0	0	0	0	0	0	0
Concord	892	0	0	0	16	16	100	464	93	203	0
El Cerrito	0	0	0	0	0	0	0	0	0	0	0

<u>CITY/COUNTY</u>	<u>TOTAL</u>	<u>1970</u>	<u>1971</u>	<u>1972</u>	<u>1973</u>	<u>1974</u>	<u>1975</u>	<u>1976</u>	<u>1977</u>	<u>1978</u>	<u>1979</u>
CONTRA COSTA CO											
Hercules	0	0	0	0	0	0	0	0	0	0	0
Lafayette	0	0	0	0	0	0	0	0	0	0	0
Martinez	0	0	0	0	0	0	0	0	0	0	0*
Moraga	109	NA	NA	NA	NA	NA	70	32	7*	0*	0*
Pinole	180	0	0	0	0	80	0	0	0	100	0
Pittsburg	18	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
Pleasant Hill	400	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
Richmond	3	0	0	0	0	0	0	0	0	0	3
San Pablo	0	0	0	0	0	0	0	0	0	0	0
Walnut Creek	1,175	0	0	0	64	100	0	0	183	120	708
Unincorporated	999	0	0	0	0	0	0	0	314	476	209
MARIN COUNTY											
Belvedere	0	0	0	0	0	0	0	0	0	0	0
Corte Madera	35	16	19	0	0	0	0	0	0	0	0
Fairfax	0	0	0	0	0	0	0	0	0	0	0*
Larkspur	695	0	10	102	89	252	9	0	39	8	186
Mill Valley	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
Novato	201	0	0	0	0	105	6	0	90	0	0
Ross	0	0	0	0	0	0	0	0	0	0	0
San Anselmo	0	0	0	0	0	0	0	0	0	0	0
San Rafael	282	0	46	0	0	8	8	220	0	0	0
Sausalito	114	0	0	0	5	78	9	5	2	15	0
Tiburon	220	0	-	-	176*	-*	-	-	29	-	15

<u>CITY/COUNTY</u>	<u>TOTAL</u>	<u>1970</u>	<u>1971</u>	<u>1972</u>	<u>1973</u>	<u>1974</u>	<u>1975</u>	<u>1976</u>	<u>1977</u>	<u>1978</u>	<u>1979</u>
MARIN COUNTY											
Unincorporated	78	0	0	0	0	50	0	0	0	28	0
NAPA COUNTY											
Calistoga	0	0	0	0	0	0	0	0	0	0	0
Napa	0	0	0	0	0	0	0	0	0	0	0
St. Helena	0	0	0	0	0	0	0	0	0	0	0
Yountville	0	0	0	0	0	0	0	0	0	0	0
Unincorporated	0	0	0	0	0	0	0	0	0	0	0
SAN FRANCISCO											
	2,283	NA	NA	NA	NA	NA*	64*	54	817	1,027	321*
SAN MATEO COUNTY											
Atherton	0	0	0	0	0	0	0	0	0	0	0
Belmont	264	0	0	0	0	0	0	0	0	264	0
Brisbane	20	0	0	0	0	0	0	20	0	0	0
Burlingame	0	0	0	0	0	0	0	0	0	0	0
Colma	0	0	0	0	0	0	0	0	0	0	0
Daly City	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
Foster City	0	0	0	0	0	0	0	0	0	0	0*
Half Moon Bay	0	0	0	0	0	0	0	0	0	0	0
Hillsborough	0	0	0	0	0	0	0	0	0	0	0
Menlo Park	253	0	0	12	174	0	16	51	0	0	0
Millbrae	133	0	0	0	0	0	4	0	12	12	105*
Pacifica	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA

<u>CITY/COUNTY</u>	<u>TOTAL</u>	<u>1970</u>	<u>1971</u>	<u>1972</u>	<u>1973</u>	<u>1974</u>	<u>1975</u>	<u>1976</u>	<u>1977</u>	<u>1978</u>	<u>1979</u>
SAN MATEO COUNTY											
Portola Valley	0	0	0	0	0	0	0	0	0	0	0
Redwood City	113	0	9	0	16	78*	0	0	10	0	0
San Bruno	0	0	0	0	0	0	0	0	0	0	0
San Carlos	0	0	0	0	0	0	0	0	0	0	0
San Mateo	1,201	0	0	66	33	136	38	0	224	238	466
So San Fran	195	0	0	0	0	145	0	0	0	0	50
Woodside	0	0	0	0	0	0	0	0	0	0	0
Unincorporated	52	0	0	0	0	0	0	0	0	0	52
SANTA CLARA CO											
Campbell	4,474	138	0	180	56	64	176	76	0	574	2,976
Cupertino	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
Gilroy	84	0	0	84	0	0	0	0	0	0	0
Los Altos	142	0	0	0	0	0	0	0	0	80	62
Los Altos Hills	69	0	0	12	0	44*	0	0	0	11	2
Los Gatos	0	0	0	0	0	0	0	0	0	0	0
Milpitas	84	0	0	84	0*	0*	0	0	0	0	0
Monte Sereno	0	0	0	0	0	0	0	0	0	0	0*
Morgan Hill	0	0	0	0	0	0	0	0	0	0	0
Mountain View	0	0	0	0	0	0	0	0	0	0	0
Palo Alto	1,997	0	0	0	56	20*	52*	16*	0*	235*	1,618
San Jose	234	NA	NA	NA	NA	NA	0	0	0	0	0
Santa Clara	852	0	0	0	0*	0*	0*	36	0	0	816
Saratoga	864	138	0	0	0	0	0	0	0	248	478*
	148	-	-	-	-	-	124*	24*	0	0	0

<u>CITY/COUNTY</u>	<u>TOTAL</u>	<u>1970</u>	<u>1971</u>	<u>1972</u>	<u>1973</u>	<u>1974</u>	<u>1975</u>	<u>1976</u>	<u>1977</u>	<u>1978</u>	<u>1979</u>
SANTA CLARA COUNTY											
Sunnyvale	0	0	0	0	0	0	0	0	0	0	0
Unincorporated	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
SOLANO COUNTY											
Benecia	64	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
Dixon	0	0	0	0	0	0	0	0	0	0	0
Fairfield	0	0	0	0	0	0	0	0	0	0	0
Rio Vista	0	0	0	0	0	0	0	0	0	0	0
Suisun City	0	0	0	0	0	0	0	0	0	0	0
Vacaville	79	0	0	0	0	0	0	31	0	0	48
Vallejo	570	0	0	0	0	316	0	0	98	0	156*
Unincorporated	0	0	0	0	0	0	0	0	0	0	0
SONOMA COUNTY											
Cloverdale	0	0	0	0	0	0	0	0	0	0	0
Cotati	0	0	0	0	0	0	0	0	0	0	0
Healdsburg	27	0	0	0	0	0	0	0	0	0	27
Petaluma	0	0	0	0	0	0	0	0	0	0*	0*
Rohnert Park	162	0	0	0	60	0	0	0	0	102	0
Santa Rosa	70	0	0	0	0	0	0	0	0	0*	70*
Sebastopol	0	0	0	0	0	0	0	0	0	0	0
Sonoma	52	0	0	0	16	0	0	0	0	36*	0*
Unincorporated	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
BAY AREA TOTAL	20,320	154	208	881	1,057	1,601	567	1,119	2,330	4,297	7,390

NA=Not Available
 * =Moratorium

converted yearly in the Bay Area by counties and cities from 1970 to June, 1979.

Impact of Conversions

Conversions are responsible for a large part of the rapid growth in the condominium segment of the housing market, although they are not yet a major factor in the overall housing stock in the Bay Area. The 20,320 conversions represent only 1.14% of the 1,781,776 total occupied housing units in the region.¹⁶ However, conversions represent nearly 37% of the 55,092 total condominium units in the Bay Area. In some local markets, conversions account for all or nearly all of the condominium units developed since 1970. In Vallejo, conversions number 570 and represent approximately 94% of the 605 total condominium units in the city; only 30 units have been originally constructed as condominiums since 1970. Condominium conversions represent 92% of the condominium housing stock in Emeryville, 82% in Larkspur, 81% in Pinole, 71% in Hayward, 67% in Berkeley, 63% in Oakland, 62% in Mountain View, 52% in Saratoga, 51% in Santa Clara and 50% in San Mateo. Conversions account for 50% or more of the condominium housing stock in at least 11 cities throughout the Bay Area. The number of units converted to condominiums since 1970 exceeds the number of units of new condominium construction in at least 16 cities in the region. Table I-5 presents data on the components of the condominium housing stock and estimates of the percentage of condominium units converted from rental apartments.

Condominium conversions have drastically affected some

TABLE I-5

CONVERSIONS AS PERCENTAGE OF CONDOMINIUM STOCK

<u>CITY/COUNTY</u>	<u>CONDO UNITS 1970*</u>	<u>NEW CONSTR 1970-79</u>	<u>CONVER- SIONS 1970-79</u>	<u>TOTAL CONDO UNITS</u>	<u>PERCENT CONVER- SIONS</u>
ALAMEDA COUNTY	1,254	2,899	4,907	9,060+	54.16%
Alameda	394	0	0	394	.00
Albany	0	826	28	854	3.28
Berkeley	105	19	253	377	67.12
Emeryville	NA	112	1,249	1,361+	91.77
Fremont	40	NA	520	560+	92.86
Hayward	68	0	166	234	70.94
Livermore	0	174	124	298	41.61
Newark	11	0	0	11	.00
Oakland	608	695	2,226	3,529	63.08
Piedmont	0	NA	0	0	.00
Pleasanton	0	NA	NA	0	NA
San Leandro	28	443	95	566	16.79
Union City	0	NA	208	208+	100.00
Unincorporated	NA	630	38	668+	5.69
CONTRA COSTA CO	3,634	5,190	3,776	12,600+	29.97%
Antioch	0	365	0	365	.00
Brentwood	NA	145	0	145+	.00
Clayton	NA	NA	0	0	.00
Concord	86	3,853	892	4,831	18.46
El Cerrito	0	93	0	93	.00
Hercules	NA	NA	0	0	.00
Lafayette	0	15	0	15	.00
Martinez	33	386	0	419	.00
Moraga	44	88	109	241	45.23
Pinole	0	41	180	221	81.45
Pittsburg	0	NA	18	18+	100.00
Pleasant Hill	0	NA	400	400+	100.00
Richmond	390	4	3	397	.76
San Pablo	12	0	0	12	.00
Walnut Creek	3,069	200	1,175	4,444	26.44
Unincorporated	NA	NA	999	999+	100.00
MARIN COUNTY	298	2,410	1,625	4,333+	37.50%
Belvedere	NA	NA	0	0	.00
Corte Madera	NA	262	35	297+	11.79
Fairfax	NA	177	0	177+	.00
Larkspur	9	144	695	848	81.96
Mill Valley	0	NA	NA	0	NA
Novato	0	486	201	687	29.26
Ross	NA	0	0	0	.00

<u>CITY/COUNTY</u>	<u>CONDO UNITS 1970*</u>	<u>NEW CONSTR 1970-79</u>	<u>CONVER- SIONS 1970-79</u>	<u>TOTAL CONDO UNITS</u>	<u>PERCENT CONVER- SIONS</u>
MARIN COUNTY					
San Anselmo	0	13	0	13	.00
San Rafael	289	774	282	1,345	20.97
Sausalito	NA	248	114	362+	31.49
Tiburon	NA	NA	220	220+	100.00
Unincorporated	NA	306	78	384+	20.31
NAPA COUNTY	16	503	0	519+	.00%
Calistoga	NA	NA	0	0	.00
Napa	16	88	0	104	.00
St. Helena	NA	67	0	67+	.00
Yountville	NA	110	0	110+	.00
Unincorporated	NA	238	0	238+	.00
SAN FRANCISCO CO	1,900	1,479	2,283	5,611	40.69%
SAN MATEO COUNTY	341	4,599	2,231	7,171+	31.11%
Atherton	NA	NA	0	0	.00
Belmont	0	20	264	284	.93
Brisbane	NA	0	20	20+	100.00
Burlingame	17	371	0	388	.00
Colma	NA	NA	0	0	.00
Daly City	5	NA	NA	5+	NA
Foster City	NA	1,228	0	1,228+	.00
Half Moon Bay	NA	102	0	102+	.00
Hillsborough	NA	NA	0	0	.00
Menlo Park	71	262	253	586	43.17
Millbrae	0	144	133	277	48.01
Pacifica	0	NA	NA	0	NA
Portola Valley	NA	0	0	0	.00
Redwood City	73	244	113	430	26.28
San Bruno	0	NA	0	0	.00
San Carlos	0	429	0	429	.00
San Mateo	175	1,039	1,201	2,415	49.73
So San Fran	0	760	195	955	20.42
Woodside	NA	NA	0	0	.00
Unincorporated	NA	0	52	52+	100.00
SANTA CLARA COUNTY	1,931	6,073	4,474	12,478+	35.86%
Campbell	0	NA	NA	0	.00
Cupertino	0	NA	84	84+	100.00
Gilroy	0	150	142	292	48.63
Los Altos	84	379	69	532	11.41
Los Altos Hills	NA	NA	0	0	.00
Los Gatos	149	711	84	944	8.90
Milpitas	75	444	0	519	.00

<u>CITY/COUNTY</u>	<u>CONDO UNITS 1970*</u>	<u>NEW CONSTR 1970-79</u>	<u>CONVER- SIONS 1970-79</u>	<u>TOTAL CONDO UNITS</u>	<u>PERCENT CONVER- SIONS</u>
SANTA CLARA COUNTY					
Monte Sereno	NA	0	0	0	.00
Morgan Hill	NA	239	0	239+	.00
Mountain View	80	1,152	1,997	3,229	61.85
Palo Alto	123	1,116	234	1,473	15.89
San Jose	1,270	593	852	2,715	31.38
Santa Clara	130	700	864	1,694	51.00
Saratoga	20	116	148	284	52.11
Sunnyvale	0	473	0	473	.00
Unincorporated	NA	NA	NA	NA	NA
SOLANO COUNTY					
	66	469	713	1,248+	57.13%
Benecia	NA	NA	64	64+	100.00
Dixon	NA	0	0	0	.00
Fairfield	0	400	0	400+	.00
Rio Vista	NA	NA	0	0	.00
Suisun City	NA	0	0	0	.00
Vacaville	61	NA	79	140+	56.43
Vallejo	5	30	570	605	94.22
Unincorporated	NA	39	0	39+	.00
SONOMA COUNTY					
	72	1,689	311	2,072+	15.01%
Cloverdale	NA	0	0	0	.00
Cotati	NA	400	0	400+	.00
Healdsburg	NA	35	27	62+	43.55
Petaluma	NA	0	0	0	.00
Rohnert Park	NA	735	162	897+	18.06
Santa Rosa	72	100	70	242	28.93
Sebastopol	NA	76	0	76+	.00
Sonoma	NA	343	52	395+	13.17
Unincorporated	NA	NA	NA	NA	NA
BAY AREA TOTAL					
	9,512	25,260	20,230	55,092+	36.88%

NA=Not Available

local housing markets where they represent a significant percentage of the rental housing stock. In Emeryville, the conversion of 1,249 rental units to condominiums has resulted in a 57% decrease in the city's supply of rental housing. Conversions have reduced the number of rental units in Saratoga by 43%. However, the impact of conversions in reducing the overall supply of rental housing in the Bay Area is still relatively minor. In 1975, there were approximately 812,079 rental units in the region.¹⁷ The conversion of 20,320 rental units to condominium ownership represents only 2.44% of the rental housing stock in the Bay Area.

Condominium conversions have a major impact on the supply of rental housing in suburban areas, where rental units are scarce in relation to for-sale housing. Conversions represent 28% of the rental housing stock in Larkspur, 22% in Pleasant Hill, 19% in Walnut Creek, 19% in Vallejo, 18% in Tiburon, 17% in Pinole, 17% in Moraga, 11% in Mountain View, 11% in Concord, 10% in Sonoma and 10% in Union City. Region-wide, conversions constitute 10% or more of the rental housing stock in at least 13 cities throughout the Bay Area. Table I-6 lists estimates of the percentage of rental housing converted to condominiums in counties and cities in the Bay Area.

The erosion of the rental stock through condominium conversion is further heightened by the depressed level of new rental construction. Multifamily housing activity in the Bay Area has yet to recover from the sharp decline in the volume of new construction experienced during the recession of 1973-75.

TABLE I-6

CONVERSIONS AS PERCENTAGE OF RENTAL STOCK

<u>CITY/COUNTY</u>	<u>NUMBER OF CONVERTED UNITS</u>	<u>NUMBER OF RENTAL UNITS*</u>	<u>PERCENT OF RENTAL STOCK</u>
ALAMEDA COUNTY	4,905	194,908**	2.46%
Alameda	0	15,689	.00
Albany	28	2,085	1.33
Berkeley	253	30,000	.84
Emeryville	1,249	941	57.03
Fremont	520	6,656**	7.25
Hayward	166	14,600	1.33
Livermore	124	2,633	4.50
Newark	0	1,600	.00
Oakland	2,226	82,000	2.64
Piedmont	0	346**	.00
Pleasanton	NA	969	NA
San Leandro	95	6,300	1.49
Union City	208	1,925	9.75
Unincorporated areas	38	12,500	.30
CONTRA COSTA COUNTY	3,776	60,696**	5.86%
Antioch	0	3,614	.00
Brentwood	0	250	.00
Clayton	0	28**	.00
Concord	892	7,483**	10.65
El Cerrito	0	2,700	.00
Hercules	0	NA	.00
Lafayette	0	1,711**	.00
Martinez	0	2,100	.00
Moraga	109	541	16.77
Pinole	180	866	17.21
Pittsburg	18	2,566**	.70
Pleasant Hill	400	1,444**	21.69
Richmond	3	10,497	.03
San Pablo	0	3,600	.00
Walnut Creek	1,175	5,139	18.61
Unincorporated areas	999	11,005	8.32
MARIN COUNTY	1,625	22,610**	6.71%
Belvedere	0	245**	.00
Corte Madera	35	1,100	3.08
Fairfax	0	1,461	.00
Larkspur	695	1,770	28.20
Mill Valley	NA	1,470**	NA
Novato	201	2,287	8.08
Ross	0	20	.00

<u>CITY/COUNTY</u>	<u>NUMBER OF CONVERTED UNITS</u>	<u>NUMBER OF RENTAL UNITS*</u>	<u>PERCENT OF RENTAL STOCK</u>
MARIN COUNTY			
San Anselmo	0	1,625	.00
San Rafael	282	6,134	4.40
Sausalito	114	2,208	4.91
Tiburon	220	996	18.09
Unincorporated areas	78	NA	NA
NAPA COUNTY			
	0	8,898**	.00%
Calistoga	0	20	.00
Napa	0	6,927	.00
St. Helena	0	500	.00
Yountville	0	60	.00
Unincorporated areas	0	2,400	.00
SAN FRANCISCO COUNTY			
	2,283	200,000	1.13%
SAN MATEO COUNTY			
	2,231	90,441**	2.41%
Atherton	0	414**	.00
Belmont	264	3,000	8.09
Brisbane	20	482	3.98
Burlingame	0	4,500	.00
Colma	0	NA	.00
Daly City	NA	8,263**	NA
Foster City	0	2,467	.00
Half Moon Bay	0	200	.00
Hillsborough	0	104**	.00
Menlo Park	253	5,069	4.75
Millbrae	133	2,131	5.88
Pacifica	NA	1,863	NA
Portola Valley	0	330**	.00
Redwood City	113	11,500	.97
San Bruno	0	3,426**	.00
San Carlos	0	1,500	.00
San Mateo	1,201	19,000	5.95
South San Francisco	195	5,334	3.53
Woodside	0	233**	.00
Unincorporated areas	52	NA	NA
SANTA CLARA COUNTY			
	4,474	156,897**	2.77%
Campbell	NA	5,091**	NA
Cupertino	84	2,927**	2.79
Gilroy	142	2,000	6.63
Los Altos	69	1,100	5.90
Los Altos Hills	0	224**	.00
Los Gatos	84	4,980	1.66
Milpitas	0	1,724	.00

<u>CITY/COUNTY</u>	<u>NUMBER OF CONVERTED UNITS</u>	<u>NUMBER OF RENTAL UNITS*</u>	<u>PERCENT OF RENTAL STOCK</u>
SANTA CLARA COUNTY			
Monte Sereno	0	97**	.00
Morgan Hill	0	1,991	.00
Mountain View	1,997	16,648	10.71
Palo Alto	234	10,900	2.10
San Jose	852	63,100	1.33
Santa Clara	864	16,000	5.12
Saratoga	148	112	43.08
Sunnyvale	0	17,452	.00
Unincorporated areas	NA	NA	NA
SOLANO COUNTY	713	27,786**	2.50%
Benecia	64	975**	6.16
Dixon	0	392	.00
Fairfield	0	3,500	.00
Rio Vista	0	NA	.00
Suisun City	0	1,050	.00
Vacaville	79	2,300	3.32
Vallejo	570	2,500	18.57
Unincorporated areas	NA	1,059	NA
SONOMA COUNTY	311	35,504**	.87%
Cloverdale	0	217	.00
Cotati	0	600	.00
Healdsburg	27	300	8.26
Petaluma	0	3,000	.00
Rohnert Park	162	1,561	9.40
Santa Rosa	70	6,937**	1.00
Sebastopol	0	985	.00
Sonoma	52	473	9.91
Unincorporated areas	NA	NA	NA
BAY AREA TOTAL	20,320	812,079**	2.44%

NA=Not Available

* Current estimates by local planning departments

** 1975/1970 Census, renter-occupied units

County sub-totals do not add due to differences in data sources.

Since 1975, the level of new multifamily construction has increased slightly, but the volume remains far below those of previous years. However, even this trend substantially understates the number of rental units actually constructed. Approximately 30-35% of all new multifamily units constructed in the Bay Area are condominiums, which are considered for-sale housing and do not increase the supply of rental housing.¹⁸ In some areas, the percentage is even higher.¹⁹ Figure I-1 illustrates the trend in permits issued for new multifamily construction and for rental units converted to condominiums since 1970 in the Bay Area.

Conversion Markets

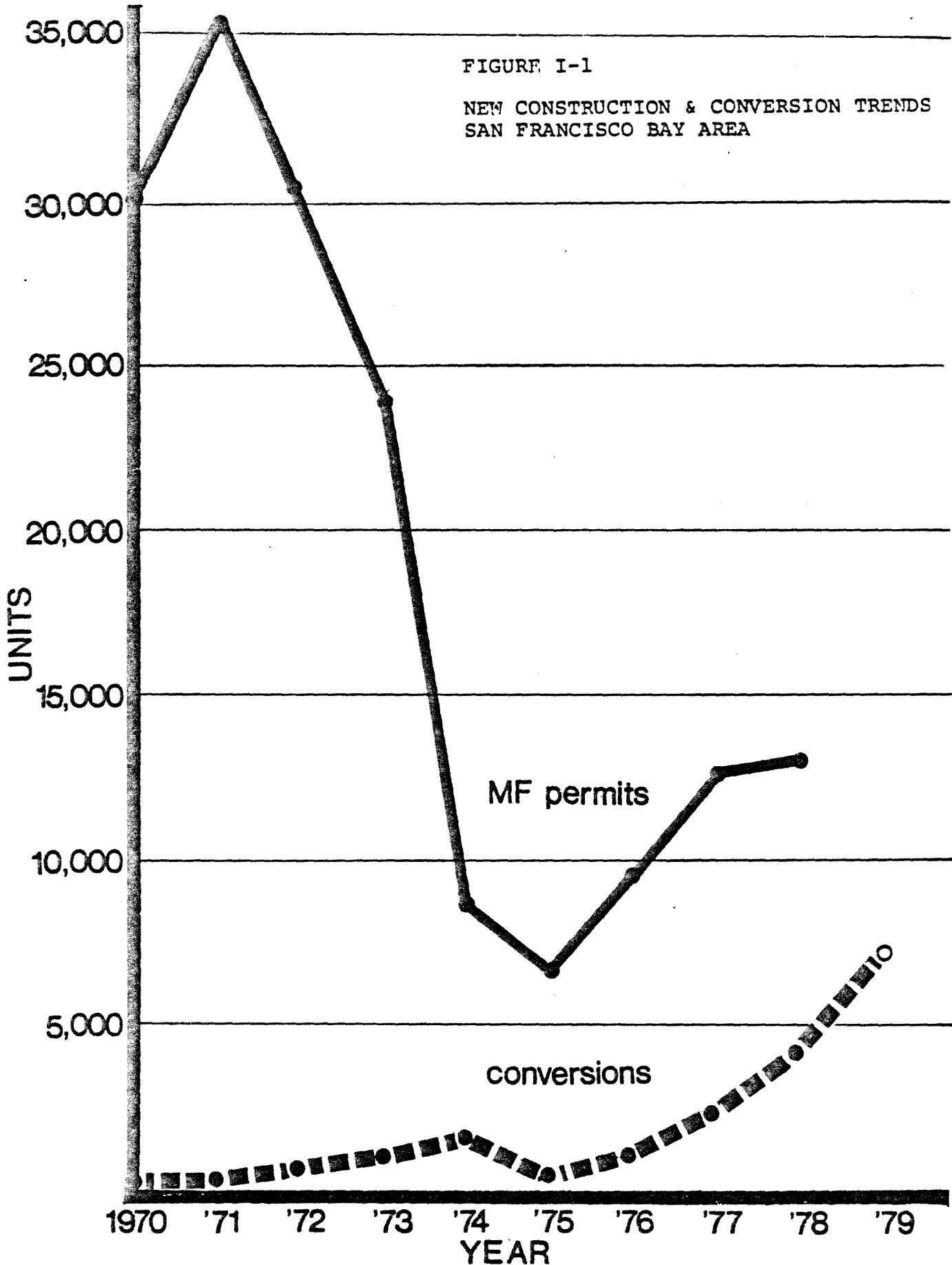
Central city markets

Condominium conversions in central cities have occurred predominately at prime locations close to downtown. Conversion activity in San Francisco has been centered in four neighborhoods in close proximity to downtown locations: Pacific Heights, Russian Hill, Telegraph Hill and Diamond Heights.²⁰ In Oakland, conversions have been concentrated around Lake Merritt, adjacent to the central business district.

The central city market is characterized by a tight rental supply, extremely low vacancy rates, premium rents and poor prospects for the construction of new units. As typified by San Francisco, the four previously mentioned conversion neighborhoods are 74% renter-occupied; the rental vacancy rate is less than 3%; the median rents are the highest in the city; and almost no vacant land exists for new construction.²¹ Conversion activity has grown out of the shortage of rental units and the

FIGURE I-1

NEW CONSTRUCTION & CONVERSION TRENDS
SAN FRANCISCO BAY AREA



SOURCE: California Construction Trends, Security Pacific National Bank, Research Dept., 1970-78.

strong demand for apartments at these choice locations. Consequently, ownership provides the only assurance of a stable housing tenure and protection against rent increases.

High-rise and mid-rise buildings have been the most common types of structures converted. Approximately 42% of the structures converted in San Francisco consisted of more than four stories, 56% consisted of three or four stories and only 2% consisted of two stories.²² Approximately 46% were built before 1940 and 38% since 1965.²³

One-bedroom units are the most prevalent type of unit in conversion projects. Over 49% of the rental units converted consisted of one bedroom, 20% consisted of two bedrooms and 15% consisted of three bedrooms. Approximately 15% of the conversions have been studio units.²⁴

The current market prices for units range from \$46,500 to \$135,000 and up to \$100 per square foot.²⁵ Unit appreciation is high.

Suburban markets

Conversion activity in suburban markets has been more frequent in close-in suburbs along BART lines and with good freeway access than in more distant and less accessible areas. Conversions have typically occurred in areas with good access to public transportation, shopping facilities, business centers, services and other amenities. Like the central city market, the suburban market also may exhibit tight rental conditions, low vacancy rates and high rents, but it is more vulnerable to competition from new construction. Conversions normally lack

the amenities which new condominiums provide; consequently, they must offer a significant cost advantage over new construction.

In suburban markets, conversion activity grows out of the shortage of affordable for-sale housing. Most suburbs are predominantly owner-occupied areas, which have traditionally provided inexpensive entry homes for young families. The city of Palo Alto is over 54% owner-occupied.²⁶ The average cost of a single family home in Santa Clara and San Mateo Counties has risen to \$110,362--the most expensive in the Bay Area.²⁷ Condominium conversions offer the cheapest form of ownership in the local market. Unit prices range from \$40,000 to \$80,000 and approximately \$40-60 per square foot.²⁸

Garden apartments have been the most frequent type of structure converted. Converted units in suburban markets are generally larger than those in central city markets. Over 54% of the units converted in Palo Alto consisted of two bedrooms, 25% consisted of three bedrooms and 1% consisted of four bedrooms. Only 20% have been one-bedroom units.²⁹ The converted structures are typically newer and many units are sold without substantial upgrading. Most conversion projects in Palo Alto have had some exterior or interior painting during the conversion process, but few have had any structural improvements.³⁰

SECTION II

ANALYSIS OF CONDOMINIUM CONVERSIONS

ANALYSIS OF CONDOMINIUM CONVERSIONS

Trends in the Housing Market

Condominium conversions have grown out of the intersection of two trends in the housing market: the increasing demand for condominium ownership and the declining profitability of rental apartment projects.

Increasing demand for condominiums

The conversion of rental apartments to condominiums has been encouraged by the same factors which have stimulated new condominium development in the Bay Area. In recent years, the demand for condominiums has increased significantly, due in part to a number of major socioeconomic changes.

Changes in household formation and the average size of households. The rate of new household formation has increased in recent years, while the average size of households has been declining. Between 1970 and 1975, the number of households in the Bay Area increased by 14.7%, approximately three times faster than the total population.³¹ The rate of household formation has increased as more adults have been encouraged to set up their own households. Many elderly and handicapped persons have chosen to live independently rather than in institutional arrangements. Single parent families, headed by both females and males, have increased in number. Family and household arrangements have be-

come more impermanent. Divorces have increased, while remarriages have decreased. There has been a large rise in the number of households consisting of unmarried couples, unrelated individuals and persons living alone.

Accompanying the increase in the number of households has been a decline in household sizes. The average household size in the Bay Area decreased from 2.90 persons per household in 1970 to 2.64 in 1975.³² Couples are having fewer children and families are smaller. Both the birthrate and the fertility rate have decreased. As a result, the aggregate demand for housing has increased due to the increase in the number of households, while the preference for space has declined because of smaller household sizes. Consequently, condominiums have become particularly attractive forms of housing.

Increased household income and employment. The rise in both household income and employment has increased the preference for homeownership. In 1970, the median household income in the Bay Area was \$9,914. By 1975, it had risen to \$13,050.³³ The increase in household income has been accompanied by a rise in the marginal tax rate which also has enhanced ownership preferences.

Total employment grew by 11.8% in the Bay Area between 1970 and 1975, especially in the service sector which has employed a high proportion of women.³⁴ The number of females participating in the labor force has increased significantly in recent years. For many two income households, condominiums have become an increasingly popular alternative to traditional single family

housing because of their greater convenience and accessibility.

Increased proportion of "empty nesters" and retired persons. Condominium living has had a particular appeal to "empty nesters"--couples between the ages of 45 and 65 whose children are no longer living at home. Retired persons also have been attracted by the convenience and ease of maintenance offered by condominiums. Both mortality rates and retirement ages have been declining and the proportion of these age groups has increased in the population.

Maturing of the "baby boom" generation. The age group between 25 and 35 constitutes another important component of the demand for condominiums. The "baby boom" following World War II produced a large generation of young persons who are now just entering this age bracket and beginning their careers and family lives. This generation represents a substantial increase in the demand for condominiums over past years.

Rising housing costs. The cost of housing has risen at a higher rate in recent years than the cost of other products. The consumer price index for housing in the San Francisco-Oakland SMSA increased at an average annual rate of 8.74% between 1970 and 1975. From 1975 to 1977, it increased 13.45%. The consumer price index for all commodities rose at a rate of 8.66% and 10.85% respectively during the same time periods.³⁵ The demand for ownership has increased with the rising rates of inflation by increasing expectations for property appreciation.

Rising land values, construction and financing costs also have increased the price of single family homes beyond the reach

of many home-buyers. The average price of a single family home in the Bay Area is currently \$96,528.³⁶ Many prospective home-buyers have turned to condominiums because of lower purchase prices.

Changes in tastes and preferences. A combination of factors including environmental concerns, congested commuting routes and the energy crisis have brought a growing acceptance of higher density multifamily housing and an increasing desire for urban living. Housing rehabilitation, physical improvements and public investment in previously declining areas have helped to revitalize many central cities and encourage the migration of middle class residents from outlying suburban areas. Gentrification is evident in many central city neighborhoods.³⁷ These changes have stimulated condominium development and especially the conversion of existing structures in central locations.

Decline in profitability of rental apartments

Conversions have been spurred in the rental housing market by the low returns from the ownership of rental apartment projects. Rental returns have been severely affected by the changing economics of operation and investment in residential rental properties.

Rising operating expenses. Operating expenses have escalated rapidly in recent years, led by the sharp rise in the cost of energy. Fuel and utilities have increased at an average annual rate of 9.7% between 1970 and 1975 and 16.2% between 1975 and 1977, according to the consumer price index for the San Francisco-Oakland SMSA. Gas and electricity costs have risen

at rates of 13.3% and 14.9% during these time periods.³⁸ The cost of sewer and water services have increased sharply. Environmental pressures and controls have contributed to the rising costs of solid waste disposal and waste collection as well. The cost of utilities has assumed an even greater share of operating expenses due to changes in the pricing of utilities, shifting higher rates to large commercial users, including apartment complexes.

Other components of operating expenses also have risen markedly. Maintenance, repairs, management, administration and payroll costs all have increased in recent years. Only property taxes have decreased as a result of the passage of Proposition 13. Increased operating expenses have cut into net operating income, leaving many owners with low or negative returns after deducting debt service obligations. Conversion has become an attractive alternative for owners to recover their invested equity.

Rent control. Support for rent controls has been growing throughout the Bay Area, as rising rents impose economic hardships on an increasing number of households. Rents have increased twice as fast as incomes in the Bay Area between 1970 and 1975. The median contract rent rose 61.3% from \$137 to \$221 during the five year period, while the median household income rose only 31.3%.³⁹ The number of renter households paying 25% or more of their income for rent increased by 27% from 310,311 households in 1970 to 394,082 in 1975. The proportion of total households "overpaying" for rent grew from 20% to 22.1%.⁴⁰

Constant pressure for rents to increase in recent years

has come from rising operating costs, however rent gouging, speculative property transfers and the failure of most landlords to share Proposition 13 tax savings with tenants have expanded support for rent controls. Berkeley voters approved a referendum to roll back rents to pre-Proposition 13 levels last year. In San Francisco, a similar measure failed in the fall election, but a recent series of rapid rent increases by one of the city's largest landlords triggered the adoption of a rent stabilization ordinance by the Board of Supervisors.⁴¹ Several other Bay Area cities are considering similar types of legislation.⁴²

Rent control legislation has limited the ability of owners to keep up with rising operating expenses, particularly for those landlords whose rents have been depressed below market levels because of long-term leases and "goodwill" extended to tenants. The imposition and growing support for rent controls has caused many landlords to convert to condominiums. Conversion offers those owners who fear the erosion of their property values and who are unwilling to cope with the bureaucratic difficulties of increasing depressed rents to market levels, an opportunity to terminate their apartment investment.

Changes in tax laws. Owners and investors in residential rental properties have been significantly affected by recent tax reform bills. The 1969 Tax Reform Bill sharply curtailed the use of accelerated depreciation for real property. Prior to 1969, the 200% double-declining balance and the sum of the year's digits methods of depreciation could be used for all new build-

ings and 150% double-declining balance was permitted for used properties. After exhausting their depreciation benefits under the accelerated methods, owners frequently sought to trade their original properties as they were permitted to establish a new depreciation schedule based on the purchase price of any newly acquired property. The tax reform bill limited the accelerated methods to new residential construction and allowed the purchaser of a used property to take only 125% declining balance depreciation.⁴³ This reform significantly reduced the tax advantages of purchasing used rental properties and decreased the market value for many holders of such properties. It became difficult to sell rental properties to investors and consequently, conversion to condominiums became attractive.

Another important tax reform has been anticipated by many investors regarding artificial accounting losses. There has been mounting concern over certain tax shelters in real estate which may cause serious distortions in real estate values and construction costs, resulting in unsound investments and interference with the efficient allocation of resources.⁴⁴ The Treasury proposed in 1971 to limit the amount of business losses which could be claimed on any tax shelter investment to the income derived from other investments in the same field.⁴⁵ This provision, known as the "at risk" limitation, would confine the amount of artificial accounting losses arising out of the use of accelerated depreciation for rental properties to income from other real estate investments. It would prevent investors from using tax shelters in real estate to offset their earned income from their

own businesses or professions. Many owners anticipating the inclusion of this provision in the Tax Reform Act of 1976 were inclined to convert to condominiums due to the decreased attractiveness of rental properties to investors.⁴⁶

Motivations for Conversion

The basic motivating force behind condominium conversion is the expectation of economic gain. The conversion of rental apartments to condominiums is an attractive venture for many developers because it maximizes their profits. Likewise, for many housing consumers, economic advantages such as tax deductions and the opportunity for equity appreciation make condominium ownership preferable to renting. Consequently, conversion responds to both the objectives of converters and to the needs of many purchasers.

Advantages to the converter

For the converter, condominium conversion has several advantages over both new condominium construction and existing rental apartment projects.

Entrepreneurial opportunities. Condominium conversion emphasizes entrepreneurial skills rather than the developmental or technical skills necessary to undertake new construction projects. The selection of a site is essentially predetermined by the existing pattern of apartment development and the established character of the surrounding neighborhood reduces the risk of mislocation. The structure is subject to physical inspection before purchase and the required building construction knowledge

or expertise is generally confined only to desired modifications. Some conversions entail no renovation or refurbishment.

Condominium conversion offers developers the opportunity to participate in the "condominium boom" without launching a large scale construction project. The investment period is relatively short. The most time-consuming aspect of the conversion process normally involves obtaining the necessary approvals from local authorities. The minimum time requirement to comply with local procedures is approximately 90 days. The conversion process is frequently completed in less than one year.

The resultant yield and return on investment is relatively high, which also attracts entrepreneurs. Profits and expected returns are individually determined and vary considerably depending on inherent risks, but yields ranging between 20% and 100% have not been uncommon. The profitability of conversions has given rise to a number of firms specializing in converting rental apartments to condominiums across the nation.⁴⁷

Low acquisition price relative to new condominium construction costs. The market value of most existing apartment structures is lower than their replacement costs. It is generally possible for developers to acquire and convert an existing rental apartment structure for less money than it costs to construct a similar new building for condominium ownership.

Rising land values are partially responsible for the high costs of new construction. Although the increase in land values has dictated new land use patterns favoring higher density multi-family housing, the amount of land available for such development

is limited in most urban areas. In some cities, downzoning has reduced allowable densities and prohibited new multifamily construction. The supply of developable land has been constrained in other areas by limitations in the capacity of water, sewer and public facilities along with various land use and growth controls. High site development costs including those for grading, utility connections, street improvements, land dedications and various fees and charges have increased the costs of building sites. Procedural delays resulting from the proliferation of governmental regulations affecting land development have translated into higher holding costs, additional interest on construction loans and higher property taxes.⁴⁸

The constant rise in costs of both building materials and labor has contributed to the expense of new construction. The cost of lumber, bricks, concrete and other materials has risen steadily and periodic shortages of certain building materials have resulted in more drastic price increases. The lack of uniformity in building codes, restrictive union practices, resistance to new building techniques and construction delays resulting in higher labor costs have further inflated the costs of all new construction.

New condominium construction also has been affected by the rapidly rising costs of financing. Interest rates have risen dramatically in recent years. The high rate of inflation in the national economy, the unstable money supply and mortgage flows, national monetary and tax policies, and the cyclical nature of the construction industry are among the complex factors contrib-

uting to increasing financing costs.⁴⁹

In addition to the acquisition price and upgrading costs, the expenses involved for conversion include those for legal and engineering fees for the drafting of necessary documents, surveys, title insurance and recording; financing to arrange loan commitments; marketing, including sales commissions and other costs involved in selling units; and carrying costs during the conversion process. Conversion costs vary considerably and are subject to the same cost-inflating factors affecting new construction. However, in most cases, new construction still competes unfavorably on a price basis with conversions.

Avoids restrictions on new development. Conversion involves an existing structure and many regulations controlling new development can be avoided by developers. Most structures considered ideal for conversion already conform to most zoning, building and housing codes. Consequently, height limitations, open space requirements, structural improvements, parking, landscaping, amenities and other restrictions on new construction can often be circumvented. Local authorities cannot enact ordinances prohibiting the conversion of rental apartments to condominiums based solely on the form of ownership.⁵⁰ However, where stricter standards regarding all new multifamily development is enacted, developers may be required to meet these regulations before conversion is permitted. Local jurisdictions also may adopt specific policies and ordinances regarding conversion to condominiums.

Higher market values. A higher market value can be real-

ized through the conversion of a rental apartment project to condominium ownership. The sum of the selling prices of individual units sold as condominiums exceeds the price of the entire structure as a rental project. The increase in value through conversion arises from the shift in the market for the property. As a rental apartment, the market for the property is composed of a limited number of investors. The property commands a price to investors in this market that meets their desired risk-yield requirements. As a condominium project, the market for the property is broader and is composed primarily of less sophisticated housing consumers whose decision to purchase is normally based on more subjective criteria. The converter profits from the difference between the market value of the property as a rental project and the combined sales price of units converted to condominiums.⁵¹

Opportunity to "cash-out". Conversion to condominiums presents a particularly attractive alternative to financially-pressed apartment owners and to owners of troubled properties resulting from speculative financing, poor management, negligence, indifference, increased operating expenses or other problems. Owners faced with foreclosure and pressed to sell their property still bear the risk of remaining liable for the mortgage and other debts if the sales proceeds do not cover all of their debts. Rather than risk a doubtful or delayed sale, many owners facing such a crisis have been motivated to convert to condominiums.⁵² Conversion provides owners with an opportunity to "cash-out" to recover invested equity, gain release from mort-

gage obligations and typically realize a substantial increase in the market value of their property.

Advantages to purchasers

For purchasers, condominium conversions provide a unique combination of attributes, featuring the ownership qualities of single family housing, while retaining many of the preferred characteristics of rental apartments.

Tax deductions. Condominium ownership provides the same tax advantages of single family homeownership. Both real estate taxes and mortgage interest payments may be deducted from the owner's taxable income. Although the conversion of rental apartments to condominiums typically increases the monthly cash outlays for the same housing, these deductions significantly reduce the net cost of ownership compared to renting. The tax benefits to owners in high marginal tax brackets are considerable, particularly in the early years of the mortgage when interest payments are high. Owner-occupants also are not taxed on the imputed net income they earn by "renting" their unit to themselves.

Equity appreciation. Condominium owners benefit from the build-up of their equity and the opportunity for capital appreciation of their property interest upon sale. The appreciation of condominium units, particularly in central cities, is high and the re-sale market is strong throughout the Bay Area. Homeowner loans of up to 90-95% of the sales price of units normally are available, as considerable financial leverage also is possible.

Security of tenure. Condominium ownership insures a secure tenure and stabilizes monthly payments for housing. The

responsibility of owners for their mortgage obligations decreases their mobility, however eviction, forced relocation and rent increases are avoided.

Relatively low purchase prices. Condominiums generally are available at lower purchase prices than traditional single family homes. Although on a per-square-foot basis, the cost of a condominium unit may exceed that of a single family home due to the tendency for more amenities and less floor space, condominiums normally are priced below single family homes. Approximately 42% of all condominiums nationwide were priced below \$30,000 in 1974, compared to 31% of all single family homes.⁵³ The sales price of condominium units in the Bay Area start as low as \$40,000. The median price of single family housing in the region is \$96,528.⁵⁴ Conversions generally offer purchase prices lower than both traditional single family homes and new condominium units. Converted one and two bedroom units in suburban areas such as San Mateo range in price from \$43,000 to \$85,000.⁵⁵ The median price of a single family home in the area is \$110,362.⁵⁶ In San Francisco, converted studio apartments range from \$43,000 to \$54,000 and one bedroom units from \$50,000 to \$79,000.⁵⁷

Convenience and ease of maintenance. Condominium projects, especially those converted from rental apartments, are usually well-located in close proximity to public transportation, shopping, businesses, community facilities and services. In addition, condominium ownership offers freedom from outside maintenance chores and upkeep. The benefits of relatively mainte-

nance-free living come at a cost which is normally represented by dues paid to the homeowners association. But for an increasing number of households striving for more leisure time, the convenience and ease of maintenance offered by condominiums outweigh these costs.

Amenities. Condominiums normally offer greater open space and more amenities than traditional single family housing. Recreational facilities such as swimming pools, tennis courts, health spas, gymnasiums and clubhouses which most persons could not afford on an individual ownership basis are often featured in many condominium projects. Such facilities are shared with other unit owners in the condominium project. Other amenities such as private patios and decks, built-in appliances, security and air-conditioning systems also may be provided in units at competitive prices.

SECTION III

REGULATION OF CONDOMINIUM CONVERSIONS



complies with certain conditions, primarily intended to protect purchasers. Failure to comply with the conditions will result in denial of a public report, preventing the developer from making any sales without being subject to criminal and civil penalties and to the purchaser's option to void the contract.

The Subdivision Map Act is a regulatory measure authorizing local governments to control the location, density and design of subdivision developments in accordance with general land use plans.⁶² Condominium developers are required to obtain approval from local authorities of both tentative and final design maps before initiating construction or sales. With respect to condominiums converted from rental apartments, the Act contains the following provision in the California Government Code:

Sec. 66427.1 Condominium or community apartment house projects; conversion from residential real property; approval of final map for subdivisions. The legislative body shall not approve a final map for a subdivision to be created from the conversion of residential real property into a condominium project or a community apartment project unless it finds both that:

(a) Each of the tenants of the proposed condominium or community apartment house project has been or will be given 120 days' written notice of intention to convert prior to termination of tenancy due to the conversion or proposed conversion. The provisions of this subdivision shall not alter or abridge the rights or obligations of the parties in performance of their covenants, including, but not limited to the provision of services, payment of rent or the obligations imposed by Sections 1941, 1941.1 and 1941.2 of the Civil Code.

(b) Each of the tenants of the proposed condominium or community apartment house project has been or will be given notice of an exclusive right to contract for the purchase of their respective units upon the same terms and conditions that such units will be initially offered to the general public or terms more favorable to the tenant. The right shall run for a period pursuant to Section 11018.2 of the Business and Professions Code, unless the tenant gives prior written notice of his intention not to exercise the right.

(c) This section shall not diminish, limit or expand, other than as provided herein, the authority of any city, county, or city and county to approve or disapprove condominium projects.

Several proposals have been offered to strengthen legislation in this area following hearings on condominium conversions held by the State Legislature and testimony by the California Department of Housing and Community Development urging the adoption of provisions to alleviate the impact of conversions on the rental market.⁶³ However, such efforts have met considerable opposition from the real estate industry and have yet to be enacted.⁶⁴

Local Regulation of Conversions

In the absence of any definite objectives or policies specifically directed at the conversion of existing buildings to condominium projects, local jurisdictions must follow the provisions of the Subdivision Map Act. Initially, many local authorities viewed the conversion process as a means of upgrading structures, increasing tax revenues without providing additional services, expanding homeownership opportunities and creating a more stable owner-occupied community. However, as conversions have increased, the loss of rental units has resulted in a diminished supply of rental housing types, increased rents and the forced relocation of tenants, particularly the elderly, low and moderate income households and those without accumulated wealth.

The inadequacy of existing legislation to address these problems has been a growing concern of local policy makers. Many jurisdictions have imposed temporary moratoriums on all conversions pending study and remedial legislation. At least 23 cities in the Bay Area have imposed moratoriums on condominium conversions, ranging in duration from 60 days to 2 years. After the completion of studies, local authorities typically have amended

TABLE III-1

LOCAL REGULATION OF CONDOMINIUM CONVERSIONS

<u>CITY/COUNTY</u>	<u>SPECIFIC REGULATIONS CONTROLLING CONVERSIONS</u>	<u>DATE ADOPTED</u>	<u>AMENDED ORDINANCE</u>	<u>MORATORIUM</u>
ALAMEDA COUNTY				
Alameda	Conversion Ordinance	Apr, 1975	Zoning	
Albany	Proposal being drafted			
Berkeley	Proposal being drafted			
Emeryville	Conversion Ordinance	July, 1978		
Fremont	Policy Statement	Mar, 1978		
Hayward	Conversion Ordinance	Feb, 1979	Subdiv	
Livermore	Condominium Ordinance	July, 1972	Zoning	
Newark	Policy Statement			
Oakland	Conversion Ordinance	Dec, 1978	Subdiv	Oct-Dec, 1978
Piedmont	None planned			
Pleasanton	Proposal being drafted			June, 1979; 60 days
San Leandro	Conversion Ordinance	June, 1974	Zoning	
Union City	Proposal being drafted			
Unincorporated	Policy Statement			
CONTRA COSTA COUNTY				
Antioch	Proposal being drafted			
Brentwood	None planned			
Clayton	None planned			
Concord	Conversion Ordinance		Zoning	
El Cerrito	None planned			
Hercules	None planned			
Lafayette	None planned			
Martinez	Proposal being drafted			July, 1979; 1 yr
Moraga	Policy Statement			Oct, 1979; 2 yrs
Pinole	None planned			
Pittsburg	Proposal being drafted			
Pleasant Hill	Conversion Ordinance	Mar, 1978	Subdiv	
Richmond	None planned			

<u>CITY/COUNTY</u>	<u>SPECIFIC REGULATIONS CONTROLLING CONVERSIONS</u>	<u>DATE ADOPTED</u>	<u>AMENDED ORDINANCE</u>	<u>MORATORIUM</u>
CONTRA COSTA COUNTY				
San Pablo Walnut Creek Unincorporated	Proposal being drafted Conversion Ordinance None planned	Aug, 1978	Subdiv	
MARIN COUNTY				
Belvedere	None planned			
Corte Madera	Conversion Ordinance	Mar, 1978	Zoning	June, 1979; 90 days
Fairfax	Proposal being drafted			
Larkspur	Conversion Ordinance	Dec, 1977	Subdiv	
Mill Valley	Conversion Ordinance		Zoning	
Novato	Conversion Ordinance	Mar, 1974		
Ross	None planned			
San Anselmo	None planned			
San Rafael	Conversion Ordinance	Sept, 1974	Subdiv	
Sausalito	Conversion Ordinance	Oct, 1974	Zoning	
Tiburon	Conversion Ordinance	June, 1974	Zoning	July, 1973-June, 1974
Unincorporated	Conversion Ordinance	Sept, 1974	Subdiv	
NAPA COUNTY				
Calistoga	None planned			
Napa	Proposal being drafted			
St. Helena	None planned			
Yountville	None planned			
Unincorporated	None planned			
SAN FRANCISCO COUNTY				
San Francisco	Conversion Ordinance	May, 1975 July, 1979	Subdiv	May, 1974-May, 1975 Apr-May, 1979
SAN MATEO COUNTY				
Atherton	None planned			
Belmont	Conversion Ordinance	Aug, 1977	Subdiv	

<u>CITY/COUNTY</u>	<u>SPECIFIC REGULATIONS CONTROLLING CONVERSIONS</u>	<u>DATE ADOPTED</u>	<u>AMENDED ORDINANCE</u>	<u>MORATORIUM</u>
SAN MATEO COUNTY				
Brisbane	None planned			
Burlingame	Conversion Ordinance	Nov, 1975	Subdiv	
Colma	None planned			
Daly City	Proposal being drafted			
Foster City	Proposal being drafted			Apr,1979; 4 mos
Half Moon Bay	Proposal being drafted			
Hillsborough	None planned			
Menlo Park	Conversion Ordinance	June, 1974	Subdiv	
Millbrae	Conversion Ordinance	July, 1977	Zoning	Mar,1979; 4 mos
Pacifica	Conversion Ordinance	Mar, 1975	Zoning	
Portola Valley	None planned			
Redwood City	Conversion Ordinance	May, 1978	Subdiv	June-Dec,1974
San Bruno	Proposal being drafted			
San Carlos	None planned			
San Mateo	Conversion Ordinance	Feb, 1975	Subdiv	
South San Francisco	Conversion Ordinance	Apr, 1975	Subdiv	Apr-Dec,1974
Woodside	None planned			
Unincorporated	None planned			
SANTA CLARA COUNTY				
Campbell	None planned			
Cupertino	Conversion Ordinance	Dec, 1978	Zoning	
Gilroy	Policy Statement	June, 1978		
Los Altos	Conversion Ordinance	May, 1974	Zoning	Jan-Apr,1974
Los Altos Hills	None planned			
Los Gatos	Conversion Ordinance	Mar, 1974	Zoning	June,1973-Oct,1974
Milpitas	Proposal being drafted			Mar,1979; 4 mos
Monte Sereno	None planned			
Morgan Hill	None planned			
Mountain View	Conversion Ordinance	Sept, 1973	Subdiv	Mar,1974-Mar,1976 Apr,1977-Apr,1978
Palo Alto	Conversion Ordinance	Oct, 1974		Oct,1974; in effect
San Jose	Conversion Ordinance	May, 1977	Zoning	Nov,1973-Aug,1975
Santa Clara	Conversion Ordinance	1975	Zoning	May,1979; 3 mos

<u>CITY/COUNTY</u>	<u>SPECIFIC REGULATIONS CONTROLLING CONVERSIONS</u>	<u>DATE ADOPTED</u>	<u>AMENDED ORDINANCE</u>	<u>MORATORIUM</u>
SANTA CLARA COUNTY				
Saratoga	Conversion Ordinance	May, 1976	Subdiv	Oct, 1975-May, 1976
Sunnyvale	Policy Statement	Jan, 1979		
Unincorporated	None planned			
SOLANO COUNTY				
Benecia	Proposal being drafted			
Dixon	None planned			
Fairfield	None planned			
Rio Vista	None planned			
Suisun City	Conversion Ordinance	Apr, 1978		
Vacaville	Conversion Ordinance	Apr, 1977	Zoning	Apr-June, 1979
Vallejo	None planned			
Unincorporated	None planned			
SONOMA COUNTY				
Cloverdale	None planned			
Cotati	Proposal being drafted			
Healdsburg	Conversion Ordinance	Jan, 1978	Subdiv	
Petaluma	Conversion Ordinance	Dec, 1978	Subdiv	Oct, 1978-Nov, 1979
Rohnert Park	Policy Statement	Oct, 1978		
Santa Rosa	Conversion Ordinance	Apr, 1979	Zoning	Aug, 1978-Mar, 1979
Sebastopol	Policy Statement			
Sonoma	Proposal being drafted			Nov, 1978; in effect
Unincorporated	None planned			

their general plans, adding specific objectives or policies regarding conversion to condominiums. At least 39 cities and counties in the Bay Area have enacted specific condominium conversion ordinances to regulate conversions in accordance with their adopted general plans. Eighteen other jurisdictions are currently in the process of drafting local conversion controls. Table III-1 summarizes the regulatory approaches taken by local jurisdictions in the Bay Area toward controlling condominium conversions.

Review of Local Condominium Conversion Ordinances

The ordinances enacted by local jurisdictions to regulate condominium conversions primarily address six general areas of concern: tenant protection, tenant relocation, building quality, buyer protection, homeownership opportunities and protection of the rental stock.

Provisions to protect tenants

Cases of tenant harassment in the form of rent hikes, decreased services, maltreatment and unlawful evictions by owners have prompted the adoption of provisions to protect the rights of tenants during the conversion process. The converter usually depends on existing tenants to purchase a certain percentage of converted units, however if tenants do not wish to purchase, he wants them to vacate their units as soon as possible to allow immediate renovation or redecoration for prospective purchasers. Impatient developers have harassed uncooperative tenants, compelling local authorities to enact legislative safeguards.

Notification of tenants. Many conversion ordinances require that a developer intending to convert a rental apartment structure to condominiums give existing tenants written notice of his intention to convert prior to submission of the application for conversion. The intent of this requirement is to insure that all tenants are aware of the proposed conversion early in the process so that they may consider available options. Developers also may be required to advise prospective tenants of their intent to convert before the tenant consents to a lease or rental agreement. Some local ordinances further specify that written notices be posted on the premises and that all tenants be notified in advance of any public hearings or City actions regarding the conversion proposal.

Control of rent increases during conversion. Control of rent increases during conversion prevents developers from raising or threatening to raise rents to either cause vacancies or to gain tenant approval. This provision typically requires that no tenant's rent will be increased for a period of up to two years from the date of the notice of intention to convert until the tenant relocates or until the application for conversion is withdrawn or denied. Jurisdictions which have adopted this provisions include Walnut Creek, San Francisco and Oakland.

Tenant consent to conversion. Provisions requiring tenant consent give tenants in a proposed conversion the right to approve or veto the conversion. Such provisions require that a certain percentage of adult tenants must either indicate their intent to purchase their units or agree in writing to the conver-

sion before local approval is granted. The percentage of tenants required to give their consent ranges from 40% in San Francisco, 50% in Sausalito for conversions of 10 or more units, to at least two-thirds in Palo Alto, Saratoga, Petaluma and Milpitas.

Public hearings on conversion requests. Public hearings allow tenants to present testimony regarding conversion requests before the Planning Commission makes its decision. This provision requires that public hearings be held on all requests for conversion to determine their consistency to the community's general plan.

Provisions to assist in tenant relocation

The displacement of tenants and the difficulty in finding comparable alternative housing within the same community is the most serious and prevalent problem of conversions. Only 20% of existing tenants purchase their unit in a typical conversion.⁶⁵ Relocation can be a severe problem particularly for elderly residents in areas where there are low vacancy rates. Many elderly tenants may be afraid to move for physical or health reasons. Long-term renters may not want to move because of strong social ties to the community. Tenants may not be able to find comparable alternative housing in the community and again may find themselves in a potential conversion situation.

Termination of tenancy. Provisions regarding the termination of leases or rental agreements during conversion allow tenants the right of occupancy for up to 120 days from approval of the conversion or until the expiration of the tenant's lease, whichever is longer. They also may permit tenants to terminate

their tenancy with only minimal notice. The intent of these provisions are to allow adequate time to locate new housing and to prevent tenants from double payment of rent resulting from being locked into a lease or rental agreement.

Lease extensions. Lease extensions are intended to offer protection and to give special tenant groups including the elderly, disabled, families with children and students, who may be in the middle of the school year, additional time in which to find replacement housing. These provisions typically require developers to extend existing leases for a specified period of time after conversion approval is granted or sales begin. Some jurisdictions may require that elderly and permanently-disabled tenants be granted lifetime leases, because of their vulnerability and extreme difficulty in finding suitable replacement housing.

Relocation assistance. Several conversion ordinances contain provisions requiring developers to provide relocation assistance to accommodate tenants displaced in a conversion. These provisions may require developers to provide information to tenants on comparable rental units in the area or to pay for the services of a real estate brokerage firm to locate new housing.

Reimbursement for moving expenses. This provision requires developers to reimburse tenants for moving expenses to help mitigate the impact of a forced move. In San Francisco, developers are required to reimburse tenants up to a maximum of \$1,000; in Alameda, up to \$150 plus \$10 for every room, exclusive of bathrooms in the unit rented by the tenant; and in Walnut Creek, up to 1½ times the monthly rent paid by the tenant.

Provisions to upgrade buildings

Although some structures have been converted without any upgrading, improving the quality of structures converted is one of the main concerns of most conversion ordinances. The conversion to ownership status is likely to create an intensification of uses within the project, requiring substantial upgrading of the structures. Particularly in suburban areas, a greater number of children is likely to reside in owner-occupied units than in rental units, resulting in the need for additional facilities and services. The needs of the new residents after conversion also may be different. Open space and other facilities provided in an apartment project designed for single adults may not be suitable for families with children who might buy into the project upon conversion. Differences in overall life styles between renters and owners may result in greater demands on utility services, storage space and parking after conversion.

While the change in tenure of the housing units does not directly create additional safety hazards, it does affect the responsibility for maintenance and repairs, and therein the burden for hazard prevention. Fire and water damage started in one unit obviously may affect adjoining units. Safety and energy consumption features including separate fire walls between units, smoke alarms, water shut-off valves, sound insulation and individual utility meters are generally absent in older structures which may be proposed for conversion. Developers typically attempt to keep conversion costs as low as possible, making only those improvements which can be reflected in the increased sales

prices of the units.

Compliance with all current codes. This provision requires that all buildings proposed for conversion must conform to current State and local structural, safety and utility codes before approval can be granted by local authorities. It is intended to insure sufficient upgrading of structures before conversion to reduce safety, health and welfare problems for unit owners. Some jurisdictions further require developers to post a bond to insure the completion of necessary improvements.

Improvement of the property for ownership. Most conversion ordinances contain provisions requiring developers to improve properties proposed for conversion by providing sufficient amenities for ownership. The specific requirements of local ordinances vary considerably, but may include:

- separate meters for utility service
- on-site parking (up to 2 spaces per unit)
- storage space (between 100-200 cubic feet per unit or one cubic foot per three square feet of floor area)
- laundry facilities (one washer/dryer for every 5 units)
- sound attenuation
- shock mounting of all permanent mechanical equipment
- building security, including the changing of all locks so keys previously used will not allow entry to units after conversion
- unit climate control
- open space and recreational facilities
- addresses for all units prominently displayed at appropriate points within or adjacent to the property
- undergrounding of all utility, communication and service wires within the exterior boundary lines of the property

Design review. Other provisions may require conversions to receive approval by a design review board to insure a high quality of design in refurbishment. Such review may focus on, but is not limited to the upgrading of the structures, the functional design of the site, adequacy of landscaping, color scheme,

materials and other issues deemed appropriate by the Design Review Board.

Provisions to protect purchasers

Problems encountered in condominium conversions are not limited to those arising during the conversion process. Many problems and financial burdens may not be realized for several years following conversion. Structural defects and deterioration from age, insects, pests and other causes may not be readily discernible to prospective buyers. Unexpected repairs and various hidden costs may emerge only in the long-term operation and maintenance of the project. Commitments for 30 year loans on individual units within conversion projects may over-extend the useful life of structures already over 10 years but remodeled to appear new.

Preparation of building reports. This provision requires the preparation of detailed reports on all proposed conversions for use by local authorities and prospective purchasers in determining the condition and history of the project. The reports required may include:

- a report from a registered engineer detailing the present condition and useful life of all structural and mechanical components of the structure
- a structural pest and dry-rot report showing any evidence of wood-destroying pests or organisms
- a soils report regarding evidence of any known soils problems
- a building inspection report detailing any code violations to be corrected
- a building history report containing the date of original construction and any improvements or structural modifications

Developers normally are required to provide copies of all reports.

to prospective purchasers and in some jurisdictions, in Spanish if requested.

Submission of organizational documents. Other provisions may require the submission of all necessary organizational documents for local review and approval. These documents may include the homeowners association by-laws; covenants, conditions and restrictions (CC&R's) and the projected annual operating budget for the homeowners association. The intent of this provision is to reduce potential problems which might arise from an unworkable organizational structure, by-laws or insufficient funds to sustain long-term operation and maintenance of the project. Local authorities typically require professional management of the project after conversion, the inclusion of a sinking fund reserve in the budget to be used for major repairs and expenses and/or a clause in the CC&R's reserving the right to enforce maintenance if responsibilities are not fulfilled by the homeowners association.

Warranties and a "cooling-off" period at purchase. Some local ordinances have provided further protection for purchasers. Such provisions include warranties of up to one year on all unit appliances such as dishwashers, refrigerators, stoves and garbage disposals and a 72 hour "cooling-off" period following the agreement to purchase allowing the buyer to withdraw his offer without penalty or cost.

Provisions to facilitate homeownership

Although conversions frequently do provide the most inexpensive form of ownership, the monthly cash outlay to own is

normally higher than renting and beyond the reach of most low or moderate income households. Many existing tenants cannot afford the downpayment required to purchase their unit. Although local authorities have been largely preoccupied with regulating and controlling conversion activity, some jurisdictions have adopted provisions to facilitate homeownership through conversions.

Discounts to tenant purchasers. This approach provides discounts to tenant purchasers on the sales price of their units in order to reduce displacement and facilitate ownership. The tenant's right of first refusal at terms equal or more favorable to terms offered to the general public is provide by State law, but some local ordinances have required developers to offer discounts of 6% to existing tenants in buildings undergoing conversion.

Reserve units for low or moderate income households. A number of jurisdictions have attempted to facilitate homeownership by reserving a certain percentage of units in a conversion for purchase by low or moderate income households. Some provisions require that the sales prices of some units be limited to less than 2.5 times the median income to allow purchase by low or moderate income households.

Downpayment assistance. Local jurisdictions also have made provisions for downpayment assistance to eligible tenants for the purchase of their units. One such provision requires developers to pay 10% of the difference between the aggregate sales prices of market rate units and the aggregate total of

sales prices of units sold at moderate income prices to a fund used to expand homeownership through downpayment assistance, co-ownership and equity partnership programs.

Provisions to protect the rental stock

As more rental housing units are converted, the availability of rental units is diminished. By reducing the supply of rental housing, conversion contributes to increasing the demand for existing rental units and to eventual rent hikes. Many jurisdictions have adopted measures to protect the supply of rental housing in face of the rising rate of conversion and low levels of new rental construction.

Prohibit conversions when the vacancy rate falls below a certain percentage. This provision forbids conversions when the vacancy rate fall below a certain percentage, normally 3% or 5%, considered to result in a rental housing shortage. No conversions may be approved when the rental vacancy rate is at or below 3%. However, in the event that the vacancy rate climbs to a level above 3%, through the construction of new rental units or increased vacancies, conversions could be approved to the extent of the number of units in excess of 3% of the housing stock.

Limitations on the number of conversions allowed. Where the number of applications for conversion has been determined by local authorities to be excessive, limits have been imposed concerning the acceptance of further applications. An annual limit of 1000 units has been established in San Francisco. When 1000 units have been approved in any calendar year, no further applications will be accepted by local authorities. Rohnert Park has

adopted a policy providing that applications for conversions will be accepted only during the months of September and October to allow thorough review by local authorities.

Table III-2 summarizes provisions in condominium conversion ordinances received from local planning departments in the Bay Area.

TABLE III-2

CONDOMINIUM CONVERSION CONTROLS

Alameda	Municipal Code, Article 4-D
Emeryville	Resolution #78-168
Fremont	Condominium Conversion Policy ST-77-9
Hayward	Subdivision Ordinance, Section 10-3.350-3.92
Livermore	Municipal Code, Section 8.97
Oakland	Ordinance #9706
San Leandro	Municipal Code, Title VII, Chapter 3
Concord	Municipal Code, Article IV, Chapter 4
Pleasant Hill	Ordinance #402
Walnut Creek	Ordinance #1381
Marin County	County Code, Chapter 20.72
Corte Madera	Municipal Code, Chapter 18, Section 18.07
Larkspur	Municipal Code, Chapter 17.40
Novato	Municipal Code, Chapter 9.13
San Rafael	Municipal Code, Chapter 15.50
Sausalito	Ordinance #___, amending Section 10.934, Ord#630
San Francisco	Ordinance #337-79
Burlingame	Ordinance #1015
Menlo Park	Ordinance #568
Millbrae	Ordinance #386
Pacifica	Municipal Code, Article 24
Redwood City	Ordinance #1751
San Mateo	Municipal Code, Chapter 26.65
South San Francisco	Ordinance #692-75
Gilroy	Condominium Conversion Policy
Los Altos	Municipal Code, Section 10-2.702
Los Gatos	Municipal Code, Section 27-4.5
Milpitas	Ordinance #___, amending Ord#38
San Jose	Municipal Code, Chapter 5
Santa Clara	Municipal Code, Article 27
Saratoga	Municipal Code, Article IV, Section 30
Sunnyvale	Condominium Conversion Policy
Cotati	Municipal Code, Chapter 16.50 (draft)
Healdsburg	Ordinance #624
Petaluma	Ordinance #1341
Rohnert Park	Resolution #78-102
Cupertino	Ordinance #906

TABLE III-2

CONDOMINIUM CONVERSION CONTROLS

<u>JURISDICTION</u>	<u>TENANT PROTECTION</u>				<u>TENANT RELOCATION</u>			
	<u>Notify Tenants</u>	<u>Control Rents</u>	<u>Tenant Consent</u>	<u>Public Hearing</u>	<u>Termin Tenancy</u>	<u>Lease Exten</u>	<u>Reloc Assist</u>	<u>Moving Expense</u>
Alameda	X				X		X	X
Emeryville	X			X		X	X	
Fremont	X			X				
Hayward	X						X	
Livermore								
Oakland	X	X			X		X	
San Leandro	X							
Concord	X				X			
Pleasant Hill	X			X				
Walnut Creek	X	X			X	X		X
Marin County	X							
Corte Madera	X							
Larkspur	X			X			X	
Novato								
San Rafael	X							
Sausalito	X		X		X			
San Francisco	X	X	X	X	X	X	X	X
Burlingame							X	
Menlo Park	X				X		X	
Millbrae								
Pacifica								
Redwood City	X				X			
San Mateo	X						X	
South San Francisco	X				X		X	
Cupertino	X			X	X	X	X	
Gilroy	X				X			
Los Altos	X						X	
Los Gatos								
Milpitas								
San Jose	X							
Santa Clara	X				X			

<u>JURISDICTION</u>	<u>Code</u> <u>Compl</u>	<u>BLDG QUALITY</u>		<u>BUYER PROTECTION</u>			<u>FACILITATE OWNERSHIP</u>		
		<u>Improv</u> <u>Prop</u>	<u>Design</u> <u>Review</u>	<u>Bldg</u> <u>Report</u>	<u>Orgzn</u> <u>Documt</u>	<u>Warr</u> <u>Period</u>	<u>Tenant</u> <u>Disct</u>	<u>Reserve</u> <u>Units</u>	<u>Dnpmt</u> <u>Assist</u>
Alameda	X	X	X	X					
Emeryville	X	X		X			X		
Fremont	X	X		X		X			
Hayward	X	X		X	X				
Livermore	X								
Oakland	X			X		X			
San Leandro	X	X		X	X				
Concord	X	X		X	X	X			
Pleasant Hill	X	X	X	X	X				
Walnut Creek	X	X		X	X	X			
Marin County	X	X			X			X	
Corte Madera	X	X		X	X				
Larkspur	X	X		X	X				
Novato	X	X			X				
San Rafael	X	X			X	X			
Sausalito	X				X			X	
San Francisco	X			X				X	X
Burlingame	X	X		X					
Menlo Park	X			X	X				
Millbrae	X	X		X	X				
Pacifica	X	X			X				
Redwood City	X	X		X	X				
San Mateo	X	X		X	X	X			
South San Francisco	X	X		X	X				
Cupertino	X	X		X	X				
Gilroy	X	X		X	X	X			
Los Altos	X								
Los Gatos	X								
Milpitas	X	X							
San Jose	X	X		X	X				
Santa Clara	X	X		X	X				

PROTECT RENTAL STOCK

Vac Limit
Rate Conv

JURISDICTION

Alameda
 Emeryville
 Fremont
 Hayward
 Livermore
 Oakland
 San Leandro
 Concord
 Pleasant Hill
 Walnut Creek
 Marin County X
 Corte Madera
 Larkspur X
 Novato
 San Rafael
 Sausalito X
 San Francisco X X
 Burlingame
 Menlo Park
 Millbrae
 Pacifica
 Redwood City
 San Mateo
 South San Francisco
 Cupertino
 Gilroy
 Los Altos
 Los Gatos
 Milpitas X
 San Jose
 Santa Clara

<u>JURISDICTION</u>	<u>TENANT PROTECTION</u>			<u>Public Hearing</u>	<u>TENANT RELOCATION</u>			
	<u>Notify Tenants</u>	<u>Control Rents</u>	<u>Tenant Consent</u>		<u>Termin Tenancy</u>	<u>Lease Exten</u>	<u>Reloc Assist</u>	<u>Moving Expense</u>
Saratoga			X					
Sunnyvale	X			X				
Cotati	X				X			
Healdsburg	X						X	
Petaluma			X					
Rohnert Park								
Santa Rosa	X				X			

<u>JURISDICTION</u>	BLDG QUALITY			BUYER PROTECTION			FACILITATE OWNERSHIP		
	<u>Code Compl</u>	<u>Improv Prop</u>	<u>Design Review</u>	<u>Bldg Report</u>	<u>Orgzn Documt</u>	<u>Warr Period</u>	<u>Tenant Disct</u>	<u>Reserve Units</u>	<u>Dnpmt Assist</u>
Saratoga	X	X		X	X				
Sunnyvale	X	X		X	X				
Cotati	X	X		X	X				
Healdsburg	X			X	X				
Petaluma									
Rohnert Park									
Santa Rosa	X	X	X	X	X	X			

PROTECT RENTAL STOCK

<u>JURISDICTION</u>	<u>Vac</u>	<u>Limit</u>
	<u>Rate</u>	<u>Conv</u>
Saratoga	X	
Sunnyvale		
Cotati	X	
Healdsburg		
Petaluma	X	
Rohnert Park		X
Santa Rosa	X	

CONCLUSION

CONCLUSION

Future Trends

Viewed in the context of the overall housing market, the conversion of rental apartment units to owner-occupied condominium units represents a normal market adjustment process. The declining profitability of rental apartment projects and the increasing demand for condominium ownership in recent years has brought about a shift of rental housing to ownership status. At other times of economic stress, unemployment and reduced incomes, the movement has been reversed as housing units have shifted from owner to renter occupancy.

However, in light of recent demographic and economic changes affecting the housing market, the conversion trend appears irreversible. Economic incentives to both the converter and purchasers will provide continuing pressure for conversion. The shift of rental apartments to condominium ownership is likely to continue and to increase in the future.

Recommendations

Local policy makers considering appropriate legislation to deal with the growing problems created by conversions may find it increasingly necessary to regulate the rate of conversion. Some jurisdictions have already enacted provisions prohibiting conversion when the vacancy rate falls below a certain

percentage and permitting conversions only to the extent of the number of rental units in excess of the vacancy rate threshold.

This type of intervention in the housing market necessitates a system of monitoring changes in the housing supply and the manner in which the existing stock is allocated into various submarkets. A framework for organizing data in such a system is shown in Table c-1. The data requirements include the number of occupied rental apartment units, new construction, removals and vacant units by rent level and unit size. While such data is usually available in most cities, its organization into the matrix framework by rent level and unit size may require extensive research into city records, revision of record keeping methods or special field surveys. Frequent updating on a quarterly basis also would be necessary.

Upon establishing such a framework for organizing data, changes in the housing market could be closely monitored and public policies regulating the rate of conversion could be developed more precisely. In general, conversions would continue to be permitted to the extent of the number of units in excess of a certain percentage of the rental stock. Assuming that a vacancy rate of 3% is considered to be critical, the number of conversions permitted for any rental submarket "x" would be given by:

$$C_x = V_x - .03(OU_x + NC_x - R_x)$$

where C = the number of conversions allowed

OU = the number of occupied rental apartment units

TABLE c-1

A FRAMEWORK FOR MONITORING HOUSING MARKET CHANGES

	Studio/1 Bdrm				2 Bdrm				3 Bdrm			
	Occ Units	New Const	Remov	Vacant	Occ Units	New Const	Remov	Vacant	Occ Units	New Const	Remov	Vacant
Low Rent less than \$100												
Medium Rent \$250-\$399												
High Rent \$400 or more												

NC = the number of units of new rental apartment construction

R = the number of rental apartment units removed from the inventory through demolition and mergers.

In the case of a shortage of low-rent two or three bedroom rental apartments indicated by vacancy rates below 3%, these units would be protected from conversion until a sufficient surplus existed exceeding 3% of the units in this submarket.

The establishment of such a format for organizing data would not only enable local authorities to monitor more closely changes in the housing market, but also regulate the rate of conversion to alleviate its impact in specific submarkets and therein on vulnerable tenant groups.

FOOTNOTES

¹ Documents were discovered showing "the sale of the first floor of a house with the owner retaining title to the second floor. A papyrus in the Brooklyn Museum, dated 434 B.C., describes an apartment, its boundaries and specific instructions about the right of sale--and even title insurance." Bob Tamarkin, "Horizontal Property" in "Condomania in Chicago", Forbes, November 13, 1978, pg. 57.

² A brief historical background of condominium ownership is contained in Patrick E. Kehoe, Cooperatives and Condominiums, (Dobbs Ferry, New York: Oceana Publications, Inc., 1974), pg. 6-8.

³ When the condominium concept reached North and South America it was dubbed "horizontal property". Hawaii's enabling legislation is called the Hawaii Horizontal Property Act. U.S. Department of Housing and Urban Development, HUD Condominium Cooperative Study, Vol. 1, (Washington, D.C.: U.S. Government Printing Office, 1975) pg. VI-3.

⁴ "For several reasons, this section (234) had limited success: most condominiums were too expensive to be eligible for Section 234 financing; developers chose, during the period of "easy" money, to avoid the lengthy, thereby costly, processing involved with FHA financing; developers may have tended to avoid FHA-insured financing because it subjected them to strict quality controls. Thus, in the 10 year period during which Section 234(d) was in effect (i.e. through June, 1974), HUD insured only 30,869 units under blanket mortgages in the project phase and only 20,906 unit mortgages in the individual unit phase." U.S. Department of Housing and Urban Development, HUD Condominium Cooperative Study, Vol. I, pg. VI-2. The HUD study also notes that regionally, it appears that Section 234 had a substantially greater impact in Santa Clara County than in other areas across the country. At the end of 1973, 3,115 condominium units out of approximately 9,800 total condominium units in the County had been constructed under FHA Section 234.

⁵ FHA Form No. 3285 (1962) U.S. Department of Housing and Urban Development, HUD Condominium Cooperative Study, Vol. I, pg. VI-4.

⁶ Ibid., Table III-1, pg. III-2.

⁷ The HUD study identified the 10 most significant problems for consumers as long-term recreational leases, low-quality construction, complexity of documents, displaced tenants in conversions, association operating problems, problems of community

living, misuse of consumer deposits, nonpayment of association dues by the developer, warranties and engineering reports, and underestimating operating expenses.

⁸ Several "retroversions" occurred out of necessity during the recession of 1973-75 in Santa Clara County. These were primarily "relatively undistinguished, grouped fourplexes with middle class apartment level amenities, no private outside areas, and average to below average quality design and construction", built by the McKeon Construction Company, one of the largest condominium builders in California. Dirk J. Wassenaar, George A. Stauss and Robert J. Lineham, An Investigation Into the Success and Failure Factors of Apartment Condominium Conversions in Northern California, (San Jose: Institute for Business and Economic Research, San Jose University, 1974)

⁹ U.S. Census data also does not distinguish between condominium and cooperative units and does not include data for places under 2,500 population.

¹⁰ U.S. Department of Housing and Urban Development, HUD Condominium Cooperative Study, Vol. I, Table III-10, pg. III-11.

¹¹ Advance Mortgage Corporation and Citicorp Real Estate, Inc., "Undocumented Boom: Conversions Doubled in 1978", U.S. Housing Markets, (April 20, 1979).

¹² California Government Code, Section 66424.

¹³ The number of tentative maps approved is likely to overstate the total number of actual conversions, but the figures represent the best data available. Data on the number of public reports issued by the California Department of Real Estate apparently is only available on a statewide basis, not by cities. Further research on the number of final maps and unit sales recorded by county recorders was not undertaken because of time constraints.

¹⁴ Appendix A contains a copy of the questionnaire sent to the nine counties and 92 cities in the Bay Area.

¹⁵ Larkspur reported one 16 unit conversion in 1968. The Palo Alto Condominium Conversion Study, (May 1, 1974) indicates conversion activity began in Palo Alto from 1968.

¹⁶ Association of Bay Area Governments, San Francisco Bay Area Housing Profile 1970-1975, (November 23, 1977), Table I (IV), pg. 10.

¹⁷ Ibid.

¹⁸ Real Estate Research Council of Northern California, Northern California Real Estate Report,

¹⁹ "In many areas, as much as 90% of all multifamily starts

are condominiums and should be counted with single family units which are traditionally units for-sale and not for rent." Sidney Glassman, "Potential Impact on Residential Investment Properties", Journal of Property Management, (September-October, 1974), pg. 229.

20 San Francisco Department of City Planning and Members of the Real Estate Industry, Condominium Conversions in San Francisco, (November, 1978), pg. 23.

21 Ibid., pg. 23-30.

22 Ibid., Table 16, pg. 21.

23 Ibid.

24 Ibid., Table 17, pg. 22.

25 Ibid., Table 18, pg. 22.

26 1970 U.S. Census

27 Real Estate Research Council of Northern California, Northern California Real Estate Report, Vol. 31, No. 1, (March, 1979), San Francisco Bay Area Market Trend Index.

28 Ibid.

29 Palo Alto Planning Department, Palo Alto Condominium Conversion Study, (May 1, 1974), Table II-4, pg. 10.

30 Ibid., Table II-7, pg. 13.

31 Association of Bay Area Governments, San Francisco Bay Area Housing Profile, 1970-1975, Table I (I), pg. 10.

32 Ibid.

33 Ibid., Table I (II), pg. 10.

34 Ibid., Table I (X), pg. 11.

35 California Department of Finance, California Statistical Abstract, (1971, 1976, 1978), Consumer Price Index for the San Francisco-Oakland Metropolitan Area (Alameda, Contra Costa, Marin, San Francisco, San Mateo, and Solano Counties).

36 Real Estate Research Council of Northern California, Northern California Real Estate Report, Vol. 31, No. 1, (March, 1979), San Francisco Bay Area Market Trend Index.

37 "West Coast Conference on Neighborhood Change and Displacement", sponsored by the Association of Bay Area Governments, San Francisco Hilton Hotel, June 22, 1979.

38 California Department of Finance, California Statistical Abstract, (1971, 1976, 1978), Consumer Price Index for the San Francisco-Oakland Metropolitan Area.

39 Association of Bay Area Governments, San Francisco Bay Area Housing Profile, 1970-1975, (November 23, 1977), Table I (VII), pg. 11.

40 Ibid., Table I (IX), pg. 11.

41 Maitland Zane, "S.F. Developer Turns Down Plea to Stop Rent Increases", San Francisco Chronicle, (April 7, 1979), pg. 5. Maura Dolan, "Why the City Is So Ripe For Rent Control Now", San Francisco Examiner, (May 29, 1979), pg. 1,6.

42 Cities which have enacted some type of rent legislation include Berkeley, San Francisco, Cotati, Vacaville (for mobile homes only), and Benecia (for mobile homes only). California Department of Housing and Community Development, "Rent Control Controversy", California Communities, (May, 1979).

43 Internal Revenue Code, Section 167(j)(5)(B).

44 Tax Reform Act of 1976, III(A)(1).

45 U.S. Department of Housing and Urban Development, HUD Condominium Cooperative Study, Vol. 1, pg. IV-18.

46 At the present time, the "at-risk" limitation applies to farming; exploring for, or exploiting, oil, and gas resources; the holding, producing, or distributing of motion picture films or video tapes; and equipment leasing. Tax Reform Act of 1976, III(A)(1).

47 Lorraine Smith, "Conversion Specialists: A New Kind of Company Spawned by the Rental Squeeze", House and Home, Vol. 41, No. 4, (April, 1972), pg. 100-105.

48 One study has estimated the excess costs of governmental controls to add on average 19.7% to the purchase price of a single family home. George Sternlieb, Governmental Regulations and Housing Costs, (New Brunswick, New Jersey: Rutgers University, Center for Urban Policy Research, 1978) cited in Fred E. Case, "The Impact of Land Use and Environmental Controls", The Cost of Housing, Proceedings of the Third Annual Conference, Federal Home Loan Band Board of San Francisco, (December 6-7, 1977), pg. 141-174.

49 U.S. Department of Housing and Urban Development, Final Report of the Task Force on Housing Costs, (Washington D.C.: HUD May, 1978)

50 There has been some confusion among local authorities as to the validity of a zoning ordinance which prohibits the con-

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APPENDIX A

CONDOMINIUM CONVERSION QUESTIONNAIRE,
RESPONDENTS AND RESOURCE MATERIALS



CONDOMINIUM CONVERSION QUESTIONNAIRE

Information supplied by:

Name _____

Position _____

Agency _____

Telephone _____

1. Does your community monitor the conversion of rental apartments to condominium ownership? () yes () no

2. How many condominium conversions have occurred in your community since 1970? _____

Please break down for each year the number of projects and the number of units involved. If precise information is not readily available, please provide estimates and note with an (e).

	<u>Number of Projects</u>	<u>Number of Units</u>
1970	_____	_____
1971	_____	_____
1972	_____	_____
1973	_____	_____
1974	_____	_____
1975	_____	_____
1976	_____	_____
1977	_____	_____
1978	_____	_____
1979	_____	_____

3. How many new condominium developments are there in your community? Number of Projects _____

Number of Units _____

4. Does your community require rental units to meet any additional requirements before conversion to condominiums? () yes () no

5. Where are these requirements expressed? _____

- () Subdivision Code
- () Zoning Code
- () Building Code
- () Other _____

6. Has your community adopted an ordinance specifically regulating condominium conversions? () yes () no

If so, when was it enacted? _____, 19_____
(Please enclose a copy along with this questionnaire.)

7. Has your community ever imposed a moratorium on condominium conversions? () yes () no

If so, when was it imposed? _____, 19_____

How long did it last? _____ months

8. Has your community undertaken any special studies of condominium conversions? () yes () no

If so, what aspect(s) of condominium conversions have studies focused on? _____

- () Tenant displacement
- () Effect on rental housing stock
- () Impact on housing costs
- () Other _____

(Please enclose a copy of study along with this questionnaire.)

9. How many rental units are there in your community? _____ units

10. What is the latest estimate of the vacancy rate in your community?

_____ (overall)

_____ (rental units)

In what year was this estimate made? 19_____

How was this estimate made? _____

- () U.S. Postal Survey
- () PG&E Idle Meters
- () Local Real Estate Board
- () Special City Vacancy Survey
- () Other _____

QUESTIONNAIRE RESPONDENTS

<u>CITY/COUNTY</u>	<u>RETURNED COMPLETE</u>	<u>DATA OBTAINED BY PHONE</u>	<u>ENCLOSED STUDY</u>	<u>ENCLOSED ORDINANCE</u>
ALAMEDA COUNTY	X			
Alameda	X			
Albany	X			
Berkeley	X			
Emeryville	X			X
Fremont	X		X	X
Hayward	X			X
Livermore	X			X
Newark	X			
Oakland	X			X
Piedmont		X		
Pleasanton		X		
San Leandro	X			X
Union City		X		
CONTRA COSTA COUNTY	X		X	
Antioch	X			
Brentwood	X			
Clayton		X		
Concord	X			X
El Cerrito	X			
Hercules		X		
Lafayette	X			
Martinez	X			
Moraga	X			X
Pinole	X			
Pittsburg		X		
Pleasant Hill		X		X
Richmond	X			
San Pablo	X			
Walnut Creek	X			X
MARIN COUNTY	X		X	X
Belvedere		X		
Corte Madera	X			X
Fairfax	X			
Larkspur	X			
Mill Valley		X		
Novato	X		X	X
Ross	X			
San Anselmo	X			
San Rafael	X			X
Sausalito	X		X	X
Tiburon	X			

<u>CITY/COUNTY</u>	<u>RETURNED COMPLETE</u>	<u>DATA OBTAINED BY PHONE</u>	<u>ENCLOSED STUDY</u>	<u>ENCLOSED ORDINANCE</u>
NAPA COUNTY	X			X (Policy)
Calistoga		X		
Napa	X			
St. Helena	X			
Yountville		X		
SAN FRANCISCO COUNTY	X		X	
SAN MATEO COUNTY	X			
Atherton		X		
Belmont	X			
Brisbane	X			
Burlingame	X		X	X
Colma		X		
Daly City	X			
Foster City	X			
Half Moon Bay	X			X
Hillsborough		X		
Menlo Park	X		X	X
Millbrae	X			X
Pacifica		X		X
Portola Valley	X			
Redwood City	X			X
San Bruno		X		
San Carlos		X		
San Mateo	X		X	X
South San Francisco	X		X	X
Woodside		X		
SANTA CLARA COUNTY	X			
Campbell		X		
Cupertino	X		X	X
Gilroy	X			X
Los Altos	X			X
Los Altos Hills		X		
Los Gatos	X			X
Milpitas	X			X
Monte Sereno	X			
Morgan Hill	X			
Mountain View	X			
Palo Alto	X		X	
San Jose	X			X
Santa Clara	X			X
Saratoga	X			X
Sunnyvale	X		X	X

<u>CITY/COUNTY</u>	<u>RETURNED COMPLETE</u>	<u>DATA OBTAINED BY PHONE</u>	<u>ENCLOSED STUDY</u>	<u>ENCLOSED ORDINANCE</u>
SOLANO COUNTY	X			
Benecia		X		
Dixon	X			
Fairfield	X			
Rio Vista		X		
Suisun City	X			
Vacaville	X			
Vallejo	X			
SONOMA COUNTY		X		
Cloverdale	X			
Cotati	X		X	X
Healdsburg	X			X
Petaluma	X		X	X
Rohnert Park	X			X
Santa Rosa	X			X
Sebastopol	X			
Sonoma	X			

RESOURCE MATERIALS

The research effort undertaken to prepare this report generated a large file of information gathered from local planning departments in the Bay Area. The following materials were collected as a part of the research effort and are on file at ABAG offices.

Condominium Conversion Questionnaires. Responses from local planning departments in the nine counties and 92 cities in the San Francisco Bay Area to questions relating to condominium conversion activity in their jurisdictions.

Condominium Conversion Ordinances.

Alameda	Novato
Concord	Oakland
Cotati	Pacifica
Corte Madera	Petaluma
Cupertino	Pleasant Hill
Emeryville	Rohnert Park
Fremont	San Jose
Gilroy	San Leandro
Half Moon Bay	San Pablo
Hayward	San Mateo
Healdsburg	San Rafael
Larkspur	Santa Clara
Livermore	Saratoga
Marin County	Sausalito
Menlo Park	South San Francisco
Millbrae	Sunnyvale
Milpitas	Walnut Creek
Moraga	Napa County

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