THE CONVERSION OF RENTAL HOUSING TO CONDOMINIUMS AND COOPERATIVES:

APPENDIX 1

(HUD-50749)

U.S. Department of Housing and Urban Development
Office of Policy Development and Research

The Conversion of Rental Housing to Condominiums and Cooperatives

Appendix 1

n·do·min·i·um (kon′də min′ē əm), n., pl. -ums
minium 2. an apartment house in which the apa
e individually owned, each owner receiving a reco
sell, mortgage, exchange, etc., his apartment inde
e other apartments in the building. 3. an apartme
ternat. Law. joint sovereignty over a territory by
n-, DOMINION, -ium]
n·ver·sion (kən vûr′zhən, -shən), n. 1. the act o
ocess of being converted. 3. an alteration of fo
aptation to different means or uses. 5. a chang
itudes. 6. the act of obtaining equivalent value
easurement, in an exchange or calculation. 7. Mat
nts of an expression. 8. Logic. the transposition o
a proposition. 9. Law. a. unauthorized assumpti
ownership over personal property belonging to
alty into personalty, or vice versa. [ME conversio

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Appendix 1

Division of Policy Studies

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Appendix 1

Supporting materials for the report entitled, The Conversion of Rental Housing to Condominiums and Cooperatives: A National Study of Scope, Causes and Impacts, are contained in two appendix volumes.

This volume, Appendix 1, consists of field reports for each of the metropolitan areas included in the study, a review of Federal programs related to condominium and cooperative conversions, and supplemental tabular data. The tables contained in this volume are referenced in the main body of the report.

Appendix 2 consists of several reports which explain the methodology used in the study, questionnaires that were used for the household and local officials surveys, a detailed listing of municipal ordinances and state statutes, and citations for these statutes and ordinances.

Appendix 1-I

Reports on the Conversion Phenomenon in Individual Metropolitan Areas

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Reports on the Conversion Phenomenon in Individual Metropolitan Areas

The main body of this report presents national findings about condominium and cooperative conversions; it is clear, however, that in certain significant ways each metropolitan area, each housing market, and each submarket is unique. Therefore, to complement the national report and to capture local variations, the following 35 field reports are presented. They provide a rich and detailed body of information about conversion activity in the central city and suburban portions of the Nation's 37 largest Standard Metropolitan Statistical Areas (SMSAs.) 1/ The reports are not intended to present a complete or comprehensive case study of each area but, instead, to highlight unique local conditions and their relationship to conversions. These reports were a major source of information for the national report.

The field reports were prepared by staff members of the U.S. Department of Housing and Urban Development following visits to each area in September and November 1979. The length of the visits ranged from several days to a week, depending on the amount of conversion activity in the particular SMSA.

The September visits were made to the 12 SMSAs in which, it was believed at the time, the highest volume of conversion activity was occurring. During these first visits, detailed lists of all buildings which had been converted within the metropolitan areas between 1977 and 1979 were collected. Appendix 2 provides information on the procedures and sources that were used to complete this task. In addition, preliminary discussions were held with persons identified by local sources as having specialized expertise and knowledge about conversions within their locality or metropolitan area.

During the second round of visits in November, return trips were made to the 12 high conversion activity SMSAs, as well as to 25 other large SMSAs. In-depth discussions were held with numerous individuals who were, on the basis of their position or reputation, believed to be knowledgeable about the scope, causes and impacts of condominium and cooperative conversions in their area. These individuals included: local and state government officials; developers and converters; tenant representatives; planners; housing market analysts; lawyers; researchers; real estate brokers; and bankers. 2/ Information was obtained on housing market conditions, the impacts of conversion on localities and individuals, and local government regulation of conversions.

1/ Two of the reports cover two SMSAs: the Nassau-Suffolk and New York City SMSAs (a single SMSA in 1970, the earliest date for which conversion data were collected) are combined into one report; and the Riverside and Anaheim SMSAs are both included in another.

2/ The names of persons who were interviewed and who gave their permission to be listed in this report are found in Appendix 2.

In addition, local studies, reports, ordinances, and other documents concerning conversion were collected. Following each visit, the information collected was synthesized into a field report on each area. If additional information became available to HUD staff members at a later time, the reports were updated, accordingly. The same basic topics are covered in each field report. In some localities, however, there was a lack of readily available information about certain aspects of the conversion phenomenon; this tended to be true in areas which had a relatively small number of conversions. Consequently, some of the field reports are considerably less detailed than others.

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Field Report

Conversion Activity in the Anaheim-Santa Ana-Garden Grove and Riverside-San Bernardino-Ontario, California SMSAs.

Background

The two SMSAs covered in this report form the southern and eastern boundaries of Los Angeles County. The Anaheim-Santa Ana-Garden Grove SMSA lies to the south of Los Angeles County. The Riverside-San Bernardino-Ontario SMSA is east of Los Angeles.

The Anaheim SMSA is small geographically, while the Riverside SMSA is large -- almost twice as large as any other single SMSA in the country. The Anaheim SMSA has an estimated population of over 1.8 million and currently has approximately 667,000 housing units (547,000 units according to HUD's 1974 Annual Housing Survey). The majority of these units (63%) are owner-occupied (1974 Annual Housing Survey), and a slightly smaller percentage are single-family detached units. Total employment in the area is also increasing; in the first quarter of 1979, it was 13 percent higher than the year before.

The Riverside SMSA, despite its larger geographical size, has a smaller population (1.2 million in 1979) than Anaheim and approximately 560,000 housing units (512,000 units according to HUD's 1975 Annual Housing Survey). The owner-occupied units outnumber the renter occupied units by about two-to-one, and the single-family detached stock accounts for an even larger share of housing units (70 to 75%). Total employment in the Riverside area grew by more than 10 percent in the preceding 12 months.

Demand

Experts in the Anaheim SMSA agreed that there is a high demand for condominium units in the area at the present time; there has been a high demand for the past several years, and the demand will be maintained in the future. There is a consensus that this demand is a reflection of the overall high demand for housing in the country. No expert expected an appreciable drop in the level of demand due to a depletion of the demand pool. There were, however, "unnatural" constraints on demand. Experts indicated that two factors are likely to limit demand: high mortgage rates and extensive local regulation/restriction of conversion.

The demand for condominiums in the Anaheim SMSA is affected by the same factors as the other Southern California SMSAs. The exceptionally high prices for single-family detached homes in Anaheim is a strong factor driving the demand for condominium units. Many experts indicated that a sizable share of the purchasers of both new and converted condominium units would have bought single-family homes had they been able to afford them. Condominium units present a second chance for ownership for a majority of these buyer groups. The condominiums not only offer a tax shelter, but buyers believe that inflation will soon raise their equity in the condominium to a level where they can sell at a high price and then enter the market for a traditional single-family home. Fewer experts in Anaheim mentioned in-migration as a factor leading to the increased demand for condominiums than did experts in other California locations.

The Riverside SMSA is less attractive than other Southern California housing markets, and thus there is less demand for condominiums in Riverside. At present, homes in Riverside are sold at prices similar to the national average, with the exception of the resort city of Palm Springs. One local official suggests that the condominiums which do exist were built to house people who work in Anaheim but cannot afford to live there. While the present and past demand for condominiums has been very low, it is expected that the level of demand will rise due to the relative proximity of Riverside to tighter housing markets, such as Anaheim; the lower price of this type of housing; and that government controls are not as strict as those in other areas.

Supply

The Southern California multi-family rental stock is comprised mainly of garden-style apartments, with some high-rise buildings in Los Angeles and a few more along the area's beaches. While a high proportion of high-rises have been converted, the bulk of conversions take place in the smaller, garden apartments. The great majority of condominiums are in middle-income, white neighborhoods, with one significant exception. A project in Anaheim with moderate-income, primarily minority families, has been proposed for conversion to condominiums. The developer of this property anticipates that very few of the present tenants will purchase the converted units. The building is located in an older, deteriorating neighborhood, and a conversion might help retard further decay in the area. However, local government officials feel the vacancy rate is so low that few, if any, of the present tenants will be able to find housing nearby. The conversion of this project will also have a significant impact on the neighborhood school. The project is rather large and because families with children reside there, it is estimated that the local elementary school will lose 25 to 50 percent of its present students, and its continued operation might not be justifiable.

As in other parts of Southern California, the anticipation of rent control was cited as a factor increasing the supply of converted condominiums on the market. Regardless of their relation to the rental market, experts in Southern California agreed that the fear of rent control is a significant factor fueling conversion.

Market Conditions

In general, there is a strong demand for rental housing in the central cities of the Anaheim SMSA and their suburbs, as is indicated by a low vacancy rate in these areas. According to market experts, there is little or no new construction in the rental market. Several reasons were given for the lack of new rental housing in spite of strong demand. Rent control is a frequent complaint: developers do not want to build when it is conceivable that future rent control regulations will prevent them from raising rents. Furthermore, lenders indicated that as a result of anticipated rent control, they often require large equity from the developer before providing them with interim financing. Instead of providing 90 to 95 percent financing, they often provide no more than 60 percent. Generally, the interest rate charged is also higher, perhaps as much as one to two percent on the average. The larger up-front commitment required and the higher interest rates act as additional disincentives to new rental construction.

The length of time it takes to get local government approval for a project also deters extensive new construction. Delays of 6 to 24 months from the time of the initial request to the approval and initial construction activities are not uncommon throughout Southern California. Delays and special requirements are often more demanding in the more desirable areas, such as beach and coastal areas, than they are in the more typical central city neighborhoods.

The unprofitability of continuing to operate rental properties is another major problem cited by developers. Some developers assert there is a negative cash flow involved in any rental project, while others mentioned the relative attractiveness of conversion. This view of the profitability of rental properties was shared by lenders and market experts.

No consensus emerged regarding the impact of mortgage rates on the demand for conversions. Some experts felt that the market was too variable to make any projections at all. They were split on whether such a change would stimulate demand or depress it. Since experts felt that demand for conversions was a reflection of the demand for housing in general, they felt that whatever happened to the demand for "ownership" would also happen to conversion demand.

Effects on Households

There is lack of information on conversions in the Anaheim and Riverside SMSAs, especially information regarding the impact of conversion on renters who are living in buildings that are converted.

No information is available about displaced tenants or tenants who continue to rent. Local officials expressed an interest in such information but feel they do not have the resources to obtain it. To date, only two cities, Anaheim and Santa Ana, seem to have some information. In each case, the information was gathered from two atypical conversions. One of these conversions may close a neighborhood school. In the other, the local housing agency is trying to force the developer to make a number of units available to low and moderate income households.

In the absence of reliable data in these cities, anecdotal information was provided on displaced tenants who were unable to find adequate shelter in the area without paying much higher rents. The tenants who were said to have the greatest problems in Anaheim as a result of conversions were households with young children and the elderly. The elderly were said to have difficulty finding other places to live because of the disruption that conversion causes in their lives and because they live on fixed, often limited incomes. Families with young children have problems because of the reportedly limited number of units available to them.

The lack of information in the Riverside SMSA also results from the fact that conversions are not perceived as a problem. The Riverside SMSA has had few actual conversions, and the rental market is not very tight.

In San Bernardino, also a central city in the Riverside SMSA, another expert had no more information on conversions in that city. The same general market conditions found in Riverside are found in San Bernardino -- a vacancy rate above the Southern California average; and average rates of new construction. In short, the conditions found in the Riverside SMSA generally do not cause severe hardship among tenants.

Effects on Tenants

The response of tenants in the SMSAs of Anaheim and Riverside has been weak and sporadic. Riverside has a condominium conversion statute, but it was not instituted as a result of tenant pressure and apparently not due to perceived need. The Mayor of Riverside said that his city has a conversion ordinance "because we get the Los Angeles news ... and people see and hear all the problems they are having. We have had only one or two people complain and after they were helped (by the developer), they weren't heard from again."

In San Bernardino, one apartment complex which was converted was occupied by primarily elderly residents. The planning commission was concerned due to the publicity surrounding the conversion. The building was orginally insured under HUD's Section 207 Multi-Family Housing Program.

In Orange County, the response has apparently also been sporadic, with tenants reacting in an ad hoc fashion to the threatened conversions of individual buildings. No tenant "movement" has surfaced although it is quite likely that there is some attempt being made to organize tenants. Rent control and conversion ordinances do exist in these areas, but they do not appear to be direct responses to tenant pressure; they may have passed at the initiative of the local government. Local planners suggested that they were most often the catalyst for the ordinance even before conversion become a salient issue to tenants in their communities. One community passed a conversion ordinance more than five years ago with the intent of preserving the moderate income renter share of the stock.

No expert reported a single case of tenants purchasing their building or complex either with or without the use of HUD programs.

Effects on Housing Market

Conversion activity has not caused a significant and independent tightening of the housing market in either Anaheim or Riverside. In Riverside, too few conversions have taken place to have had an effect. In Anaheim, there have been more conversion then in Riverside, and it is possible that some tightening of the rental market, at least in a small geographical area, may have resulted. However, the lack of empirical data makes it impossible to verify the impacts of conversion on the housing market.

Effects on Neighborhoods

The revitalization of old neighborhoods has not been a significant phenomenon in either of the two SMSAs. This is because of the development patterns of Southern California, the decentralization of the population, and the better condition of the newer housing stock. However, the conversion of an existing rental unit to a condominium in an older, decaying neighborhood was encouraged by the local government in the City of Garden Grove. Officials felt the conversion would revitalize the neighborhood. They claim to have had some success with their effort. Other observers familiar with the situation indicted that while the neighborhood is older by local standards, it is different from an old deteriorating neighborhood in an eastern city. In fact, experts disagreed about whether the neighborhood was in need of revitalization.

Relationships to HUD and Policy Alternatives

There is apparently no significant relationship between HUD Programs and the conversions in these SMSAs. On one or two occasions, a HUD insured or subsidized project, generally a 207 project, has been converted. However, there has been no reported use of HUD programs to aid conversions.

There are two interesting cases of direct HUD program involvement in conversion activity. In San Bernardino, one project was financed through HUD's Section 231 Mortgage Insurance for Housing for the Elderly Program. It was built in 1964 and went into foreclosure in 1967. At that time, it was refinanced under Section 207. Some of the previous elderly tenants continued to reside in the project. In 1978, the owner of the project sought local approval to convert the complex into condominiums. A San Bernardino official felt that the owner was still bound by the original (Section 231) requirement that 25 percent of the tenants be elderly and wrote to the U.S. Attorney General requesting an opinion. The letter was forwarded to HUD's Assistant Secretary for Housing who replied that once the 231 project was sold and refinanced, the original obligation to house elderly people ceased.

The second instance invovled an effort by the Anaheim Department of Community Development to tie the approval to convert to the offering of a certain number of units to low and moderate income purchasers and to set aside about 25 percent of the units for rentals using HUD Section 8 Rehabilitation Funds.

No significant policy proposal emerged from experts in the Anaheim or Riverside SMSAs.

The Conversion Process

Developers in Southern California operated across all four SMSAs without significant differences. For a description, see "Field Report of Conversion Activity in the Los Angeles, California SMSA."

Field Report

Conversion Activity in the Atlanta, Georgia SMSA

Background

The Atlanta SMSA incorporates the 15 counties surrounding the central city which, itself, is split between Fulton and Dekalb Counties. According to the 1975 Annual Housing Survey, the SMSA contained almost 501,000 households of which 29 percent were in the central city of Atlanta. Of these central city households, almost 60 percent rent. Outside the central city, only 35 percent of the households rent. According to 1960 and 1970 census data, the population of the entire SMSA grew by 52.7 percent (404,653 persons) in that period but almost 98 percent of this growth occurred outside of Atlanta proper.

The Atlanta Bureau of Planning reports 82,715 multi-family units in the city as of November 1978. Between 1977 and mid-1979, 1,872 rental units were converted to condominiums representing approximately two percent of the city's rental stock. There is no evidence of any conversions to cooperatives.

Approximately 60 percent of the city's households are male-headed (29.7 percent of the households are headed by male renters) while 40 percent are female-headed (27.9 percent are headed by female renters). The total renter households in the city are almost evenly divided between male and female heads (52.5 percent and 47.5 percent, respectively) but the total owner-occupied households heavily favor male heads (72 percent of all owner-occupied households have male heads). The median family income in the SMSA rose from $13,119 in 1974 to $15,200 in 1976. Median income in 1979 was approximately $19,000.

Demand

According to most experts in the Atlanta area, the demand for condominiums (and the demand for all types of multi-family housing) is strong. One local expert indicated that the Atlanta market has just recovered from a period of overbuilding during the mid-1970's and that lenders will not finance any new multi-family rental construction. These same lenders, however, are financing new condominium construction. This argues for continuing strong demand for multi-family units of any tenure type. A local attorney, active in the conversion market, characterized Atlanta as being a "demand market".

A major contributor to the demand for multi-family housing in general, and to condominiums in particular, is the rising cost of single-family, detached units. For those seeking equity in real estate, the converted condominium unit represents a lower cost alternative to newly contructed condominiums and to single-family, detached houses and, in many cases, conversions are more conveniently located to work centers. Most experts, however, indicated that the sale of converted units has not yet had a significant impact on the single-family market.

Investors do not represent a significant portion of the demand for converted units in the Atlanta SMSA. According to developers in Atlanta, the vast majority of converted buildings involve Federal Home Loan Mortgage Corporation (FHLMC) funds and, therefore, are restricted to a maximum of 20 percent of unit sales to investors. One developer indicated that investors are avoided in the normal course of business.

Supply

Conversions in the Atlanta SMSA occurred in two waves. The first occurred in the early 1970's but few units were involved and the general overbuilding of multi-family properties during the same time period precluded any significant conversion rate. As the market began to absorb the oversupply of units, conversions again became popular. Although only 1,000 or so units were converted in 1977 and 1978 combined, the 1979 total may be as much as three times greater. Estimates of the actual number of conversions in 1979 vary between 2,000 and 3,500. The more conservative estimates are offered by developers and representatives of homeowner associations while the upper estimates are offered by city and county officials and have been reported in several newspaper articles and editorials. Most experts, however, agreed that between two and five percent of the total rental stock in the SMSA has been converted.

Building age appears to have no association with the probability of conversion. Buildings as old as 30 years and as new as five years have been converted. Location and quality, on the other hand, appear closely related to the conversion phenomenon. To date, the vast majority of conversions have occurred to the north of the central business district along the Peachtree Road and Roswell Road corridors. Areas such as Buckhead and Sandy Springs have experienced a significant conversion rate. These areas, characterized as stable, upper-middle income neighborhoods, form part of the city's middle ring or near suburb and are desirable places to live judging by demand for units.

All types of buildings have been converted but most are garden or mid-rise apartment complexes that accommodated middle- to upper-income tenant households. According to most local experts, Atlanta is not known for its luxury, high-rise apartment complexes but what few exist have mostly been converted to condominiums. At the other end of the income ladder, one expert thought that perhaps one or two buildings that served low or moderate income households had been converted.

As is the case elsewhere, there is significant disagreement as to the size of the housing stock that is suitable for conversion. Some experts, especially converter/developers, feel that no more than ten percent of the total stock will be converted. One developer claims that most convertible properties have already been bought although some are still renting awaiting better economic conditions before converting. These experts suggest, however, that if housing market conditions, especially the cost of money, become more favorable, then otherwise marginal properties may become more attractive as conversions.

Other local experts claim that the supply of convertible properties in the Atlanta SMSA is infinite. These experts claim that poorer quality properties are being converted and that the trend is likely to continue. There is some consensus among experts in Atlanta that "out-of-town" converters tend to convert more marginal properties than local converters. It is possible, therefore that if "out-of-town" converters become more active in Atlanta, the rate of conversion will increase and the kinds of properties being converted will change.

Market Conditions

Most experts indicated that the area-wide vacancy rate exceeds seven percent and that the rate within the central city of Atlanta is approximately five percent. 1/ One expert suggested that to the north, the vacancy rate may be as low as one or two percent. This low estimate would explain the fact that most of the conversions in the Atlanta SMSA are occurring to the north.

The turnover rate in apartments is approximately 70 percent -- not an exceedingly high percentage -- and the number of new multi-family rental units coming to the market in Atlanta in the past few years has been small. These conditions argue for a tighter rental market in the near future especially if the rate of conversion increases.

The mortgage market has become extremely tight for all developers in the Atlanta SMSA. The state usury ceiling is less than 12 percent and end loans require stricter qualification standards. In many cases, however, converters are financially stronger than single-family developers and, therefore, have a competitive advantage in securing end-loan packaging for potential buyers.

1/ Atlanta's 1979 Housing Assistance Plan showed a vacancy rate of 4.6 percent.

The conversion phenomenon in Atlanta has created a situation whereby rental property owners perceive a profit potential unmatched by current rental income and appreciation. 2/ In Atlanta, the cost of operations has increased without equalling rising rent levels. At the same time, however, property owners have been deluged with offers to buy. These owners benefit, therefore, in at least two ways. First, the profit made on the sale is taxed at capital gains rates resulting in net proceeds that exceed any earnings on rental operations with or without any depreciation benefits that may still exist. Second, increased competition for multi-family properties has allowed owners to significantly raise per square foot prices and increase the net proceeds on any sale.

Most experts agreed that from the converters' perspective, investments in conversions usually yield greater profits than other real estate ventures. Moreover, these profits are generally more predictable and require exposure of resources for a shorter period of time than most other real estate ventures. One local converter, however, claimed that conversion is an excessive gamble and that there are great risks since market analyses are not good predictors of success.

Most local experts agreed that if interest rates decrease in the near future, as most expect they will, the conversion rate will increase. The primary factor here is that end-loan packaging will be easier to obtain and conversion projects will offer increased chances of success.

Government Regulations

The State of Georgia has a condominium act but it makes no distinction between new construction and conversion. The law is silent with respect to tenant notification and warranties specific to converted units. On the local level, however, both the city government in Atlanta and the county governments in Dekalb and Fulton Counties have addressed the conversion issue.

At the city level, the Atlanta City Council passed an ordinance on Dec. 24, 1979, to regulate conversions. The ordinance includes 120 day notices to tenants, disclosure of building condition, and a "60-day right to buy" on the part of tenants. This last provision also requires that converters make no better offer to the general public for an additional 120-days if a tenant chooses not to buy.

2/ This includes only appreciation that would occur if the property was continued as rental and marketed as rental.

This ordinance was developed by a local task force that was comprised of government officials, developers, condominium association representatives, property owner representatives, and others. The task force discussed the issues of special provision for elderly tenants, tying conversion levels to vacancy rates, and moratoria but did not include them in the ordinance because of the likely probability that the State would rule the provisions invalid. There is strong sentiment in Georgia for the concept of property rights and the task force accounted for the likely opposition to including these issues in the ordinance. It is conceivable that the existing ordinance will also be challenged.

The counties surrounding Atlanta, while approving of the city ordinance, have adopted a "wait and see" attitude. Both county governments were approached by concerned citizens requesting county-wide action but to date, this has not occurred. What has occurred is a state-wide initiative that Atlanta experts feel has a very good chance of succeeding. This initiative is a carbon copy of the Atlanta ordinance and has already been passed by the State House of Representatives. It is currently under consideration in the State Senate.

If passed, the state-wide statute would resolve the issue of local preemption and would provide uniform standards for all jurisdictions in the state. The likely impact of the statute, judging by the Atlanta experience, would be slight, in terms of the rate of conversion. Future mortgage interest rates will be more controlling in this regard, according to local experts, than an "Atlanta - like", state law.

Effects on Households

There is some disagreement among local experts concerning the experience of tenant households when faced with a conversion. Some contend that the experiences of "outmovers" must be tough since rents have increased lately and little new multi-family housing has been built. In essence, they feel that the competition for existing rentals is significant. Other experts, however, feel that few households experience any difficulties and that those who do, usually the elderly, can find comparable units provided they are willing to pay higher rents and/or change neighborhoods.

The resolution of this issue is significant in the Atlanta case, since the proportion of households who do not buy when faced with a conversion appears to be quite high. Most experts indicate that between 80 and 90 percent of tenant households move rather than buy; one expert thought that only 60 percent of all households make that choice.

The experiences of tenants currently faced with conversion are probably different from those faced by tenants one or two years ago. During 1977, the first conversions had seven day notices associated with them. In essence, households had one week to decide whether to buy or whether to move. It seems clear that this condition would pose more severe hardships on tenants, especially the elderly, than currently existing conditions. Moreover, present day conditions may be less difficult since, according to one local expert, many more apartment complexes in the SMSA than ever before are advertising vacancies.

According to some experts, the average income of households who "buy-in" to converted units raises the average income for buildings in general. The age of the head of household and family size do not change appreciably with the change in occupancy. Most experts agreed that the majority of unit buyers were single persons and young professionals desiring to live "in the city" or close to work centers but without the maintenance responsibilites of single-family ownership. The vast majority of purchasers were first-time homeowners. There is some disagreement as to whether older couples, or "empty-nesters," comprise a significant portion of the buying population.

Effects on Tenants

To date there have been no tenant organizations formed around the conversion issue and no tenant groups have purchased their buildings for conversion to condominiums or cooperatives. One local expert did mention that some tenants formed *ad hoc* committees as a result of notices to convert but that these groups were usually short-lived and, in fact, members of these groups usually become "tough" buyers.

The typical reaction, according to most experts, is confusion, apprehension, and some misunderstandings of tenants rights and condominium ownership. According to developers, the biggest problem they face is the disgruntled tenant who, they claim, must be educated in order to overcome hostility.

Some displacement of tenants has occurred, especially in the early conversions within the city limits of Atlanta, but most experts argue that it is not a critical issue. Some of the elderly displacees are financially well-off -- some have paid cash for their unit -- and those that are not, can usually find comparable housing albeit at inflated rents.

Effects on Housing Market

As discussed earlier, the rise in mortgage interest rates has made homeownership more difficult regardless of the type of unit under consideration. But in this overall context, converted condominium units have gained a competitive advantage. Converted units are priced significantly lower than both single-family houses and newly constructed condominium units. As such, they represent a relatively inexpensive form of homeownership (and equity build-up) within an overall economic context of rapidly inflating shelter costs.

There is little evidence to indicate that conversions have had any impact on rent levels in the SMSA. The rate of conversion, relative to the size of the housing stock, is not high and rents have been rising in recent years due more to general inflationary trends than to anything else. As noted before, the vacancy rate in multi-family rentals is high and apartment owners have been advertising vacancies at an increasing rate. Those facts argue against a rent level impact on the part of conversions.

Most local experts agreed that conversions double the tax base and, therefore, increase tax revenues in the city and its suburbs. There is no evidence, however, to indicate the impact of conversions on neighborhood public services and amenities. Some experts claim that conversions upgrade the quality of the housing stock, through rehabilitation, but there is no evidence to indicate that any gut rehabilitation or major repairs are occurring in the typical conversion.

There is consensus among experts on the fact that in the past few years, condominium units have experienced an annual appreciation rate of between 15 and 20 percent. Most, however, expect this to decrease to between 10 and 15 percent.

Effects on Neighborhoods

Although most experts recognize that Atlanta is experienceing a strong rate of both private and public revitalization of older neighborhoods, they disagree on whether conversion is involved. Some experts suggest that conversions are involved and that they are directly associated with residential revitalization efforts, i.e., occurring along with revitalization rather than leading or lagging behind it. These same experts suggest also that conversions help "clean-up" and stabilize neighborhoods. Other experts, however, suggest that neighborhood revitalization and conversions are not associated. They claim that the quality of the housing stock in revitalizing areas is too poor to consider that stock as convertible. In essence, the buildings would require major rehabilitation investments and their profit potential would be small.

As noted earlier, there is agreement among experts that conversion raises the average income of households within converted buildings. To the extent that most families who choose to move rather than buy units find housing in different neighborhoods, conversions probably raise the average income level in neighborhoods also. A local public official suggested that conversions have no effect on attracting households to the city or on keeping households in the city. This official thought that many never have moved away to begin with, as many others believe is the case.

Relationship To HUD And Policy Alternatives

There are no conversions in Atlanta utilizing Federal housing programs although some previously insured complexes may have been converted. It is not clear whether any such conversions will take place but if the quality of HUD-insured properties is poor, as many experts suggest, then the likelihood of some being converted is small.

Several experts suggested that the Federal government should play a role in the conversion issue. One suggestion was that the government should function only to transfer information. Another expert suggested that the Federal government emphasize the financing of low income conversion projects. The suggestion included the use of Section 8 for condominiums, perhaps de-emphasizing other housing assistance payments.

The Conversion Process

Several developers including larger out-of-state firms such as American INVSCO are active in the Atlanta SMSA. The use of specialists appears minimal with the exception of attorneys who specialize in conversion documentation and legal filings.

Most experts agreed that the return on investments in conversions is quite high. The average return on sales was 25 -30 percent but there have been significant exceptions at the high end. At the other extreme, some conversions in 1974 and 1975 almost went bankrupt as a result of oversupply in the multi-family market.

Field Report

Conversion Activity in the Baltimore, Maryland SMSA

Background

The Baltimore, Maryland SMSA is comprised of the central city of Baltimore, the city of Annapolis, and Anne Arundel, Baltimore, Carroll, Harford, and Howard counties. Population for the SMSA in 1975 was 2,147,850, a 3.23 percent increase from 1970. Baltimore city, with a population of 851,698, had a six percent decline in population between 1970 and 1975. The following table gives a breakdown of conversion activity in the SMSA:

TABLE 1

Conversion Activity in the Baltimore SMSA

	Number of Buildings	Number of Units
Annapolis	2	601
Anne Arundel County	0	0
Baltimore	10	1,044
Baltimore County	1	12
Carroll County	0	0
Harford County	2	73
Howard County	4	569
Total	19	2,299

SOURCE: County and City Planning Offices, January, 1980.

Within the SMSA there were 691,600 housing units in 1976 of which 59.7 percent were owner-occupied. Of the 278,500 rental units, 104,500 were single-family homes, while 160,900 units were in buildings with 2 to 49 units. Only 11,900 units were in buildings with 50 units or more. The SMSA rental vacancy rate in 1976 was 5.2 percent. For unsubsidized units in the SMSA, the median 1976 rent was $188, and the median value of owner-occupied houses was $37,300. The median value of owner-occupied housing in Baltimore city was $31,200 in 1976, and unsubsidized units had a median rent of $165 per month. There were 500 condominium or cooperative units in the SMSA in 1976, but there was no indication in the Annual Housing Survey if these units were new or converted. Baltimore city had no condominiums or cooperative units in 1976.

Most conversions have occurred in the city of Baltimore, where there were 122,000 owner-occupied housing units and 146,700 renter-occupied units in 1976. Of the rental units, 58,100 were single-family houses (90 percent of which were attached row houses). Buildings with 2 to 49 units made up 7,100 units, while 11,500 units were in buildings of 50 units or more. Over 60 percent of Baltimore's rental housing was built prior to 1939, and the city vacancy rate in 1976 was 7.0 percent.

Demand

The demand pool for converted condominiums in the Baltimore SMSA is very small for high-rise units and somewhat larger for garden and townhouse units. Some experts attributed the low demand for converted high-rise condominiums to the availability of other quality rental units and to the fact that the city's predominantly working class residents prefer single-family housing (whether rented or owned) to that offered by the "more sophisticated" condominium. Such demand as there is for converted high-rise units seems to have been created by landlords and developers. Both groups marketed units to existing tenants who did not wish to move and offered very low prices to induce others to purchase units. Experts agreed that the demand pool for high-rise conversions is comprised of some empty-nesters, middle age singles and some young professionals. A few children have purchased units for aged parents, and parents have bought units near Johns Hopkins University in anticipation of housing several children who plan to attend the school in the future.

Experts believe the demand for garden and townhouse conversions exists, but there has been almost no such activity. Those conversions which have occurred were highly successful and sold much faster than high-rise units, according to several experts. Nevertheless, the demand for condominiums is expected to remain at a low level in Baltimore and nearby jurisdictions. Baltimore city, in particular, has a large stock of row houses, many of which are either sound enough to rent or suitable for renovation. These dwellings are expected to meet demands in the future, but one expert noted that if the low level of new rental construction continues, the demand for converted units may rise. Even so, the most favored units would still be garden apartments and townhouses. In nearby suburban areas, experts thought a single-family home, whether detached or attached, is still affordable.

Some experts speculated that the rent control amendment to the Baltimore City Charter would increase the conversion of apartments, because renting apartments would become very unprofitable. As of November 1979 this is a moot point since the rent control amendment, though approved by voters, was overturned by a circuit court judge. The decision is presently on appeal to the Maryland State Court of Appeals.

In Annapolis, where conversions have just begun, one expert suggested that there may be greater demand for units once the condominium concept becomes known. Apartments in the city's harbor area are particularly susceptible to conversion. The other jurisdiction where conversions have just begun is the planned community of Columbia in Howard County. Again, converted condominiums are a new idea there, and the future demand could not be predicted. One expert did say that in order to continue the concept of Columbia as a city with varied housing, it would be necessary to retain the rental stock.

Middle-income demand for inner-city locations is moderate. Baltimore has a long tradition of ethnic neighborhoods and this has helped retain middle-income persons in the city, but these people are more likely to live in a single-family home or in a small moderately-priced apartment, than in a high-rise condominium. The high-rise units which have been converted seem to have retained city residents, several of the buildings having quite high rates of tenant purchase.

According to several experts, there seem to be no particular SMSA market conditions propelling demand for condominiums. In fact, it seems that market conditions are keeping down the number of conversions. Although the area does not have surplus housing, experts say there appears to be a sufficient supply of housing units. Condominiums appear to have weak demand in Baltimore, perhaps best shown by the fact that most conversions have been left to out-of city developers who may not be familiar with the Baltimore market. One Washington developer, who has just begun to work in Baltimore, acknowledged that his company was taking a risk in doing so. However, the low cost of labor, the availability of cheap but sound buildings, and the lack of conversion regulations make the city appealing, despite the risk. Experts noted that Washington developers, as well as a few from New York and Chicago, were active there. They did not specifically identify individual firms or indicate the extent of their involvement.

Supply

Sound, well-maintained, high-rise buildings have been, and are being converted; this type of building is expected to be favored in the future since only cosmetic rehabilitation is necessary. Initially, buildings less than 20 years old (but nearly depreciated) were converted, but conversion of older buildings has recently begun. Conversion of garden and townhouse projects has been minimal. Because of their popularity, however, more may be converted in the future.

About one percent of the city's rental stock and only a fraction of the suburban rental stock has been converted. In suburban jurisdictions where homeownership is even more prevalent than in the city, the significance of conversions to the overall housing stock is slight and in Baltimore city (with 45 percent of housing owner-occupied) it is very low.

The unpopularity of high-rise apartment buildings in Baltimore seems to influence their rate of conversion. All of Baltimore's conversions have been of quality high-rise buildings, several of which had high pre-conversion vacancy rates. Experts claim that the relatively few affluent people attracted to the buildings as renters were unwilling to pay rents high enough to support all the services offered. Landlords converted the units, the experts speculated, to rid themselves of an unprofitable investment stemming from high maintenance costs, poor tax incentives, and excessive utility costs.

Market Conditions

The city of Baltimore has an estimated 147,000 rental units, more than half of which are single-family houses. The city's current rental vacancy rate was characterized by some experts as a low two percent and by others at a higher five percent. But even those who claimed the lower rate said the market was not so tight that it could not absorb more renters. Revitalization of the city's ample stock of row houses has also kept the rental housing market strong in Baltimore and enabled the city to meet the strong demand for single-family rentals.

According to one expert, Baltimore officials are less concerned with condominium conversions than with the recent trend of landlords to sell large shares of the city's single-family rental stock in the face of high operating costs. Baltimore recently enacted an ordinance giving tenants in single-family housing the right of first refusal to the unit in which they live. This protection was not extended to renters in multi-family units because the problem has not yet reached this market.

Although a large share of the more than 1,100 multi-family units built in Baltimore in 1978 were in government-assisted projects, new private multi-family construction in Baltimore has not ceased entirely. An expert described the new rental multi-family housing being built in the city's harbor (currently experiencing an economic upswing) as an indication that this sector is healthy.

The vacancy rate for the remainder of the SMSA, estimated at eight percent, is not particularly tight. Certain types of suburban rental stock, most notably townhouses, are more desirable, and represent a slightly tighter market according to one expert. New multi-family construction in other parts of the SMSA is very low, with most occurring in Baltimore County.

Most experts believed that the large increase in interest rates occurring in late 1979 would halt all new housing activity in the Baltimore SMSA. The market for most converted condominiums was not strong before interest rates rose, and as one expert said, sales and conversions of condominiums came to a "screeching halt" with high interest rates. It was predicted that an economic decline would reduce the demand for condominiums even more, unless people used such units as an alternative to the purchase of more expensive, single-family homes.

Government Regulations

Baltimore City had rent control for one year, July 1975 through June 1976. The ordinance was not favored by landlords and some tenants. Therefore, when it expired, the City Council did not renew it. An unsuccessful attempt to reinstitute rent control in the city was made in the Fall of 1979.* If rent control again becomes effective, several

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* In the summer of 1979, representatives of the People's Campaign for Rent Control and the Baltimore City Rent Control Campaign prepared an amendment to the Baltimore City Charter calling for rent control. The groups also began collecting signatures on a petition to place the amendment on the November 5, 1979 general election ballot.

The Cedlair Corp., a large rental property owner in Baltimore, and several other small landlords, challenged the procedures used by the groups in collecting the signatures. A Baltimore circuit court judge ruled in November 1979 that the petition procedure was proper and the amendment could be placed on the ballot. Voters approved the amendment by a slight margin, but a week later, the Cedlair group again challenged the amendment on several counts, including the signature collecting process for the petition.

On November 20, 1979, the circuit court ruled that the petition procedures were correct, but that the amendment was invalid for these reasons: (1) the amendment had a legislative intent and could not be initiated by the electorate; (2) the amendment was in conflict with the Maryland Horizontal Property Act, which restricts a locality's authority in rent control matters; (3) the amendment contained insufficient experts predict there would be a greater incentive among landlords to convert buildings. There are no rent control laws in other jurisdictions of the SMSA, nor is there legislation directly related to conversion activity.

Experts did not discuss any tax incentives affecting the profitability of conversions. One expert did note, however, that property tax rates in Baltimore city were about twice those of the rest of the SMSA. This, he believes, places additional financial burdens on landlords and increases the likelihood of conversions. Only one expert mentioned a form of suburban growth control: suburbanites prefer to maintain "green acres" instead of the high density development associated with condominiums.

Several experts believe no additional government action to regulate the pace of conversion was necessary. A few made suggestions for stronger safeguards for those purchasing condominiums and to rid the field of disreputable developers. If conversion seemed to be having a negative effect in the future, one expert said that the Baltimore City Council would take appropriate action to regulate the process.

Effects on Households

Little was learned about the impacts of conversion on tenant households. Experts said that those who moved seemed to be elderly people who did not wish to buy and students who could not afford to purchase units. Movers appeared to have no difficulty in finding new apartments and those they found tended to be cheaper than their old apartments. People who stayed were described by one expert as "dowagers," (affluent older women) who could afford to buy a unit and did so to continue enjoying the good security offered in their buildings.

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guidelines for the Tenant Landlord Commission created by it and improperly gave the Commission judical authority; and (4) the amendment violated the due process clause of the 14th Amendment because there was no reasonable certainty as to the meaning of its provisions.

This decision was appealed to the Second Court of Appeals, which decided the issue was so important that it sent the case up to the Maryland State Court of Appeals, the highest court in the State. This court is expected to rule on the question in mid-February 1980. It should be pointed out that the court is not ruling on whether rent control is proper, but on whether the procedures to implement rent control are proper.

The Maryland Condominium Act provides that all tenants be given 180 days notice that their building is to convert. There is no provision in this law for any form of relocation assistance. Jurisdictions within the Baltimore SMSA have enacted no legislation extending the notice period or providing for relocation help.

Tenant purchases ranged from 20 percent in a building largely occupied by students to 70 percent in a building designed by Mies van der Rohe and considered by one expert as "the" apartment house in Baltimore. The distinction between tenants who stayed and those who left was income level. Those who could afford to buy did so. One expert said the exception was extremely elderly people who, even if they could afford it, usually did not wish to purchase.

Effects on Tenants

A tenant activist said that tenants have not organized in opposition to conversions, but individual tenants have made calls to his citywide group, complaining of conversions. No tenant groups in the Baltimore SMSA have purchased their buildings for conversion to condominiums. Tenants in a 366-unit building in Baltimore city have formed a cooperative and are about to settle on the purchase of their complex. This is the first cooperative conversion in the SMSA. It could not be determined if the members of this cooperative had made use of HUD programs in purchasing their building.

Effects on Housing Market

Experts agreed that the limited number of conversions in the Baltimore SMSA have not led to a tighter rental market, nor had a significant impact on the ownership/rental ratio in any jurisdiction. There was speculation among market experts that if rent control had been successfully imposed in Baltimore, conversions would increase and less new rental housing would be produced. Until the rent control issue is resolved by the Court of Appeals, future market effects cannot be predicted.

Effects on Neighborhoods

There is a great deal of private and government-sponsored revitalization in several older Baltimore neighborhoods, but market experts report no conversions have occurred in these areas, dominated by single-family row houses. Conversions in Baltimore have been confined to quality buildings in affluent sections of the city. One expert thought ages may have changed in one converted building previously rented to many students, but ages (and other rental characteristics) in other buildings were thought to have remained the same.

No experts commented on the effect of conversions on public services, secondary displacement, or on the SMSA's tax revenues.

Relationship to HUD and Policy Alternatives

Experts made no comments indicating a relationship between HUD programs and conversions in the SMSA; nor did they indicate that HUD-subsidized buildings in the SMSA had been converted. One expert did say "some" HUD-insured projects had been converted, but he did not identify the projects.

Experts made several policy recommendations, yet most agreed Federal regulation of conversion activity was undesirable and unnecessary.

Policy recommendations included a Federal middle-income rent subsidy, a condominium education program, and a revamping of Federal tax policy on depreciation of rental units. At the local level, some experts suggested changes in housing codes, and additional consumer protection laws. One tenant representative suggested several national regulations, including a rent control bill, a moratorium on conversions, and a ruling that the majority of tenants must agree to conversion before it could proceed. Experts did not explain their reasons for these proposals or indicate how they might affect conversion activty.

The Conversion Process

Information was not collected on the packaging process in the Baltimore SMSA.

Field Report

Conversion Activity in the Boston, Massachusetts SMSA

Background

In 1978, the population of the Boston SMSA was approximately 2.9 million, about a five percent increase over the 1970 Census estimate of 2,750,000. While the city of Boston has been declining in population since 1960, the suburbs and surrounding communities have grown considerably.

The 1974 Annual Housing Survey found 930,700 year-round housing units in the SMSA, of which 406,100 (44%) were rental units. The median household size for renters was 2.1, compared to 3.2 for owners. The median income was $8,700 for renters: the monthly rental for their units was $185.

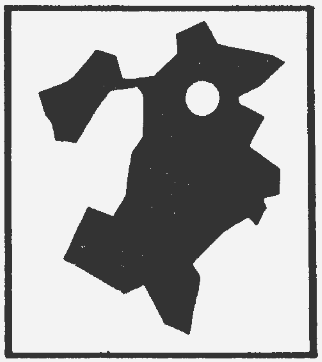
Conversion activity began later in Boston than in many cities, with only a few conversions in the early 1970s. Conversions continued to grow in popularity, totaling 9,604 between 1970 and 1979. The majority of these conversions have occurred since 1975. As conversions grow in number, displacement and the need for government controls on conversion have become controversial issues.

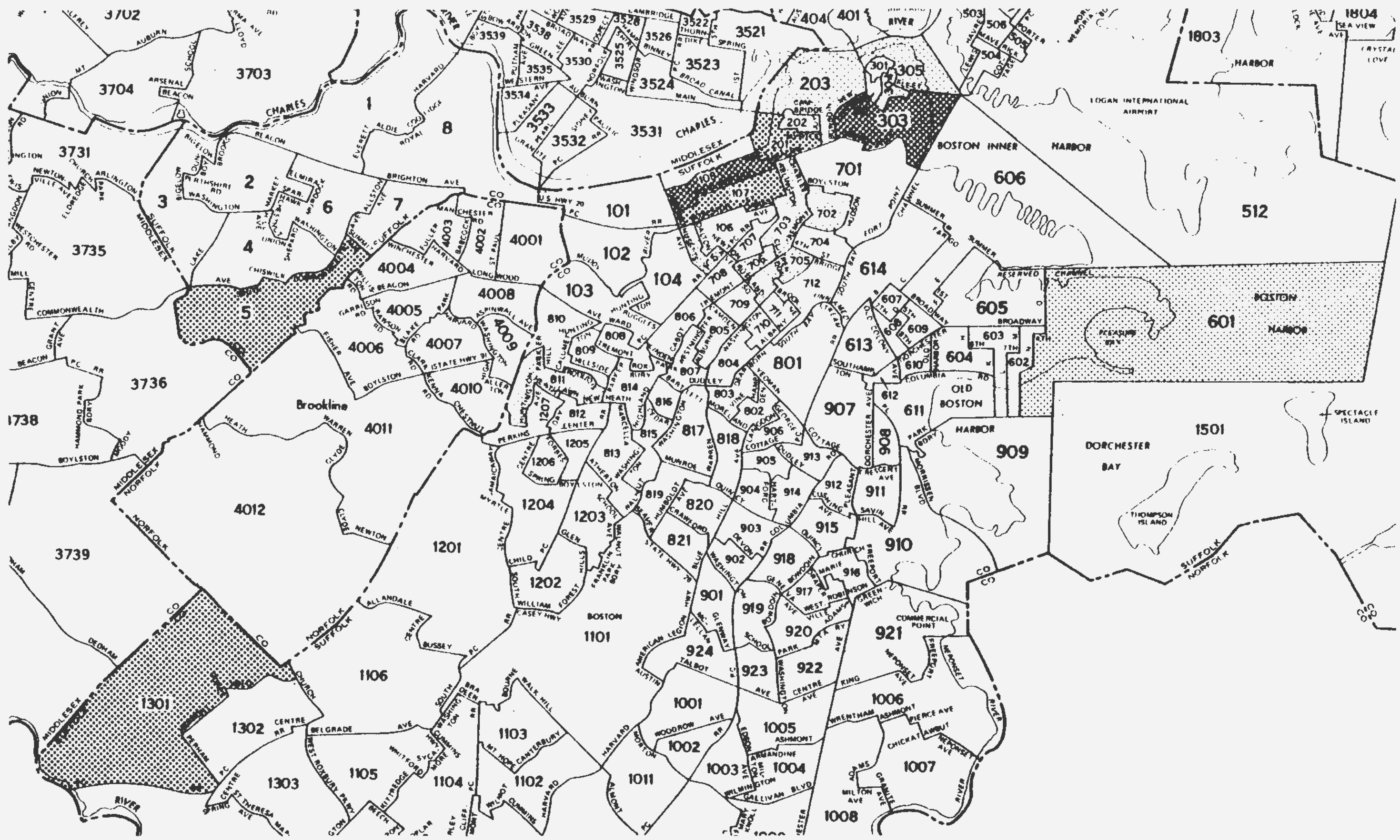
Demand

Public and private sector experts were in agreement that past and present demand for converted condominiums in the Boston SMSA is very strong. It was frequently stated that demand for conversions in the suburbs has been strong, but that demand for inner city conversions has been even stronger. Numerous examples were cited to illustrate the high demand that has existed. For example, one market expert referred to a suburban conversion that sold 21 out of 27 units in a single weekend. A leading developer stated that the average conversion in the area has sold out in 30 to 50 days after it was reported. A consultant who specialized in doing market studies for conversions reported that she has been amazed at the depth and strength of the demand that has existed for all types of conversions in the area. Her studies indicated that demand was not only high for conversions in prime locations, but that there was even strong demand for conversions located in suburban communities which were often considered less than ideal real estate markets

Demand for conversions was attributed to a number of factors. Local experts maintained that the lack of new rental construction activity in the area, the relatively low cost of conversion compared to single family houses, and the existence of a large number of 25

Condominium Conversions in Boston, Massachusetts
January 1977 to September 1979





Range of Converted Units Per Census Tract

- 1-50
- 51-100
- 101-200
- 201-500
- 501-800
- 801-4000

1708 Numbers are census tract numbers.

to 40 year old household heads who were interested in attaining the financial security of homeownership were the major factors behind the strong demand for conversions.

Some private sector experts also believed that conversions were becoming the new starter homes for many younger buyers. Conversions were said to be attractive to these types of buyers because the units were smaller, less expensive, and had less maintenance associated with them than single family homes. Other local experts disagreed with this "starter home" theory. They maintained that most buyers of conversions, especially those who bought in prime Boston locations, were more interested in living in convenient, desirable, in-town locations than in simply purchasing a starter home with a long-term desire to buy a suburban single-family home. These buyers were committed to living in the inner city and would not have been interested in purchasing a suburban home if inner city conversions were not available.

Although tenant and consumer representatives agreed that demand for conversions in the Boston area has been very high, they also emphasized that demand for rental housing has also been very high. They cited the extremely low vacancy rates for Boston and the surrounding suburban communities as evidence of this demand. From their perspective, until enough rental units are built to satisfy the strong demand for rental housing, it is unnecessary to worry about meeting whatever demand there might be for conversion.

In regard to future demand for Boston area conversions almost all local experts agreed that it would remain high and be more than sufficient to absorb the conversions that are expected to be marketed in the near future. In the last two years, about 4,200 units have been converted in the Boston SMSA. Most local experts stated there is more than sufficient demand to absorb at least twice that many units in the next two years if they were made available. It was also frequently stated that only a severe local recession, continued very high interest rates and tight lending policies would likely dampen demand for conversions. Most market and financial institution representatives did not expect this type of economic situation to exist in the upcoming year.

Local experts distinguished between the typical types of purchasers who were apparently driving the demand for center city and suburban conversions. In regard to center city conversions, it was commonly believed that most of the purchasers were young-to-middle age (i.e. 25 to 45), single or couples with two incomes, with zero or one child, middle income, and first time homebuyers who previously rented in Boston.

In regard to suburban conversions, local experts believed that most purchasers were more likely to be slightly older, married, and have more children than central city purchasers.

It was also frequently stated by local experts that the proportion of previous tenants purchasing converted units was likely to be higher in the suburbs than in Boston, but that the range of tenant purchasers varied widely among suburban conversions. Data for Boston and Brookline, however, do not support this generalization. For example, data obtained from the Boston Redevelopment Authority indicate that 29 percent of previous households purchased their units in that community, while data from the Brookline study indicate that only 22 percent of previous households purchased their units in that community.

The Brookline condominium study provides the most comprehensive data available on current condominium owners for any community in the Boston SMSA. The study concluded that there were three modal types of condominium owners in Brookline: 1) mid-stream families with heads of households between 31 and 60 years of age; 2) young professionals under 30; and 3) comfortably retired people over 60.

Table 1 provides additional information on these model types of owners. It should be emphasized, however, that these groups are not of equal size. For example, 60 percent of the current condominium owners were between 31 and 60 years of age, 24 percent were under 30 years of age, and only 16 percent were over 61 years of age.

The Brookline study also provides data which can be used to compare current condominium owners and renters living in rent controlled units. In general, condominium owners were more likely to be older and married, and had higher income than renters. To illustrate, 24 percent of condominium owners were under 30 years of age compared to 47 percent of the renters; 44 percent of the owners were married compared to 27 percent of the renters; and the mean income of owners was $27,830 compared to $17,490 for the renters. It is also interesting to note that 81 percent of the current condominium owners vacated a rental unit in order to occupy their present unit. Six percent of the current owners previously rented a house and 75 percent rented an apartment. In addition, about one-half of the current owners lived in Brookline prior to their purchasing a converted condominium. Table 2 contains additional information on the characteristics of Brookline condominium owners and renters.

Local experts cited a variety of interrelated economic and lifestyle factors when they were asked to describe why people chose to buy converted condominiums. Economic factors -- the relatively low cost of converted units compared to single family homes, the desire to own real estate because of its investment and appreciation potential, and the tax advantages associated with real estate -were the most frequently cited motivating factors behind the demand for converted units. Lifestyle considerations related to the perceived lack of maintenance and the locational advantages associated with conversions were also often mentioned as factors influencing younger buyers. It was also often stated that conversions were especially attractive for some elderly households because of the level mortgage payment (in contrast to ever increasing rents), the stability that conversions provided, and the reluctance of some elderly to move to another rental unit.

Tenant and consumer representatives, in particular, emphasized their belief that many in-place elderly buyers were "reluctant" buyers who decided to buy because they were "scared" to move and possibly face the same unsettling situation sometime in the future. From their perspective, demand for converted units has been artificially inflated because of panic buying on the part of many purchasers.

In the Brookline study, condominium buyers identified the factors which were important in their decision to buy a condominium. The most frequently cited factor was that the condominium was a "good investment". Forty-five percent of all respondents cited this factor. For younger households (i.e. under 30 years of age) this was by far the most frequently cited factor (61%). Hence, it appears that the investment potential of a condominium was more salient to younger buyers than older ones. Other motivating factors which were chosen by Brookline condominium owners included: "prefer to own "(26%), "tax shelter" (19%), "getting better place to live" (13%), "less expensive than renting" (12%), "no maintenance" (12%), "good location" (10%), and "already live there" (7%).

Interestingly, the Brookline findings provide some support for the belief that many elderly households may have been "reluctant" buyers. Although "good investment" was the most frequent factor chosen by respondents over 61 years of age, fewer of these households cited this factor than younger respondents. For example, 6 percent of people under 30 years of age, 44 percent of people between 31 and 40, 40 percent of people between 41 and 50, 31 percent of people between 51 and 60, and 21 percent of people over 61 years of age cited "good investment" as a factor in their decision to buy. In addition, elderly buyers were more likely than younger buyers to cite the fact that they "already lived there" as a factor in their decision to buy. Moreover, this was the second most frequent factor mentioned by elderly buyers. Table 3 presents more information on the factors influencing Brookline condominium buyers.

Supply

Since 1970, 9,604 units in 451 complexes have been converted in the Boston SMSA. About one-third of the conversions have been within Boston's city limits and two-thirds have occurred throughout the remainder of the SMSA.

In the Boston SMSA, condominium conversion has taken place later and at a slower rate than in other parts of the country. From 1970 through 1972, conversion activity was relatively low and a total of

873 units were converted. In 1973, conversions increased to 1,190 and in 1974, to 927 units. Local experts maintained that the national recession slowed conversion activity in 1975, and only 386 units were converted in that year. After the recession, condo minium conversions rebounded and rose to 2,224 units in 1978. Conversions in 1979 are likely to exceed this figure since 1,930 units were converted by the end of August.

A majority (56%) of all conversions in the Boston SMSA have occurred in the last three years. Moreover, conversion activity has grown faster in recent years in the suburbs than in the central city. From 1977 to 1979, for example, only 24 percent of conversions in the SMSA occured in Boston. Moreover, the towns of Brookline, Cambridge, and Framingham account for more conversions than Boston. Forty-five percent of the SMSA conversions have occurred in these three towns. The remainder of the SMSA conversions (22%) were scattered throughout 23 towns. 1/ Table 4 contains the location of converted units in the Boston SMSA by community and year.

The types of rental stock converted in Boston are significantly different from the types of rental stock converted in other communities in the SMSA. Converted buildings in Boston were much more likely to be smaller in size than in the surrounding communities. In Boston, 78 percent of the buildings converted were very small (ten units or less). Only 8 percent of converted buildings had 30 or more units. Conversions in Brookline and Cambridge also tended to be located in smaller buildings but a higher proportion (18% and 20%) of the buildings had more than 30 units.

In sharp contrast, the remainder of the SMSA had a relatively higher proportion of larger buildings undergoing conversion. In these communities, 37 percent of converted buildings had more than 30 units and 37 percent had more than 50 units. In Cambridge and Brookline no buildings of over 100 units have been converted, but the remainder of the SMSA had 17 percent of all conversions in buildings of more than 100 units in size. Table 5 presents a complete comparison of building sizes converted in different communities.

Data compiled by the Boston Redevelopment Authority regarding the type of rental stock converted in Boston indicate that a relatively small proportion (17%) of converted units have come from the lower end of the rental market, but a relatively large proportion (45%) of the converted buildings have come from this

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1/ These towns are Arlington, Belmont, Beverly, Braintree, Danvers, Dedham, Lexington, Lincoln, Malden, Marblehead, Marshfield, Medford, Natick, Needham, Newton, Quincy, Randolph, Revere, Wakefield, Waltham, Watertown, Wellesley and Woburn.

segment of the market. This can be explained by the fact that a large number of small low-rent buildings have been converted in Boston. Two-thirds of all converted units in Boston have been conversions from the upper end of the rental market (41%) and new additions to the housing stock (26%). Many, if not most, of the new additions have been conversions of old warehouses along the wharf into middle- and upper-income condominiums.

These data also indicate that 1979 was the first year in which a substantial number (20%) of the converted units have come from the low end of the rental market. This finding is consistent with the view held by many local experts that the conversion process in Boston prior to 1979 focused primarily on older, luxury buildings in prime locations, but appeared to shift somewhat in 1979 toward low-rent units requiring substantial rehabilitation. See Table 6 for more detailed information on the type of rental stock converted in Boston. In suburban communities, on the other hand, it was frequently stated that many nonlow income, middle-aged buildings in good locations were still available and were likely candidates for future conversion.

Conversions in Boston have taken place in a limited number of neighborhoods. Local experts were unanimous in the view that the vast majority of conversions have taken place in the popular, centrally located Back Bay and Beacon Hill areas. A December 20, 1979 newpaper article in the Boston Globe quoted Mayor Kevin White's housing adviser Andy Olins as stating that "nearly 70 percent of the city's conversions have been in the Back Bay. Most of the remainder have been in the Beacon Hill area." These two neighborhoods have also been targets of extensive public and private reinvestment efforts. Both areas contain historic architecture, are relatively close to downtown and are often referred to as two of Boston's "most stylish neighborhoods." In suburban communities, on the other hand, conversions have been more dispersed throughout the various communities and they have not been as concentrated in revitalizing neighborhoods. Most experts contended that suburban conversions were more likely to be located in stable neighborhoods not undergoing gentrification than were conversions in Boston.

A significantly larger proportion of the rental stock in surrounding suburbs has been converted to condominiums than in Boston. In the town of Brookline, 15 percent of the 11,000 rent controlled housing units has been converted. In the city of Cambridge 8.5 percent of the rental units and 4.6 percent of all city housing units have been converted. Although the absolute number of conversions in Boston is greater than in any of the individual suburban communities, the percentage of the rental stock converted has been smaller. In Boston, for example, only 1.5 percent of the city's 180,000 rental units have been converted.

In regard to future projections, most local experts concluded that demand would be more than sufficient to absorb at least the same number of units that have been marketed in the last two years. There was near consensus that if local governments removed current restrictions and/or did not place new restrictions on conversions, the number of conversions in the Boston area would continue to grow in the near future. It was felt that conversons in Boston would begin to spill over into other neighborhoods besides Back Bay and Beacon Hill. Moreover, it was believed that the recent trend of converting more units from the lower end of Boston's rental stock located in desirable neighborhoods would accelerate in the next five years.

Projections concerning suburban communities were much more uncertain. Many local experts believed that many of the prime, convertible buildings in these communites may have already been converted. In addition, the severe conversion restrictions which have been implemented in Brookline and Cambridge were seen as almost insurmountable barriers to future conversions in those communities. Many other suburban communities were considering similar ordinances to control conversions. In essence, local experts believed that the demand for conversions will remain very high, and many owners and developers will continue to be interested in converting their properties, but it is uncertain what additional actions local government will take to slow down or stop the conversion process in the future.

Market Conditions

In the Boston SMSA, local experts were in agreement that the housing market was characterized by very low levels of new construction and low vacancy rates. In the city of Boston, between 1970 and 1978, 18,000 new housing units were built. In the same period, 7,000 demolitions reduced the net increase to 11,000 units. This figure is 6 percent of the total rental stock. The vast majority of new units built in Boston have been publicly assisted. To illustrate, since 1970 only 3,100 unsubsidized apartment units have been built and only 100 units were built since 1975. The conclusion that the private real estate industry has been unable or unwilling to meet Boston's housing needs seems inescapable.

Local experts familiar with the markets in Brookline and Cambridge also concluded that there has been almost no new construction of rental units in the 1970s in these two communities. The little new construction that has occurred was developed through the Section 8 program. Developers frequently pointed to the escalating cost of new construction, and their strong dislike and fear of rent control as the major factors which account for the lack of new construction activity in Cambridge and Brookline.

The rental market in Framingham is also very tight. No new construction of multi-family rental units is permitted in Framingham since all zoning for multi-family housing of more than two units per structure was eliminated in 1972 in reaction to over-building in the early 1970s. Many apartments continued to be built as late as 1974 following a rash of building permits filed in anticipation of the prohibition law. No new construction of multifamily units has occurred since 1974.

Vacancy rates for communities in the Boston SMSA are substantially lower than the national average. Public and private experts were in agreement that the present vacancy rates for Boston, Brookline, and Cambridge were well below 5 percent, but precise vacancy information was not available. For example, an October 23, 1979 article in the Boston Globe quoted Mayor White's housing advisor as stating that "while no dependable figures are available, the vacancy rate is certainly less than 5 percent." However, a December 21, 1979 article in the Boston Globe which discussed conversions reported that "the current vacancy rate of 3 percent is the lowest in recent history." During the debate in the Cambridge over conversion controls, city housing specialists estimated that the vacancy rate was 1 percent or less. Although local experts were uncertain about exactly what the current vacancy rates were in the Boston SMSA, there was a general consensus that the market was extremely tight and vacancy rates throughout the area were very low.

Developers and owners maintained that the tight rental market, escalating operating costs resulting from increased energy/fuel expenditures, the large potential profits involved, and rent control were the primary factors behind the conversion push in the Boston area. Rent control was singled out as the most compelling factor which influenced Brookline and Cambridge rental owners to convert their properties. Private sector experts argued that rent control resulted in owners "always being behind in rent increases because operating costs have climbed dramatically without corresponding rent increases being approved". It was also argued that since rent control did not allow owners to realize the full economic potential of their property "no one should be surprised that so many owners decided to get out from underneath rent control by converting to condominiums." Although Boston substantially modified its rent control program in 1975 when vacancy decontrol was instituted, many private sector experts maintained that the rent control experience and the fear of a reinstitution of rent control was a significant factor influencing many Boston rental owners to convert.

Tenant representatives, on the other hand, contended that rent control was only a convenient "whipping boy" for developers and that it was not the real cause of conversions. They argued that conversions were occurring in many communities that did not have rent control. Moreover, they maintained that Boston only had rent control for two years and that everything wrong in the market was a result of an uncontrolled market, not rent control. From their perspective, the primary cause of conversions was the desire of owners and developers to make unconscionable profits by taking advantage of the critical housing shortage that existed throughout the Boston SMSA.

Local experts were divided regarding the impact of mortgage market conditions on conversion in the near future. One group of experts believed that continued high interest rates and tight money policies would result in a temporary short-term slowdown of conversions. They maintained that these market conditions would make it much more difficult to convert a project unless the owner was willing to provide financing. It was also believed that high interest rates would discourge many potential purchasers of units and adversely affect the conversion market in the same way that they adversely affected the rest of the housing market.

In contrast, another group of experts believed that high interest rates and tight money might actually promote conversions. They often cited the fact that 1979 was a good year for conversions and that listings had not dried up despite high interest rates. It was also argued that high interest might make it uneconomical for investors to buy some buildings as rentals. Hence, only developers would be interested in purchasing and converting such buildings. Further, it was also contended that since many conversions are smaller, less expensive, and more affordable to a larger group of potential buyers, that high interest rates might actually promote the conversion market at the expense of the single family market.

Government Regulations

The state government in Massachusetts has not attempted to regulate or monitor conversions. Moreover, in Massachusetts, except for Brookline and Cambridge, the conversion process has remained unregulated. There are no established procedures or requirements which must be followed to convert, except for the filing of a Condominium Master Deed with the local tax assessor's office. In most instances, local governments only become aware of a conversion when the Master Deed is recorded.

Rent control, however, has been one of the more hotly debated topics in the area. Boston, Brookline, and Cambridge instituted rent control programs in the early 1970s. Brookline and Cambridge continue to have very stringent and comprehensive programs. Boston, however, began to phase out its rent control program when it instituted vacancy decontrol in 1975. Tenant advocates have strongly defended the need and merits of rent control. They maintain that it is needed to protect low-income and elderly tenants from being charged unreasonable and unjustified rent increases. Private sector opponents of rent control have argued that rent control has not worked, its procedures are cumbersome; it punishes legitimate landlords; and it discourages new construction of rental units.

Owners and developers consistently argued that it was unfair for landlords to be burdened with providing unreasonably low rents to low-income tenant. As mentioned above, private sector experts strongly argued that rent control was a leading cause of conversions. It was frequently mentioned that most of the conversions in the SMSA has occurred in the three communities which have some form of rent control. In general, it was maintained that rent control has encouraged conversions by putting a squeeze on landlords faced with rising operating costs, making it attractive to them to sell their properties to condominium developers. Tenant spokespersons, strongly disagreed with this assessment.

In addition to rent control, Brookline and Cambridge have instituted some of the strongest anti-conversion ordinances in the country to halt future conversions. In July, 1978 a Brookline town meeting passed an ordinance which prevented condominium developers from evicting rental tenants once an apartment building was converted. The ordinance gave tenants from 6 to 12 months to vacate under eviction by the buyer of a condominium. This ordinance was upheld by the Massachusetts Supreme Judicial Court, but it was superseded by an even more stringent ordinance passed in May, 1979. This ordinance prohibited the eviction of any Brookline tenant who occupied a rental unit prior to the recording of a Master Deed for a condominium. In effect, the ordinance prohibited evictions for the purpose of converting a project. Hence, the ordinance made it extremely difficult, if not impossible, to convert a project unless a very high percentage of tenants agreed to buy.

The City of Cambridge has passed an even stronger anticonversion ordinance than Brookline. The Cambridge ordinance requires that any building owner who seeks to remove a unit from the rental market must first obtain a permit from the Cambridge Rent Control Board. "Removal from the market" includes condominium conversion, demolition, and any rehabilitation which would prevent residential occupancy during the course of the rehabilitation. The ordinance stipulated that in deciding to grant a permit to remove a unit, the Rent Control Board must consider "hardships imposed on tenants" and "any aggravation of the shortage of decent rental housing." After the permit is granted, a unit owner would then have to get approval from the rent control board to evict any tenant. As a result of this ordinance, condominium conversions have been drastically reduced in Cambridge.

At the time the field study was undertaken, Boston had taken no official action to regulate or restrict conversions. However, public and media attention was beginning to be focused on the issue of conversions. Mayor Kevin White proposed an ordinance which would have required a one-year notice before a tenant could be evicted as a result of conversion. Councilman Ray Flynn also submitted a conversion control ordinance to the city council which would have banned all evictions from condominium conversions. These two proposals have been the subject of intense public debate. At the time of the field study, however, it was not clear what type of action, if any, Boston wold take to regulate or control condominium conversions.

Effects on Households

There was wide disagreement among local experts regarding the impacts of conversions on tenants. Most owners, developers, and market experts maintained that only a small percentage of tenants were adversely affected by conversions. One market expert, for example, stated that "under 5 percent of all tenants are hurt by conversions and they usually are the elderly poor." This group contended that many of those who were displaced could have purchased their unit, but chose not to buy. Moreover, it was often pointed out that there is a high renter turnover in the Boston area (about 30 percent annually), and this fact undercuts the argument that long term renters were being displaced by conversions. Tenant representatives, on the other hand, strongly argued that conversions were severely affecting tenants. They maintained that large numbers of low-income and elderly tenants were being displaced without any concern for their wellbeing. Examples were frequently cited of displaced households having to pay higher rents, move into lower quality housing, and/or being forced to "double up" with other households after being displaced by conversion.

Although almost no empirical data existed on the actual impact of conversions on tenants, some data were available for Brookline and Boston on the characteristics of buyers and non-buyers of condominiums. The Brookline study, for example, found that 22 percent of current condominium owners were former residents of their units. Hence, 78 percent of the former residents did not buy their units in Brookline. In Boston, 29 percent of previous households purchased their units. Interestingly, the percentage of previous households purchasing their units appears to be declining in Boston. For example, prior to 1977 over 30 percent of previous tenants purchased their units, but in 1979, only 20 percent of the previous tenants boughts their units.

Information collected by the Boston Redevelopment Authority also indicates that a very high percentage of the previous residents of converted buildings were under 34 years of age. In 1979, 80 percent of the previous residents of converted units in the downtown area were under 34 years of age and only 7 percent were over 50 years of age. This is a dramatic change from the 1969 to 1973 period when 36 percent of former residents of downtown conversions were under 34 years of age and 45 percent were over 50 years of age. These data support the argument made by many local experts that recent conversions in Boston have most directly affected students and not the elderly. (Table 8 contains more information on the age of previous residents of conversions).

With regard to suburban conversions, most local experts believed that fewer young persons were being displaced than in Boston. Concern about displacement of the elderly appeared to be greater in the suburbs than in Boston. To illustrate, Cambridge city officals estimated that at least 300 elderly households have been displaced by conversions in Cambridge. As a result, Cambridge officials unsuccessfully attempted to gain State House approval in 1979 for a home rule bill prohibiting evictions of the elderly.

The Brookline study included interviews with displaced households, but the sample (22 respondents) was too small to be statistically significant. Hence, these findings can only serve as an example of the problems households encounter. In general, it was found that 73 percent of Brookline's displaced households were very negative about conversions and about being forced to move. They used terms like "traumatic", "very upsetting", "aggravation", "manipulate", and "utter outrage" to express their feelings about being displaced. On the other hand, it was also found that 15 out of 22 households reported their new residence was better than their old one. These generally positive feelings about the new residence existed despite the fact that rents were about 5 percent higher and the new units were smaller than the former units.

The kinds of notice and assistance given to Boston area tenants appeared to vary substantially from conversion to conversion. Except for Brookline and Cambridge, local governments in the area have established no policies or requirements concerning the types of notice which had to given. As a general rule, it appears that very little financial and relocation assistance was given to tenants in the Boston area who were forced to vacate their units as a result of conversion. Tenant representatives, in particular, cited examples where tenants were given immediate notice to vacate their units. They contended that owners usually made no attempt to provide financial relocation assistance to displaced households, to help low-income tenants remain as renters or to assist them in finding new housing. Some developers, however, reported that many owners attempted to enable some elderly renters to remain in converted buildings and that most owners provided tenants with more than sufficient notice to find new housing.

Effects on Tenants

Tenant groups have been very outspoken in their opposition to conversions in the Boston area. Representatives of tenant and consumer interests have organized to convince state and local governments to implement tenant protection and anti-conversion ordinances. They have been successful in influencing the communities of Brookline and

Cambridge to pass stringent conversion control measures. Although the state government and the city of Boston have not adopted tenant supported anti-converson ordinances, tenant representatives have vowed that they will continue to lobby for the passage of these ordinances. The local media have been very active in presenting the views of tenants and industry spokespersons regarding the conversion phenomena in the area and have focused attention on the alleged positive and negative aspects of conversion.

As a result of the implementation of tenant-backed ordinances in Brookline and Cambridge, conversions had practically ceased in these two communities by the end of 1979. However, since conversions were not government regulated in other communities, tenants in buildings scheduled for conversion had very little leverage over owners. Tenants in some individual buildings have attempted to organize and oppose conversions, but they have been unsuccessful in stopping conversions. Since there are no conversion reviews, permits or approvals needed in most communities, owners can often convert buildings before tenants even have an opportunity to organize.

None of the local experts were aware of any attempts by tenant groups to purchase their buildings for conversion to condominiums or cooperatives. In addition, they were not aware of HUD programs being used in any way either to promote or hinder conversions in the area.

Effects on Housing Market

As was previously discussed in the "Market Conditions" section of this report, the housing market in the Boston area was characterized by low levels of new construction, very low vacancy rates, and rent control in Brookline, Cambridge, and Boston. Although no hard data were available to assess the impact of conversions on any segment of the market, local experts were of the opinion that since such a large number of conversions occurred in the Back Bay and Beacon Hill areas of Boston, the rental market in those areas was considerably tighter as a result of the conversions. It was generally believed that as the availability of rents units declined in Back Bay and Beacon Hill, it was inevitable that rents would also signifcantly increase. However, since many rental units in Boston were still covered by rent control, this increase has only taken place for units in which turnover occurred and rent decontrol became effective. Tenant representatives strongly argued that if partial rent control was not in effect in Boston, rents would have dramatically increased as a result of the conversions.

The situation is very similiar in Brookline and Cambridge. Over 10 percent of the rental stock in these communities has been converted. Local private sector experts were unanimous in the belief that rent control was the major reason why rents have been maintained at an artificially low level in Brookline and Cambridge in the face of such a dramatic reduction of the rental stock.

In general, it appears that the rental market in the Boston area was tight prior to conversions, has become even tighter as a result of conversions, but rent control has provided a brake on rent increases which would probably have occurred in the absence of rent control.

Since only 1.5 percent of the rental stock has been converted in Boston, the ownership/rental ratio has not been significantly altered. However, in Brookline, Cambridge, and Framington a relatively larger proportion of the rental stock has been converted and the precentage of homeowners has correspondingly increased.

Effects on Neighborhoods

Most local experts believed that conversions have played a part in the revitalization of the Back Bay and Beacon Hill areas of Boston. There was a general consensus, however, that conversions have lagged behind other types of public and private reinvestments in these areas. One market expert, for example, stated that "converters usually look for an indication that a neighborhood is being upgraded before they convert." A city official cautioned also that "conversion plays a part in neighborhood revitalization, but only a small part." Another city official was quick to point out that the city government was primarily responsible for the revitalization of Back Bay and Beacon Hill and that conversions followed a substantial public investment in these areas.

Local experts were in general agreement that conversions in the Back Bay and Beacon Hill have affected neighborhood income and age mix, but not racial composition. Higher income condominium buyers have been displacing lower income students and transients. An April 17, 1979 newspaper article, for example, reported that the 1979 median income in Back Bay and Beacon Hill was $27,500 compared to $14,000 in 1970. This article also stated that "white collar condominium owners have enhanced residential stability although students and pensioners are being priced out of the neighborhood and moving to the Fenway and elsewhere." As condominium prices and rents have escalated, lower income households have been displaced by higher income households. To illustrate the high cost of conversions in the Back Bay, the president of the Neighborhood association of Back Bay stated that "it's not uncommon for a duplex to go for $130,000. Condo prices are wacky, up 40 percent in the last year."

Private sector experts emphasized the stability and drop in crime that have accompanied conversions in Boston. Tenant representatives, however, depicted a completely different scenario. From their perspective, "conversions have destroyed neighborhoods." They cited the large amount of displacement that has occured. They also contended that "government and society cannot ignore the tremendous social and psychological problems that have been related to conversions." It was also emphasized that condominiums were "homogenizing" neighborhoods, that some neighborhoods were losing their heterogenous mix, and that they would soon become private enclaves for upper income households.

With regard to the local tax effects of conversion, most local experts believed that a large net tax increase resulted from conversions. Specific figures were not available for Boston, but city officials believed the tax increase was substantial. For example, one city official reported that conversions resulted in an increased tax yield of about 50 percent versus only a 2 percent citywide increase. It was also pointed out that a person who bought a $50,000 unit would pay $2,900 annually in Boston property tax.

The Brookline study contained an extensive analysis of the fiscal impact of conversions. For a sample of 21 buildings converted in the 1977 to 1979 period the preconversion and postconversion assessments were compared. It was found that the postconversion valuation was 34 percent higher on average than the preconversion valuation. At the current tax rates, this increase would yield an additional $447,000 in tax revenues. Surprisingly, since this study found that condominium owners had more children per household than renters, it was concluded that the most obvious change in municipal service demand would be in the area of public education expenditures. It was estimated that for every 100 condominium owners who replaced renters, there would be 14 additional school age children. Since the 1979 per pupil expenditures of the Brookline schools was $2,472, the total cost increase related to conversion could be substantial if past conversion trends continued in the future. (chapter VII of the Brookline study presents a more extensive analysis and discussion of the fiscal impacts of conversion).

Tenant representatives agreed that conversions usually resulted in increased tax revenues, but they also maintained that the public expenditures that often went into neighborhoods in which conversion were occurring far exceeded the increased tax revenues. It was their belief that it would take many years for Boston to recoup its investments in these neighborhoods.

Relationship to HUD and Policy Alternatives

None of the local experts were aware of any relationship between HUD programs and conversion. It does not appear that any HUD-insured or subsidized buildings have been converted. However, some of the Community Development Block Grant funds have been expended in areas in which conversions have occured.

The perspectives and backgrounds of local experts strongly influenced their view of the conversion process and their individual policy preferences. Most experts associated with the real estate industry maintained that conversions are a right of the free enterprise system that should not be regulated by the government. Tenant representatives contended that conversions often caused major social and economic problems and hence they should be regulated to guarantee the existence of rental housing for low-income, elderly, and displaced tenants. A third group of experts argued that conversion is an inevitable process in communities without any other means of producing housing for those who want to buy.

Local experts suggested a wide variety of policy proposals regarding conversions. The one area in which there was general agreement was for the federal, state, and local governments to facilitate the increased production of low- and moderate-income housing. All local experts agreed that there was a tremendous need for the construction and/or rehabilitation of low and moderate income rental and homeownership units throughout the Boston SMSA. No consensus existed on how this could be accomplished, but there was general agreement that the federal government would probably have to provide the bulk of the financial resources or incentives. It was often argued that conversions are only a symptom of a larger problem. Housing is considered beyond the ability of most Americans to afford; and the private market may no longer be able to provide affordable housing. The following illustrates the range of preferences that were suggested by local experts:

(1) the federal government should implement a total ban on conversions. (tenant representatives);

(2) HUD should demand that communities develop comprehensive housing programs which take conversions into account (tenant representatives);

(3) HUD and Public Housing Authorities should use Section 8 funds to buy a certain percentage of units in condo-

miniums and cooperatives. This would be cheaper than new construction and would allow low-income tenants to remain in converted buildings (tenant representatives, developers, and city officials);

(4) HUD should require that owners of subsidized and insured projects not be permitted to convert to condominiums (tenant representatives);

(5) The Federal government should establish minimum standards regarding conversions which would cover disclosure, notice and eviction requirements, warranties, relocation assistance, etc. (city officials, developers, and tenant representatives);

(6) regulation of the conversion market should come from the state government, not the Federal or local governments. (developers and market experts);

(7) HUD or the state government should provide subsidies to the elderly to enable them to remain as renters in converted buildings (developers, owners, and city officials); and

(8) the Federal government must devise new programs that will produce low-cost housing for low, moderate, and middle-income households (developers market experts, tenant representatives, and city officials).

The Conversion Process

Local experts familiar with the process of conversions in the Boston area reported that numerous variations existed. The basic steps in the conversion process are relatively simple, but since the process is not regulated by the state or most local governments, obvious variations occurred in the financing, rehabilitating and marketing of units.

The most comprehensive and definitive local information on the process of conversion is contained in the Brookline study. A sample of 21 converted buildings was analyzed, and interviews were conducted with mortgage bankers, commercial bankers, developers, and owners. The basic findings were:

(1) Most of the larger Boston commercial banks consider condominium conversions to be too risky to justify participation in the market. However, medium and smaller commercial banks were actively involved in this market.

(2) In addition to commercial banks, the owner of the building (i.e., the seller) often was an important source of funds to the developer. It was estimated that 25 percent of Brookline conversions included financing from the sellers of buildings. In these instances, the seller held the second mortgage and the bank held the first.

(3) After the building has been selected and financing has been arranged, the developer purchased the building and filed a Master Deed with the tax assessor's office. When these steps had been completed, individual units could be sold.

(4) The amount of rehabilitation accompanying conversion varied widely, but developers preferred to avoid buildings requiring extensive rehabilitation. It was found that an average between \$3,000 and \$10,000 per unit was invested in rehabilitation of all types.

(5) Developers balanced two conflicting pressures in establishing selling prices: speed of selling and profit margin. In Brookline, condominiums on average sold for 118 times the monthly rent charged for the units before the conversion. It was also concluded that buildings which were extensively rehabilitated and/or those with prices at a multiple of monthly rent greater than 130 were likely to encounter market resistance and fewer sales, particularly to existing tenants.

(6) Discounts from 5 to 10 percent of the market price of the units were normally offered to existing tenants.

(7) The following income statement was reported to reflect the general experience of developers in Brookline:

Sales price per unit	$39,664
Costs per unit:	
Acquisition costs	$20,625 (52%)
Conversion costs	$11,105 (28%)
Total costs per unit	$31,730 (80%)
Profit per unit before tax	$ 7,934 (20%)

(no broker's fee included)

Table 1

Three Model Types of Brookline Condominium Purchasers

	Age of Head	Size of Household	Average Income	Average Condominium Cost	Monthly Carrying Charges	Description
"Mid Stream Families"	31-60	2.9	$28,327	$36,188	$483.	Professional, Married in Mid-Life, Sometimes With Children
"Young Professionals"	Under 30	1.86	$24,961	$34,355	$461.	Probably not married, First-time residents of Brookline
"Comfortably Retired People"	Over 60	1.60	$28,444	$42,037	$458.	Often single, Longer term Brookline residents, Likely to own unit they previously rented

SOURCE: Condominium conversion in Brookline: An analysis of how conversions take place in Brookline, and of how they affect the town's residents and their fiscal condition (Boston: Harbridge House, Inc., 1979).

Table 2

Characteristics of Brookline Condominium Owners and Renters

	CURRENT CONDO-MINIUM OWNERS %	RENTERS IN RENT CONTROLLED BUILDINGS %
AGE:		
UNDER 30 YEARS	24	47
31-40	33	20
41-50	15	6
51-60	12	5
OVER 61	16	20
OCCUPANTS PER HOUSEHOLD: 1	37	36
2	42	38
3	10	14
4	11	11
MARTIAL STATUS:		
MARRIED	44	27
SINGLE	35	54
SINGLE PARENT	8	5
WIDOWED/DIVORCED/SEPARATED	10	12
INCOME:		
UNDER $10,000	3	22
$10-19,999	22	36
$20-29,999	26	16
$30-39,999	14	4
$40,000 & over	13	3
Mean Income:	$27,830	$17,490
INCOME SOURCE:		
SALARY AND WAGES	78	68
INTERESTS AND DIVIDENDS	4	2
SELF-EMPLOYED	4	5
SOCIAL SECURITY/PENSION	4	12
TYPE OF PREVIOUS RESIDENCE:		
RENTED APARTMENT	75	
RENTED HOUSE	6	
OWNED HOUSE	16	
OWNED CONDOMINIUM	2	

SOURCE: Condominium Conversions in Brookline, ibid.

Table 2

Characteristics of Brookline Condominium Owners and Renters

PREVIOUS ADDRESS:	Current Condominium Owners
BROOKLINE, SAME ADDRESS	22
BROOKLINE, DIFFERENT ADDRESS	27
METRO AREA, NOT BROOKLINE	34
MASS, OUTSIDE METRO BOSTON	8
OUTSIDE MASS.	8
PRICE OF UNIT:	
$10,000 - $10,999	3
$20,000 - $29,999	21
$30,000 - $39,999	30
$40,000 - $49,999	19
$50,000 and over	10

SOURCE: Condominium Conversions in Brookline, ibid.

Table 3

Current Brookline Condominium Owners
Age of Respondents by Factors in Decision
To Buy Condominium

Percentage of respondents in each age group cited various reasons for buying a condominium. (Percentages total vertically.) 1/

	Less than 30 years (%)	31-40 (%)	41-50 (%)	51-60 (%)	Over 61 (%)	Total responses for all households (%)	(No.)
Good investment	61	44	40	31	21	43	(126)
Prefer to own	26	30	24	25	19	26	(76)
Tax shelter	16	26	20	19	7	19	(56)
Getting better place to live	16	18	1	19	7	13	(39)
Less expensive than renting	11	12	13	11	14	12	(35)
No maintenance	9	15	18	6	12	12	(35)
Good location	14	9	13	8	7	10	(30)
Already live there	3	3	11	6	19	7	(20)
Number (N) of responses in each age group	(N=70)	(N=94)	(N=45)	(N=36)	(N=43)	-	(293)

1/ Percentages do not total to 100 because of multiple responses.

SOURCE: Condominium Conversion in Brookline, ibid.

Table 4

Location of Converted Units in Boston SMSA By Year

	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1970 To 1979 Total	%. Of Total
Boston	20	219	145	573	505	236	179	171	897	201	3146	33
Brookline	0	60	167	144	71	25	34	118	818	374	1831	19
Cambridge	2	58	102	60	292	123	20	670	211	209	1747	18
Framingham							306	250		200	756	8
Waltham									40	347	387	4
Newton					28		144	22	54		248	3
Randolph							95			104	199	2
20 Remaining Communities	0	100	0	413	31	2	45	19	204	475	1289	13
SMSA Total	22	437	414	1190	927	386	823	1250	2224	1930	9604	
% of Total 1/	2	4	4	12	10	4	9	13	23	20		

1/ Percent figures for 1979 are complete through August 1979.

SOURCE: Condominium Conversions in Brookline, ibid.

Table 5

Variation in Size of Buildings Converted in Boston, Brookline, Cambridge and Rest of SMSA

Building Size

Jurisdiction	5 units or less (%)	10 units or less (%)	30 units or less (%)	Over 30 units (%)	Over 50 units (%)	Over 100 units (%)
Boston	47	78	92	8	3	.9
Cambridge	20	38	80	20	7	0
Brookline	18	44	82	18	9	0
Remainder of SMSA	28	38	63	37	30	17

SOURCE: Condominium Conversions in Brookline, ibid.

Table 6

Type of Stock Converted in Boston

	1969-1973	1974-1977	1978	1979 1/	TOTAL UNITS	TOTAL STRUCTURES
Upper End of Rental Market	60%	36%	42%	20%	41%	32%
New Additions 2/	17	25	26	20	26	16
Mid-Range Rentals	23	32	30	40	16	7
Low End of Rental Market And Lodging Houses	-	7	2	20	17	45

SOURCE: Boston Redevelopment Authority Research Office

1/ Through August 1979

2/ Includes condominiums created through new construction, recycling non-housing buildings, conversion of single family homes, and conversion of buildings vacant for extended periods.

Table 7

Previous Households Purchasing and Not Purchasing Converted Units In Boston

	Number of Converted Units	Percent of Previous Households Purchasing Units	Precent of Previous Household Not Purchasing Units Units
1969 - 73	802	32	68
1974 - 77	732	36	64
1978	641	25	75
1979	714	20	80
TOTAL	2889	29	71

SOURCE: Boston Redevelopment Authority Research Office.

Table 8

Age of Previous Residents of Converted Boston Units

	Downtown Conversions 1/		Non-Downtown Conversions	
	Under 34 (%)	Over 50 (%)	Under 34 (%)	Over 50 (%)
1969 - 1973	36	45	NA	NA
1974 - 1977	60	18	58	30
1978	69	11	47	36
1979	80	7	69	19

SOURCE: Boston Redevelopment Authority Research Office

1/ Excludes lodging houses

Field Report

Conversion Activity in the Buffalo, New York SMSA

Background

Conversion of rental units to condominiums has been very limited in the Buffalo area. In the City of Buffalo only one building, comprising 65 units, has been converted. Two additional Buffalo buildings, totaling 88 units, are in the process of meeting the legal requirements necessary to convert. Seven complexes in the Buffalo area suburbs, totaling 718 units, have been converted and two additional complexes, totaling 126 units, are in the process of converting. Hence, in the entire Buffalo SMSA only eight projects and 783 units have been converted to date.

Buffalo can be characterized as a city with steadily declining population and number of housing units. For example, between 1970 and 1977, population declined by 13 percent and housing units declined by 7 percent. In addition, housing vacancy rates have remained high. To illustrate, in 1975, 1976, and 1977 the vacancy rates were 8.0 percent, 7.5 percent and 7.0 percent respectively.

Demand

Since so few converted condominium units have been marketed in the Buffalo area, it is difficult to ascertain how large the "demand pool" for such units might be. On the one hand, local experts point to the high demand for many of the conversions that have been undertaken as a good indicator of future demand. Of the 63 units sold in the one Buffalo conversion, <u>all</u> were bought by existing tenants. It was also frequently mentioned that most of the conversions which have been marketed in the area have sold out in 3 to 12 months. On the other hand, local economic characteristics are cited as major reasons why the demand for conversions in the Buffalo area is unlikely to ever be as high as it is in other areas of the country. The large supply of fairly inexpensive single-family homes available throughout the area, for example, was cited as a major reason why demand for conversions was likely to remain limited. In addition, it was frequently mentioned that the low-income "blue-collar" nature of a large proportion of the population also limits the demand pool of potential purchasers of housing: the 1978 Income Index for the City of Buffalo was 88 when the average or mean income ($13,800) for all households, based on a national sample, equalled 100. The general distressed nature of the local economy is demonstrated by the fact that in 1977, the percentage of heads of households in Buffalo who were jobless was 23.6 percent. The overall unemployment ratio for the City of Buffalo in 1976 and 1977 was 13.6 percent and 12.0 percent. The unemployment rate for the total SMSA for these two years was 10.8 percent and 9.3 percent.

To exacerbate the situation even further, the cost of living in the Buffalo area is very high. Data compiled in 1979 by the U.S. Department of Labor, for example, showed that Buffalo ranked 8th highest in cost of living among 40 large cities.

There was general consensus among experts that location would be the key factor in determining future demand for conversion. It was anticipated that demand would be high for inner city conversions if they were located in the limited number of desirable areas of the city (for example, along Delaware Avenue). However, it was also pointed out that in "many others areas of the city, property is going begging and a large number of abandoned properties are located in these areas." There was also a near consensus that no significant "back to the city movement" is occurring in Buffalo, and middle-income demand for inner city locations has not been noticeable nor is it likely to be extensive in the near future.

Supply

Table 1 clearly illustrates the types of rental stock that have actually been converted and are in the process of being converted in the City of Buffalo and the surrounding suburbs. The one building that was converted in Buffalo was a luxury high-rise, built in 1927, in very good physical condition, and in an excellent location. Of the 65 units, 63 have been sold to existing tenants. Two other complexes in Buffalo, totaling 88 units, are in the process of converting. One of these buildings has 58 units, was built in 1929, is very similar to the already converted Buffalo project and is in a prime location. It is anticipated that a large number of present tenants will purchase units in this building. The second project in the process of converting consists of 30 two-bedroom townhouse units. The previous owner had financial difficulty operating it as a rental complex, and the current owners purchased the complex at a foreclosure sale with the intention of converting it to condominiums. The project is in good condition and it is anticipated that approximately one-half the present tenants will purchase units.

A substantially larger number of rental units has been converted in the suburbs than in the City of Buffalo. Most of the suburban conversions (five projects with 681 units) have been located in Ameherst, New York. Ameherst was described as a close-in exclusive suburb. These units were all built in the late 1960s and early 1970s and were all in good physical condition, in desirable locations, occupied by middle-to-upper-income tenants, and were marketed "as-is." The other two suburban conversions were also in good physical condition, but were experiencing financial difficulties as rental projects. One of these projects had never been occupied and was purchased at a foreclosure sale. The other project had a severe occupancy problem and needs extensive rehabilitation before it can be marketed as a conversion. Two additional suburban projects totaling 126 units, are in the process of converting. One of these is a 30-unit project which is very similar to the

TABLE 1

Description of Housing Stock Actually Converted and In Process of Being Converted, Buffalo SMSA (November, 1979)

	Total Units	Units Sold	Units Sold To Tenants	Year Built	Price Range to Tenants	Comments
A. City of Buffalo - Marketed Conversions						
1. Park Lane	65	63	63	1927	\$19,579 to \$52,717	High-rise, excellent location, middle- to upper-income tenants, "as-is" conversion
Total	65	63	63			
B. City of Buffalo - Pipeline Conversions						
1. 800 West Fairy	58	-	-	1929	\$26,500 to \$73,550	Elegant building, prime location, valet parking,
2. West Fairy Village Townhouses	30	-	-	1973	\$30,000	2 Bedroom townhouses, project had been foreclosed,
Total	88					
C. Buffalo Suburbs - Marketed Conversions						
1. Charter Oaks, Amherst, NY	220	150	110	1962-72	\$18,104 to \$38,500	Garden townhouses, near State University Center, young professionals and singles, close-in exclusive suburbs
2. Harrogate Square, Amherst, NY	96	20	20	1972-74	\$30,900 to \$59,400	Location and market fair, units in good condition.

3. Georgian Lane, Amerherst, NY	44	44	44	1968-70	$38,600 to $46,690	Well designed units, tenants mostly profes-sional $38,000 put in in escrow by owner
4. Oak Brook, Amerherst, NY	289	180	180	1966-72	$21,560 to $46,690	Garden apts. and town-houses, brick buildings, well built, pool, tennis courts
5. Williamsville Towers, Amerherst, NY	52	40	23	1964	$44,000 to $53,100	High-rise, mostly 2 bdrms, convenient location, good condition, close-in suburb
6. Old Country Townhouses, Clarence, NY	5	5	Never Occupied	1976	$35,000 to $70,000	Bought at foreclosure, all units were sold in one week end, outer ring suburb
7. Thorn Wood Park, Boston, NY	12	12	0	1963-70	NA	Townhouses, nice location, had vacancy problem as rental, extensive rehab, rural area
Total	718	451	377			
D. Buffalo Suburbs - Undergoing Conversions						
1. Colonial Manor, West Seneca, NY	96	-	-	1970-72	$25,160	Conversion temporarily held up, will go in 1980, located in close-in blue collar town, well maintained, first conversion in lower-income area
2. Wellington Square, Cheetowga, NY	30	-	-	1967-69	$21,000 to $27,000	Well maintained high density project, located in close-in suburbs
Total	126					

[1]All information contained in this table is as of November, 1979

Source: South Eastern Real Estate, Orchare Park, NY, September 1979. Albreck, McGuire Hefren & Gregg, Attorneys; Sept. 1979.

Amerherst conversions. It is a well maintained project located in a convenient area in a close-in suburb. The other potential conversion project is unique among Buffalo area conversions because it will be the first conversion of a project occupied by lower income households. It is a 96-unit project in relatively good physical condition and is located in a "blue-collar" close-in town (West Seneca).

It was frequently stated that the characteristics of the population and condition of the housing stock are major reasons why so few conversions have been undertaken in Buffalo and why only a limited number of conversions are expected in the near future. Tables 2 and 3 clearly show that Buffalo can be characterized as a city with steadily declining population and number of housing units. The housing stock is very old and almost no new construction has occurred. To illustrate, 86 percent of Buffalo's housing stock was built prior to 1939 and only 1.8 percent of the stock was built between 1960 and 1970. Vacancy rates have remained high (over 7%) in Buffalo for a number of recent years. It was often mentioned that most of Buffalo's housing stock consists of old wood-frame buildings which are not prime targets of conversions. The condition of the housing stock, the availability of a large supply of vacant rental units, and the relatively low cost single-family homes in the area, in conjunction with the generally depressed nature of the local economy, have combined to limit the number of conversions.

In the suburbs, the housing stock characteristics described above do not exist. There are a large number of middle-income rental complexes that are considered likely prospects for conversion in the near future. Many of these projects are in desirable locations and demand for units is expected to be high if they are converted. However, as in Buffalo, the local real estate industry in the suburbs has not actively pushed the conversion concept.

Market Conditions

As noted, the rental market in the city of Buffalo is characterized by high vacancy rates and the almost total absence of new construction. In addition, the cost of single-family homes in the area is considerably lower than in other large cities and it has not significantly appreciated in recent years. To illustrate, in Cheektowga, a close-in suburb, the mean purchase price for a housing unit in 1978 was $36,218. This was only 24 percent higher than the 1975 purchase price. Similarly, in Amherst, a close-in and more exclusive suburb, the mean 1979 purchase price was $63,493 which in both these communities, the percentage increase in the purchase price of housing for the 1975 to 1978 period was substantially below the national inflation rate for that period. Table 4 contains more extensive information on housing costs in these two communities.

Table 2

Buffalo Population and Housing Characteristics

Year	City Population	Number of Housing Units	Persons Per Household	Housing Unit Vacancies
1960	532,759	177,224	3.01	NA
1970	462,768	166,107	2.84	4.9%
1973	441,309	158,271	2.79	6.7%
1975	409,803	153,974	2.66	8.0%
1976	405,983	154,768	2.62	7.5%
1977	400,143	152,947	2.61	7.0%
% change 1960 to 1977	-24%	-13%	-13%	NA
% change 1970-1977	-13%	-7%	-8%	+42%

Table 3

Comparison of Age of Housing Stock, 1970

Area	Percent Built 1939 or Earlier	Percent Built 1960 to March, 1970
United States	40.6	25.0
City of Buffalo	85.7%	1.8%
City of Syracuse, NY	70.8	11.0
City of Albany, NY	74.7	7.3
City of Rochester, NY	79.5	5.3
New York State	55.6	16.8
California	23.7	31.3

Source: Selected Data on Buffalo, City of Buffalo Division of Planning, U.S. Census Bureau, R. L. Polk and Company, October 1978.

In addition to the factors described above, the New York state usury law was cited as a major factor in depressing conversion activity in the Buffalo area. In November 1979 the maximum mortgage interest rate that could be charged was 10-1/2 percent. As a result, no lending institution in the Buffalo area was approving any mortgage loans. This limitation was obviously affecting the single-family as well as the conversion market. Uncertainty about the availability of future mortgage money was often cited as a significant factor discouraging owners and developers who might be interesting in pursuing the conversion option.

Government Regulations

There are no significant local government regulations affecting conversion in the Buffalo area. However, New York State laws substantially regulate the conversion process. All conversion plans must be submitted to and approved by the New York State Attorney General's Office. The requirement that 35 percent of all present tenants agree to purchase in an "eviction plan" has strongly influenced the types of conversion that have been undertaken in Buffalo. It is contended that this requirement has made it difficult, if not impossible, to convert low-income projects, and in fact, almost no low-income buildings have been converted in the area. It was also argued that this requirement discouraged the gut rehabilitation and conversion of occupied buildings since current tenants would not be able to buy the rehabilitated and more expensive units. There may be some merit to this argument since all conversions in the Buffalo area have been "as-is" conversions.

To meet all state requirements, the following steps have normally been followed in Buffalo area conversions: (1) owner determines if conversion is feasible and project is marketable; (2) owner determines if financing will be available for buyers; (3) owner usually sells project to a converter and/or participates in conversion as a limited partner because of tax consequences; (4) developer assembles team of persons capable of undertaking the conversion; and (5) developer hires an attorney to prepare Offering Plan required by New York State law. The following information is collected and included in the Plan: three years of project's audited financial reports; budget information and proposed sales prices; engineer's report; all binding contracts affecting project; all bids for proposed work; description of area in which project is located; (6) Offering Plan is submitted to Attorney General and all tenants, (7) tenants have opportunity to comment on Plan to Attorney General, (8) Attorney General completes review (three to five months) (9) at some point, contact is made with local government to ensure that Plan is not in violation of any local code or requirement, (10) after plan is approved, tenants have 90-day exclusive right to purchase unit, and (11) developer has 18 months to get 35 percent of units sold before tenants may be evicted.

Table 4

Housing Costs in the Buffalo SMSA

Year	Cheektowaga		Amerherst	
	Mean Purchase Price	Mean Price/ Land area	Mean Purchase Price	Mean Price/ Land area
1975	$29,267	$ 28.79	$ 50,196	$ 25.35
1976	32,168	30.81	53,950	27.84
1977	35,173	34.13	53,227	27.11
1978	36,218	34.95	63,493	31.57
% Increase 1975-1978	24%	21%	26%	24%

Source: Southeastern Real Estate, Orchard Park, NY, September, 1979, Albreck, McGuire, Helfren and Gregg, Attorneys, Buffalo, NY, September 1979.

Household Impacts

Conversions in Buffalo and the surrounding suburbs have had little negative impact on tenant households. Very limited displacement has occurred, a high percentage of existing tenants have purchased units, and apparently no low-income households have been adversely affected by conversion. In the entire area, 84 percent of all converted units sold have been purchased by existing tenants. It does not appear that much, if any, relocation assistance was given to the few tenants who decided not to purchase units. It was frequently argued, however, that relocation assistance was not needed since an adequate supply of vacant rental units existed in the area and no tenant had ever been evicted as a result of conversion.

Effects on Tenants

Conversions in the Buffalo area have not been controversial or highly publicized. The normal tenant response has been to go along with the conversion and a very high percentage of tenants eventually purchased their units. On the other hand, tenants have frequently taken advantage of the comment period provided by the Attorney General to ensure that needed repairs were completed before the Offering Plan was approved.

Instead of attempting to purchase a building for conversion, most tenants and tenant groups have tried to pressure the developer to make additional improvements in the buildings and units, to offer greater discounts or lower purchase prices, and to put additional money into an escrow account to cover future capital improvements.

Housing Market Impacts

Since fewer then 100 units have been converted in Buffalo and fewer than 800 units in the remainder of the SMSA, there is no evidence that conversions have not led to a tightening of the rental market. Moreover, since no low-income units have been converted, there has, as yet, been no impact on that segment of the market. There was some concern expressed, however, over the market impact of the five conversions that have occurred in Amerherst. It was frequently mentioned that these conversions have led to a significant reduction in the number of middle-income rental units available in that community.

Effects on Neighborhood

The one conversion in Buffalo was not related in any way to revitalization, being located in a neighborhood already considered one of the most stable and desirable locations in the city. Since 63 out of 65 households purchased units, there virtually was no impact on the income, race, or age mix in the building or neighborhood. The two other Buffalo projects in the process of converting are located in similar areas. There is a significant amount of revitalization activity occurring in Buffalo, but conversions have not been related in any way to this activity. Nor have the conversions in the suburbs been located in neighborhoods undergoing revitalization, but rather, in areas which were described as desirable, stable, convenient, and well-maintained. No significant direct or secondary displacement has apparently occurred as result of conversion.

Relationship to HUD and Policy Alternatives

None of the local experts in the Buffalo area believed there was any direct relationship between HUD programs and the conversion of rental units. All of the converted buildings were conventionally constructed and financed. Since both public and private sector representatives did not perceive conversion to be a problem, there was consensus that the federal government should not get involved. It was consistently stated that the New York State law was fair, workable, and provided adequate protection for the tenants and buyers. The positive aspects of conversion (homeownership opportunities, local tax impacts, stabilizing effects) were seen as far outweighing any possible negative effects. There was a strong preference, however, for the state government to raise its usury limit so that mortgage money would be made available again. The only federal role that received any support from rental owners was provision of additional tax incentives to encourage owners to retain their units as rentals. It was frequently argued by these owners that, because of escalating operating costs and their inability to substantially raise rents, the profitability of owning rental projects has declined significantly in recent years.

Field Report

Conversion Activity in the Chicago, Illinois SMSA

Background

In the five county Chicago metropolitan area there were 2,456,500 housing units in 1975, including 1,145,000 in the city of Chicago. Between 1970 and 1975 there was a net loss of over five percent of the city's housing stock, while suburban units increased by 18 percent. The city's residential vacancy rate in 1970 and 1975 was virtually identical to that of the entire SMSA, about 6.6 percent. An unusually small proportion (only 37.6 percent in 1975) of the city's rental stock is owner-occupied. Most conversion activity has been in Cook County but other counties in the SMSA have had significant activity also.

Demand

Although many conversions have occurred in Chicago since the first Hyde Park building converted in 1964, and although activity has been at a high level since 1976, the prevailing view is that following the current slack period (due largely to mortgage money unavailability), demand for condominiums will remain high and steady through 1985. Demand for downtown and lakefront locations is very strong among young professionals, empty nesters, and perhaps some elderly. This has contributed to a continuing private revitalization of selected neighborhoods (primarily north of the Loop). The obvious desirability of the lakefront has been a unique factor in the enthusiasm shown for converted buildings in this area. However, converters are active in areas away from the lake, where an increasing proportion of the conversions are occurring.

Suburban demand has been sufficient to produce a steady flow of successful conversions. A number of large complexes were converted in 1979 and one developer had plans to convert two large suburban complexes in 1980. However, suburban properties sell out much more slowly and this is attributed to the greater mobility of suburbanites, which leads to a lower proportion of sales to present occupants.

One developer who specializes in fine older Lincoln Park buildings reports that 65 percent of his unit buyers are under 35, 25 percent over 55, 30 percent are single women, 95 percent are white, 55 percent are married, of whom only ten percent have children. Another converter specializing in gut rehabilitation conversions estimates 50 to 60 percent married, few with children, 75 percent are white, 75 to 80 percent are under 35, five percent over 55. This converter saw location as the key factor in determining a building's desirability. For many or most of the under 35 group, this is their first home purchase.

Tenant representatives emphasize the "forced" nature of purchase by current residents, some of whom have been displaced at least once by previous conversions. They believe that many of those purchasing have no desire to do so but fear moving or are unable to find comparable alternative housing at comparable rents. The elderly purchasers pay a much higher percentage of income for their mortgages and are more constrained in location selection. The percentage of units sold to present tenants generally ranges between 40 and 80 percent in the city and 10-15 percent in suburbs, where people place less value on a particular location, according to one real estate industry consultant. Tenant representatives report harassment of older people by some converters to encourage purchase; they also estimate the percentage of tenant purchasers at only 10 percent.

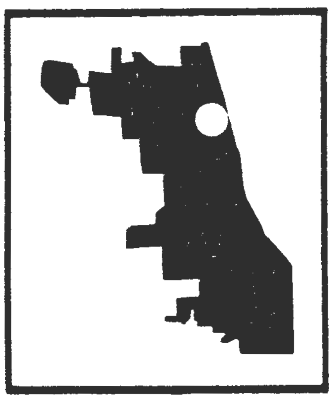
In the lakefront high-rises, the proportion of buyers who are non-resident investors is estimated at between 20 percent and 50 percent. Some banks are discouraging investor purchase under current market conditions because they expect some investors to find themselves over-extended in a recession. Tenant representatives and others view this type of speculative demand as potentially harmful because of its effect on prices and because of a negative effect on relationships between converter and tenants. Sandburg Village, a HUD-insured rental complex of 2,460 units in a prime Near-North location, was converted early in 1979. In Sandburg Village's first phase, 83 percent of units were purchased by tenants (including some who moved in after conversion was announced in order to buy). In Hyde Park, one estimate is that 40 percent of recently issued condominium mortgages were to blacks. It is generally agreed, however, that typical condominium buyers are affluent whites. In Evanston, just north of Chicago on the lake, demand for condominiums has remained high while other housing demand has slowed. An Evanston Human Relations Commission study found that 95 percent of buyers were white, only 20 percent had family incomes below $20,000, and that household heads had a median age of 50 years. Thirty-two percent had children under 18. Only 23 percent were formerly renters in the same building.

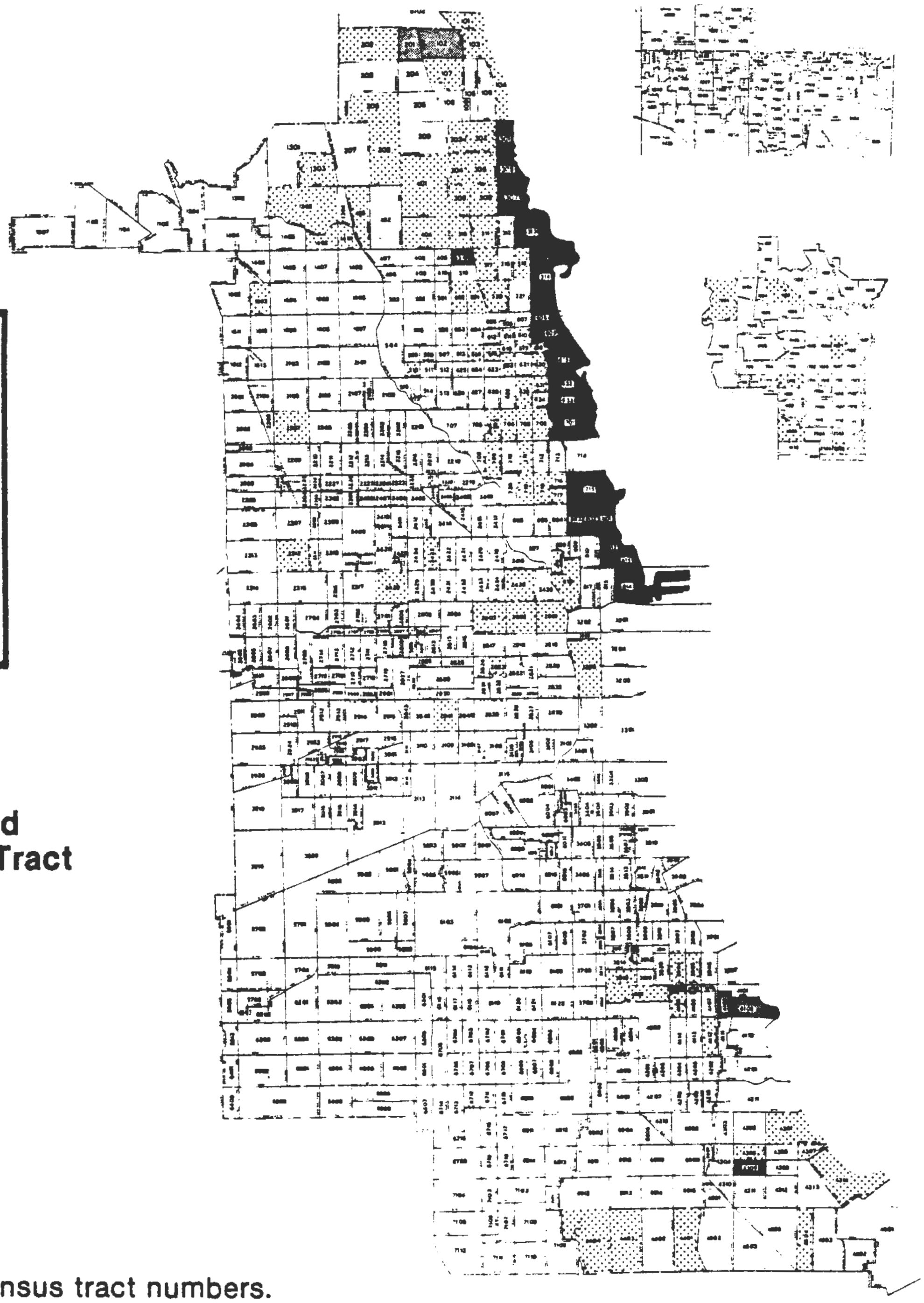
Supply

In Chicago, between 43,000 and 58,000 conversions have occurred, according to various estimates. This is approximately six to nine percent of the city's usable rental stock. In 1970, there were 741,000 renter occupied units in Chicago. In 1975, the Annual Housing Survey estimated 667,100 renter occupied units. In Evanston, 14 percent of the rental stock has been converted. In neighborhoods where converters have been active, percentages of the stock converted are obviously much higher. Vacancy rates in the remaining rentals in these areas are very low.

The stock of luxury high rises on the lakefront accounted for the bulk of units converted in Chicago in the 1975-1979 period. Although the first units converted were small six-flats in Hyde Park, that area has experienced activity in some larger buildings in the last year. The South Shore also experienced some high-rise conversions.

Condominium Conversions in Chicago, Illinois
January 1977 to December 1979





Range of Converted Units Per Census Tract

- 1-50
- 51-100
- 101-200
- 201-500
- 501-800
- 801-4000

370 Numbers are census tract numbers.

Recently, conversion has spread more extensively into neighborhoods immediately adjacent to those on the Lakefront; here buildings are lower and older. A number of small volume converters specialize in these smaller building conversions in revitalizing fashionable neighborhoods. Conversion in these areas ranges from gut rehabilitation of vacant or partially empty, deteriorated buildings to cosmetic treatment and (by a few converters) low cost "as is" conversions. The pace of conversion in these areas is slowed by the nature of the buildings (smaller sizes, higher costs).

There is no estimate of the percent of suburban rental stock suited to conversion or converted to date, though the portion converted is certainly well below ten percent. Most conversions have taken place in the northern and western, more affluent suburbs, close to mass transportation. In Evanston, the buildings converted have been mostly luxury with wide variations in size. In the six months ending in October, 1979 more lower rent (moderate income) and smaller second-class buildings have been converted. These are typically 50-60 years old and undermaintained. The conversion of newer large complexes is also common in the less dense suburbs.

Some observers indicated that prime properties have been converted first and that these are nearly exhausted. However, the same people say there is at least ten years worth of stock remaining. A few say they see virtually no economic reason for most rental properties not to be converted. Most, however, would agree that conversion of older buildings in less prime locations will be less and less financially attractive. The smaller-volume converters may also have greater difficulty obtaining financing, may include less experienced, less capable operators, and may be less able to repay loans or sustain losses due to misjudgments.

There is disagreement about the prior profitability of rental properties that have converted. It appears, however, that costs of rental operation have risen rapidly, driving up rent levels in the last two years at a rate equal to or higher than inflation. Rental vacancy rates are very low in neighborhoods where conversion is occurring. For instance, in August 1979, HUD estimated that the rent vacancy rate in Chicago's North Side was less than two percent.

The Illinois property tax has an assessed value-to-market value ratio of 33 percent for income properties as against 16 percent for condominiums and single-family homes. There is no agreement as to the impact of this differential. A building whose assessed value doubles after conversion generates virtually the same revenue as before conversion.

Market Conditions

The market for condominium units has softened considerably in the last two to six months in both city and suburbs -- attributable, in large measure, to a lack of mortgage money. While the state usury ceiling was lifted in January 1980, it does not appear that higher interest rates have led to significantly more mortgage money or more sales.

Predicted rates of unit appreciation (Table 1) provide one possible indication of how economic conditions may affect sales. A backlog of unsold units is expected to build up over the next six months to two years; most experts feel pent-up demand will absorb this backlog quickly, following a recession. One expert estimates a 25 percent drop in unit prices in the next year while another predicts that some smaller converters will be forced out of the business or bankrupted.

Table 1

Annual Condominium Unit Appreciation Rates For 1978, 1979, and 1980 (Chicago only) Estimated by Nine Local Market Experts.

Market Expert #	Last Two Years	Predicted for next 12 months
1	+10 to 15%	-5 to +5%
2	+20 to 30 (downtown)	NA
3	+35 to 50 (on lake)	-0-
4	+12	NA
5	+15 to 40	+15 - 20
6	"Extraordinary"	"Will level"
7	+20	"will stabilize"
8	+20 to 30 or more	-25
9	+10 to 15 average	NA

Government Regulations

Government regulation of conversion activity, and real estate generally is limited in the Chicago SMSA. There is no rent control legislation in Chicago or its suburbs and the current ordinance regulating conversions in the city of Chicago requires only the filing of a public property report declaration and 120 days notice to tenants before lease leases may be terminated and unit sales closed. This law took effect in January 1, 1978. A moratorium ordinance passed in March 1979 was struck down the last month by a Federal District Court as an unconstitutional restriction of property rights.

Most people report that the ordinance had little effect on the level of conversion activity. Large numbers of conversion declarations were filed in advance of the ordinance's effective date and again immediately prior to the abortive moratorium. However, these were short-run fluctuations only.

It is important to note that buildings of six units or less are exempt from the consumer protections in Chicago's ordinance and that two experts mentioned that the risk of converter abuses is greater in older, smaller buildings. There are some "as is", "paper", or "cosmetic" conversions occurring, in which ownership is transferred, often to present occupants, in buildings with major defects and limited market value.

In Chicago, about 20 proposed condominium ordinances were under council's consideration in late 1979. Some local observers consider it likely that some additional consumer protection legislation, such as a warranty requirement, may pass in the near future. The notice period granted to tenants may also be extended. Less likely to be enacted are proposals calling for strict controls or for excise taxes on "windfall" profits from conversion.

In suburban Evanston there is a stronger ordinance, passed in May 1979, that requires filing of a detailed disclosure statement, 210 days notice, and relocation assistance to tenants with incomes below HUD's Section 8 eligibility limit. An especially restrictive feature is the combination of a requirement to bring each unit into compliance with the building code prior to conveyance and a requirement that converters cannot enter still occupied units without the tenant's written permission. This makes conversion more expensive to accomplish by reducing cash flow during conversion and stretching out the period of heavy carrying charges on interim loans. In one instance, tenants used these provisions to frustrate or delay conversion. Despite this, conversion has continued, slowing only as mortgage money became less available.

There is continuing strong pressure on the Evanston city council to strengthen tenant protections and to place a moratorium on all conversions. The council has indicated that further study will be made of conversion effects. Other suburban jurisdictions experiencing conversions have passed regulations governing this activity.

Many building owners identify the Federal tax law providing capital gains tax treatment of building sale profits for owners of rental property as a factor inducing them to sell, even when a building is still generating adequate income as a rental. Because profits from conversion are treated as ordinary income, there is little incentive for landlords to convert their properties themselves. The Federal tax code provision permitting depreciation of rental properties or the amount of depreciation benefits not yet accrued, are considered to be, at most, minor factors in calculating when it is desirable for an apartment owner to sell a property.

Effects on Households

Because most of the conversions to date in Chicago and its suburbs have occurred in luxury to middle income rentals, most reported hardships have been emotional rather than financial. The greatest impact has probably been on long-term elderly tenants. At one extreme, two experts suggest that, in a few instances, deaths of elderly persons may have been induced by the shock of dislocation. Some elderly tenants are reported to have moved two or more times as a result of building conversion.

Most converters and local government people claim to know of few or no instances of hardship due to conversion. It is noted that in the city, many claiming hardship are able to pay for desirable alternative housing although not necessarily in the immediate vicinity (there being low rental vacancy rates in the neighborhoods where conversions are occurring). On the other hand, suburban renters are less tied to a particular location and most will move rather than buy their units -- often relocating to other jurisdictions. An Evanston Human Relations Commission study of conversion effects found that many displaced tenants did not find or select alternative housing in Evanston.

In two major Chicago conversions, elderly and disabled tenants were offered two year leases in units set aside for continued rentals. In other instances, according to converters, investor-owned units provide for retention of a significant number of renters in converted buildings. On the other hand, there are reports of major rent increases once existing leases have been terminated. There is no indication whether this is a common practice. Tenants who do not purchase reportedly differ from tenant buyers less in demographic characteristics or income than in their lack of interest in ownership. In moderate or low rent buildings that receive major rehabilitation, however, virtually all tenants move and are replaced by much more affluent people.

As more conversion occurs in older walk-up buildings in revitalizing neighborhoods, most observers agree that the pattern of effects will change and that more displacement of those whose incomes restrict their access to satisfactory housing is likely.

Effects on Tenants

In very few instances have tenants successfully organized to resist conversion. In only a handful of instances are tenant organizations known to have attempted to purchase and convert their buildings. In one case, a bank declined a tenant group's bid and granted a larger loan to a professional converter. One banker stated that tenant groups lack the expertise and credentials to raise the money in time to bid successfully against a converter. It would require substantial legal and technical advice to make this a practical course for many buildings. Only one instance of successful tenant conversion of a rental building was reported.

In the last three years, a Chicago coalition of tenant and neighborhood groups has formed -- stimulated in part by the wave of conversions and in part by rent increases and other tenants' issues.

Known initially as the Coalition on Condominium Legislation and now as the Coalition for Affordable Housing, it includes representatives from Rogers Park, Hyde Park, and other conversion-impacted areas The number of members cannot be determined and has apparently fluctuated. Most leaders are white and many are elderly. The group sought but was unable to meet with the Mayor. Its principal concerns are to obtain stricter regulation of conversions by requiring majority tenant reports, tenant approval, stricter enforcement of violations cited in property reports, warranties, and a proportion of units in converted buildings to be set aside for renters.

In Evanston, a local converter has assisted a group of tenants in purchasing and converting their 21-unit building from an estate trust; 17 of the units were sold to current occupants or their friends. Financing was reportedly difficult to arrange and required careful explanations by the conversion firm to the lender. The firm, would be pleased to do other tenant conversions "even though there is less profit" because "business has come back to the firm in other ways." Also in Evanston, at a November 5, 1977 city council meeting, 200 people protesting conversions angrily voiced their demands for still stricter controls on conversions. The council took no final action but agreed to consider further legislation. Primary concern in Evanston appears to center on the sizable number of elderly tenants who are being affected.

The intensity and duration of tenant resistance to conversion is very likely a function of the manner in which the converter approaches conversion. One major conversion firm, for instance, has developed an elaborate program of "tenant education", discounts, and other tactics designed to insure minimum hostility and a maximum percentage of tenant retention through purchase. This company also has used investor-owned units to provide continued rent agreements with elderly or handicapped tenants. It is reported that leaders of tenant groups are singled out for early sales as a way to reduce resistance. Most tenant opposition melts away rapidly once sales begin, partly because there seems little likelihood of halting the conversion process.

Effects on Housing Market

Very few experts will offer a guess as to the effect of conversions on the housing market in Chicago. It should be noted that while conversions in some parts of Chicago have removed 6,000 to 10,000 units a year from the stock since 1976, in other parts of the city rental property has been abandoned at a rate in excess of 10,000 units a year (by one estimate) including demolition by public action of about 2,500 units a year. There is little new multi-family construction either rental or condominium underway in the city. The combined effect is depletion of the rental housing stock in a city where no new unsubsidized rental housing is being constructed. One tenant representive estimates that average rents in Chicago rose 19.3 percent in the year ending August 1979.

Chicago's housing stock includes a larger proportion of rental units (about 70 percent) than most cities. The effect of conversions is to move the city toward what some see as a more desirable ratio of ownership to rental. As previously noted, rental vacancy rates are thought to be very low (well below five percent) in the immediate areas where conversion is occurring. Hyde Park's rental vacancy rate, which was around ten percent in 1970, was recently estimated to be about three percent.

In Evanston, where 14 percent of the rental stock (10.4 percent of the total stock of 28,000 units) has converted, conversion is clearly shifting the balance in the direction of ownership. The rental vacancy rate is estimated to be only 1/2 of one percent. There is other evidence, also, that those moving because of conversion move from Evanston to find alternate housing. Probably there are conditions similar to these in those Chicago neighborhoods that have experienced massive conversion -- although direct evidence is lacking.

Effects on Neighborhoods

Most experts believe that conversion is not the leading edge of private revitalization and reinvestment in older Chicago neighborhoods (mostly those on the near Northside). It is the belief of some in both Chicago and Evanston, however, that conversions accompanied by visible rehabilitation stimulate exterior improvements in adjacent properties. Conversion activity in Chicago is increasingly in "gentrifying" areas but still appears to follow rather than lead other reinvestment.

Some tenant representatives believe that conversion has destabilized and disrupted established areas and has reduced the number of families with children, leading to sudden declines in school populations. They also see a high percentage of absentee ownership of condominiums leading to disinvestment. Finally, they believe that rapid rent increases in unconverted rental buildings or in unsold rental units of converting buildings may lead to abandonment of units. There are no studies documenting effects of conversion on Chicago's neighborhoods or its rental housing supply.

The Illinois property tax law provides for differential treatment of rental and owner-occupied properties, including condominiums. Assessed value of rental buildings is computed as 33 percent of estimated market values, whereas condominiums and single-family homes are assessed at 16 percent of market value. While this suggests a tax loss occurs due to conversion, calculations for buildings reassessed after conversion show net gains, in most instances, to the tax collector. How much of this net gain in assessed value is due to the building's greater value as a condominium and how much to ordinary inflation during the interval between assessments is not clear.

Relationship to HUD and Policy Alternatives

A significant number of HUD-insured projects have converted in Chicago -- most notably Sandburg Village. However, in few, if any, instances have buildings with subsidized renters been converted. Federal Housing Administration (FHA) financing has been used for some conversions and Federal National Mortgage Association (FNMA) approval is a requirement for some financing. There is little relationship between HUD's block grant or rehabilitation programs and conversion activity in Chicago.

Local experts offered a wide range of policy proposals. Tenant representatives stressed the role that tax laws play in encouraging landlords "to treat property as stock." Some favor removing capital gains treatment for absentee owners of property. They, like many others, were critical of the Section 8 program as too expensive, a "get rich quick scheme for syndicates", and a factor in raising rents for those not eligible but living in the same area. To protect the rental housing stock, tenant representatives propose long-term low-interest loans to private and non-profit developers to rehabilitate existing rental stock and build new stock. They would guarantee a profit but impose construction standards, prohibit sale at a profit for ten years, and require that the property remain a rental for 30 years. They favor strong government regulation of condominium conversions. On the other hand, one market expert stressed the need to provide sufficient incentive for construction of new rental housing and would guarantee apartment developers the right to convert after six to eight years. Some converters also favor added Federal incentives for construction of new rental housing.

Another tenant representative prefers that the condominium form of ownership should be abolished and argues that conversion is an unproductive form of speculation draining money away from productive investments and contributing to inflation. If there is no absolute ban on condominiums, he would favor legislation stopping sales of rental property without consultation of tenants and would restrict conversions in areas with low rental vacancy rates. He believes that a tenant consent requirement would reveal the largely "artificial" nature of demand for condominiums and lead to a dramatic drop in the rate of conversion. Federal involvement is appropriate, in his view, because the Federal tax code is largely responsible for creating the conversion phenomenon.

The majority of experts favored regulation to protect elderly tenants from the effects of conversion either by providing relocation assistance or by retaining them as tenants. On the other hand, many people stressed the variability of local conditions, the Federal government's track record in housing, or the need to preserve a fairly free market in housing, leading them to the conclusion that the Federal government's role in regulating conversions should be minimized.

Those who perceived conversions as a factor reducing the supply of affordable rental housing favored majority tenant approval before conversion. Two experts suggested that limited equity cooperatives should be financed by HUD as an alternative to conversion. Suggestions were also made to extend condominium ownership opportunities to lower income people through some form of government subsidy and technical assistance. One developer specializing in older conversions proposed greater use of Federal rehabilitation funds for such conversions. Delays in obtaining approvals for Federal financing were seen as a major deterrent to the use of Federal government financing for conversions.

The Conversion Process

There are many developers engaged in condominium conversion in the Chicago market -- ranging from those that specialize in large luxury buildings to those that specialize in older buildings in revitalizing neighborhoods. The latter group should, in turn, be divided into those who do conversions "as is" or with minor cosmetic changes and those who provide major rehabilitation to produce first class properties.

The first type includes, for example, the largest national condominium converter, which converted its first Chicago high-rise in 1973, and is now active in 30 states. Most of this company's buildings are relatively new luxury towers, many on Chicago's Gold Coast. A few are older luxury buildings of distinguished heritage. Some suburban garden-style complexes also have been converted by the company. This firm is noted for its intense sales practices, emphasis on cosmetics and amenities, a well developed program of discounts and other incentives aimed at producing a high proportion of sales to current tenants, consistent refusal to negotiate conversion terms with tenant organizations, and for selecting only those first class luxury properties that promise a rapid sell-out and have no major structural problems. The firm reportedly contracts for a high-quality engineering study on each converting building and scrupulously corrects any code violations or other problems.

Most interim loans to Chicago area converters are provided by Chicago banks at rates up to four points over prime. Typically, the firm specializing in conversion buys the building from the previous owner and then subcontracts engineering studies, legal work, and rehabilitation while marketing and selling the units. One smaller developer has, in some instances, avoided bank financing by taking a building on contract from its owner and paying off the purchase price as individual units are sold. This developer and others have also financed rehabilitation and other conversion costs from their own financial reserves. When major rehabilitation is required, this converter will make initial repairs to the roof and perhaps some cosmetic features, then rehabilitate a model unit. When this unit is sold, they will use the capital generated to finance rehabilitation of other units. A game of musical chairs continues as units become vacant, are rehabilitated, and sold.

There are reports of abuses by some converters, particularly those who sell "as is" to present tenants. In these cases, the owners' association may end up with a building requiring major repairs and with limited reserves. The questionable validity of some engineering reports and the reported corruption and weakness of city building code enforcement add to a concern, shared by some converters, about the quality of work done during conversion.

Converters and others report rapid escalation in the selling prices of rental buildings as their owners become more aware of their market value as condominiums. This is one factor contributing to reduced profit margins for converters. One developer claims that while profits used to be in the 25 to 30 percent (of gross sales) range, right now "I would be happy to get 10 percent."

Recession may put out of business some of the less experienced or less well-financed "weekend warrior" converters. In the present market, banks are more reluctant to finance smaller, poorer condition buildings, especially where the converter lacks a track record of reputable and successful performance.

Cooperative ownership is uncommon in Chicago, and most of the involved buildings have been cooperatives for many years. In Illinois, banks find it easier to finance condominiums than cooperatives, partly because shares of stock in a cooperative may not be pledged as loan collateral and partly because cooperative memberships require large downpayments.

Field Report

Conversion Activity in the Cincinnati, Ohio SMSA

Background

The tri-state Cincinnati SMSA consists of Hamilton, Clermont, and Warren counties in Ohio; Boone, Kenton, and Campbell counties in Kentucky; and Dearborn County in Indiana. The central city, Cincinnati, is located in Hamilton County, Ohio. According to census data, the Cincinnati SMSA experienced a 16.3 percent increase in population between 1960 and 1970. During this same period, however, the population of the central city declined by about ten percent. The 1970 census further indicates that the median income for the SMSA was $11,251 in 1969 and the majority of the work force was employed in blue-collar jobs. Although the unemployment rate for the metropolitan area was about three percent in 1970, the proportion of the labor force that was unemployed at that time in the central city was substantially higher, about 8.4 percent.

Conversion of rental properties to condominiums in the Cincinnati metropolitan area has been limited. From 1970 to September 1979, approximately 300 units were converted within the city of Cincinnati, where most of the activity has been concentrated. Many of the conversions have been in smaller buildings of ten or fewer units although some larger buildings along the river front of the city's prestigious eastside have undergone conversion within the last couple of years. For the most part, conversion has occurred in middle- to upper-income rentals.

Demand

The condominium concept caught on slowly in the Cincinnati area. Although new projects were built as early as 1970, the market did not demonstrate real strength until 1978. The increased demand is primarily attributable to the escalating prices of single-family detached homes and to the belief that condominiums generally represent a less expensive homeownership alternative.

Those purchasing condominiums are young professional singles or couples with no children, as well as older empty nesters or individuals who prefer the convenience of the condominium lifestyle. Local experts indicate a growing demand for urban residences being increasingly met by condominium conversions. There is some local dispute as to whether there is actual movement from the suburbs into revitalized areas of the central city. Experts generally agree, however, that conversions do not independently contribute to any significant increase in the movement of more affluent households into the central city, nor do they retain those households who prefer, and can afford, a more suburban lifestyle.

The consensus of those interviewed was that the demand for condominiums will continue to grow through 1985. It is generally felt that the demand is directly linked to interest rates and the relative price of single-family detached homes. Those households priced out of the single-family-detached market will increasingly turn to condominiums, provided that condominium prices are competitive with those for single-family homes. Furthermore, as interest rates climb, financing for new construction of single-family homes and multi-family rentals will become more difficult to obtain. As a result, there will be less new housing development and increased investment in conversion. Some feel that the demand for condominiums may be artificially inflated by depressed housing development and a shrinking supply of available rental units. At least one market expert, however, believes that the demand for conversions may decrease as more purchasers inevitably face major structural repairs as well as the everyday problems of association management or the neighbor who plays loud music or violates established rules. The magnitude of such problems will be greater in smaller buildings with ten or fewer units.

Supply

Market experts suggest that the Cincinnati area has been a renters' market in which traditionally low rents have significantly lagged behind the inflationary spiral. As a result, owners of some rental properties have been unable to generate sufficient income to cover expenses and provide a "reasonable" return on investment even under full occupancy. Developers indicate "reduction of profit margin" as a major impetus for conversion.

Conversion activity is described as minimal with estimates of the proportion of rental stock converted thus far ranging from less than one percent to five percent. Building ages range from five to 90 years with the majority of converted buildings originally constructed in the early 1950s or before World War II. These structures are described as architecturally sound, with spacious units that were rented to middle or upper income tenants. The locations are characterized as "desirable" areas, convenient to the central business district, primarily on the city's more affluent eastside. But at least three neighborhoods where conversions have occurred were considered low-income areas in the mid-1970s with housing largely substandard or vacant. Private reinvestment has been particularly strong in these neighborhoods and as a result, these areas have undergone significant racial and income change. It is generally felt that there are many additional properties in the Cincinnati area suitable for conversion. One goverment official indicated a moderate number of remaining properties suitable for conversion given the low density character of the city.

Market Conditions

The overall Cincinnati vacancy rate is 4 1/2 percent. Rental markets within various neighborhoods of the metropolitan area are, however, extremely tight, with vacancy rates ranging from zero to two percent. There is an equally strong demand for single-family housing, particularly in the suburbs. The demand for homes is described as "pent-up" given the current difficulties in obtaining mortgage loans. New construction has slowed considerably due to soaring building costs as well as to problems in getting commitments for interim financing. In addition, developers do not consider new construction of multi-family rental property to be economically feasible given that the market will support only low rents. As a result more developers are turning to conversions as an alternative real estate investment. In the Fall of 1979 local lenders were financing 65 to 95 percent of the purchase price of condominiums and other single-family housing at an average rate of 12-3/4 percent. If interest rates fall in 1980, perhaps to 11 or 12 percent, that will lead to a leveling of the single-family market but would have no appreciable impact on multi-family rental development. Conversions will continue to be especially attractive real estate investments for developers and attractive ownership alternatives for purchasers. At least one lender felt that the level of conversion activity will increase, not in response to better market conditions, but because of the relative success and popularity of condominiums.

Government Regulations

The 1978 amendments to the Ohio condominium law provide a limited amount of consumer protection for condominium purchasers, including disclosures by the developer regarding the amount and nature of repairs made, the life expectancy of designated parts of the structure, certain warranties on the structure and its parts, and a 120-day notice to vacate for movers. The law is not considered restrictive or prohibitive. In fact, one developer describes its impact as simply making developers more "honest."

There are no local ordinances governing conversions and most experts do not foresee restrictive conversion legislation in the near future. City officials, however, are currently involved in a study of conversions in Cincinnati in an effort to assess the need for future regulation. There is no local rent control or growth control ordinance in effect in the area and no indication that such ordinances will soon be instituted. There is, however, a local tax incentive for the rehabilitation and conservation of structures declared as "historic preservation" properties. Under this provision, local property taxes on the rehabilitated structure are abated for a period of five years.

Effects on Households

Most conversions in the Cincinnati area, having been in middle- or upper-income housing, have not caused problems for low-income households. Although developers try to get 40 to 50 percent of building tenants to purchase, it is estimated that an average of 20 to 30 percent of the tenants have actually bought units.

According to one tenant, he was informed by letter that his building was being converted to condominiums and was given only 30 days to buy or move before the enactment of the 1978 amendments. Tenants in this building met on several occasions to discuss their alternatives, but soon discontinued their meetings, feeling that there was too little time in which to organize or collectively address the issue. The displaced tenant indicated that most families moved as a result of the conversion primarily because they did not want to purchase, rather than being unable to buy. He suggested that the complex was not well-maintained and had deteriorated over the past five years, which was considered a major disincentive to buy. Since movers had only 30 days to vacate, many households moved in with relatives or friends until they could find their own housing. It was suggested that it was especially difficult for those families with children to find housing that was affordable and where children were welcomed. One tenant sought relief in the courts in an effort to get more time in which to look for an apartment. The court, however, ruled in favor of the owner while giving the tenant seven additional days to vacate. As a result, he temporarily moved his household in with relatives but eventually bought a house, reportedly doubling his monthly housing cost.

Effects on Tenants

No expert was aware of any case in which tenants had purchased, or were in the process of purchasing, their building. Although there was some indication that tenants have expressed anxiety, bitterness, or resentment at intimidation over conversions, there has been very little tenant organization around the issue.

Effects on Housing Market

It is expected that outmovers will pay higher rents for units of similar quality to those that they vacate because of the low vacancy rates in the area and the fact that rents are now responding to inflationary pressures. One developer suggested that as the supply of rental units shrinks, rents will reach a level that will make operating rental properties more profitable. This, in turn, will result in fewer conversions. As yet, conversions have not significantly altered the rate of homeownership in the Cincinnati area.

Effects on Neighborhoods

Over the past four or five years there has been a substantial amount of neighborhood revitalization and community reinvestment in older areas within the city of Cincinnati. Although one market expert views conversions as the leading edge of revitalization efforts in some areas, most experts believe that conversions are a much more recent phenomenon generally occurring after, but not necessarily because of, reinvestment activities. Most local experts think that conversions, thus far, have not significantly affected the income, race, or age mix of most neighborhoods. In general, the racial, income, and age mix of neighborhoods where revitalization had occurred has been significantly changed. Residents of these neighborhoods had traditionally been lower income blacks and the elderly. More residents of these areas are now younger, more middle income, and white.

There is no indication that conversions independently affect the level of local public service delivery to neighborhoods or that they have had an appreciable impact on local tax revenues. One tenant representative did suggest that the level and extent of community development block grant monies allocated to neighborhoods undergoing revitalization is significantly greater than when those areas were considered distressed and, therefore, had more crucial needs.

Relationship To HUD and Policy Alternatives

Most experts were not aware of any existing relationship between conversions and HUD programs in the Cincinnati area, nor were there any suggestions regarding potential changes in existing programs that might influence conversion activity. One developer did suggest that a couple of HUD-insured buildings may have been converted.

Most local experts supported the view that the market regulates much more effectively than the government ever could. Thus they believe that the Federal government should take no action either to regulate or stimulate conversions in Cincinnati. It was particularly felt that national "blanket" policies do not effectively address local concerns. One government official did think there would be a need for government regulation if displacement reaches "crisis" proportions or if the supply of rental units is drastically reduced. Several thought there would be a need for relocation assistance for those adversely affected by conversions although no one felt that such assistance should be provided for middle- or upper-income households. Many felt that more low- and moderate-income housing is drastically needed and that programs should be developed to expand homeownership opportunities for these households, particularly those that might be otherwise displaced as a result of conversion activity. One tenant representative felt that his organization could not support development of middle- or or upper-income housing, especially in those neighborhoods where low income people have traditionaly lived, until housing for those low income residents is secured.

The Conversion Process

Thus far, conversion packaging and financing has been fairly straightforward. Generally, developers package their own projects with relatively little assistance from financial specialists or consultants. The developer secures interim financing from a local bank and arranges permanent end-loans with local savings and loan institutions. A major lending institution in Cincinnati was providing financing for conversions at an interest rate of one percent below prime. So far, there has been very little activity by the Federal National Mortgage Association (FNMA) with conversion mortgages.

Field Report

Conversion Activity in the Cleveland, Ohio SMSA

Background

The Cleveland metropolitan area includes Cuyahoga County (which includes the city of Cleveland), Lake and Georgia counties to the east, and Medina County to the southwest. Only Cuyahoga and Lake counties have recorded condominium conversions.

The entire metropolitan area had 717,800 housing units in 1976, an increase of 40,800 or six percent since 1970. During this period the number of units in the city declined five percent to 251,000. More than 62 percent of the SMSA's housing stock was owner occupied in 1976; but, in the city about 53 percent of units were renter occupied. In 1976 the Annual Housing Survey (AHS) estimated the city's rental vacancy rate at 7.6 percent compared to 5.5 percent for the whole metropolitan area. Vacancy rates for the city and the metropolitan area in 1970 were 7.8 and 6.3 percent, respectively.

Demand

Condominium conversion has occurred on a significant scale in the Cleveland area only since 1976. Converters anticipate strong continuing demand for condominium units through 1985; but demand may be restricted if mortgage money is unavailable at reasonable prices.

Because most conversions are very recent and have occurred in first-class luxury buildings in upper-income areas, there is some uncertainty about the extent to which other income classes in the Cleveland area will be attracted to condominium ownership. At present there is very little middle income demand for center city locations in Cleveland, and there are few recently constructed apartment buildings near downtown suited to conversion. The result is that virtually no conversions have occurred in Cleveland except on the western and eastern fringes adjacent to affluent suburbs.

The success of many conversions in the Cleveland area has been assured by one or both of two factors: (1) what some consider the "captive" market of current tenants who can afford to purchase and would rather remain in a prestige building that promises to be a good investment and has proven itself a good home; and (2) a "stable" of investors who believe in the work of a particular converter and buy up to 20 percent of the units in each building converted by that person. An active locally-based converter consistently sells 80 percent of converting units to existing tenants and virtually all of the remainder to a loyal group of small investors. In the case of a successful newer luxury high-rise conversion, approximately 30 to 40 percent of sales were to current tenants and 20 percent or fewer units were sold to investors. (Subsequently, units in a similar building have not sold well.) Explanations offered are that the units are smaller and overpriced relative to the market. In this instance, it is predicted that a smaller fraction of current tenants and a larger percentage of non-occupant investors will purchase.

Most purchasers of units in luxury high-rise buildings are married couples, and as many as one-third are widows or widowers. Most are middle-aged or older. Less than ten percent are under 35 and very few are minorities or single women. In one 1978 conversion of an older first-class building, over 80 percent of the units were sold to existing tenants, a majority of whom paid for their units in cash. In the less expensive low density suburban complexes, however, many buyers are reported to be younger first home purchasers, including many singles. One estimate is that 25 percent of purchasers in such complexes are single women; the same market expert predicts that this figure will rise to 50 percent by 1990. Overall, demand for both converted and new condominium units is quite strong, subject only to mortgage money availability.

Supply

Of the nearly 6,000 units known to have been converted in the Cleveland metropolitan area, beginning in 1972, only 284 are in the city of Cleveland (see Table 1). Only one or two small building conversions have occurred in inner-city neighborhoods. Over 4,000 units have been converted in Cleveland's Cuyahoga County suburbs; most of these are in luxury buildings or townhouse-style complexes in the eastern suburbs (Shaker Heights, Euclid, Lyndhurst, Cleveland Heights, Beechwood) or western suburbs near the lake (Lakewood, Rocky River). Another 1,072 units have been converted since 1971 in 13 projects in Lake County, which is east of Cleveland. Suburban conversions have been both newer (ten to 15 years old) and older (up to 50 years old) luxury high-rise buildings and less expensive townhouse or garden-style complexes in affluent areas. Because Cleveland has only a limited number of luxury rental buildings, the conversions that have occurred have caused considerable publicity and may have had a significant impact at the upper end of the rental market.

In Lakewood, which probably has had more conversion activity in proportion to the total housing stock than any other Cleveland area jurisdiction, about six percent of the 15,000 rental units have converted. This suburb contains a small "Gold Coast" of roughly eight to ten luxury high-rises, of which several remain as rentals. Most experts agree that there are a great many more suburban properties suited to conversion, though one expert on the rental market believes that the supply of rental buildings suited to profitable conversion, by 1985, might become a factor limiting activity. On the other hand, another converter claims to have lined up over 30 first class rental buildings suited to conversion and expects the

TABLE 1

KNOWN CONDOMINIUM CONVERSIONS, (UNITS/BUILDINGS) CLEVELAND SMSA

Jurisdiction		1972 to 1976	1976	1977	1978	1979*	Totals
Cuyahoga County	Cleveland	0	0	5/1	279/5	0	284/6
	Suburbs	569/5	68/2	517/6	1,975/16	1,225/10	4,354/39
	Total Units/ Buildings	569/5	68/2	522/7	2,254/21	1,225/10	4,638/45
Lake County		339/3	0	198/4	322/4	213/2	1,072/13
SMSA TOTALS		908/8	68/2	720/11	2,576/25	1,438/12	5,710/58

*Incomplete list through October, 1979.

supply of easily converted properties to last another eight years or so. Both predictions are based on unstated assumptions regarding future demand, market conditions, and government regulation.

Market Conditions

In July 1977, a local apartment and homeowners association survey showed the rental vacancy in Cleveland market area to be a very low 3.5 percent, down from 4.5 percent a year earlier. The rental vacancy rate in the city of Cleveland is also very low -- about 3.4 percent in March 1979. In the Shaker Square area, where many conversions have occurred and where a large generational turnover is taking place, the vacancy rate is estimated at between five and seven percent. In Lakewood, also the location of several conversions, the rental market is described as "very tight." Only one expert differed with the prevailing view that the rental market is tight in most areas. But, despite the apparent low vacancy rate and the loss of units from inventory through demolition or abandonment, rents may not have risen as rapidly as operating costs for many buildings. One source reports recent rapid rent increases in Cleveland Heights and other middle-income areas. This is apparently not the case in the lowest income areas, where income limits a tenant's ability to pay.

Construction of new condominiums is continuing and seems to offer the most direct competition with conversions in suburban areas. Mortgage bankers believe that condominiums are steadily gaining in buyer acceptance.

Developers and mortgage bankers agree, mortgage money is now difficult to obtain and, as a result, there has been a slowing down of all types of home sales and new construction. All expect that demand for condominiums will return to levels as high or higher than in the past once mortgage money is again readily available and the threat of recession has passed. One active converter anticipates a pause followed by the release of substantial pent-up demand and considerable conversion activity.

Government Regulations

In Ohio, a state law effective October 1, 1978, regulates conversion activity to protect tenants and purchasers. One converter points out that the warranty requirements in the law exceed any protections given new home buyers; he views this as unfair but no real hindrance to profitable conversion.

Lakewood, Lyndhurst, Beechwood, and Shaker Heights are among the Cleveland area suburbs to have passed regulatory ordinances that go beyond the protections in the Ohio law. Lakewood's ordinance was enacted in May 1979, following a 90-day moratorium on conversions. The Lakewood ordinance requires a prior to sale city inspection of individual units for code violations; units not conforming to code can be offered for sale, provided a bond is posted, but no sales may be final until violations are corrected. Other provisions require full disclosure, provide handicapped and elderly tenants up to six months to move, and give tenants the option to terminate leases unilaterally with 45 days notice in converting buildings. One large luxury building is converting now under this law and has sold a majority of units in two or three months; this suggests that the ordinance, while restrictive, permits profitable conversion. This fall, the Lakewood council member representing the "Gold Coast" area was defeated for reelection by an opponent who supported even tougher regulation of conversions.

Lyndhurst's ordinance is very similar to Lakewood's. The Shaker Heights ordinance is described as "mild." Other suburban areas experiencing conversion, such as Euclid, may enact control ordinances in the near future.

In this connection is should be noted that one local lawyer familiar with both state and local regulations criticized the Ohio law as being "very poorly drafted", inflexible, and "unfair" in its warranty provision. He predicts that local ordinances will slow conversions and add to expenses.

In Cleveland, the Kucinich administration proposed very strict controls on conversion and talked about rent control. But the drafted conversion ordinance was not voted on by Council. There is no rent control law in Cleveland or any of its suburbs. In general, however, growth controls do not appear to be significant factors limiting new housing construction in the Cleveland SMSA. There are no local tax incentives driving the conversion process here.

Effects on Households

Normally, tenants of luxury or even middle-income buildings that have converted here do not experience extraordinary difficulty finding comparable housing at similar prices, so far as is known. Given the high proportion of tenant purchasers and the significant number of investor buyers who retain prior tenants, there are few tenants actually forced to move due to conversion. On the other hand, those who prefer to continue renting in similar buildings in the same areas may find themselves "chased" by converters from one apartment to the next. The fear of repeated moves may induce some tenants to purchase. One converter reports that he has "caught" such people three times, who then bought.

It appears that the elderly experience the most stress during a conversion. Many who have the means to buy do not wish to do so. But, since there has been no systematic local investigation of the impacts of conversion on households, it is impossible to determine how much hardship has occurred. Even in Lakewood, where the emotional response was greatest, there is no documentation of the extent of problems experienced by tenants

Effects on Tenants

The most vigorous tenant response to a conversion occurred in Lakewood. A large national conversion firm converted the Carlyle early in 1979 following successful conversion and rapid sell-out of all units in the adjacent Winton Place, a lakefront luxury tower. The Carlyle, although similar to Winton Place, has not sold rapidly. Units here are smaller, tenants are typically younger professionals, the building tend to be slightly less structurally fit, and units appear to have been priced too high for quick sale. Carlyle tenants filed a class action suit against the conversion firm, but this was thrown out. Some destruction occurred in the building at about this time, probably related to conversion. Tenant resistance was apparently precipitated by short notice and lack of information; the unusually short notice may, in turn, have resulted from the firm's filing one day in advance of the new state law. Tenant pressure apparently led to release of the firm's commissioned engineering report on the building. However, the company has consistently refused to negotiate with tenants as a group, this being company policy.

Forty tenants of an older luxury building on Cleveland's east side responded to conversion by forming a committee to negotiate with a conversion specialist who had purchased a large block of units for resale. They sought an extension of time and reduction of price based on code violations. These units were sold to tenants, in most cases, within five weeks. Subsequently, the group became the condominium owners association and, as a group, has borne the cost ($250,000 to $500,000) for repairs to electrical and heating systems, hallways, and the roof as required by Cleveland's housing code. This conversion also occurred before the effective date of Ohio's new law. There are no reports of tenant groups purchasing their buildings for conversion to condominiums.

Although there have been no cooperative conversions in Cleveland since 1972, a Cleveland tenants organization is currently working with groups of tenants in the University Circle area to assist them in converting small rental buildings to cooperatives. The organization is also negotiating with University Circle, Inc. (UCI), which handles real estate development for a number of east Cleveland institutions, to convert to cooperatives over 400 of 480 housing units held by UCI. The manner in which these conversions will be financed is not clear. HUD's Section 221(d)(3) cooperative mortgage insurance program is criticized for requiring substantial rehabilitation, making the cost too high for low- to moderate-income purchasers. The organization's goal is to avoid "gentrification" of the University Circle area by retaining existing moderate-income units as cooperatives and converting others to rehabilitated Section 8 rentals for low-income residents.

The tenant organization believes it has the strength to resist condominium conversions in this area.

Effects on Housing Market

There is no systematic evidence to indicate that conversions have, as yet, led to a tighter rental market or contributed to rising rents in the Cleveland area. Only in affluent suburban areas, such as Lakewood, has a significant percentage of the rental units been converted. It is plausible that in the extreme upper end of the rental market it has become more difficult to rent because a substantial number of the most prestigious addresses are now condominiums. The pace of conversions was such (before the current mortgage market slowdown) that if continued in the future it could have significant effects on the rental market. In the future it is likely that many rental buildings will be constructed with features -- such as added soundproofing and certain amenities -- that will make them more suited to eventual conversion.

Effects on Neighborhood

Because there have been virtually no inner-city conversions and because there is less demand in the Cleveland area than in other large cities for downtown area residences, conversion has played absolutely no role in inner-city neighborhood revitalization. In Ohio City, on the near westside, an area which has experienced reinvestment at a slow pace since 1972, there have been only one or two small building conversions; these occurred in 1978.

Observers do not see any conversion effects on neighborhood public services. There is probably increased income and age homogeneity in converted luxury buildings, since those who depart tend to be younger and slightly less affluent than the remaining or replacing buyers. The converted buildings have been, and remain, predominantly white. Conversions in Lakewood are seen by some as reducing the number of "transients" or otherwise "undesirable" people in the community. All such conclusions are speculative or are based on converters' reports, since no systematic study of Cleveland area conversions has been conducted.

The tax gains due to conversion and subsequent reassessment are substantial. In Lakewood, for instance, revenue from converted buildings is estimated to have doubled or tripled.

Relationship to HUD and Policy Alternatives

There appears to be virtually no relationship between HUD programs in the Cleveland area and condominium conversions. This is shown, in part, by the absence of conversions in or near areas where most Community Development Block Grant (CDBG) funds are spent. There is no indication that any HUD-subsidized properties have been converted. One or two of the older buildings converted may have been Federal Housing Administration (FHA)-insured, but these mortgages were paid off prior to sale for conversion.

Local government officials and lawyers have expressed support for Federal government regulatory action to provide some measure of uniformity and to avoid repeated legal challenges to the constitutionality of local ordinances. Substantively, the most commonly expressed concern was that the elderly receive relocation assistance and be protected from large rent increases.

One market expert opposed to Federal regulation of conversions favored increased incentives or subsidies for new rental construction. Two others were concerned that condominium owners associations would face major difficulties in governing and in meeting financial crises. Proposals offered included requiring associations to establish reserve funds and providing them with human relations or conflict management training.

One tenant representative favored limited equity cooperative ownership over condominiums. His objectives were to minimize downpayments, maximize tenant contol over housing, and avoid rapid appreciation and resales that would take buildings out of the low-income category. The cooperative blanket mortgage and governing rules help to meet these objectives. This activist also criticized the high costs of the Section 8 program. He favors a moratorium on conversions until their impact can be analyzed and believes tenants should have the first right to purchase when conversion is imminent.

The Conversion Process

Two of the largest luxury conversions here were carried out by a national conversion firm. Financing for these was provided by out-of-town banks. One of the buildings sold rapidly; the other has experienced buyer and tenant resistance, as discussed above. Both properties are managed by a local real estate management company whose president once owned one of the converted buildings.

There are perhaps three or four conversion specialists in the Cleveland area who account for most of the activity. One of these operates solely as an independent contractor converting buildings for the owner or purchaser on a commission basis with a bonus for performance. He subcontracts the legal and engineering work and handles all sales. Although no pressure is put on current tenants to buy, this conversion specialist claims that consistently 80 percent of tenants purchase units. He also claims that all prices are discounted ten percent or so below prevailing market values. Typical profit margins from buildings he has converted range from 15 to 20 percent of gross sales.

Local banks or savings and loans have provided interim financing and end loans for most conversions. Where the bank has held the mortgage for a building, it has merely granted its consent for the conversion and required that 50 percent of the units be sold before any closings. The risk of conversion loans is regarded by one banker as "very minimal."

Field Report

Conversion Activity in the Columbus, Ohio SMSA

Background

The Columbus metropolitan area consists of Franklin County (which includes the city of Columbus), and largely rural Delaware and Pickaway counties. The metropolitan area had 336,000 housing units in 1975, an increase of nearly 40,000 units since 1970. Sixty percent of these are owner occupied. The city of Columbus has expanded through annexation and encompasses much of what would be recent suburban development in other metropolitan areas. In the city itself slightly less than 50 percent of the housing was rental in 1970. The rental vacancy rate in 1970 was 6.6 percent in the metropolitan area and 7.1 percent in Columbus. In the entire metropolitan area in 1975, the vacancy rate was a high 10.8 percent.

Demand

Condominium living is still a secondary feature of the Columbus area's real estate market. Since 1975, however, between 300 and 400 units have been converted each year and most conversions have been financially successful. Overbuilding of apartments in the early 1970s has contributed to rent levels which at present may be as much as $100 below those in other midwestern metropolitan areas. This has very probably slowed the trend toward condominium ownership, even as it has increased incentives for apartment owners to sell their properties for conversion. Demand for inner city locations is limited, and there have been very few conversions in or near downtown. In German Village and Victorian Village, two near-downtown areas where private reinvestment has attracted many middle class households, there have been only a handful of small conversions and most structures are single-family homes or doubles.

Beginning in the mid-1960s, many new condominium units have been constructed in the same areas where conversions are occurring. These are priced competitively with conversions and apparently attract the same type of buyer. The normal proportion of sales to previous tenants of converted buildings appears to range between 15 and 25 percent. However, in two luxury buildings converted by an out-of-town firm, the proportions of sales to current tenants were approximately 50 percent and 75 percent.

Typical townhouse-style condominium buyers include singles, young couples under 35, and older "empty nesters." About 25 to 35 percent are single women; very few have children at home; and most are white. In one luxury high-rise, about 70 percent of the buyers were over 55, most were married, widowed, or divorced, and fewer than five percent had children in the home. Non-occupant investors appear to account for no more than ten percent of unit sales in most projects. However 40 percent of the units in one large complex converted in 1978 were sold to investors. The percentage of investor purchasers in one 1979 complex may reach 50 percent.

Mortgage market conditions are currently slowing sales of all homes, including condominiums. However, there is agreement that local demand for condominiums will be steady or growing through 1985. Converters, especially, are highly optimistic about future demand for condominium living in the Columbus area.

Supply

In what is often described as a "conservative" rental market, most condominium conversions have been of 10 to 15 year old suburban-style townhouse complexes in suburban jurisdictions or immediately adjacent areas of the city of Columbus. A number of smaller, high rent buildings in Upper Arlington and other affluent suburbs have also been converted.

In the future, if continuing demand and mortgage market conditions permit, there will be more conversions of similar structures. It is also possible that a handful of older, former luxury buildings closer to, and east of, downtown may be converted. Conversions are most likely to occur in the northwest sector of the city and the affluent suburbs. The number of conversions in revitalizing areas such as German Village is limited by costs of rehabilitation and by the small number of multi-family buildings.

To date, fewer than 2,000 units have converted in Franklin County. (See table 1.) In Columbus itself, fewer than 1,000 units or no more than one percent of the occupied rental stock (105,000 units in 1975) have converted.

On the city's northwest side, there are many investor-owned, brick, four-flats built in the 1945-1960 period. Many of these 3,000 to 5,000 rental units may eventually be converted to condominiums, according to one local planner.

Although large rental complexes have not been built here since 1974, there continues to be construction of some two- and four-unit rental buildings. Recent rent increases appear to be sustainable; this may prolong the profitable life of rental buildings and limit the pace of conversion.

Cost estimates provided by a real estate developer appear to give an edge to condominium conversions ($30 to $38/sq. ft.) over new condominium construction (delivering at about $49/sq. ft.) or new single-family construction ($55 to $60/sq. ft.).

TABLE 1

ESTIMATED CONDOMINIUM CONVERSIONS (UNITS/BUILDINGS) COLUMBUS SMSA

	1972	1973	1974	1975	1976	1977	1978**	1979*	No Date	Totals
Columbus	58/1	0	0	0	106/3	38/4	283/11	341/4	0	826/23
Other Franklin County	0	320/1	4/1	17/1	217/5	359/10	101+/6	24/3	11/2	1,053+/29
Total SMSA	58/1	320/1	4/1	17/1	323/8	397/14	384+/17	365/7	11/2	1,879+/52

* Approximately first 10 months.

**Unit counts for three suburban projects unavailable.

SOURCE: Columbus area real estate developers and market experts. Conversion dates and unit counts from REDI Real Estate Atlas, Real Estate Data, Inc. (1979).

As in other areas, conversions begin with the "easiest" luxury and middle-income buildings of excellent reputation. As conversion proceeds, it tends to move into buildings with a few more problems or lesser attractiveness due to reputation, location, or appearance. How soon this will reduce the pace of conversions in the Columbus area, no one is certain. There are still a great many properties being eyed by converters as profit opportunities.

Market Conditions

Rental vacancy rates are now below five percent in all but inner city areas of Columbus. Although there is no rent control in the metropolitan area, depressed rent levels continue to provide some apartment owners with an incentive for sale.

Financing for conversion is still available to people with appropriate credentials. On the other hand, it is becoming more difficult for unit buyers to qualify for mortgage loans. This may be increasing the proportion of unit sales to non occupant investors. During the present recession all types of home sales have slowed. If interest rates remain high, it will be difficult to satisfy housing demand with new single-family construction. Given the lack of new rental construction, much of the pent up demand may be channeled into the condominium market, stimulating a new wave of conversions in late 1980 or 1981.

Government Regulation

In the Columbus area, there are no local ordinances regulating condominium conversions. Amendments to Ohio's 1963 Condominium Property Act became effective October 1, 1978. These contain several provisions affecting conversions, including requirements for 120 days written notice to tenants before eviction can occur, detailed disclosure of property conditions, and extensive warranties. Converters have found that the new law adds to their legal costs and are hoping for clarification or improvement of certain features. One small-scale converter claims he will not convert under the new law because he is fearful of the extent of his liability for future structural problems. Most converters, however, say they have not been seriously affected by the new law and believe the required practices are desirable ones that they have generally followed in the past.

Converters do not see tax depreciation as a major factor affecting the timing of a building's sale for conversion. There appear to be no special tax incentives for conversion peculiar to the Columbus area.

Opinion is divided on whether suburban growth controls are limiting single-family home construction here. One converter cited limits on sewer construction and school busing as restrictive factors. A temporary moratorium on new natural gas connections has been lifted.

Local government is not seriously concerned with conversions. There may be future attempts by the real estate industry to modify Ohio's new conversion law in order to clarify or reduce developer liability. A full discussion of the new law is provided by Blackburn and Melia in the fall 1978 Case Western Reserve Law Review.

Effects on Households

There has been no systematic investigation of the impacts of Columbus area conversions on households, and there is very little anecdotal evidence on this subject. In luxury buildings, it appears that most movers can afford comparable rental housing and probably could purchase condominium units if they chose to do so. In one suburban-style complex where the majority of tenants moved due to conversion, one developer described most tenants as "Appalachian people, uneducated, without bank accounts, and hooked by loan companies." This group would presumably have more difficulty securing comparable housing.

Because the new Ohio law virtually eliminates "as is" conversions of properties with any kind of deficiency, it is unlikely that unit buyers will experience major problems with their units or buildings not covered in the short run by warranty.

Effects on Tenants

There has been very little tenant resistance to conversions in the Columbus area. Apparently, no tenant groups have organized in response to threatened or announced conversions, and none are known to have attempted purchase of their buildings.

One active converter has dealt with outmovers by, in some cases, paying moving costs, foregoing part of a month's rent, and giving $100 in cash to people whose units have been sold and who agree to terminate their leases and waive rights to buy. This converter also sells to investors with the provision that they agree to let current tenants stay in the units for one year at the previous rent. This accommodates elderly and disabled tenants or others who might suffer from the emotional or financial shock of conversion. Another converter, specializing in luxury properties, offers purchase discounts to current residents and extends leases to households claiming a need. He reports: "I haven't seen us boot anyone out of a building yet."

Effects on Housing Market

No evidence is available to show whether conversion has led to a tighter or higher-priced rental market anywhere. The area of greatest activity has been Upper Arlington, an affluent suburb north of the Ohio State campus. One expert predicts that eventually, most rental buildings in this suburb will be converted to condominiums.

Neighborhood Effects

There appears to be little or no relationship between private revitalization of older Columbus neighborhoods and conversion activity. A handful of small buildings have converted in the German Village and Victorian Village areas since 1976. In German Village, privately financed restoration of many small brick structures began in the 1950s and is largely complete. In Victorian Village, upgrading and revitalization has occurred at a slow to moderate pace since 1970. In both areas, there are relatively few multi-family properties--and any conversions that have occurred have lagged behind other reinvestment.

There is no indication that conversions affect the level of public services in an area or stimulate secondary investment and secondary displacement. Several experts indicated that conversions increase assessments and local government revenues.

Relationship To HUD and Policy Alternatives

There is little apparent relationship between HUD's programs and the pattern of condominium conversions in Columbus. As previously noted, most activity is in suburban or near-suburban areas and, therefore, is not in areas receiving most Community Development Block Grant (CDBG) funds. Converters have just now become aware that Federal Housing Administration (FHA) financing is available to unit buyers.

There is general agreement among experts that the Federal government's role in regulating condominium conversion should be minimized. Most are satisfied that the new state law provides adequate buyer protection. One real estate developer is intrigued by the idea of subsidies for condominium purchase as an alternative to rental subsidies. Another converter agrees emphasizing the possibility of "sweat equity" down payments by tenants of HUD buildings as a way to rehabilitate these for conversion and sale to tenants.

Protection of the elderly is mentioned as the single problem most in need of regulation, though no one reports any abuses of the elderly, other tenants, or buyers in the Columbus area.

The Conversion Process

Two conversions of luxury suburban Columbus properties were managed by American INVSCO. Others have been done by local people with prior experience in other real estate ventures. The largest of the local companies converted fewer than 700 units in the Columbus area. Interim financing is provided by local banks at 1.5 to 2 points over prime, plus one point to close. In at least one instance, the previous building owner participated in the conversion by selling the building to a corporation in which he purchased a part interest.

In two recent conversions of large townhouse complexes, a high percentage of those involved (30% to 50%) have been or will be small investors -- typically professionals or business executives.

Profits are typically 15 to 20 percent of the gross selling price, though there have been losses in some small building conversions, including two that required major rehabilitation.

Field Report

Conversion Activity in the Dallas-Fort Worth, Texas SMSA

Background

The Dallas-Fort Worth SMSA has experienced a significant population growth since 1970. In the 1970-1977 period, the region gained 296,000 persons, a 12 percent increase, for a total population of 2,673,000. The increase from net in-migration alone accounted for 121,000 persons, or 5 percent of the total population. Dallas County grew by 142,000 persons, or 11 percent, and Tarrant County grew by 64,000, or 9 percent. The largest rate of change, however, was outside these two counties, where population grew by 54,000 persons, a 16 percent increase from 1970 to 1977. The bulk of the migration increase in the region, 70,000 persons, occurred in the two counties.

The Dallas-Fort Worth region has had a great deal of new housing construction in the past few years, in part stimulated by sustained in-migration. In 1977 the region had 44,000 housing starts, comprised of 25,000 single-family units and 19,000 multi-family units. In 1978, there were 47,000 housing starts, comprised of 27,000 single-family units and 20,000 multi-family units. In the first eight months of 1979, there were 30,000 housing starts. In each year, about 80 percent of the single-family units were built outside the two central cities, while only 33 to 44 percent of the multi-family starts were built outside the central cities.

The 1974 Annual Housing Survey for the Dallas SMSA showed that 61 percent of all households owned their homes. About ten percent of all households were headed by female owners, and 10 percent of all households were headed by owners who are 65 years of age or older. The unemployment rate for the region ranged between 5 and 3 percent in 1977 and 1978, with an average of 4 percent. It is expected that the region will continue to experience population growth, strong housing construction, and low unemployment into the 1980s.

Demand

The demand for condominium units is expected to remain at a peak level or drop slightly if the availability of mortgage money decreases. It is expected to reach even higher levels in the future. There is currently a three to four month sales inventory in condominiums with new offerings slowing up because of tighter financing. It is reported that the sellout for individual projects is a bit slower than in other cities, perhaps because Dallas is not yet used to condominiums.

Middle income demand for close-in locations is very strong. It has, however, been estimated that three-fourths of the total demand for condominium units has already been met in Dallas for the immediate future. New single-family homes are selling for $45,000 and reputed to be barely within the financial means of the moderate income family. As new single-family home costs escalate, condominium living, with lower cost units, will become relatively more attractive.

There has been a good deal of buyer resistance to condominium living in Fort Worth. The few successful projects have involved the conversion of several rental townhouses but there are relatively few townhouse units in Fort Worth. As in other Texas cities, townhouses seem to be preferred over low-rise units, because they include no "stacked units." It is of interest that the average cost for condominiums in Fort Worth has been around $55,000, relatively high for the Southwest, suggesting that only the higher priced units have been converted to date. There is reputedly a fairly high demand for new units in condominiums, but less for converted condominiums, possibly because of their high price relative to the new single-family home market.

There is a four to five-month sales inventory on the market now, but some projects may cut prices slightly to reduce inventories and interim interest charges. Demand for condominium units is running about 5 percent of total housing demand each year and is expected to increase slightly in the future to 10 percent. Demand for condominium units has risen from 2 percent a few years ago; up to 60 percent of present buyers are repeat buyers of condominium units located in Dallas or elsewhere.

Supply

The conversions in Dallas have been mostly within a mile of the North Central Expressway corridor, extending from about one mile north of the downtown area to the Northwest Expressway area. This has included high-rise, townhouse, and low-rise conversions. The units most likely to be converted in the future are close to this area and are likely to be no more than 15 years old. It is estimated that there is a two or three year supply of convertible buildings left in Dallas, with the best of them being in the higher income markets. Asking prices of rental properties are rising, causing some developers to favor volume sales and a smaller profit margin per unit. Some experts say that as a result there is a slight oversupply of conversions in Dallas at this time. Most of the conversions are selling for $30,000 to $60,000, with $85,000 being the top of the line for non-high-rises.

Probably 5 percent of the multi-family housing stock has been converted at the present time. Some developers pointed out that it has become harder to manage rental properties, that operating costs have risen faster than rents, and that, given the high cost of acquiring rental properties at this time, competition has kept rents lower than what is necessary for profitable operation. It is also likely that conversions have reduced the apartment vacancy rate in Dallas, which has been high since the early 1970s, when the market was overbuilt. All these market factors provide incentives for converting rental properties.

The conversions in Fort Worth have been in the west and southwest areas, in some cases adjacent to single-family housing areas. There are relatively few high-rise rentals in the city, and they have long waiting lists. The conversions have been in low-rise and townhouse units, but the low-rise units have not sold well. At the most, 1 percent of the multi-family housing in Fort Worth has been converted into condominiums. There have been relatively high vacancy rates in apartments, and conversions have alleviated that problem in some areas.

Market Conditions

The single-family and multi-family markets are strong in Dallas. It is estimated that Dallas has had a 4 percent vacancy in apartments for the past few years, and that up to 13,000 new apartment units were absorbed into the Dallas County market this past year. There is likely to be a slowdown in multi-family growth in the near future, primarily because there is a limited amount of land zoned for apartments in the high rent areas and it is being sold for condominium development. Apartments will be built, but they may be in those suburbs which permit multi-family building.

The mortgage market is expected to be tight for a while, but some firms with interim financing or having partners with capital are buying apartment projects and are renovating them in readiness for the return of lower rate mortgage money. It is expected that the decline in the economy will slow down both acquisitions and conversions, but when mortgage money is more available, it will be "business as usual."

There is still a great deal of strength in the multi-family and new single-family home construction industry in Fort Worth. Land costs have not risen as rapidly as in Dallas and there has been only a three- to four-percent vacancy rate in the neighborhoods where conversion has been taking place.

Government Regulations

Texas regulations require only that a Declaration of Condominium be filed with the County Clerk's office. There are no local tax incentives or disincentives related to conversions. The City of Dallas requires a permit if any part of the structure is changed in a conversion and it maintains a list of conversions for use in city housing studies. Some of the suburban areas are not allowing multi-family construction of any kind -- which may be a problem in the next five years or so as conversions decrease the stock of rental housing in the City of Dallas.

Some local experts recommended that the state or city enact regulations giving minimum notice to tenants who must relocate or requiring sharing of the cost of relocation. Other private experts recommended a federal law to override state usury laws so there would be more mortgage money available to market conversions.

The City of Fort Worth has no regulations regarding condominium conversions, a permit being required only if structural changes are made on a project. Some local experts recommended that routine inspections of conversions should be done to protect the consumer.

Effects on Households

There seems to be a wide range in the percentages of former tenants purchasing units; some said 20 percent, some 6 percent, and others up to 60 percent, with an average probably around 20 percent. Most of the tenants who do not buy units change neighborhoods, and in most cases they pay slightly higher rents because they are going to newer units. Some converters provided counseling and referrals to new apartments while one converter provided relocation cost assistance. One project had about 55 percent elderly, but it was a luxury unit and most of those living there buy units.

It is estimated that from 5 to 10 percent of the buyers are investors who will rent the units. One builder has a program whereby he matches up long-term renters with investors who then purchase the units where the long-term renters wish to stay. Most of the tenants are given until the end of their leases, which, in some cases, may be up to one year, and the balance are given 30 days to locate new apartments.

Practices in Fort Worth are similar to those in Dallas, but less expensive units are more available there. Fort Worth has multi-family building programs producing more apartments and there are no known instances of problems concerning tenants finding suitable, affordable housing after leaving a converted project.

Effects on Tenant

There are no known instances of tenants organizing in response to threatened conversions. There are a few tenant organizations in Dallas and Fort Worth but they are general in their approach rather than specifically interested in conversions. They tend to organize in units which are not being converted, but are aware of conversion as a potential problem. No tenant groups have purchased their buildings for conversion.

Effects in Market

There is some evidence that the early phases of conversion, up to 1975 or so, did take some of the slack out of the overbuilt apartment market. Although conversion has not caused any rent rises, it has driven up the cost of buying rental properties, and that cost will eventually result in higher rents or more conversions. It is likely that conversion has changed the ownership ratio in the last year or so by one percent more than the year before, but it is unlikely that it will have an effect of more than another one or two percent in the next three or four years. In Fort Worth, conversion has taken up some of the slack in the apartment market, but it has had no effect on the ownership rate.

Effects on Neighborhoods

There has been some revitalization of the neighborhoods just to the north of the downtown Dallas area, but conversion has tended to lag behind revitalization. It is probable that conversion is helping to retain middle income persons in this area, and it may bring in middle-income persons, thus somewhat increasing the average income of the neighborhoods. It is also likely that conversion and revitalization are changing the racial mix of the area to some degree. There is no evidence of secondary displacement in Dallas so far. Conversion probably increases the taxes on the units to a little more than twice their original amount.

There has been no conversion in areas where revitalization is occurring in Fort Worth and conversion has had no effect on the racial or income mix. The previous tenants, in most cases, were quite similar to the buyers of the units; they were mostly in the middle- to higher income brackets. There are no secondary displacement effects from conversions to date.

Relationship To HUD and Policy Alternatives

There has been at least one Federal Housing Administration (FHA) insured property, a high-rise, which was foreclosed on and purchased for conversion. There is a proposal by the City of Dallas to utilize Community Development Block Grant funds to purchase a moderate rental apartment and convert it for moderate income homeownership. There are no conversions of HUD related projects in Fort Worth. Several private experts in Dallas and Fort Worth proposed that conversion projects should meet local fire, safety, and building code inspection criteria before sales start on units. This is an overall consumer protection measure, rather than a protection of tenants rights.

The Conversion Process

The process of conversion seems to involve a good deal of out-of-town, interim financing in both Dallas and Fort Worth. On the face of it, it appears that Dallas banks have been reluctant to provide interim financing to non-local firms, so the non-local firms have brought in capital. The local firms are reputed to be getting interim financing at prime plus two percent, with a 20 to 25 percent equity on the part of the converter. It is probable that joint venturing with banks or savings and loans is occurring more often with local financial sources and local converters than with local financial sources and out-of-town converters. Most of the conversions are packaged to be marketed to Federal National Mortgage Association or Federal Home Loan Mortgage Corporation.

The local firms tend to develop their own marketing expertise, while the out of town converters tend to rely heavily on local firms for market research and sometimes for marketing the product to the local public. Most of the projects offer the public prearranged, 95-percent financing but, one converter mentioned that up to 25 percent of his buyers pay cash in full on delivery.

Field Report

Conversion Activity in the Denver-Boulder, Colorado SMSA

Background

Denver's central business district is gaining high-rise commercial and residential buildings. There is now immigration of persons who are developing the petroleum resources within the Rocky Mountain states. In the past new households were drawn to recreation and retirement activities. Denver, the major city in the Rocky Mountain region, contains a growing number of headquarters for energy and energy-related firms. Regional headquarters offices of other firms are also locating in Denver. The area is one of the fastest growing in the country.

As would be expected, the influx of households has caused major changes in the housing market The early 1970s saw the housing industry very active as developers built for the recreational boom. But, the mid-1970s recession caught builders with an oversupply of units. Times were hard for developers until these units were absorbed by the immigrating households participating in the energy boom of the late 1970s.

Developers have begun building again, with vacancy rates extremely low, under five percent for owner and rental housing. As the costs of single-family homes continue to rise, the rental market is experiencing more demand and condominiums are becoming a more feasible avenue of housing investment. Developers are now concentrating their activity in construction of office, commercial, and condominium buildings and in the conversion of thousands of rental units to condominiums.

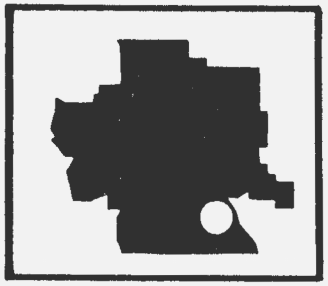
In Denver, condominium conversion is recent and intense. Table 1 shows the surge in conversion activity since 1977 in the Denver SMSA.

Table 1
Conversion Activity in Denver SMSA by Year

	Year	Projects	Units
	1970	-	-
	1971	-	-
	1972	1	51
	1973	3	18
	1974	13	631
	1975	9	268
	1976	8	229
	1977	16	732
	1978	91	6,743
(to Sept)	1979	90	5,551
	Total	231	14,223

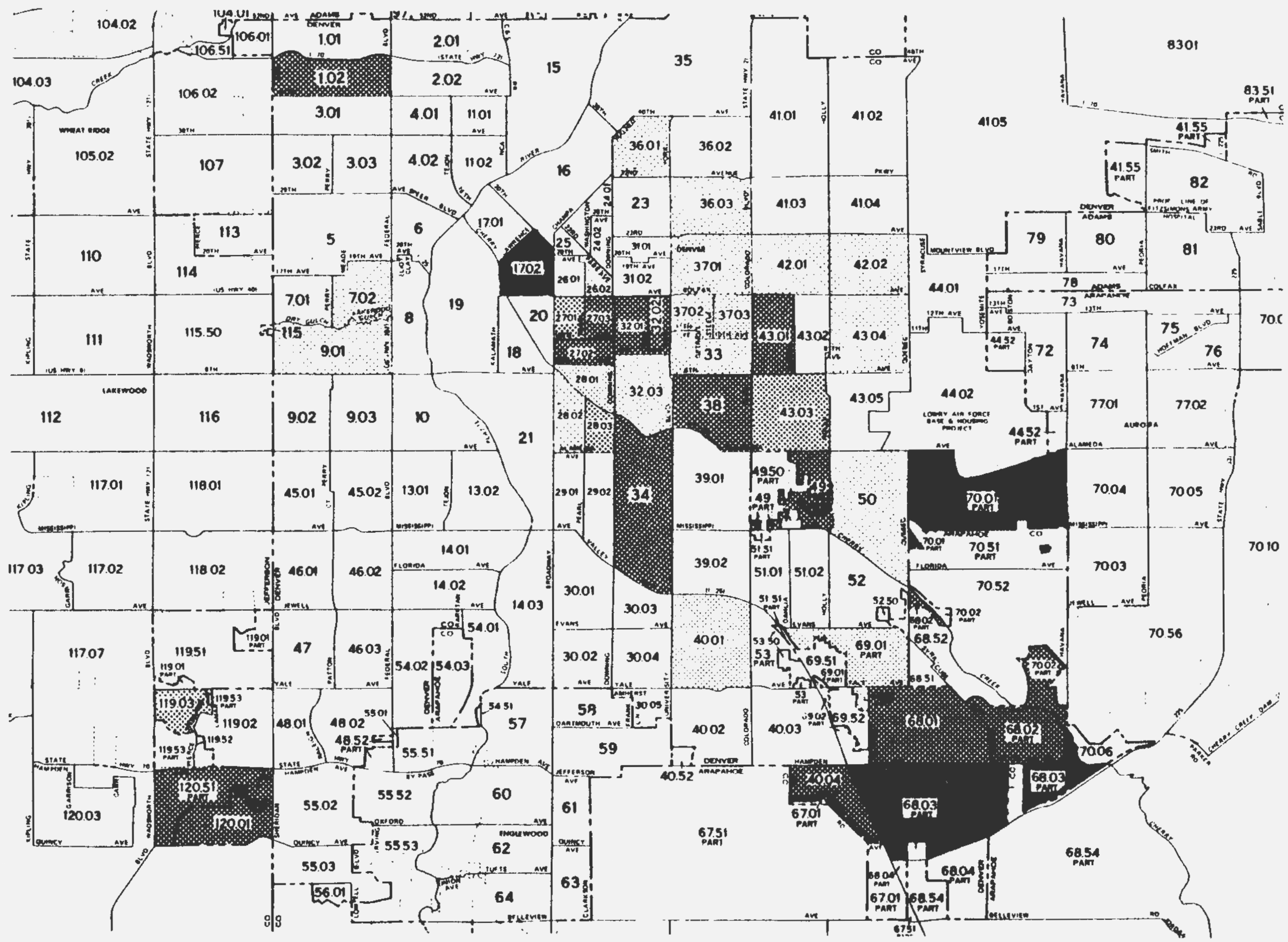
Source: Calculated from records in County Clerks Office

Condominium Conversions in Denver, Colorado
January 1977 to September 1979



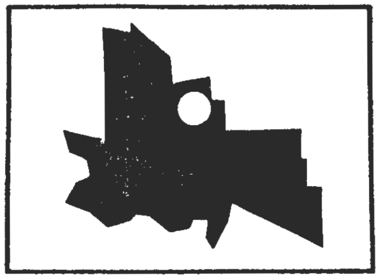
Range of Converted Units Per Census Tract

- 1-50
- 51-100
- 101-200
- 201-500
- 501-800
- 801-4000



68 Numbers are census tract numbers.

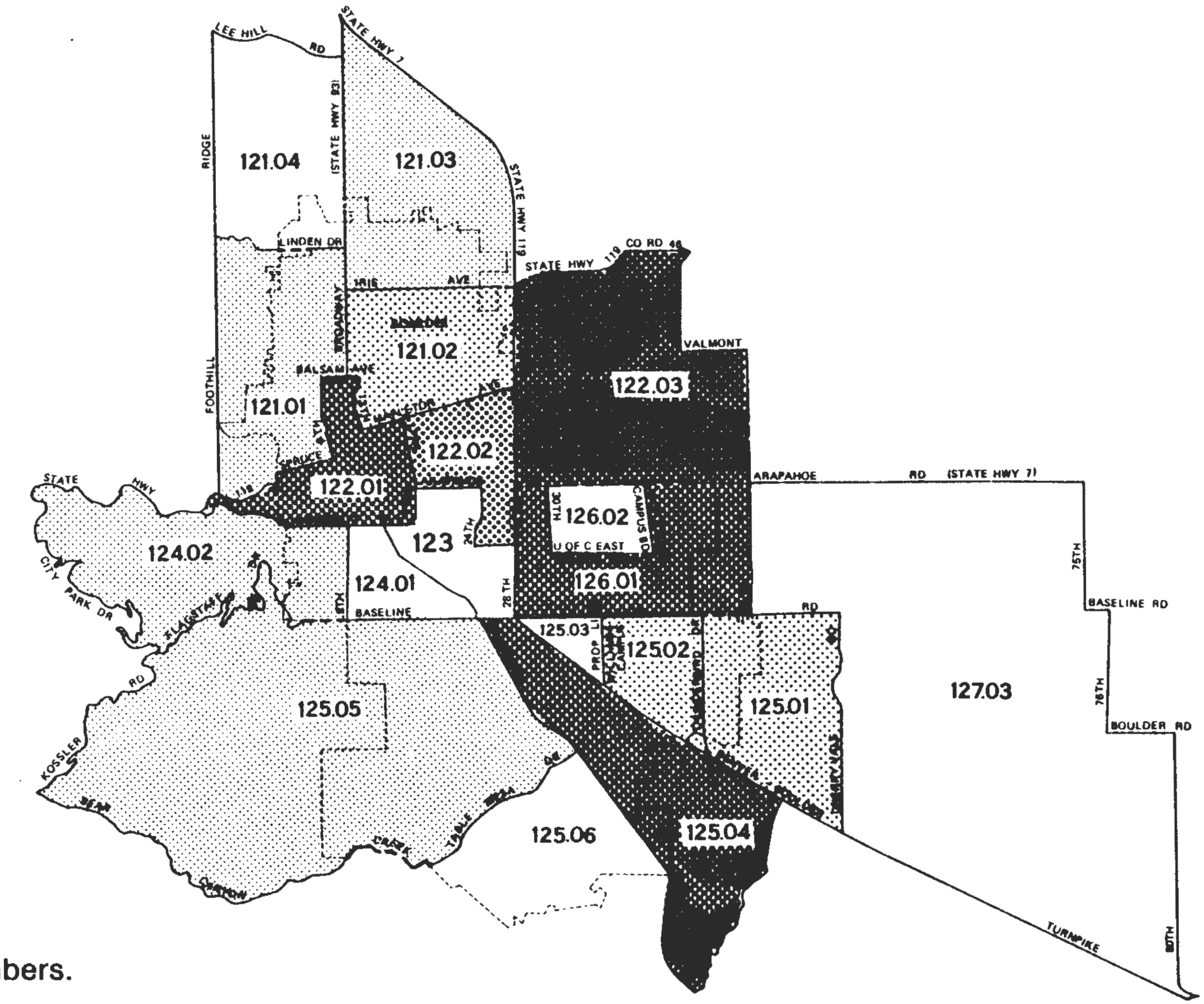
Condominium Conversions in Boulder, Colorado
January 1977 to December 1979



Range of Converted Units Per Census Tract

- 1-50
- 51-100
- 101-200
- 201-500
- 501-800
- 801-4000

[5736] Numbers are census tract numbers.



The table shows minimal activity in the years 1970 to 1976. Market experts described these years as a period of high vacancies with developers holding property for extended lengths of time. By 1978, however, conversion activity was brisk. Firms within the Denver area and outside development firms were making good offers to owners of rental buildings. These owners were anxious to sell, since a good profit could be realized after the capital gains tax was paid. Owners of rental units had weathered the years of low profits but were now experiencing increased operating costs. In this atmosphere, they were anxious to sell.

Demand

In the Denver area, as elsewhere, the high cost of construction of a single-family home results in a high selling price and a shrinking number of households that can qualify for financing. As condominiums provide lower cost homeownership alternatives for households, the demand for them increases. Second, the high cost of operation of multi-family rental units translates into high monthly rent levels and a shrinking number of households willing to pay the high rent and receive no return on the investment. As condominiums allow investment and equity to be available to more households, the demand increases. Third, a single-family home requires substantial maintenance which becomes more difficult as age increases or as more family members work outside the home. As condominiums provide reductions in maintenance, the demand increases.

The Capitol Hill area lies near the central business district (CBD) and offers a prime location to professionals who work nearby. The housing stock in the area consists of older sound buildings some with historic preservation designation. With conversions the area has changed from a mixed-income neighborhood to a middle-income neighborhood. The southeast area considered an excellent suburban location contains another hub of shopping and business activity. The housing nearby is a mixture of single-family homes and mid- and high-rise apartment buildings. The apartments house middle- to upper-income residents. In Boulder, the lack of housing alternatives in a market with extremely low vacancy rates swells the demand for conversions. In addition, many retired persons are attracted to the area and often prefer the security and reduced maintenance living of a condominium. It is expected that the demand for condominiums will remain strong in these areas. Even new rental construction (according to market experts) is built with conversion in mind.

Investor demand should also be considered, but it is difficult to ascertain the strength of this, varying estimates ranged from 5 percent to 30 percent within most converted buildings. Most persons cited the 20 percent Federal Home Loan Mortgage Corporation (FHLMC) limitation on investor-owned units as a realistic estimate of investor purchases.

Supply

Selling has been brisk and concentrated. Within the Denver SMSA, 80 percent of the converted buildings were in Denver and Boulder counties. (See Table 2.)

Table 2
Converted Units in the Denver SMSA by County

Jurisdiction	Total Conversion to Sept., 1979
Adams County	1167
Arappahoe County	678
Boulder County	2563
Denver County	8843
Jefferson County	972
SMSA Total	14,223

Source: Calculated from records in County Clerks' Offices

In Denver City/County, 60 percent of converted units are located in the southeast, and a large concentration of units is in the Capitol Hill area. Within Boulder County, the cities of Boulder and Longmont contain high percentages of conversion activity.

The level of activity in Denver has meant that 5.5 percent of all nonpublic multi-family apartment units are no longer available for direct rent. Two major types of buildings have been converted: high-rise apartment buildings 10 to 20 years old in Southeast Denver and older buildings in the historic Capitol Hill area. Table 3 gives the year of construction for the converted buildings. Many experts agreed that almost all of the prime high-rise and sound older buildings have been converted. One expert ventured that "only junk was left."

Table 3
Year of Construction for Converted Units
in Denver County

Year of Construction	Projects	Units
before 1900	7	59
1900-1939	24	222
1940-1949	3	149
1950-1959	8	459
1960-1969	40	2,932
1970-1972	23	3,694
1973-1974	9	1,088
1978	1	240
Total	115	8,843

Source: Marty Flahive and Steve Gordon, Residential Displacement in Denver, City and County of Denver, May 1979.

In Boulder, all types and styles of buildings have been converted or are undergoing conversion, including large single-family homes and inexpensive, unsound rental units near the University of Colorado that once provided student housing opportunities but which have been renovated for condominium sale. Indeed, experts throughout the area agreed that conversion activity is slowing as most feasible (and some seemingly infeasible) buildings have been converted. However, conversions in general remain a strong housing alternative along with new construction of units in the central business district and southeast Denver. In Boulder a limited growth policy prohibits most new construction. Developers reported that new apartment units are being constructed with the option for eventual conversion to condominium.

Of the 94.5 percent of rental housing stock in the SMSA, there are few buildings prime for conversion. One developer distinguished between apartment units and condominium units, the latter having larger rooms, more soundproofing, insulated windows, and good traffic flow. Another developer explained that larger complexes (those with more units) are more appropriate for viable homeowners' associations. Purchasers expect condominiums to have amenities: to be near bus routes, shopping centers, or the central business district. The number of buildings with these characteristics is small.

Developers are less likely to attempt conversion of buildings without these characteristics because such buildings are slow to sell and developers pay high rates on interim financing. As a result, many discussions with developers indicated that few good properties remain in the area and many have begun projects in other localities, even while conversion of less suitable stock is occurring. Boulder has been more receptive to this conversion of "lower end" stock than Denver because there are fewer housing alternatives there.

Market Conditions

Reportedly, conversion activity in the Denver area has peaked, although demand for housing is strong and vacancy rates are low because the mortgage market has tightened and interest rates have soared. Demand will remain strong as a result of immigration. The new construction of single-family and condominium units may ease some of the strain and drop in interest rates, alleviating two of the factors agitating the market.

Only a portion of the demand will be satisfied by new construction, since the great expense of new construction translates into a high selling price often affordable only by upper-income households. The remaining households are those most likely to purchase converted condominium units, keeping conversion activity as strong as possible given the limitations on what can be converted.

The Denver area will be relatively affected by a general economic decline in the country since energy-related employment prospects are growing. The energy-related employment will overcome economic declines associated with the recreation industries within the area.

Government Regulations

The lack of moratoria, rent controls, tenant rights legislation, and conversion legislation has brought a large number of nonlocal developers/converters into the Denver area. The strict no-growth policy of Boulder has led to extremely low vacancy rates (less than one percent), reducing housing alternatives and making conversion more feasible for developers.

However, there is no longer a complete conversion legislation. In June 1979, the Colorado Legislature passed a requirement for a 90-day notification prior to conversion. The Condominium Ownership Act also included provisions determining property tax liability, liability on time-share units, statements concerning buyer associations (buyers must join, by-laws are regulated by the state), and procedures for recording a declaration of condominium. However, one market expert indicated the procedures are not enforced. The conflict centers in the State Real Estate Commission, which has been given responsibility for regulating horizontal subdivision legislation, but views vertical subdivision as another procedure outside its present jurisdiction.

In January 1979, the Denver City Council passed a 90-day notification requirement. State laws which have pre-empted home rule authority on all other housing issues. The state constitution forbids city government regulation on contracts between private individuals unless there is "harm to the well-being of people." In spring 1979, the Boulder City Council approved an ordinance requiring 120-day notice prior to conversion. The other pertinent restriction on housing is the limited growth legislation which expires in 1981. The impact of the 90- and 120-day notice legislation is minimal. Converters typically need that amount of time to prepare for conversion.

At the state level, other legislative proposals for restrictions on conversion were rejected. The rejected proposals included the Colorado Condominium Act that would have set legal guidelines for the establishment and maintenance of condominium facilities and outlining the rights of former tenants. The bill was the product of the National Conference of Commissioners on Uniform State Laws. That group, consisting of commissioners appointed by state governors, prepares legislation on business and contract law. The major group opposing the act was the Colorado Homebuilders Association.

Effects on Households

The current rental housing market is tight with estimated vacancy rates of five percent to one percent throughout the SMSA. Boulder has extremely low rental vacancy rates, as do the conversion areas of Denver. The vacancy rates have dropped from six percent in 1977 because of the lack of new rental construction, conversions to condominium, and population growth. Rents during the period increased 10 to 20 percent.

Within this rental market, conversion has a considerable impact on tenants. Those who cannot buy face relocation, often in a new area away from bus lines and shopping centers. Some households perceive that no comparable rental units are available, and that they must therefore buy. Other tenants anxiously buy to receive tax advantages and potential investment benefits. A report by the City and County of Denver indicated that, in 1978, 311 households were displaced in Denver.

In the Denver area the problems of displacement are compounded by the large number of elderly, because the area has served as a retirement center. The elderly often have special housing needs -- proximity to public transport, few stairs, better building security -- which are not available in all rental units. Even though elderly may have savings with which to purchase the converting unit, the savings may be earmarked for emergency medical expenses.

The news media have focused on the need for rental housing and the hardships encountered by displaced persons. The Denver and Boulder newspapers ran series of articles documenting elderly displacement by conversions prior to and during the City Council debates on notification legislation.

Complaints of displacement were received by the city/county government of Denver. The official response was a policy statement issued by a joint administrative-city council committee on displacement. It said, "It is the policy of the City and County of Denver to help current homeowners remain in their homes. The city and county will continue to promote homeownership among all segments of its population."

Effects on Tenants

The reactions of tenants to conversion have been most intense in Boulder where vacancy rates are below one percent and where many elderly are located. In Boulder, two main groups have been concerned with conversion problems; both were organized before the conversion issue surfaced. One group provides legal counsel to tenants and has fostered an antitrust investigation on rent levels by the state Attorney General. The other group is concerned with problems of the elderly and received a grant from the Department of Health, Education and Welfare (HEW) for a community care facility. Both groups pressed the Boulder City Council for action on conversions during the debate on notification legislation.

In Denver, two groups have been active over the conversion issue. Some tenants have organized along the issue of general tenants' rights (conversions are subsumed under this issue) and the group is nationally affiliated; the other group deals with the housing problems of low-income elderly, specifically with conversion of downtown hotels to office and commercial space. Both groups believe that the regulation of conversions is important. Both have targeted their efforts toward legislation rather than confrontation with developers. Both feel that they have achieved little.

Most experts agreed that when a building was converted, tenants did not organize. This was attributed to the time-consuming problem of finding new housing. No instances of tenant purchase of buildings were cited. Most experts agreed that tenants in Colorado had few or "no rights" to exercise.

Effects on Housing Market

Few experts felt confident about the relation of conversion activity to increased rent levels. Before conversion activity, rent levels (long kept low by an oversupply of rental units) were beginning to rise. In addition, the increasing costs of operating rental units were being passed on to tenants. There is no information demonstrating a causal relationship, but all agreed that conversion activity has made it more difficult for households to find rental units in prime locations in the cities. Boulder, in particular, has a strained rental market.

In Denver the entire housing stock is expanding to meet the demand of immigrating households. Developers are building fewer single-family homes since the increasing costs of construction are difficult to pass on to the buyer. New condominium construction offers the developers a better profit. Construction of rental units is also taking place but, as indicated earlier, much of the rental construction has been earmarked for eventual conversion to condominium.

Neighborhood Effects

Denver and Boulder have small minority populations. Boulder is a homogeneous city with mainly white and middle and upper-income residents. Many are elderly retirees. In addition, there is a large student population housed off-campus. Denver has a more mixed character. Along with middle-and upper-income professionals, there are a small number of American Indian, Mexican, and Black residents. But there is little racial and income mix in either city, and most conversions are occurring in areas of white concentration. In Boulder and southeast Denver, predominately white, upper-income areas remain so. In these areas, the converted buildings are new (less than 20 years old), and no significant rehabilitation or upgrading is necessary. At conversion, the residents of the neighborhood do not change much either. The area racial mix remains the same.

Some marginal change in income mix occurs as those households that cannot afford to purchase leave the area to be replaced by households that can purchase.

The Capitol Hill area in Denver did contain more of an income and racial mix but even before the surge of conversion activity, the area was changing. Previously elderly, minority households and young professionals inhabited the structurally sound older buildings at moderate to low rents. But, as the central city became more viable, an upgrading of the housing stock occurred and the residents changed as well. The racially mixed neighborhood became more white and household incomes rose. Conversion activity has speeded the change.

Relationship to HUD and Policy Alternatives

Generally, the policy preferences of experts in Colorado reflected a laissez-faire perspective. Few persons suggested extensive federal, state, or local legislation on conversions. Tenant representatives viewed conversions in the general context of tenants' rights and were concentrating efforts at the state level. Developers mentioned that some less scrupulous firms are active in conversions, but they did not suggest corrective legislation. Public officials were no more in favor of legislation than private sector experts. Often, the suggested federal role was one of stimulating new rental construction and of making it possible for more households to purchase.

One area of concern to some respondents was consumer protection. Many believed that regulation and disclosure of the condition of the unit and building were important. Usually the state was considered the appropriate monitor of consumer protection. It was believed that local governments could be active with the federal government in assuring that a mix of housing be made available to residents. A few persons suggested that conversion activity be disallowed if vacancy rates fell below three percent. Local governments, it was argued, should also give attention to the problems of displacement: conversion would be unacceptable without a plan to house displaced households.

Field Report

Conversion Activity in the Detroit, Michigan SMSA

Background

As Table 1 demonstrates, condominium conversion in the Detroit SMSA is almost entirely a suburban phenomenon. Of the approximately 1,461 conversions that have taken place in the SMSA, only 3.7 percent are in the City of Detroit. Detroit has been characterized as a "soft" housing market. The lack of condominium conversions there indicates an excess supply of housing and a lack of demand that does not make the conversion of apartments very profitable. In 1976, the national vacancy rate (as reported in the Annual Housing Survey) in rental housing was 6.0 percent, while for Detroit, in 1974, the rental vacancy rate was 11.3 percent, up from 9.2 percent in 1970 (while the national rate had gone down). Between 1970 and 1974, Detroit lost every year, on average, 2.4 percent of its population, while the national average annual loss between 1970 and 1976 was 0.6 percent. Moreover, while in many areas the decline in population has been partly offset by the decrease in size of the average household, this latter trend has not been strong enough in Detroit to prevent an average annual loss of 1.7 percent of households between 1970 and 1974 (compared to a 1.2 percent gain each year for the Nation between 1970 and 1976). At the same time, cities such as Minneapolis and St. Paul, which have had a number of conversions, have either had a very small decline annually in the number of households (a loss of 0.3% of households in Minneapolis) or an increase. While the rate of household formation is only indicative of the general demand for housing, and not the demand for condominiums, an overall decline in households coupled with a fairly high vacancy rate, indicates a general lack of demand for housing in Detroit.

The housing situation in the suburbs is very different from the city. While Detroit was losing 14 percent of its households between 1960 and 1976, its suburbs were increasing their number of households by 55 percent. Thus the demand for housing has been much stronger in the suburbs than in the city, and this general trend has not been mitigated by any inner city revitalization in Detroit. Unlike other older cities that have experienced population declines, there has been little, if any, gentrification or revitalization in Detroit and there has always been weak demand for rental housing near downtown. Consequently, unlike Chicago, where there are (or were) a vast number of rental properties north of downtown that are highly attractive, in Detroit there have been few such properties and many of them have not maintained high occupancy rates. The suburbs of Detroit where the conversions have taken place, such as Southfield or Birmingham, have been highly developed as residential, employment, and commercial centers, that those people who want to be near employment or services can do so and still live in the suburbs. Simply put, the Detroit central business district does not have the amenities to attract people to the city.

Table 1 shows the numbers of units converted in each county of the Detroit SMSA as reported by the Condominium and Living Care Division of the State of Michigan Corporation and Securities Bureau (Department of Commerce). Michigan State law requires registration and approval before any condominium can be built or established through a conversion. Their data show that there were no conversions prior to 1975 and few after that until 1978, when the numbers increased dramatically. As is clear from this table, very few of the conversions thus far have taken place in Detroit, while the bulk have taken place in either Oakland or Macomb counties. Oakland County had the highest median family income of the three SMSA counties in 1970 ($16,521). Macomb County had the second highest median family income that year at $13,110, while Wayne County and Detroit had median family incomes, respectively, of $11,351 and $10,045. Clearly, the bulk of condominium activity has taken place in the more affluent communities of the Detroit SMSA. The left hand side of Table 3 shows the numbers of units converted in those communities that have had the most conversion activity to date. Most of the communities that have had a number of conversions, such as Birmingham, Farmington Hills, and Bloomfield Township, are affluent and desirable places to live.

Tables 2 and 3 provide information on the location of conversions that are in the "pipeline" of the state regulatory process. Pipeline conversions are those that have obtained Permits to Take Reservations (which allow the converter to advertise units and to receive non-binding reservations to buy) but have not yet received Permits to Sell that are required by the State. The units in this pipeline usually are converted, but the exact timing of sales is uncertain. Thus of the 21 projects that received Permits to Take Reservations in 1978, all but three eventually received Permits to Sell. If this pattern continues, then we can expect the bulk of pipeline conversions to be completed by 1980 or 1981.

Table 2 indicates that the bulk of activity will continue in Oakland County, while Table 3 shows that a large percentage of the activity there will be shifted toward Southfield where there are a number of high-rise apartments. Detroit also shows a large increase, with Permits to Take Reservations existing for the high-rises just east of downtown. With the increase in mortgage costs, however, there is some question as to how soon any of these planned conversions will actually take place. In particular, the Jeffersonian, which has 416 units, had a Permit to Take Reservations granted this fall, but the owner has reportedly decided to hold off converting until the mortgage market makes sales more feasible. In other instances, however, the owners of the Shoreline (209 units) and the Regency Square (97 units) both plan to convert in the near future.

Table 1

Conversions in the Detroit SMSA 1/

Year	Oakland County	Macomb County	St. Clair County	Wayne County 2/	Detroit
1975	0	0	0	102	5
1976	0	0	0	38	38
1977	0	0	0	7	0
1978	297	211	51	60	0
1979	436	205	22	68	11
Total	733	416	73	275	54

Source: State of Michigan Department of Commerce Data
1/ No coversions occurred in the Detroit SMSA prior to 1975.
2/ Wayne County includes the entire City of Detroit as well as a number of suburbs.

Table 2

Numbers of Units With Permits to Take Reservations But Without Permits to Sell

Livingston County	Oakland County	Macomb County	St. Clair County	Wayne County	Detroit
180	1,715	8	24	1,453	734

Totals	Detroit	Central City	Outside Central City	SMSA
	734	734	3,380	4,114

Source: State of Michigan Department of City Planning

Note: As of 1979, there are six counties in the Detroit SMSA. Of these six, neither Livingston nor Lapeer Counties has had any conversions. In terms of Table 2, which represents conversions in the state regulatory "pipeline," there are no planned conversions in Lapeer County.

Table 3

Communities in the Detroit SMSA With the Highest Number of Actual Or Planned Conversions

Communities	Number of Units That Have Received Permits To Sell	Number of Units 1/ Which Have Only Received Permits To Take Reservations
Oakland County		
Birmingham	76	171
Southfield	33	1,076
Farmington Hills	210	0
Royal Oak	106	100
Bloomfield Twp.	150	80
Macomb County		
Clinton Twp.	108	0
St. Clair Shores	179	0
Wayne County		
Detroit	54	734
Dearborn	97	0
Dearborn Hts.	0	171
Westland	0	240
Livingston County		
Brighton	0	180

Source: State of Michigan Department of Commerce

1/ Indicates units in the "pipeline"

Sales have fallen off dramatically because of the high mortgage interest rates (off by 70-80% of normal sales for one of the biggest converters in the Detroit SMSA) and according to HUD's Economic and Market Analysis Division (EMAD) Director, conversions may slow because of this.

Finally, it should be remembered that the Detroit area has a predominance of homeownership with 72.6 percent of its housing units owned by their occupants (compared to 50 percent nationally according to the 1976 Annual Housing Survey). With so many single-family owners, it is not very likely that conversions will assume the importance they have in other cities where the rental sector accounts for a much higher proportion of the total stock.

Demand

In the Detroit suburbs, demand appears to be fairly strong for condominiums and appears to be mostly expressed by "empty nesters." One of the biggest converters in the Detroit area states that 70 to 80 percent of his market is accounted for by this group with the other 20 percent coming from retirees and young singles or couples that have not had children. It is not clear, however, whether the proportion of condominium owners who are young will grow. Several individuals maintained that the Detroit buyer is not as "sophisticated" or "cosmopolitan" as buyers in other urban areas and thus is unlikely to stray from the goal of purchasing a single-family detached house. One explanation that is suggested for this is the relatively high proportion of the Detroit population that is employed in blue collar work, although a glance at 1970 census data shows that the proportion of the Detroit area's residents who are engaged in blue collar related occupations (39.7 percent) is not that much higher than for the Nation as a whole (33.3 percent).

One market expert sees condominium demand as partly created by the growing cost of single-family ownership. He cited the typical case of an 1,800 square foot house in the suburbs that would have cost $50,000 in 1977, but now sells for about $80,000. Such a situation creates greater incentives to buy in converted buildings because of low prices, but he views this as an interim situation, at least for those who buy condominiums because they cannot afford a house.

One of the leading converters expects that if the mortgage market improves quickly, 2,000 to 3,000 units will be converted in 1980, while if the market remains tight, only about 400 to 500 units will be converted.

As stated earlier, it is still unclear what will happen in the downtown Detroit rental market. The City of Detroit is trying to emphasize the image of "Renaissance City" with special attention given to the alleged increased interest in living near the Renaissance Center and the restaurants and other attractions of Greek Town.

Some observers are skeptical of the impact that Renaissance City is having on the desirability of downtown living, arguing that many of the people employed in the center previously worked in other offices downtown and thus do not suddenly find themselves having to commute to Detroit's central business district. Those 1,700 Ford employees that did have their place of employment shifted from Dearborn to downtown with the opening of Renaissance City were primarily homeowners and thus, may not be easily enticed to rent near downtown. The occupancy rates of many of the near downtown apartments have risen in recent years, and while this suggests an increased demand to some, to others it is perceived simply as a byproduct of a dropoff in new construction of multi-family units downtown.

Despite this, other observers cite the increasing value of existing condominiums near downtown Detroit (reportedly from $80,000 to $125,000 per unit in one structure) since the opening of the Renaissance Center in early 1977. Given these conflicting reports on the viability of the downtown multi-family market, it may be advisable for observers to follow the lead of the owner of the Jeffersonian apartments and wait to see what happens in the mortgage market before making any predictions concerning the prospects for condominium conversion in and near downtown Detroit.

A recent report by HUD's office in Detroit suggests that the downtown condominium market may be exceptionally "thin" at this time. This office was asked to comment on the marketability of a HUD-owned apartment building, 1300 Lafayette East (336 units). The report concludes that given both the Regency Square (97 units) and the Shoreline East (212 units) are planned for conversion in early 1980, and the Jeffersonian (416 units) will convert, but not in the near future, there is not enough unabsorbed demand to justify the conversion of 1300 Lafayette East. Whatever the prognosis for this building, however, it seems evident that at least 309 units will be converted in Detroit in the near future. Depending on the future of the mortgage market, an additional 416 units may be converted by the end of 1980. Thus we can expect that while the condominium conversion market in the past has been very weak, it will pick up moderately in 1980.

Supply

Until recently, most of the conversions have taken place in garden style or townhouse apartments. The proposed conversion of a number of high-rises in Southfield, however, will change this emphasis but it is not clear how big the high-rise market will be. Less than 4 percent of the total housing stock in the SMSA is in buildings that are above four stories, and many of these (two-thirds) are in Detroit, which has yet to develop into the type of market that is attractive to those who can afford condominium prices. As stated in the previous section, the demand for these downtown units as both rentals and condominiums remains uncertain for the near future at least and thus, it is hard to know whether the trend to high-rises will continue or will end when the relatively few high-rises in the suburbs are converted to condominiums.

According to public officials in several of the suburbs that have had the most conversion activity, there is no particular type of neighborhood associated with conversions; rather conversions seem to occur wherever there is multi-family housing. This is especially true in Southfield where the multi-family buildings are fairly evenly distributed throughout the suburb. In Birmingham, there exists a fairly self-contained and charming downtown area that appears to be responsible for the conversions that have taken place near there. The conversions that have occurred there have been primarily in relatively old (25-30 year old), architecturally distinctive buildings that have few units. Southfield has a great diversity of multi-family buildings, nearly all of which were built after 1964, and seem to be convertible. The stock is of high quality, and the rents range from about $300 to $1,200 per month. Thus, Southfield is equipped with high quality stock that is already being rented by tenants many of whom can afford to buy. This stock is generally located very conveniently to the many commercial services available there. Given these facts, it is not surprising that the bulk of future conversions are likely to take place in Southfield.

Of the approximately 13,500 multi-family units in Southfield, 8.2 percent have either been converted or are being converted. Of the 5,575 units that have either been converted or are planned for conversion in the Detroit SMSA, 19.9 percent are located in Southfield. In terms of the entire rental stock in the SMSA, only 0.4 percent of the 366,300 occupied units have been converted; while approximately 1.5 percent of rental units alone have been or are planned for conversion. It appears that conversion has had little impact on the SMSA market as a whole, but it has had a fairly significant impact in a few areas, such as Southfield.

Market Conditions

Table 4 shows the changes in vacancy rates in existing new and used apartments in the six county Detroit SMSA.

Table 4. Postal Vacancy Rates for Apartments in Detroit SMSA

Date	Vacancy Rate in Apartments %
Nov. 1973	4.5
Aug. 1974	6.0
Nov. 1975	5.4
Nov. 1977	2.6
Nov. 1978	2.7

Note: Because the Postal Vacancy Survey counts as vacant only units that are either new and have never been occupied or those that are used and were previously occupied, these percentages are less than the ones reported in the Annual Housing Survey, which appears to count as vacant a number of units that have not been occupied for a significant period of time.

These data show that the multi-family housing market has tightened up since 1973, a time when many more units of this type were being added to the market than are at present. According to Detroit's Annual Housing Survey an average of about 11,000 units of multi-family housing were added each year between 1970 and 1974. According to a recent issue of U.S. Housing Markets, this figure had declined to 5,700 by 1976, 4,800 for 1977, and 4,000 multi-family units for 1978. As a consequence, while 14.9 percent of units that were existing or under construction in November 1973 were not occupied, only 6.3 percent of these units were not occupied, due to the decline in new construction.

In the mid-1970s, the overbuilding of the previous years, coupled with the economic recession of 1974-75, had reduced occupancy rates significantly, particularly in areas of western Wayne County and Downriver (the industrial suburbs south of Detroit) where the many blue collar residents faced layoffs from the severe decline in the automobile market. But in 1978, the multi-family vacancy rate in Wayne County had declined to 3.1 percent, compared to 2.3 percent for the predominantly white collar Oakland County. Thus the entire housing market is very tight at this time.

It is not possible to describe the precise relation between submarket vacancy rates and number of conversions. The aggregate county data show, however, that while Oakland County has a low vacancy rate, Macomb County has a lower rate (1.7%) and yet Oakland County has far more conversions.

As discussed above, the present mortgage market appears to have a strong impact on the sales of condominium units and on the future rate of conversions. According to one market analyst, sales have slowed down a great deal in condominium units and most conversions will probably be affected since few, if any, of the converters obtain commitments from local lenders to lend money at prearranged rates. The conversions that will most likely continue are those in which the converter is willing to sell on a land contract basis, a method of finance that becomes fairly prevalent in the Detroit area when mortgage money gets tight. One converter said that he will market his conversions on the land contract basis but feels most of the other converters will not.

Finally, Detroit's economy faces a recession that will surely have more impact than in places where durable goods manufacturing is a less important part of the economy. According to the forecast issued by The University of Michigan's Research Seminar in Quantitative Economics in November 1979, the state unemployment rate is expected to be 10 percent, and a recovery will not occur until late 1980.

Given this prognosis for a fairly long and deep recession, the HUD EMAD Director in Detroit feels that the mortgage situation should loosen up somewhat, in terms of availability of mortgages or lower interest rates. Because the market for condominiums consists of those who are less disturbed by downturns in the economy, such a loosening of mortgage availability should help the sale of condominiums even when moderately priced single-family dwellings are not selling.

Government Regulations

Michigan is one of the states in which regulation of condominiums, both newly built and converted, has been preempted by the state. The only regulatory responsibilities that municipalities have, or have assumed, take place at the behest of state regulation of condominiums. The most recent legislation went into effect July, 1978 and establishes a two step process for the registration and approval of all condominiums. The first step involves receiving permission from the State's Department of Commerce to issue reservations for purchase of condominium units. This simply allows the converter to advertise the condominium. The condominium can be reserved by potential buyers by purchasing the reservation, which is nonbinding to both parties. The purpose of these regulations is to permit the condominium converter to test the market prior to taking further legal steps that are required to convert a building.

The second step in the regulatory process is the issuance of a Permit to Sell. At this stage, the converter must present a disclosure statement that includes bylaws, a budget, general plans for the condominium, and information regarding the financial ability to carry through with the plans being described. Most of the concern of the state office on condominiums focuses on the financial situation of the converter and the converter's ability to protect the consumer. The only tenant protection is a 120 day notice, or the remaining term of the lease, to vacate, whichever is longer. The only other potential source of protection is for the tenant buyer, or any other buyer, who purchases a reservation prior to the issuance of the Permit to Sell. From the date of this issuance and its provision to the potential buyer, the latter has ten days to decide whether to buy or to cancel the sale.

Local government comes into the process as a guarantor that the building to be converted does not have building code violations which existed at the time of construction. No engineering reports are required, and therefore no effort is made to assess the longevity of the various elements of the structure. While communities, such as Birmingham and Southfield, appear to comply with the state requirements without adding any of their own, there is at least one community, Sterling Heights, that may do more. According to one developer, the building department in this community wants conversions to meet current code requirements rather than those that existed at the time of construction. According to all experts, however, Sterling Heights is atypical. Nearly all of the suburbs view conversion as a positive activity that upgrades the housing stock, increases the number of homeowners, and increases the tax base of the community. The major quarrel the converters have with the State Department of Commerce is the time it takes to process applications.

As will be discussed in the next section, there has been some tenant reaction to the prospects of conversion, and this in turn, has created some concern in both the State Department of Commerce and the legislature. A task force on condominiums has been set up, involving both Commerce representatives and several state legislators, to come up with legislation to protect both the tenant and the buyer. Currently, a state representative has submitted a bill that would effectively create a three year moratorium on condominium conversion in the state and would grant permission only if 50 percent of the tenants agreed to purchase reservations.

It is not clear at this time what type of legislation will be proposed, but since most of the complaints have come from senior citizens, it seems likely that any legislation will focus on helping this group to either buy or relocate. Given the relatively small number of conversions that have taken place, the small impact they have had on the tax base, the lack of a sizable rental population, and the lack of a tenants movement, it is doubtful that there will be any drastic measures taken to curb conversions. A task force aide admits that owning a rental property is not very profitable, and hence there is not much interest in doing anything that will be perceived as damaging the interests of apartments owners or converters.

Effects on Households

The next section describes the reaction of certain tenants to condominium conversion. Other than these reactions, there is no available empirical evidence on the impact of conversions on tenants or how tenants differ from those who buy converted units. Most experts agreed that the proportion of tenant buyers varies from as low as none to about 30 percent. Converters attempt to sell 25 percent of the units to existing tenants, but do not always achieve this. According to one converter, the proportion of tenants who buy depends on their ability to afford the units. Another converter argued that the quality of the previous management has an impact on the proportion of tenants who buy; the smoother the relations between the previous owner and tenants, the more likely the latter will buy.

According to one suburban planner, the main impact on tenant households is that many of them have to move out of their community to find housing at a comparable price. These people are generally long-term residents, many of whom have lived in their apartments for years. They are often not able to remain in the particular suburb. In other suburbs, tenants also have difficulty finding comparable rentals in their neighborhoods. One developer claimed that rentals were still available in Southfield; but an informal telephone survey conducted by a state senator's district office indicated that a number of large rental buildings had no vacancies as well as six-month waiting lists.

Effects on Tenants

The State Department of Commerce, the state legislature, and the planning departments of several suburbs have received a number of calls from senior citizens in these communities who either live in buildings that are being converted or who have heard rumors concerning conversion. One worker in a state senator's office receives calls from senior citizens or people close to retirement who have sold their homes and moved into an apartment in their community. These people enjoy maintenance free living and are willing to pay substantial rents. However, they do not want to buy units and do not want to move. While some people say they cannot afford to buy, others say that they would prefer not to tie up their assets in housing. Also they greatly enjoy the locational advantages of their current residence. Many of the affected tenants are elderly and value being within walking distance of shopping and places of worship they favor.

It is not clear how much these people have actually looked for alternative housing, but one local official said she had called a number of apartment complexes in the areas suitable to the needs of these people and found that many of them had waiting lists of up to six months. While most of these callers are not from any buildings that actually converted, many are from the North Park high-rise that contains 731 of the 1,076 units planned for conversion in Southfield. Other than these calls from individuals, there have been no organized efforts to purchase buildings or to prevent further conversions.

Effects on Housing Market

The most immediate impact of conversion on the housing market appears to be the increased value of rental properties when converted to condominiums rather than held as rentals. According to one market observer, the price of a rental property when converted is about 1.5 to 2 times its value as a rental property and that a converter usually buys a project at the midpoint between a property's eventual value as a condominium and its value as a rental. For example, he cited one building worth $10 million as a rental, which sold for $22.5 million as a condominium. Another example, provided by Southfield city officials concerned a 20 unit building whose 1979 assessment (at 50 percent of market value) was $257,900 and whose 1980 post-conversion assessment was $584,000. Such a great increase in value means that the asking price of rentals has gone up, according to one observer, by at least 20 percent and in some cases as much as 60 percent.

Again, there is not enough evidence available to determine whether conversion has had a direct role in tightening the rental market. Thus far it seems unlikely there have been enough conversions to tighten either the metropolitan market or any of its geographic submarkets. This may change in the future, however. Southfield, where many of the conversions are expected to take place, may have more conversions than additions to the multi-family stock. In 1977 there were building permits for 1,545 multi-family units, while in 1978 there were only 866 such units projected to be built. If, as is entirely possible, more than 1,000 conversions take place there in the next year, then conversions would decrease the vacancy rate.

Effects on Neighborhoods

There is virtually no private revitalization in Detroit, except the Ford-financed Renaissance Center. While this project has had at least an impact on the location of downtown employment, it is questionable whether it has increased the number of jobs in the downtown area. Many of the firms that moved into Renaissance Center came from other downtown office buildings. While the prime, existing buildings have filled up, primarily through expansion of remaining firms and the lowering of rents, there appears to be no impact on other commercial structures. According to a report prepared by Detroit's EMAD office, approximately 2,700 to 3,100 office jobs have been added directly or indirectly to the central business district. However, the report projects a rather small demand for additional rental units in the CBD -- about 450-550 units per year. While this figure does not directly measure the demand for condominium units, it does suggest that downtown revitalization has not yet greatly increased the attractiveness of downtown living to such an extent that there will be an increased demand for converted condominiums in the downtown area.

Since no previous deterioration has occurred in the suburbs, conversion is not having an impact on revitalization. In terms of racial, income, and age mix, conversion may have an impact on the age distribution, because many of the tenants are elderly. However, there is no evidence for this proposition.

Relationship to HUD and Policy Alternatives

One building (1300 Lafayette), whose disposition is controlled by HUD is planned for conversion. However, because of the apparently limited market for downtown condominiums, particularly for ones with one bedroom units such as this one, coupled with the great increase in costs that tenants would face if they were to buy, HUD's EMAD director in Detroit is recommending against conversion.

The Conversion Process

Only two developers discussed their financing of specific projects. In one case, the building was purchased on a land contract. The converter had a working commitment for end loan financing, but no guaranteed commitment. According to this converter, the secondary mortgage market has little impact on conversions because all lenders, except Detroit Federal, prefer to keep their mortgages. The other converter said he obtained a mortgage from a lender to pay off the underlying mortgage on the existing building.

Field Report

Conversion Activity in the Hartford, Connecticut SMSA

Background

Conversion activity in the Hartford area has been relatively limited. Substantially more conversions have occurred in the suburbs than in the central city. In the city of Hartford 80 units have been converted to date and in the suburbs 1,293 units have been converted. It is widely anticipated that conversion activity will increase significantly in Hartford in the next few years, but that demand for conversions will continue to remain higher in the suburbs than in the city. Hartford tenant and minority group organizations have been very vocal and well organized in their opposition to conversions. Opposition centers primarily around concern about the potential displacement of low income families that might result from future conversions. The Hartford housing market is characterized by a deteriorating, aging stock with an extremely low vacancy rate, low levels of new construction, and relatively high levels of abandonment.

Demand

Representatives from both the public and private sectors were nearly unanimous in their view that the "demand pool" for conversions has only been slightly penetrated in Hartford. Since only 80 units have actually been converted and offered for sale in Hartford, the prevailing view is that the demand will be sufficient to absorb the units that are in the process of being converted and that if additional rental units are converted in the near future, there will also be strong demand for those as well.

A study prepared in August, 1979, by the Hartford Office of the Assistant City Manager for Policy and Intergovernmental Relations entitled "Condominium Conversion Potential" cited "the increasing housing demand created by new household formation" as one of two major forces (in conjunction with the inability of poor households to pay increased rents) fueling condominium conversion activity in Hartford. To illustrate, the U.S. Census Bureau reported that in 1970 the 15-24 year old age group represented 16 percent of the Hartford SMSA population and totalled 105,418 persons. It was frequently mentioned that this age group today is a substantial proportion of the housing market, is engaged in household formation requiring the provision of housing, and is likely to provide much of the demand for converted units.

The following quotes illustrate the range of views that existed regarding the demand for converted units among experts in Hartford:

1. Developer: "Demand for conversions in Hartford has been overstated by some people, but it can be expected to absorb at least 1,000 units and demand will remain even higher in the suburbs."

2. Real Estate Attorney: "There is strong demand for conversion in the middle income bracket--the $25,000 to $35,000 households. Demand is strong for inner city rehabilitation, but there aren't that many prime convertible buildings and locations available for conversion."

3. Developer: "Demand is very high for two-bedroom conversions, but not as great for one-bedrooms."

4. Financial Institution Representative: "Demand will remain high for moderately priced units. Where else can you get a $30,000 to $50,000 home?"

5. Market Expert: "Demand is pent-up in Hartford. Every conversion here was pre-sold."

6. Government Representative: "Demand has been and will remain strong in the future."

7. Real Estate Expert: "There is and will be a demand for converted units in Hartford, but demand for inner city property is not as great here as in other large cities."

Although no hard data exist on the limited number of converted condominium buyers in the Hartford area, a number of market, developer and community representatives familiar with specific conversions used similar characterizations to describe typical buyers. For example, almost all of the Hartford experts' descriptions agree with this profile sketched by a prominent developer concerning the 40 households who purchased units in his Hartford conversion project:

1. 80 percent were from within the city of Hartford
2. 20 percent were from close-in suburbs
3. most had jobs in Hartford
4. a vast majority were renters making first home purchase
5. 80 percent were white
6. incomes ranged from $14,000 to $25,000
7. a majority were one- and two-person households who did not have children
8. only one of the previous tenants bought their unit--the others did not have the income to afford to buy

The motivation of Hartford area buyers of converted condominiums appears to revolve primarily around financial and life style considerations. Condominiums apparently were seen as a very effective way of securing financial security through home ownership. Most of the experts stated that many buyers wanted to combat inflation by getting into the real estate market and take advantage of the tax savings, but could not afford a single family home. The lower price of the converted condominiums compared to single-family homes in Hartford was seen as a major attraction.

In addition to these financial considerations, it was also believed by most experts that many persons have been attracted to converted condominiums in Hartford because of their close-in location and because of the perceived lack of maintenance and upkeep problems associated with them. It was often argued that for most condominiums buyers, housing was not a central focus of their lives and they did not want to devote the time needed to maintain a single-family house. For that reason, it was frequently mentioned by Hartford experts that converted condominiums are perceived to provide the financial benefits of homeownership without the time and lifestyle limitations imposed by detached single-family homeownership.

Supply

Substantially more conversions have occurred in the suburbs around Hartford than in the central city. The five buildings that have actually been converted to date within Hartford all were converted since 1978. These buildings total 80 housing units. In the suburbs around Hartford 1,293 units have been converted.

The amount of rehabilitation and displacement associated with Hartford conversions differs significantly from the rehabilitation and displacement associated with suburban conversions. The buildings that have been converted in Hartford are more likely to have undergone substantial rehabilitation. They were primarily small, very old, fundamentally sound buildings in desirable locations, but in need of significant rehabilitation to be brought up to housing code requirements. Their resale value as rental buildings was very limited. Many developers argued that they would have eventually been abandoned if they had not been converted to condominiums. Tenant representatives argued that these buildings provided needed low cost rental housing in a city with an extremely limited amount of such housing. The rental tenants in these converted buildings prior to conversion were low-income, could not afford to purchase the converted units, and were displaced as a result of the conversion.

Most of the converted buildings in the Hartford suburbs did not undergo substantial rehabilitation, but were offered for sale in an "as is" condition. Only cosmetic improvements were made in these 1,293 units. The typical suburban conversion was described as a garden type complex, relatively large (i.e. over 50 units), less than 15 years old, in good physical condition, and occupied by middle-income households. A much larger percentage of existing tenants were likely to purchase units in suburban conversions compared to Hartford conversions. For example, most developers and market experts stated that usually 30 to 50 percent of existing tenants purchased their units in suburban conversions and in some buildings the figure was as high as 70 percent. It was frequently mentioned, however, that a significant number of elderly persons were being displaced by suburban conversions and this issue was becoming controversial and highly publicized in many suburban communities.

There were strong indications, however, that there will be significantly more and different types of conversions occurring in the City of Hartford in the next few years than have occurred in the past. First, there is a great deal of owner and developer interest in pursuing the possibility of converting units in Hartford. Second, since the City of Hartford began considering implementing a conversion control ordinance which would make it more difficult, time-consuming, and costly to convert buildings, a number of owners have submitted notices to convert. It was commonly believed by local experts that these owners had been considering conversion, but decided to convert immediately in anticipation of the city government making it more difficult, if not impossible, to convert buildings in the future. To illustrate, in October and November, while the proposed ordinance was being debated, it was announced that six buildings, totaling 858 units, would be converted.

Developers and market experts familiar with the buildings which are likely to convert in the future, project that at least 1,000 units are likely to be converted in Hartford in the next few years. This projection is similiar to one made by Hartford's city government. For example, the Office of the Assistant Manager for Hartford published a report on condominium conversions in August 1979, and reported that the "twin forces of increased demand created by new household formation and the inability of poor households to pay increased rents can result in a conservative estimate of 1,105 condominium conversions in Hartford's immediate future."

A larger number of conversions is not expected in Hartford in the future because of the belief that only units in a limited number of desirable, "chic" neighborhoods will be prime targets for conversion and the belief that most of the owners considering converting units have already declared their intent to convert. It was also commonly stated by local experts that in the suburbs around Hartford, many more units would be converted than in the center city because of the high demand and the availability of a large number of rental buildings occupied by middle- to upper-income residents in those suburbs.

Unlike previous conversions in Hartford, a substantial number of the conversions that are in process or are likely to be converted in the near future will not involve substantial rehabilitation nor will they be limited to low rent buildings. Instead, it was estimated by both city officials and market experts that approximately one-half of the future conversions in Hartford will involve some type of substantial rehabilitation and one-half will be "as is" conversions. Luxury type units for the first time are being converted in Hartford. For example, it was announced in November that Bushnell Towers, a 176-unit luxury building located across from City Hall in downtown Hartford would be converted to condominiums.

The characteristics of Hartford's population and housing stock, the perceived lack of profitability in operating rental properties, and the potential for very large profits through conversion are cited by local experts as the major factors influencing conversion activity in Hartford. In Hartford, 85 percent of the housing stock is rental and much of that stock is old and somewhat obsolete. Real estate taxes in Hartford are high -- approximately 2.5 times as high as surrounding suburban communities. In addition, a very large and disproportionate share of the SMSA's low income population resides in rental units located in Hartford. For example, it was estimated by city officials that 60 percent of the city's population lives on fixed incomes. The relatively low welfare payments available to many of these families are not sufficient to allow them to pay high rents. To illustrate, in Connecticut a family of four only receives a total welfare grant of $260 per month plus $12 for fuel assistance.

An examination of the characteristics of the Hispanic population also demonstrates the inability of a large proportion of Hartford's minority population to pay substantially higher rents. There are about 7,000 Hispanic households in Hartford; 16 percent of these households live in units managed by the housing agency and 80 percent rent in privately owned housing units. Of the Hispanic households in Hartford who are renters, only 8 percent have an income of $12,000 or more per year, only 28 percent are employed full time and 37 percent have five or more members. It was frequently stated by many of the Hartford experts that all of the above listed factors make it exceedingly difficult for owners to raise their rents to a level needed by them to operate their properties efficiently and receive a fair return on their investments.

It was often stated by members of the private and public sectors that the deteriorating condition of the rental stock and escalating operating costs have made many rental properties in Hartford economically unviable. Sharply rising energy costs and taxes were specifically mentioned as the major economic factors which were crippling the profitable operation of rental properties. It was argued by local experts that most of the buildings converted in Hartford had reached their depreciation curve and cash outflow had become greater than tax savings. Hence, these buildings were no longer perceived to be economically viable as rental units. Owners were often unwilling to invest the financial resources needed to upgrade and rehabilitate these buildings since they believed that most, if not all, of the existing low income tenants would not be able to pay the substantially higher rents that would be needed to pay for such expensive renovations.

Faced with a tenant population unable to pay higher rents, deteriorating rental property, escalating operating costs, and reduced tax benefits, it was frequently maintained by owners and developers that the eventual choice that many owners faced was to abandon the property or sell it to a developer who would convert it to a condominium. Since many rental properties in close-in, convenient, and desirable neighborhoods have dramatically higher market values as conversions than as rentals, it was frequently argued by local experts that many owners made a simple economic decision to sell their deteriorating properties to the highest bidder. Conversions in Hartford apparently not only bailed out a number of owners holding economically questionable properties, but also provided them a quick, substantial profit when they did sell their properties.

Tenant representatives focused on the profits associated with conversions as the single most important factor causing conversions. From their perspective, however, they did not believe that the buildings which had been converted and are presently being converted in Hartford were not economically viable as rentals. They contended instead that these units had been and could have continued to operate profitably as rentals. It was their position that since owners and converters knew they could make "windfall profits" by displacing the existing tenants and converting the units to middle-income condominiums, the decision was made "to take the profits and run".

Market Conditions

By all available evidence, including interview data and published studies, the housing market in Hartford is somewhat stagnant. A recent report published by the Hartford Office of Community Development and Planning, "Condominium Conversion: An Interim Response", concluded that the "housing problem has escalated to crisis levels as a result of many complex and interrelated factors. The doubling of energy costs over 1978 levels is the single most important factor in raising it from a serious problem to a crisis." This report also cited the following factors which characterize the housing market in Hartford:

1. No new public housing has been built in the city since 1973;

2. The 1970 U.S. Census indicated that 67 percent of the entire housing stock was built prior to 1940. By 1978 there were 51,622 units in the city and 75 percent of these units were renter occupied;

3. Since 1970, 4,814 dwelling units were added to the housing stock as a result of new construction and conversions from non-residential to residential use. In that same time period, 3,334 units were demolished, resulting in a net increase of 1,480 housing units. Furthermore, in 1976, 1977, and 1978, the number of units removed from the housing stock through demolitions exceeded the number added by 259, 406, and 296 units respectively;

4. The Annual Housing Survey reported that 61 percent of the 35,400 renter occupied households with less than $15,000 income paid in excess of 25 percent of their incomes for rent;

5. The Hartford Housing Authority reported in 1979 a certified eligible public housing waiting list of 2,525 households. The waiting list for the Section 8 Existing program was 6,349 eligible households;

6. New construction has been declining recently. In 1976 the Department of Licenses and Inspections reported that 247 building permits for new units were issued, 65 were issued in 1977, and only 23 were issued in 1978;

7. The costs of single-family homes have increased dramatically in recent years. In 1978, the median purchase price of a home in the Hartford region exceeded $50,000 and only 12 percent of the homes for sale were available for less than $40,000;

8. Rising costs for fuel, housing operating costs (taxes utilities, maintenances), and debt service are causing landlords to raise rent levels in order to maintain "break-even" status, let alone operate profitably, in their housing. Data Resources, Inc. projects that the costs of operating a rental unit will increase by 12.7 percent in 1979 over 1978 given an 8.9 percent annual inflation rate. By 1981, Data Resources, Inc. estimates it will cost almost 2-1/2 times what it did in 1972 to operate a rental unit; and

9. The results of the displacement forces present in Hartford are juxtaposed against a housing vacancy rate which is negligible and which makes finding units for low income elderly, handicapped, and small families difficult and virtually impossible for large families with children.

In general, the vast majority of market experts, developers, city officials, and tenant representatives agreed that the Hartford housing market was characterized by a deteriorating, aging stock with an extremely low vacancy rate, high levels of abandonment, and almost no new construction activity. There was also consensus that the very large number of low-income households residing in the center city are unable to pay high rents or purchase units which have been converted. In regard to the market, the only major areas of disagreement related to the profitability of operating rental properties. Tenant and consumer representatives simply do not believe that owners of rental building were not still making a profit from their buildings. They often cited the frequent rent increases and low levels of service associated with many Hartford low-income rental buildings and the fact that the mortgage payments many owners were making were often based on low interest rates and were fixed costs not subject to inflation.

After reviewing and describing the City's housing stock, low-income population, high level of displacement, "negligible" rental vacancy rate, and the factors influencing the tightening of the housing market for low-income households, the Office of Community Development and Planning's study cited above concluded that:

1. "The housing stock available for low-moderate-income households is rapidly becoming depleted as a result of deterioration, conversion to non-residential uses, and conversion to higher-income units (gentrification). The increasing costs of energy this winter and tenant's inability to pay will have the impact of either increasing the rate of housing abandonment or increasing the rate of conversion of low-income units to upper-income units or both; and

2. "The fact that the household income of lower-income families and individuals is insufficient to meet escalating housing costs in the private market has been documented in this report. This leaves a landlord with two choices, abandonment or conversion to upper-income housing."

These conclusions were echoed by developers and market experts. From their perspective, the inability of the market and the government to provide adequate financial incentives for rental owners to maintain their properties was the major cause of conversions. This argument was often used to explain why the city's low rent rental properties which were deteriorating and required extensive rehabilitation were prime targets for conversion. This argument was seldom used as regarding "as is" conversions. Since most "as is" conversions were charging relatively high rents, were in good physical condition, and had very low vacany rates, owners of these projects had a wider range of options than simple abandonment or conversion. However, even for these types of projects, it was usually contended by local experts that owners were faced with ever-rising operating costs and potentially declining future profits. Hence, it was often argued that "as is" conversions were seen by those owners who were already considering getting out of the rental housing business as a very quick and profitable way to liquidate their investments.

Unquestionably, tight lending money policies and high interest rates were seen by most local experts as having some dampening effect on both the condominium and single-family markets in the Hartford area. These factors were seen as temporarily discouraging some potential home buyers and making it more difficult for other buyers to qualify for more expensive types of mortgages. On the other hand, some developers believed that high interest rates were actually increasing the demand for converted units since these units were more affordable than single-family homes. For example, it was frequently stated that because of the high interest rates, many buyers could qualify to purchase lower cost converted units, but not the higher cost, single-family homes.

In general, most developers and lending institution representatives were optimistic that interest rates would be dropping in the upcoming year. It was anticipated that this drop in interest rates would spur even greater demand for converted units. Most of the public and private sector experts would probably have agreed with the assessment of one market expert who concluded that "if interest rates come down and if the city doesn't stop the conversion process, many more converted units will be made available in the coming year and there definitely will be buyers for them."

Government Regulations

At the present time neither the State of Connecticut nor the City of Hartford has enacted any major regulations regarding the conversion process. As a result of the publicity and controversy surrounding conversions in Connecticut and in the Hartford area, however, both the State Housing Office and the Hartford City Council were actively examining the conversion "problem" in November. Within the last six months, the State Housing Office conducted public hearings around the state dealing with conversions. These hearings attracted a great deal of media attention. In addition, the office was conducting a short-term study on the extent and impact of conversions throughout the state. It was anticipated by State Housing officials that legislation will be introduced in 1980 in the State Legislature to regulate the conversion process. In late 1979, however, it was not clear what type of state regulation would be introduced nor was it clear what type of action, if any, the State Legislature would take.

The City of Hartford, on the other hand, has been even more actively involved than the state relative to conversions. In 1974, the city instituted a tax deferral/abatement program which, in effect, promoted some conversion activity. The intent of the program was to "foster rehabilitation and, at the same time, encourage existing residents to remain in the city as well as encourage the return of the middle class to the city." The program has assisted conversions because the city foregoes the added value of rehabilitation to rehabilitated properties over an 11-year sliding scale deferral period. The effect of this program has been to reduce significantly the buyer's real estate taxes for converted units which have been rehabilitated. For example, as a result of this program, a purchaser of a $40,000 rehabilitated unit would pay substantially less property tax for the first 11 years compared to a purchaser of a $40,000 new or non-rehabilitated housing unit. Many of the experts interviewed in Hartford contended that without the tax deferral program the demand for rehabilitated, converted units in Hartford would have been significantly reduced. In addition, tenant representatives maintained that because of this program, the tax benefits to the city as a result of rehabilitated conversions were minimal.

In October, proposed ordinances to control the conversion of apartments into condomniums were introduced in the Hartford City Council. Representatives of the Hispanic community, in particular, have been extremely effective in organizing and demonstrating in favor of strong conversion controls. The proposed ordinances would require city permits to convert, set tenant relocation procedures, and establish strict parking requirements before apartments could be converted. Over 200 persons attended a November 13, 1979 public hearing on these proposed ordinances. At that hearing, tenant and Hispanic representatives strongly supported the proposed ordinances, the Greater Hartford Chamber of Commerce opposed their passage, and the Capital Regional Council of Governments raised numerous objections to the ordinances. The representative of the Chamber of Commerce argued that the problem would be better handled by state legislation that would apply to all towns and that the ordinances were "counterproductive to developing an adequate supply of housing for all Hartford citizens." The Council of Governments' position was that the ordinances were "overkill" and would lessen the opportunity for homeownership in Hartford.

One unintended consequence of the proposed ordinances is that the owners of approximately 600 rental units announced intentions to convert since the ordinances were introduced. This is in contrast to the 80 units which were actually converted prior to that time. It was widely believed by local experts that many of these owners decided to convert at that time in anticipation of the city government enacting some type of conversion control measure within the next year. It could not be determined, however, when and if these units would have been converted in the absence of the proposed ordinances.

Effects on Households

As was previously discussed, since the types of conversions in Hartford and the surrounding suburbs differ, the impacts on households also differ. Conversions in Hartford have been limited in number and they have undergone substantial rehabilitation. Suburban conversions, on the other hand, have been more extensive and they are more likely to have been marketed in an "as is" condition. Hence, the percentage of persons displaced in Hartford has been greater than in the suburbs, but the absolute number of displaced persons has probably been greater in the suburbs. Moreover, persons with very low incomes have been displaced as a result of Hartford conversions while elderly persons are the most visible displacees as a result of suburban conversions. In Hartford, almost none of the prior residents of converted units were able to purchase their units. In the suburbs, it was estimated by local experts that 30 to 50 percent of prior tenants purchased their units in a typical suburban "as is" conversion.

Since the vacancy and turnover rates in Hartford are very low, there was near consensus among local experts that displaced households had an extremely difficult time finding comparable housing units, especially within the same neighborhood from which they were displaced.

Extensive relocation programs were developed for the three conversions within Hartford that were developed by two nationally known, locally based insurance companies. Influenced by their sensitivity to potential negative publicity and concerned about their social responsibility, these two companies contracted with a private firm to establish and implement a relocation program for displaced households. The program had the following components:

1. Assistance was provided in finding new units, but no deadline to vacate was given. The developer could pre-sell units, but no occupancy date could be set until the departing household found a comparable and acceptable unit;

2. All moving expenses were paid. A licensed minority moving company was under contract to move household belongings;

3. Security deposits in the new apartment were paid and the total amount of the old security deposit was returned to the household;

4. Departing households had to find a "comparable" unit. Households were not permitted to move into overcrowded or substandard units;

5. No harassment of tenants was allowed and no work could be done in the units while the tenants were still living in them;

6. A security guard was provided in the building to be converted at the time the conversion announcement was made; and

7. No Section 8 funds were used to relocate households.

It was estimated by local experts familiar with this relocation program that it cost about $700 per family plus $300 for the new security deposits. This type of relocation program, however, was not used in suburban conversions. It appeared that the type of relocation assistance offered in suburban communities varied, but as a rule only a minimal type of assistance was given to families displaced by suburban conversion.

Effects on Tenants

Groups representing Hartford tenants and tenant interests have been very vocal in their opposition to conversions. Within Hartford, opposition has centered not so much on what has happened in the past, but on what is expected to happen in the future. Representatives of Hispanic interests have been the principal leaders of the public opposition to conversions. They have attempted to get the city to actively regulate and to stop the conversion process until more low-income housing is built. From their perspective, conversions are seen as a direct threat to Hispanic and other low-income neighborhoods.

As a result of organized tenant group demonstrations and subsequent media coverage, condominium conversion has become a very emotional and strongly debated topic of political concern. The City Council has debated and held public hearings on the subject of conversion control, but it is not certain what action they will take.

One tenant group was able to mobililize and thwart a developer's plan to convert a Hartford rental property. Local experts familiar with this incident reported that the developer was from Boston, did not understand local procedures, was insensitive to the tenants, and completely mishandled the conversion attempt. Faced with considerable tenant opposition, the developer decided not to convert the project.

As debate over the proposed Hartford ordinance increased, organized opposition to conversions also increased. For example, a Hartford newspaper reported on November 14, 1979 that tenants residing in four buildings scheduled for conversion "vowed to fight the proposed conversions-even if it means refusing to move to prevent the (rehabilitation) work."

No tenant groups within the Hartford area have seriously attempted to purchase any buildings for the purpose of converting them to condominiums or cooperatives.

Effects on Housing Market

As previously discussed above in the Supply section of this report, the rental market in Hartford is characterized by an extremely low vacancy and new construction rate. The limited number of conversions in the city has removed some units from the rental supply, but because less than 100 units have actually been converted and sold to date, the impact of these conversions on the total market has been minimal. In 1978, 38,644 rental units existed in Hartford. Hence, only 0.2 percent of the rental inventory has been converted. If the additional 600 units which are reportedly in the process of being converted are actually converted, that would represent a total loss of 1.6 percen Hartford's rental stock.

The 75 to 25 percent rental to owner-occupied ratio that currently exists in Hartford has not been substantially altered as a result of conversions. Significantly more units than any local expert expects to be converted in the near future would have to be converted for this ratio to change dramatically in Hartford. Although conversions have become a very emotional and political issue in Hartford because of the displacement potential and the often cited "housing crisis" in Hartford, it is likely that only a limited number (i.e. 1,000 to 2,000 units) of conversions will occur in the near future. It is considered more likely by local experts that the recent trend of abandonments outnumbering conversions will continue for at least the next few years.

Although extensive data could not be collected on all the housing markets in the surrounding suburban communities, local experts concluded that a greater proportion of the rental stock in some suburban communities has been converted than in Hartford. For example, 328 units in Newington, 288 units in West Hartford, 186 units in Avon, 137 units in Simsbury, 129 units in Bloomfield, 80 units in East Granby, 60 units Rocky Hill, 53 units in Enfield, 90 units in Farmington, and 32 units in Manchester have been converted. It was also expected by most of the local experts that conversions in the suburbs in the near future will continue to outnumber conversions in Hartford.

Effects on Neighborhoods

The conversions that have occurred in the City of Hartford have taken place in neighborhoods which are currently undergoing revitalization. There was some disagreement, however, among local experts about the exact relationship between conversions and revitalization. Some experts believed that conversions are only taking place in areas where revitalization was already underway or has already been completed. One city official, for example, contended that "conversions have lagged behind in areas where significant public investments have already taken place. This position was supported by a leading developer who stated that "conversions have definitely lagged behind other types of renewal."

Other experts believed that conversions were taking place in some areas prior to revitalization. To illustrate, a representative of a financial institution stated that "conversions are a catalyst for widespread revitalization. Even a few conversions can promote other types of revitalization in a neighborhood."

A third group of local experts believed that the relationship between conversions and revitalization is unclear and it often can be both a leading and lagging factor regarding revitalization. For example, one city official reported that conversions are "both a guiding and lagging force in the revitalization process." This view was echoed by a developer who stated that "conversions and revitalization go together--it is not an either or situation." "Finally, one leading developer believed that "conversions are taking place in areas such as Assylum Hill, Main Street, and South Green where revitalization is also taking place, but the relationship is not clear."

The racial and economic impacts of conversions in Hartford have not been substantial because of the limited number of conversions that have actually taken place. There was general consensus among experts, nevertheless, that buyers of converted units in Hartford were more likely to have been white, employed, and higher income than the tenants they displaced who were more likely to have been Black or Hispanic, on welfare or fixed income, and low income. Concern about future negative racial and economic impacts was one of the major stated fears of tenant representatives.

In regard to suburban conversions, there does not seem to be much of a relationship between conversions and revitalization. It was reported by most local experts that the vast majority of suburban conversions were sold "as is" and were in stable areas not in need of revitalization. In addition, it was also reported that the racial and income mix of suburban communities were not substantially altered as a result of conversion. Many local experts, however, stated that the age mix of converted suburban buildings has been changed. The displacement of elderly is supposedly a highly visible and controversial issue in many of the suburban communities in which conversions have occurred.

No hard data have been collected in the Hartford area to determine the local tax effects of conversion. Nevertheless, it was frequently mentioned by numerous local experts that one of the major benefits of conversions was increased local tax revenues. No one could document the extent of this increase. The Hartford tax deferral program, discussed earlier, has obviously reduced the tax benefits that the city receives from conversions which underwent substantial rehabilitation. As a result, the increased tax revenues generated by conversions in Hartford are probably only minimal.

Relationship to HUD and Policy Alternatives

None of the experts in the Hartford area was aware of any direct relationship between HUD programs and the conversion of rental units. No local expert was familiar with any HUD-insured or subsidized building which has been converted.

A wide variety of policy preferences were suggested by the local experts in Hartford. As a group, developers, market experts, and lending institution representatives were opposed to any Federal ban or moratorium on conversions. Such action was seen as an unwise and "unwarranted intrusion into the real estate marke twhich would not result in an increase in the rental stock." On the other hand, tenant and minority group representatives expressed a strong preference for the Federal government stopping or at least slowing down the conversion phenomenon.

Facilitating the new construction and rehabilitation of low-income housing units was seen by both public and private sector spokesmen as one of the most important and crucial roles that the Federal government could and should play in order to stabalize and preserve the nation's rental stock. It was a commonly expressed view that conversions were only a symptom of a much larger market problem, and that the production of new low-and middle income housing and the rejuvenation of the rental market should be given the highest priority by local, state, and Federal governments.

Local experts in Hartford expressed numerous and conflicting public policy recommendations regarding conversions. The most frequently mentioned policy preferences were:

1. Revise the depreciation and tax shelter laws relating to rental projects to provide additional economic incentives for developers to build new rental units and for owners to retain existing units (developer, building owner, attorney, market expert);

2. Encourage PHAs to buy a percentage of converted condominium units and rent these units to low income households with a Section 8 subsidy. It was argued that this would be less expensive than Section 8 new construction and could also be used to reduce displacement caused by conversions (market expert, developer);

3. Local and state governments should regulate (but not eliminate) conversions because they are in better position to respond to local conditions and needs (market expert and developer);

4. Allow renters to deduct a portion of the rental projects' taxes and interest payments on their individual income tax returns. It was argued that this would stabilize the rental market by reducing an important economic incentive influencing many people's decisions to purchase converted units (lending institution representative);

5. Federal government should establish and implement minimum relocation, eviction, and disclosure policies relating to conversions (tenant representatives and developer);

6. Federal government should establish a demonstration program which would test effective new, innovative ways to build and operate low cost housing. It was a frequently expressed that the costs of Section 8 are simply "ridiculous" (market expert and developer);

7. Use Federal funds, possibly the Section 8 program, to allow low income households to participate in the condominium market. Such a program might also include the provision of downpayments which would be repaid when, and if, equity existed following the subsequent sale of units (tenant representatives and developers);

8. Provide incentives to developers to convert abandoned HUD projects into condominiums for low and moderate income households (city government spokesman and developer);

9. Federal or local government should require that 51 percent of tenants must approve the conversion before any building can be converted (tenant representative and city government spokesman); and

10. It is up to the Federal government to ensure that the protection of existing tenants be given the highest priority in the conversion process (tenant representatives).

Field Report

Conversion Activity in the Houston, Texas SMSA

Background

The Houston SMSA has emerged as one of the largest and fastest growing areas of the country. In the 1970-1977 period, the region gained 513,000 in population, a 26 percent increase, for a total population of 2,512,000 persons. The bulk of the increase came from a 322,000 person net in-migration in the period. Harris County, which includes Houston, experienced the bulk of the growth and most of the in-migration. However, the non-Harris County part of the SMSA grew by 45 percent, 37 percent of the total growth was due to net in-migration.

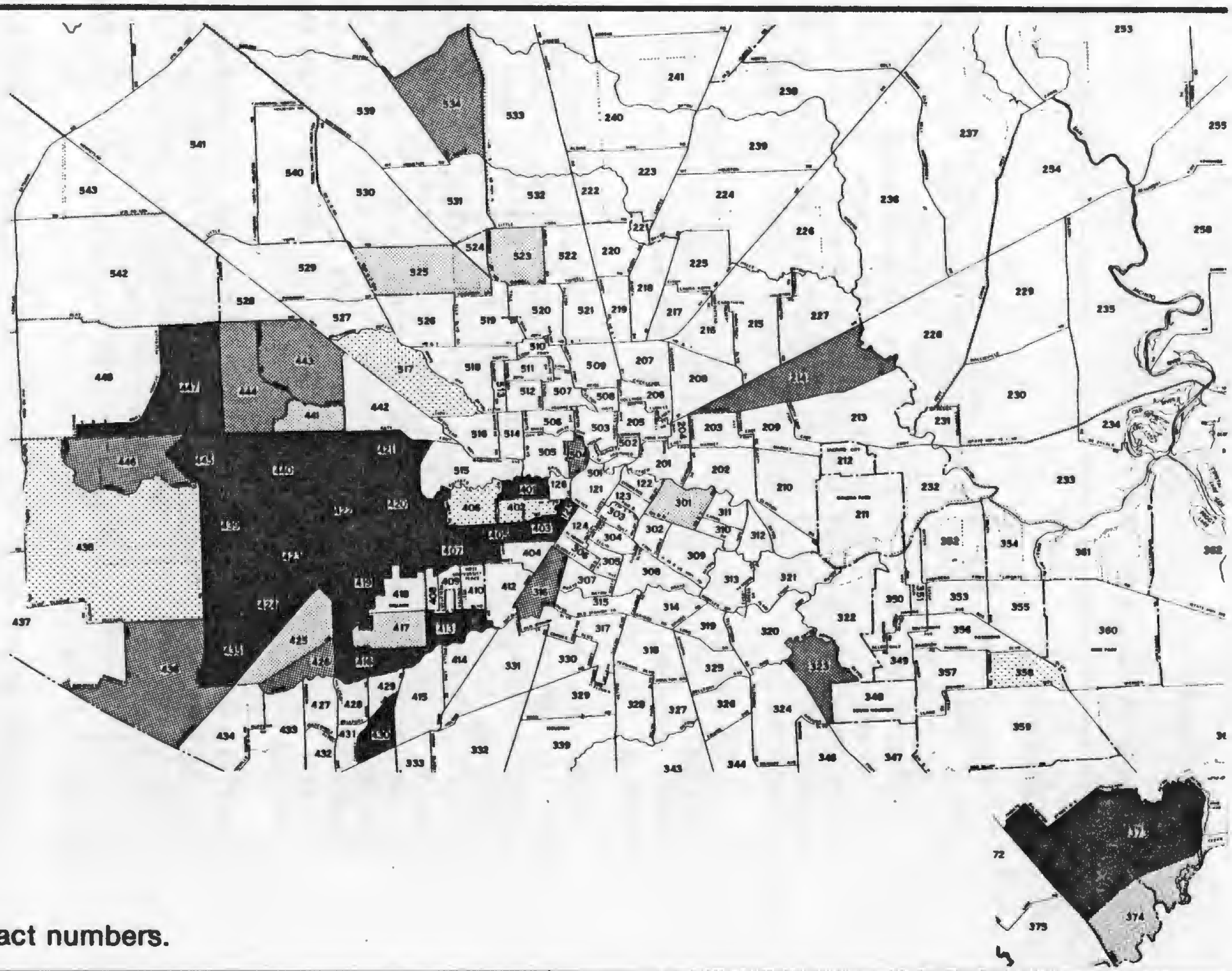
The 1976 Annual Housing Survey for the Houston SMSA showed that 56 percent of all households owned their homes. About 8 percent of all owner households and 13 percent of all renter households were female-headed.

The Houston SMSA has experienced one of the highest levels of construction activity in the country in the past few years. In 1977, the region had 34,000 housing starts of which 10,000 were single-family units and 24,000 multi-family units. In 1978, there were 61,000 housing starts (31,000 single-family and 30,000 multi-family). During the first eight months of 1979, there were 30,000 housing starts. The City of Houston accounted for 68 percent of all housing starts in the SMSA. These figures, however, can be deceiving because Houston readily annexes newly built developments adjacent to its boundaries. Housing outside Houston when it is built, may be inside Houston the next year as a result of annexation.

In 1977, 63 percent of all single-family new construction in the SMSA was built outside of Houston, while in 1978 and 1979, the average was 85 percent. The bulk of the multi-family new construction has also been in Houston. In 1977, 81 percent of new multi-family units were built in Houston, in 1978 the figure fell to 47 percent, and in 1979 it increased again to 70 percent.

The unemployment rate for the Houston SMSA for 1977 and 1978 ranged between 3 to 5 percent. Because of economic conditions, migration in Houston may subside in the next year, resulting in a slight decrease in the level of housing starts, according to local housing market analysts.

Condominium Conversions in Houston, Texas
January 1977 to September 1979



Range of Converted Units Per Census Tract

- 1-50
- 51-100
- 101-200
- 201-500
- 501-800
- 801-4000

Numbers are census tract numbers.

Demand

The potential demand for condominium units in Houston seems to be growing and stable. Although conversions have a competitive price edge on newer condominiums and single-family units, if older properties are converted with substantial repairs, the cost obviously rises. There are three forces driving demand for condominium housing in Houston: (1) the high cost of newer homes; (2) the desire to keep up with inflation through homeownership; and (3) the large amount of in-migration from areas where condominiums are popular. There is a stronger net demand for high-rise condominiums at present than low-rise units, but this could be because the supply of high-rise is fairly low. Condominiums have the lowest priority for mortgage funding in many local financial institutions, but demand is seen as stable or growing.

Supply

The type of rental stock most likely to be converted has been garden style, townhouse style, and high-rise buildings. The townhouse and garden style units are chosen because they are similar in size and layout to single-family homes and are somewhat less costly. The high-rise units tend to be chosen for the traditional condominium style of life found elsewhere in the U.S. and are higher priced than single-family homes in the close-in areas of Houston. The supply of desirable apartment units in the more attractive areas of town is limited; some market experts claim that most of the convertible properties have already been converted. Some market experts have estimated that up to 20 percent of the multi-family stock has been converted, but other estimates are much lower.

The remaining stock available for conversion is being sharply bid up in price, resulting in a lower profit margin for these units once conversion occurs. The depreciation schedule of a project seems to have no relationship to its suitability for conversion. Because of the relatively low density and high rate of growth in the last 10 to 15 years, there are many low-rise, garden style apartments and townhouses. Virtually all the apartments being built may be considered for conversion in several years, although these units tend to be a bit smaller than units now being converted.

Market Conditions

It appears the conversion of apartments into condominium units in Houston tends to follow the building cycle in apartments. In the early to mid 1970s, apartments were overbuilt, resulting in relatively high vacancies and low rents. Currently, rental vacancies are running 6 percent or less, with more vacancies in the older units, while condominium projects average 7 to 10 percent unsold units. As mortgage money became available in the mid-1970s and as more people continued migrating to Houston, conversions took up some of the slack in the rental apartment market. However, new apartment units have continued to be built for both in-migrants and persons displaced by conversions. The rents for the newer apartments are higher, while the units tend to be smaller than the older units. The presence of conversions has encouraged slightly higher rents and shorter term leases in some newer units.

The single-family home market is quite strong, but shows signs of strain because of the long commuting time (one hour or more) required to get downtown from the new developments. Between six to eight months inventory of units (10 to 11,000 units) were on the market in the fall of 1979, but lack of financing slowed housing starts by winter. The State of Texas had a usury ceiling of 12 percent (fall 1979), but mortgage money was available to a few builders if they entered joint ventures with a savings and loan or bank and if they were previous partners in housing projects. Some companies are reputedly buying apartments with out-of-state or foreign money, planning to operate and/or renovate them as rentals, and convert them to condominiums when mortgage money becomes more available. Companies with existing inventory report a drop in sales of conversions, even though the converters prearranged financing for the existing projects.

Government Regulations

The only state regulation on condominium conversion is a requirement that a Declaration of Condominium be registered at the County Clerk's office. Several newly enacted local housing ordinances will also affect conversions. For example, recently local officials enacted an ordinance requiring the treatment of wood shingle roofs with fire retardant matter. There has also been a recent decision requiring individual unit electric meters for new multi-family housing, making it easier to convert units to condominium in the future. There are no tax incentives or disincentives on conversions in Houston, nor has the city any zoning or growth controls. Although it does have a sewer connection moratorium in some areas of town, this would have no effect on conversions. Fire, safety, and building code inspection may be required in condominiums for consumer protection as an extension of existing regulations on building.

Effects on Households

The typical effect on tenant households has been a required move at the end of their lease, or if there is no lease, upon 30 days notice. There seem to be many apartments available in Houston, but it is apparent that some residents will be paying more or will get less space for their money. Newer units often are smaller than the older ones.

The principal group affected by conversions has been the elderly living in high-rises, paying above average market rents, and wishing to continue to live in a high-rise rental building. There is a shortage of such units in Houston, because the new high-rises are condominiums, not rentals. In general, elderly persons take a bit longer to find new rentals which they like, but there has been no problem in them finding suitable housing at reasonable prices.

Ordinarily, no assistance has been given to tenants in relocating, but some companies have employed rental agencies to assist the tenants who need help in finding another rental. Although relatively few of the tenants generally buy converted units, in some projects up to 50 percent of the tenants purchased units. The tenants buying units tended to be a bit older and have slightly higher incomes than tenants leaving the converted buildings, except in high-rises where the purchasers were a bit younger than the previous occupants.

Effects on Tenants

Tenants have not tried to organize in response to a possible conversion, according to market experts. No tenant groups have purchased their buildings. Some tenants have voiced concerns about security in their building, fire protection hazards, the quality of construction in the units, and how effective a homeowners' association would be in their project. Conversions do not seem to have had any significant effect on the owner-renter ratio in Houston, and probably will not have any effect in the near future.

The only groups known to have complained to the HUD FHA insuring office or to local officials are a few older tenants in one high-rise rental who did not wish to move because there were no comparable high-rise rentals in which to relocate. These particulr elderly persons were reputed to have been paying above average market rents, and easily found alternative low-rise units in Houston.

There have been some problems related to setting aside adequate reserve funds for capital replacements. For example, it is reported that one large project will have to replace its roof two years after conversion, amounting to about $2,000 average cost per unit. Other homeowner associations have reputedly spent funds from earmarked replacement accounts for other purposes, instead of having an adequate assessment on a regular basis to take care of necessary expenses.

Effects on Housing Markets

There is some evidence that conversion has led to a tighter rental housing market in the western part of Houston. This area, especially near the Galleria, has been in high-demand. As more units are converted, market vacancies have decreased and a gradual rise in rents has occurred. Rents on some older buildings have not increased noticeably, but new rental units are higher. The condominium conversion activity takes apartments off the market, and the vacancy rate stays about the same because the displaced renters often rent the newly constructed apartments. Thus, the ownership-to-rental ratio is largely unaffected, and the conversion process has a side effect of encouraging new construction of rental units, albeit with higher rents. If conversion slows down, it is also likely that new construction of rental apartments will slow a bit. It is likely that both conversion and new rental construction will continue for the near future, but at slower rates because of the diminished availability of financing.

Effects on Neighborhoods

Conversion has slightly lagged behind private reinvestment in older central areas of Houston, but most of the conversions have been in the newer areas of Houston. In the low-rise conversions, the new buyers have about the same characteristics as the other households in the neighborhood. While in high-rise conversions, the new owners are above average in income and probably a little older than others in the neighborhood. Most of those displaced by conversions have not themselves displaced renters.

Relationship to HUD and Policy Alternatives

There has been only one Section 207 multi-family housing project converted to condominiums in Houston, according to market experts. The City of Houston Housing Authority has requested permission, as a nonprofit converter, to convert an apartment project with moderate rents into condominium housing for low- to moderate-income families using Community Development Block Grant (CDBG) funds, doing the conversion itself, and passing on the savings of the conversion to the buyers. This action was mentioned by a few private parties as a possible government action to provide low-cost housing opportunities in Houston.

Several market experts suggested more education of the public and homeowner associations is needed. There seem to have been several problems with homeowner associations in Houston with respect to maintaining escrow accounts for the replacement of capital items and doing maintenance on a timely basis. There is a consensus that this needs attention, but it is unclear how it should be handled. There is some agreement that, as more marginal properties are converted, more attention to the physical condition of the project is needed. Most market experts thought that local fire, safety, and building code inspections would suffice in these cases, even though the inspections might be required under guidelines broadly specified by the Federal National Mortgage Association, the Federal Home Loan Mortgage Corporation, or CDBG regulations. The issues in Houston seem to revolve around consumer protection from a weak or misrepresented conversion, rather than issues such as tenant rights.

The Conversion Process

The typical process of conversion in Houston seems to be done either by local (two-thirds) or out-of-town (one-third) converters who approach an apartment owner with a bid on the property, and purchase the property with interim financing from a local financial source at a 20-percent equity rate, with interest rates from 1-1/2 to 3 percent above the prime interest rate. There seems to be some amount of joint venturing, and the converted properties tend to be packaged to be sold to FNMA or FHLMC after units are purchased.

Field Report

Conversion Activity in the Indianapolis, Indiana SMSA

Background

The Indianapolis SMSA is comprised of the central city of Indianapolis and eight surrounding counties -- Marion, Boone, Hamilton, Hendricks, Hancock, Morgan, Johnson and Shelby. The topography is flat and there is an expressway that loops the center part of the city giving easy access to most parts of the SMSA. The majority of new construction and housing demand is in the outlying areas.

The Indianapolis SMSA has had a steady but slow growth of population since 1960. According to Census data, the population in the SMSA had increased by 2.8 percent by 1977. However, the population level for the central city declined by 3.5 percent during the years 1970 to 1977. There is limited revitalization of older neighborhoods. Most central city neighborhoods have been under-maintained and there is some abandonment.

Overbuilding of new condominiums occurred in the early and mid-1970s. Partially as a result, the first condominium conversion did not take place until 1979.

Demand

Most experts felt that the demand for condominiums would be strong once interest rates fall. Demand for condominiums is fueled in part by increased single-family housing costs. One developer indicated that the higher cost condominiums were the only ones selling. Market data, however, indicate sales of units priced below $50,000. A local market expert believes that other reasons for the demand for condominiums include the ease of multi-family living along with the financial benefits of ownership (tax, equity and hedge against inflation). One market expert, however, limited his statement by saying the market is strong for a conservative market (i.e. one where condominiums are not yet common). The head of Metropolitan Development felt that the demand would soften if there were an end to inflation.

All new condominiums were built in suburban locations. The 667 units that have been or are being converted (5 projects) are in northern Indianapolis or north of the city in relatively suburban settings. None of the conversions was in the center and older part of the city. Tenant representatives did not think that there would be much conversion activity in their neighborhoods in the next five years.

One market expert felt that the demand was strong while a public official was less bullish. The Director of Metropolitan Development felt that the demand was spotty and limited to "historic neighborhoods" where demand was strong. In general, he felt that more neighborhoods were going down than going up. A market expert and developer who will be converting his first building in 1980 believed that the high cost of new construction in the suburbs and the city's homesteading project have resulted in a strong central city demand. However, the fact that the city needs a homesteading program and is razing some older housing indicates that the inner city housing market is not yet strong. A number of development corporations are trying to stimulate reinvestment in the inner city neighborhoods by adding staff people skilled in obtaining low interest rehabilitation loans.

There does not appear to be any specific market condition propelling condominium demand. On the contrary, there are conditions reducing demand: (1) the area is conservative and slow to accept condominium living; (2) the topography is flat and land is available for new construction at the fringe; (3) commuting distances are relatively short; and (4) the supply of luxury close-in apartment units are not plentiful in central city neighborhoods. There are 50 apartment buildings in the central part of Indianapolis (as classified in the Greater Indianapolis Apartment Guide published by the Apartment Association of Indiana). Of these, many are older and would be second choices for converters given the large supply of newer apartments in the suburbs. However, there are some apartment buildings that a local planner thinks are suitable for conversions. One expert estimates that there are dozens but he is assuming that moderate income rentals eventually will be converted.

There is one intangible factor that may limit condominium conversions in the older inner city neighborhoods. It appears that Indianapolis has two housing markets: one white and one black. The desire for segregated living by the white community has lessened the demand for inner city housing. This same desire may make it difficult to convert some of the older inner city buildings. This would not be a factor in the newer suburban buildings. It may also not be a factor for buildings that are very close to the central business district.

Supply

A total of 667 apartments has been converted or are in the process of conversion. They are all in the new northern suburban settings of Indianapolis. Most buildings were townhouse or garden apartments of above average to luxury quality in affluent neighborhoods. One building of 100 units is classified as an elevator building in the Greater Indianapolis Apartment Guide. The buildings were all built between 1965 and 1973.

A map of the entire stock of condominiums shows that most were built near the Indianapolis beltway on the northern half of the city. Eleven projects were, near the southern part of the beltway. One developer is planning to convert an apartment complex ten miles south of Indianapolis in 1980.

There are a large number of quality buildings that are suitable for conversions in the north and near the beltway. If gas becomes more costly and supplies decrease, the older central city apartments may become less marginal conversion projects. There are, however, opportunities to build new condominiums in the central neighborhoods. The deciding factor will be price and ease of development.

Less than .3 percent of the apartment stock has been converted. As will be shown in the next section, multi-family vacancy rates are still reasonable (5.8 percent). If this tightens to 2 percent, as in other markets, more conversions could take place. As a result renters would have little alternative multi-family housing.

One developer who has converted two high quality projects in suburban settings estimates that 20 percent of the existing multi-family stock is potentially convertible. He, however, feels that 5 percent is more realistic. Another developer felt that it was a suburban market.

Market Conditions

Multi-family vacancy rates have decreased from 11 percent to 5.8 percent in the last three years and if trends continue, one expert expects rents to go up. Another expert estimated that multi-family vacancies in the northwest and northern parts of the area are less than 3 percent. The single-family vacancy rate is 1.7 percent.

Financing for new construction is getting difficult but construction is taking place. Projects under construction were begun before the current credit crunch and one market expert indicated that there are no new construction loans.

Construction loans have the standard 2-1/2 percent above prime or currently 17-1/2 percent to 18 percent. This along with rising construction costs costs (at 1.5 percent per month) and rising land prices, is making new construction of both single-family and multi-family housing difficult. One developer estimates that it takes three months to get plat approval of a multi-family development and this delay, caused by governmental regulation, is quite expensive.

The lack of financing is inhibiting new construction. If mortgage money is available for take out loans but construction financing is not available, developers may turn to buying apartment buildings on contract. This would allow them to avoid the high cost of construction loans but still have a product to sell. The deciding factor will be buyers acceptance of the high cost of mortgage financing. If inflation stays high, the interest rates will not seem that bad and single-family housing will be out of the reach of a greater percentage of buyers. It is a delicate balance.

Government Regulations

Indiana has adopted the Horizontal Property Act. This Act provides for the orderly recording of condominium unit ownership but does not specifically protect tenants. Indianapolis passed a condominium ordinance in October, 1979, that requires 120 days notice to tenants before a recording of a declaration can be made. A tenant has 120 days to vacate the apartment if there is no lease and he notifies the owner within 30 days of receiving the notice. If a tenant is over 65 years of age, deaf, blind, or unable to walk without mechanical assistance, the tenant has an additional 180 days to find new housing.

Tenants have first option to purchase their unit during a period of 45 days following receipt of the notice. The ordinance also requires a disclosure statement that includes a report on the condiiton of the building by an architect or engineer, a listing of outstanding building code and zoning violations, and estimates of operating expenses for the common areas. Developers indicated that the ordinances have had little or no impact on the rate of conversion. Most experts indicated that there is little political support for rent control. The state is considering a uniform condominium ordinance.

Effects on Households

Local government representatives do not have data on what has happened to tenants. Market experts and developers indicate that 50 percent of tenants bought their units. One market expert, however, thought that this percentage would decrease.

This high rate of tenant purchase is probably due to the relatively high quality of the units converted and the income of the tenants. The units were rented by people with high incomes or considerable assets who could afford to purchase and who were living in these units out of choice. One market expert (both a realtor, developer, market consultant and soon to be converter) felt that many elderly bought because they did not want to move and/or feared being forced to move from their next apartments.

Assistance provided to tenants by one developer includes: (1) trying to find another apartment for people in one of the firm's other buildings, (2) looking for an investor to buy a tenant's unit and continue to rent it to that tenant, and (3) letting the tenant stay as long as possible.

When asked how tenants who buy differ from those who do not, one developer indicated no difference while another found them older (in the 40's) and with higher incomes (upper $20,000). No consensus among experts is discernible.

The relatively high vacancy rate would indicate that alternate housing is still available in Indianapolis. Rents are going up and it is likely that people will pay more after a conversion because of the general increase in rent levels. Even though there is housing available, this dose not relieve the stress of having to move.

Effects on Tenants Impacts

The response to conversions has been characterized by "fear" and "panic." This is especially so for the elderly. One public officials indicated that this was brought about by not wanting to move out because people did not want to make a decision (move or buy) and did not know their rights.

In one case, tenants organized but it does not appear to have done any good. No buildings were bought by the tenants and no HUD programs were used.

Effects on Housing Market

Since less than one percent of the rental stock has converted and the vacancy rate is above five percent, it is doubtful that conversions have had a significant impact on the housing market. There is a general tightening of the housing market that is likely to result in higher rents. The shortage of mortgage money may also reduce the effective demand for conversions.

Effects on Neighborhoods

Most experts indicated that there were no neighborhood impacts. This is to be expected since the buildings that have converted have been of good quality, are well-maintained, and in good neighborhoods.

One market expert and developer indicated that there may be some difficulty in finding investors willing to tackle the problems in an older neighborhood. These problems include: tenant relations, a low retention factor, and if the building had HUD participation, (i.e., any control on the building), there would be too much trouble.

As was mentioned earlier there, appears to be a separate white and black housing market. In addition, it also appears that blacks leave the central neighborhoods as their incomes rise. It is not likely that high income white neighborhoods will increase significantly.

Relationship to HUD and Policy Alternatives

HUD programs have had no effect on conversions. However, HUD is studying the feasibility of converting to a cooperative the Park Chateau West, a 432 unit, 221(d)(3) building that defaulted in 1977 or 1978. The area economist has a significant reservation as to the feasibility of the conversion. This reservation is based on an uncertainty as to the ability and desire of the current tenants to buy their units. The lack of an aggressive tenants organization also raised concern about the long-term viability of a cooperative for the existing tenants.

Those in the private sector generally thought that the Federal government should not become involved in condominium conversions. One developer feared the red tape and delays that Federal involvement would bring. Another developer, however, thought that the rights of the buyer should be protected by some level of government. Another indicated that Federal Housing Administration underwriting of the financing would be helpful if conversions were to take place in low cost buildings.

The responses were somewhat, but not entirely, different from the public sector and tenant groups. One public official did not see a need for Federal involvement except to help the low- and moderate-income groups (but not the very low) purchase condominiums. He felt that the very low-income people were not responsible enough and the subsidy would have to be too great. Another believes some level of government should ensure that engineering studies and appraisals be done by people who are independent of, and who do not owe allegiance to, the developer. Finally, the tenant representative favored the development of mechanisms to allow the Section 312 rehabilitation program to be used to finance the rehabilitation of units with the benefits and loan going to the low income buyer. This may entail allowing that portion of the cost of the unit attributed to the rehabilitation to be financed through a second trust deed through the 312 program (or possibly refinance the entire unit). He also recommended extending the Section 235 program to inner city condominiums.

The Conversion Process

One of the ten largest multi-family developers indicated that most conversions are being done by Chicago developers because they have the most experience. The firm has not yet converted any buildings but has sold some of its rental stock to condominium converters. However, it is planning to convert some of its units in a few years.

in the one case where the developer was local, there were very strong connections with Chicago. The financing was arranged in Chicago with a Chicago bank and, it appears, with Chicago-based partners.

One developer was able to get 90 percent of all cash needed for the conversion from a Chicago bank. This was high, but the project was sound, his firm had a good track record, and the individual partners were financially sound. The representative would not disclose the interest rate but did indicate that it was less than two and one half percent over prime. Another developer indicated that financing for conversions was coming from Ford Motor Credit and national banks. He also indicated that those doing the interim financing want a percentage of the profits. In one case the financing was arranged at fixed rates resulting in an interest rate to buyers of 10-1/2 to 11-1/2 percent.

Field Report

Conversion Activity in the Kansas City, Missouri SMSA

Background

Condominium conversion has been relatively limited in the Kansas City metropolitan area. As of November 1979, some 996 converted units have been either approved or submitted for approval to the Kansas City Planning Commission. On the Kansas side, there appear to have been relatively few conversions, with all of them concentrated in the upper-middle-class suburb of Overland Park. According to the planning commission in that community, there are 444 conversions planned or in process there. According to the planning department in Kansas City, Kansas, there has been no condominium conversion there.

The following is a yearly breakdown of the number of units converted in Kansas City, Missouri and Overland Park, Kansas:

TABLE 1

	Kansas City, Missouri	Overland Park, Kansas
1973	169	0
1974	0	0
1975	90	0
1976	51	0
1977	0	0
1978	248	164
1979	438*	280
	996	444

* 412 of these units have been applied for as conversions but have not yet been approved by the City Planning Commission.

Source: Kansas City, Missouri and Overland Park, Kansas Planning Departments.

Thus, there appear to be 1,440 units of multi-family stock converted or planning to be converted as of November 1979 in the Kansas City metropolitan area.

The locations of the Kansas City, Missouri, conversions are shown in Figure 1. Most of the conversions and most of the units (656 of 996) are in the area of Main and 47th Streets, known as Country Club Plaza. The Plaza, which is reputed to be the first shopping center in the United States, represents a major private investment effort that began in the 1920s. Done in a Spanish motif, the Plaza contains a number of blocks of prime commercial stock, coupled with approximately 9,500 multi-family units, many of which are in fine, old, medium-rise buildings constructed 40 to 50 years ago. Conversions in this area represent approximately 7 percent of the Plaza area's housing stock. Because of the excellent location of the remaining rental buildings, as well as their architectural and historic value, a good portion of the remaining stock is suitable for conversion. The other conversions, both in Kansas City, Missouri, and Overland Park, Kansas, have occurred in the extreme southern parts of the metropolitan area. There appear, in fact, to be two types of condominium markets in Kansas City: midtown and suburban. The central business district, which surrounds the intersection of 12th and Oak Streets, does not appear to be attractive to either residential or commercial development. The other major commercial area in Kansas City, the Crown Center section, just south of downtown, has been the site of one newly built condominium, San Francisco Tower. Three years after construction, the project is still only 70 percent sold out. There are plans, however, to convert 36 units in a redevelopment area adjacent to Crown Center (which itself was originally a redevelopment project in the 1960s). If this project is successful in attracting middle class people, it could encourage condominium conversion demand. Because this project is just beginning, it is impossible to tell at this time whether such a scenario will take place.

Finally, the City Planning Commission examined eight characteristics cited in the 1975 HUD Condominium study as critical to the existence of condominium conversion. The Commission evaluated these characteristics and reported their applicability to Kansas City, Missouri and the Plaza area as follows:

Characteristics	Applicable City-Wide	Applicable to Plaza
Scarce or non-existent land for new construction	No	Yes
High priced single-family homes	No	No
High prices for residential land	No	Somewhat
Local land-use regulations that restrict new development	No	No
Supply of high-quality rental projects	Yes	Somewhat
Existence or likelihood of rent controls	No	No
Lack of legislation to regulate conversions	Somewhat	Somewhat
Existence of well-organized, vocal tenant groups and strong tenants' rights legislation	No	No

It should be noted that two factors are not included in this list, both of which appear to have an important influence on conversions in the Kansas City area: (1) increasing demand for ownership by one- or two-member households; and (2) the increased costs of building and maintaining multi-family housing. Both of these have encouraged owners and converters to take advantage of increased demand for ownership.

Demand

Experts generally agreed that demand for condominiums in the Kansas City area was fairly strong. Several of them said that the Plaza area conversions tended to appeal more to the elderly and to "empty-nester" groups, while the conversions that have taken place in the suburbs or in the suburban parts of Kansas City, Missouri appeal more to families with children. Others did not mention any significant number of families purchasing condominiums but tended to focus on the elderly, empty nesters, and younger single professionals and career people (particularly single women) as the most important groups in the condominium market. Several people expressed the notion, in one form or another, that the market for condominiums in Kansas City is behind other places in the country because single family homes are still affordable and condominiums have not become as popular as in other metropolitan areas.

Most experts thought the market would continue to be as strong as it has been. One expert predicted about 5,000 conversions over the next five years. It is not clear, however, what proportion of the potential demand pool has been served by condominiums. Clearly, all of the groups that were defined as showing an interest in condominiums have not moved into condominiums. All those interviewed agreed that the market for single-family homes has not been affected by condominium demand.

There is increased private investment in the Westport neighborhood, which is adjacent to Country Club Plaza. A number of young professionals are moving there and buying older homes, many of which previously were rooming houses. There are a number of smaller apartment buildings in this area, some of which have been converted. Given the apparently strong demand for housing in this area by younger households, it is conceivable that there will be more condominium conversions in this neighborhood.

In general, Kansas City does not appear to have any particular market conditions that make it atypical with regard to condominium conversion. Like other metropolitan areas, there has been a downturn in the number of multi-family units constructed and substantial increases in the costs of single-family houses. Additionally, while there is no premium associated with living near downtown, there is fairly strong demand for living in the "midtown" Country Club Plaza and Westport areas.

Supply

Two types of rental stock are being converted: the medium and high-rise apartment buildings in the Country Club Plaza area (where high-rise is defined as over 12 stories) and the garden-type apartments found in suburban areas. A third type for possible conversion are the two- and three-story walkup apartments that predominate in the Westport area just north of Country Club Plaza. While few of these have converted as yet, the popularity of the Westport area and the fact that at least one converter is working in this neighborhood make it susceptible to conversion.

Several experts indicated that they thought that the demand for condominiums in the suburbs was greater than in the Plaza area. One expert said that while all of the Plaza conversions were slow to sell out, a recent suburban conversion, Talisman, located in the southern part of Kansas City, sold 90 percent of its units in a period of six weeks. This expert attributes the slowness of sales on the Plaza to overpricing and not necessarily to a lack of demand for these buildings. It may also be the case that, as the Plaza conversions were the first such projects in Kansas City, they were slow to sell because the market had not yet been educated. In either case, it would seem that the remaining rentals in the Plaza area, as well as those in the suburbs, are suitable for conversion. In fact, one expert reported that four of the six largest properties on the Plaza, accounting for about 1000 units, are currently in escrow for the purposes of eventual conversion.

Even so, the small number of conversions means that a relatively small proportion of the rental or multi-family stock has been changed to homeownership. Approximately 1.3 percent of all the multi-family units in Kansas City, Missouri and 1.1 percent of all rental units in that city have been converted. Again, when considering only the Plaza area, find approximately seven percent of the multi-family units there have been converted. Clearly, there remains a supply pool of buildings that can be converted, given adequate demand conditions.

Finally, there appear to be a few factors that may make rentals in Kansas City more profitable than in other parts of the nation. First, according to one expert, construction costs are extremely high in Kansas City. Secondly, rents appear to have risen more slowly in Kansas City than in the rest of the country. Since 1970, rents have gone up about 50 percent in Kansas City while they have gone up 75 percent in the rest of the country. With construction costs higher in Kansas City, it would appear that the smaller increase in rents has further lessened the profitability of newly constructed rentals.

While it is not clear whether increasing the multi-family supply in Kansas City is any more or less profitable than elsewhere, multi-family construction is accounting for an increasingly smaller proportion of total housing units constructed within the city. As late as 1972, multifamily construction accounted for 74 percent of all building permits in Kansas City. In 1978 multi-family units accounted for only 32 percent of building permits, and when the subsidized additions to the multi-family inventory are not considered, only 13 percent of the building permits in that year were accounted for by unsubsidized multi-family units. In 1972, the comparable figure was 70 percent. Clearly, not only have the number of multi-family units constructed each year declined significantly, but increasingly, they must rely on the financial support of government housing subsidies.

Market Conditions

According to data supplied by Kansas City Power and Light, the vacancy rate in Kansas City has declined from 5.3 percent to 4 percent between 1973 and 1979. In the Plaza area, the vacancy rate is down to 2.2 percent. This is not the lowest vacancy rate in the city, however, with other neighborhoods that have a substantial supply of multi-family housing showing rates still lower. While a low vacancy rate is associated with conversion activity, it is not a sufficient predictor of such a market trend. Areas that have lower rates than the Plaza do not have any condominium conversion at all.

All the experts seemed to agree that the high market interest rates were having a negative effect on condominium sales and conversions. One very large converter said that he had not yet observed the impact of high rates on condominium sales, but expected that sales would slow, since buyers in Kansas City historically have made low downpayments. In general, the respondents believed condominiums were not at a disadvantage relative to single-family homes when money gets tighter -- but not at an advantage either.

Government Regulations

The city of Kansas City, Missouri takes an active role in processing condominium conversions. The State of Missouri's responsibility ends with the standard law requiring filing of a declaration. Kansas City in turn, interprets the state subdivision statute as giving its City Planning Commission and City Council purview over each condominium conversion. Actual regulation involves approval of the condominium's site plan and inspection of the building to see that it complies with the city building code. The building cannot be in a flood plain and it cannot have an adverse impact on parking and traffic. The effect of parking concerns seems limited, however, since many of these buildings are allowed to convert even though the number of parking spaces they have do not meet current codes. Owners are only required to meet the building inspection code existing at the time the structure was built. The only exceptions to this are fire regulations, for which the building may have to be brought up to date if the City Fire Marshal so rules.

According to the planner that handles the processing of condominium conversion applications, there have been only two buildings whose conversion plans have been rejected. The building inspection report is on file for public inspection, but it is not clear how well it duplicates the consumer oriented property or engineering reports that have been used in other cities. One respondent did suggest that the city's inspection focuses less on the quality of the mechanical equipment in the building and more on fairly visible factors such as fire hazards and other safety problems.

The City Planning Commission has just finished reviewing a staff report on condominium conversion and has decided that there is currently not a problem but there is potential for a problem. Consequently, it has adopted a "wait and see" perspective, attempting to keep abreast of condominium conversions but not proposing any changes in condominium regulations.

Effects on Households

There is no clear evidence on the effect of conversions on households, either on those who buy into a building or those who move out. There have been no studies on this and few, if any, complaints registered by tenants. At one condominium conversion hearing (all such hearings are open to the public) four tenants out of a building that contained 80 residents registered their protest. In the Plaza community, where many of the tenants in the multi-family structures are elderly, there have been no reports of hardship. According to the developers who have worked in this area, while these people can afford to buy, they choose not to because they do not want to tie up their assets. Apparently, however, they have not been so opposed to their moved that they have complained to any public officials.

In Kansas City there are no notification requirements beyond the usual 30 days. This, coupled with the fact that leases are not always used in Kansas City, means that tenants may have comparatively little time to make up their minds whether to buy or move. Several developers said they usually gave people 60 to 90 days notice and do employ leases so that a longer notice period can be provided. At Oak Hall, on the Plaza, where the average age of the tenants was nearly 70, a number of leases were extended in cases of advanced age or poor health. Tenants were given 120 days notice and could continue to rent on a month to month basis for two months after their leases expired. In terms of relocation assistance, the picture is also varied, with some developers providing counseling and others no assistance at all.

The proportion of tenants purchasing is highly variable. In one project none of the tenants purchased while in another 50 percent did so. For two other projects the figures were 17 percent and 38 percent. In one project in particular, the developer emphasized how he offered the elderly special incentives to either buy or rent after the conversion took place. To all tenants who were over 55 years of age ana to their children, he offered the option of purchasing their unit at a $3,000 discount, at 5 percent down payment, with a 10 percent interest rate on the mortgage at the same time that the prevailing market rate was 11.5 percent. Because he offered this discount to the children of these elderly households, 12 of his elderly tenants were able to remain in the project on a rental basis (there were 202 units in the project.)

There is no systematic evidence regarding the differences between inmovers and outmovers.

Effects on Tenants

Neighborhood Legal Services and City Planning Commission members could not identify organized efforts by tenants to protest the conversion of their building. There have also apparently been no newspaper reports of tenant dissatisfaction with condominium conversion.

Effects on Housing Market

The only metropolitan area where conversions could have an impact on the local housing market is in the Plaza neighborhood where approximately 7 percent of the multi-family units have been converted. Two people said that conversion in this area had little impact on low- and moderate-income rentals since this is primarily a middle- to upper-income area

Effects on Neighborhoods

As noted there has been substantial private reinvestment in the residential and commercial areas of the Westport neighborhood adjacent to the Plaza. One observer believed there was no relation between condominium conversion and reinvestment efforts in the Westport area, although another thought that a few of the conversions had occurred because of the reinvestment there. There is no evidence available on any racial or economic change resulting from conversion or whether any secondary displacement is taking place.

Relationship to HUD and Policy Alternatives

For the most part, there was no indication of any relation between HUD programs and condominium conversion. One observer suggested that Federal Housing Administration (FHA) guidelines for construction of a multi-family building made it less desirable as a conversion, i.e., the units were not of sufficient quality. This same observer also criticized the Federal Home Loan Mortgage Corporation (FHLMC) for considering the children of elderly tenants who purchase units to rent to their parents as investors. Since there is a top limit on the number of investors that FHLMC will permit if it is to purchase the mortgage, this policy works against these attempts to permit the elderly to stay in their units.

Most experts felt that the Federal government should stay out of condominium conversions. Particularly vociferous on this point were some members of the Kansas City, Missouri, City Planning Commission. Others believed there was no need for any significant government entry, at any level, because they did not perceive that conversions had yet created any problems in the Kansas City area. Some did suggest that government intervention might be desirable to help tenants purchase their units when they are otherwise unable to. Others thought there should be a greater attempt by government to keep the condominium industry reputable. Finally, there were a number of suggestions made regarding the local regulation of conversions. There was some disagreement as to whether the city's requirement of a code inspection involves standards that are too strict. Some concern was expressed over the length of the review process, which has taken three to six and one-half months from the date of the initial application with the city to the date of the recording of the deed by Jackson County.

The Conversion Process

One "converter" also served as a marketer and sales agent to an outside firm that converted Sophium Plaza. In other cases, the converter entity was a more integrated operation. Of four conversions, two involved loans from a lender and two involved loans from the original owner which were repaid in receipts from the sale of units. One was a "gap loan" in which the converter pays the lender back at a higher principal so the debt can be repaid before the project completely sells out. This meant that the speed with which the last units were sold (if indeed they are sold at all) determined the profitability of the project. Finally, the developer who enabled a number of elderly tenants to continue to rent in a converted building did not obtain a loan from a lender but from the previous owner. He argues that it was this factor, coupled with the cooperation of the owner, that permitted him to make special arrangements to lend money at lower interest to the elderly tenants or to their children.

Field Report

Conversion Activity in the Los Angeles, California SMSA

Background

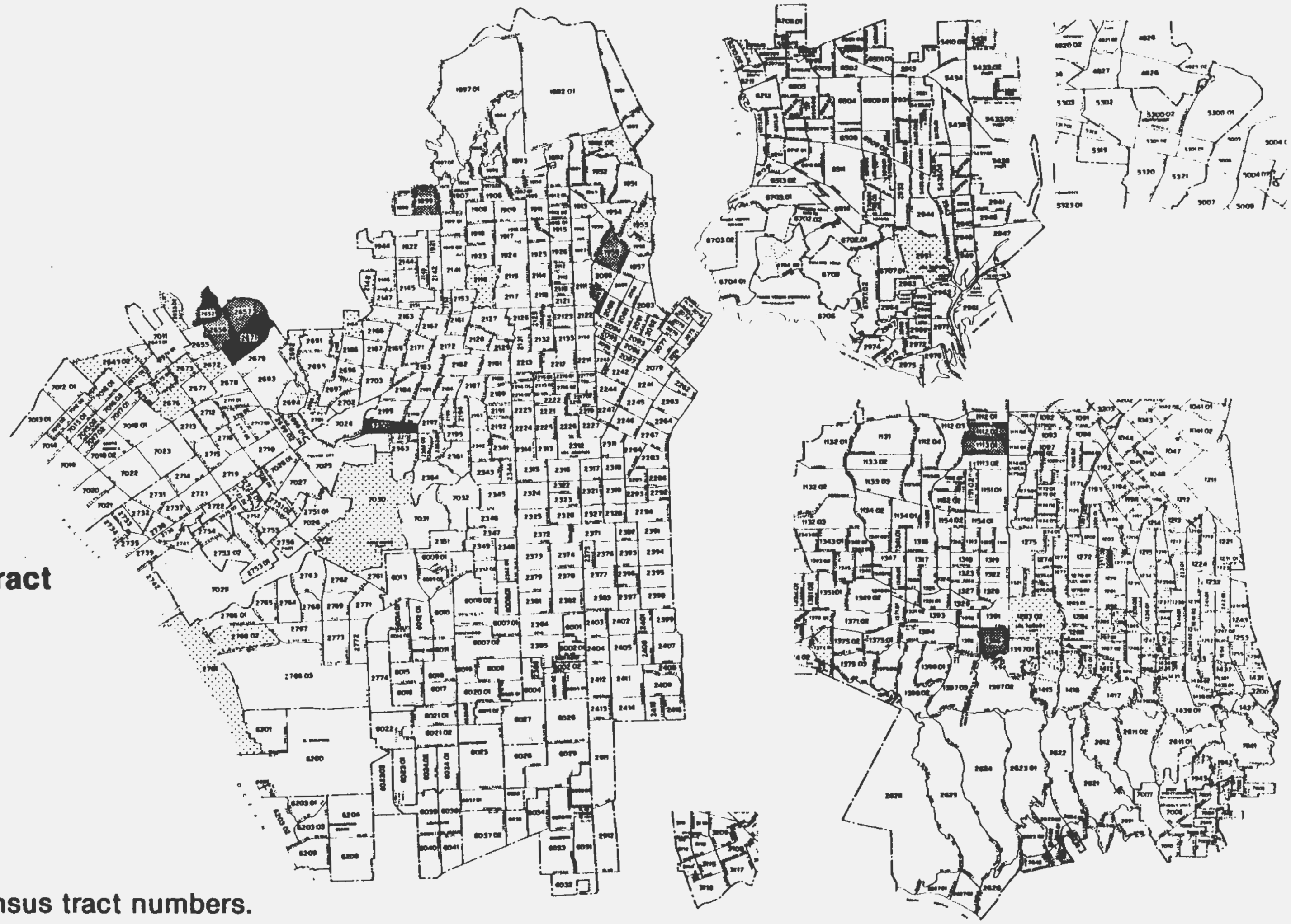
The Los Angeles SMSA dominates Southern California. The SMSA includes all of Los Angeles County and has an estimated population of over seven million. Population growth in the Los Angeles area has been quite rapid, with population increasing by 70 percent since 1950 and by 17 percent since 1960. The county now contains just under one third (32%) of the entire population in the state. A large part of this population increase has been attributed to net immigration: even now, immigration accounts for half of the population growth.

Within the SMSA, Los Angeles is clearly the hub. Its population of 2.7 million is much larger than that of the other central city (Long Beach; with a population of 380,000). However, Los Angeles and Long Beach are not the only sizable cities in the county. Glendale, Torrance, and Pasadena each has a population of over 100,000 and 18 other jurisdictions have a population of more than 50,000.

The SMSA contains over 2,700,000 dwelling units of which only one-third were constructed prior to 1940. According to 1975 Annual Housing Survey data, approximately 48 percent are owner-occupied and 50 percent are single-family. In March of 1979 there were approximately 66,000 condominium units. The estimated vacancy rate for all units (based on electric company data) is about 1.5 percent and has been continuously declining in recent years.

Total employment in the Los Angeles area continues to be strong (in March 1979 it was up 8% over first quarter 1978). In 1970 the city of Los Angeles had approximately 13 percent of its population living below the poverty line, a figure just slightly under the national average of 14 percent. Of the 23 other jurisdictions with a population of 50,000 or more, only one, Compton (18.8%), had a figure higher than the national average and most jurisdictions were under 10 percent. In short, the Los Angeles SMSA is an affluent growing area with a relatively new housing stock. It is also an attractive area, one that has had and continues to have significant immigration.

Condominium Conversions in Los Angeles, California
January 1977 to September 1979

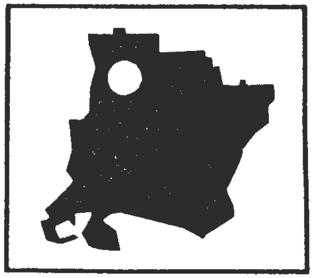


Range of Converted Units Per Census Tract

- 1-50
- 51-100
- 101-200
- 201-500
- 501-800
- 801-4000

Numbers are census tract numbers.

Condominium Conversions in Long Beach, California
January 1977 to September 1979



Range of Converted Units Per Census Tract

- 1-50
- 51-100
- 101-200
- 201-500
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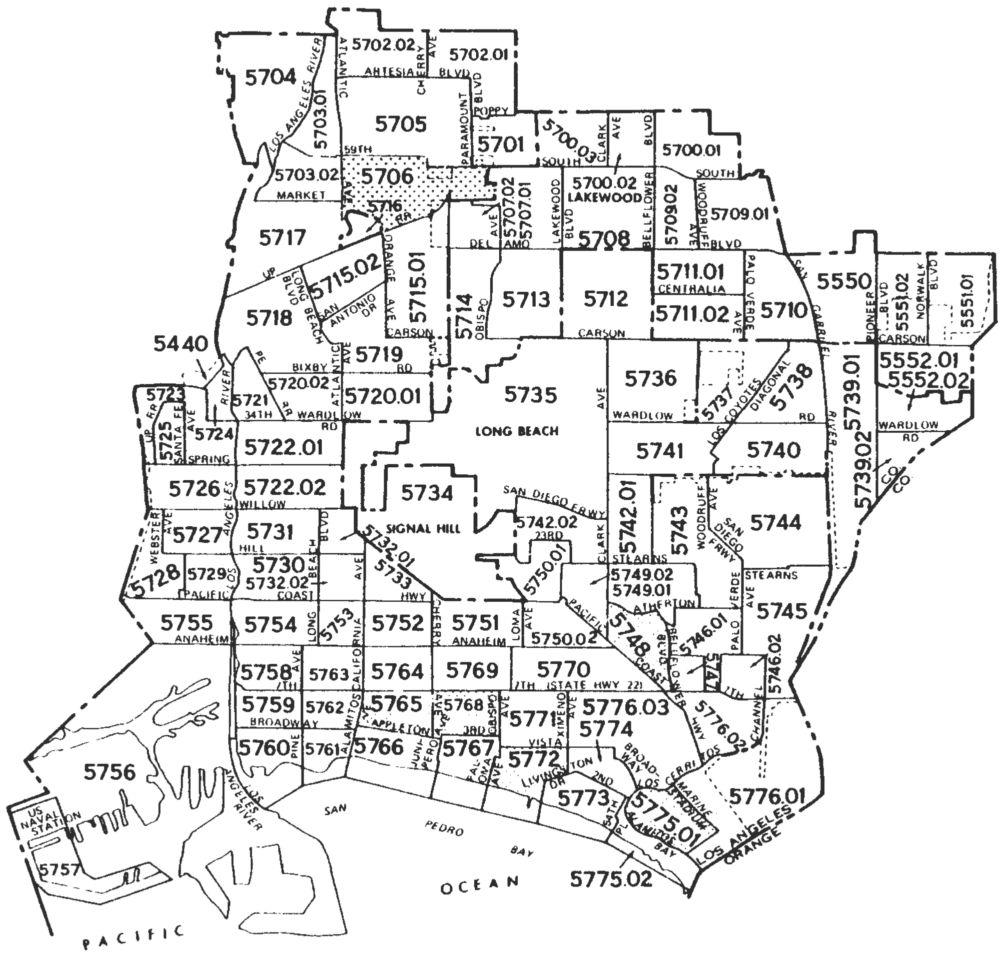
- 801-4000



[5736] Numbers are census tract numbers.

Demand

Los Angeles County has seen extensive conversion activity over the last three to four years. In that time, slightly over 6,000 units have been converted from rental apartments to some other form of ownership, primarily condominium rather than cooperative. There has also been local government approval of at least 23,000 additional units for conversion during that same period. But despite this high level of activity, there appears to be no "tapping out" of demand and it appears likely that demand will increase. First, there is the substantial immigration from other parts of the United States. Estimates of the number who annually move to the Los Angeles Area and remain range between 30,000 and 75,000. The most frequent (and probably the most accurate) estimate is 40,000. According to a local market expert, these immigrants tend to be young professionals, with good incomes, who possess a desire for homeownership. This is also the modal group purchasing condominiums in Los Angeles.

A second factor making an increase in demand for conversion likely is that the price of single-family housing in the Los Angeles area is increasing at a rate far greater than in the U.S. in general. The Real Estate Research Council of Southern California estimated that in April 1979, the average price of single-family homes in Southern California was over 50 percent higher than for the U.S. -- $100,500 against $65,500. All of this increase has taken place since April of 1974. At that time the estimated average single-family home price in the U.S. and in Southern California was identical. Clearly young would-be-buyers without substantial income and/or equity are frozen out of the market, and many are turning to the condominium market as a starter to build up their equity.

The third factor likely to contribute to an increased demand is the difficulty in putting new stock into the market. The scarcity of land in the most desirable areas of Los Angeles means that little new construction is likely to take place. That, combined with severe zoning restrictions against multi-family dwellings and high density development, means that the price of a single-family house will be out of reach for many prospective purchasers. In short, the limits to future demand are more likely to result from the indirect effects of legal and political limits on the supply rather than "real" (market) limits.

The demand for housing in general is high in Los Angeles. Overall, the vacancy rate in the county is probably about three percent at the most. Many jurisdictions, generally in the western part of the county, have still lower rates. In general, these low vacancy rate areas -- Westwood, the Hollywood area, Beverly Hills, Santa Monica, Venice -- are the most desirable areas in which to live. They are also the areas where the greatest conversion activity is taking place. None of these areas, nor any other in the area, really fits the east coast inner city conversion picture. Even the less desirable areas of the city, such as Watts, are far different from the Logan Circle and Capitol Hills of the east coast. The "inner city" question has little relevance to a community like Los Angeles, with several growth poles and relatively new housing stock.

In summary, it appears that more than sufficient demand exists to stimulate even greater conversion activity. In some respects the causes are similar to causes in other parts of the country (high cost of single-family housing and the desire for choice locations). However, the cost differential between single-family homes and the converted stock is so great in this area that the conversion becomes more attractive yet. Furthermore, one Los Angeles characteristic is likely to be unique, or at least rare, among cities -- substantial, even chronic, immigration.

Supply

Conversions have tended to be of one of two types of building -- either a high-rise or a high-density garden apartment complex. Generally the high-rise conversions are concentrated in a single area of the county -- the Wilshire Boulevard corridor that runs west from the city of Los Angeles. There are few other areas with many high-rise buildings and none in areas as desirable as here. The suburban housing stock is generally slightly less dense and more often a garden style or mid-rise design (3-6 floors). The number of units involved in individual conversions range from very small (4 units or fewer) to projects of 150 units. Suburban conversions (reportedly) involve fewer units. Also the suburban conversions take place in buildings that appear to be somewhat newer. Most suburban properties that are converted are buildings constructed in the 1970s. In the city of Los Angeles, the number of converted buildings and projects constructed before and after 1970 are more or less equal. The disparity is probably a reflection of the age of the housing stock in the central city and the suburbs.

There are many rental projects that are good prospects for conversion. What might conceivably happen is a "progression" of conversions from the middle- and upper-middle-income areas into more moderate-income areas. To date there is no strong evidence that this is taking place but it does seem likely that the majority of the higher-rent apartments have been already converted or approved for conversion.

Despite the high rate of conversion in recent years, very little of the total rental stock has actually been converted--less than one percent in the SMSA. However, since the conversions have not been randomly distributed across the county but instead have taken place in desirable, low-vacancy-rate areas, the impact on those areas has been pronounced. The Department of Community Development is currently undertaking a study to pinpoint the location of conversions by council district.

There is also a great number of people who would like to convert buildings they currently operate as rentals. They see both a declining profit rate in rentals and the opportunity for quick and sizable profits through conversion. They are, therefore, quite sensitive to such opportunities. In addition, without exception, the developers and market experts in the Los Angeles SMSA see either rent control or the threat of rent control as a major factor reducing the profitability of renting units. They cite both the present cap on rent levels and low increases in rent due to the perceived threat of controls as restraints on their ability to operate rental properties.

Market Conditions

In general there is a strong demand for rental housing in the city of Los Angeles and its suburbs (assuming that a low vacancy rate is an indication of this). There is apparently little or no new construction in the rental market. Several reasons were given for the lack of new rental housing in spite of strong demand. One frequent complaint centered on the existence of rent control. Developers do not want to build when it is entirely conceivable that their ability to raise rents will be impaired by local rent controls. Lenders also cited this as a factor inhibiting extensive new construction. They indicated that, because of rent control, they often required far larger sums of up-front money than would otherwise be required before providing interim financing to developers. Instead of providing 90-95 percent financing, they often provide no more than 60 percent. Apparently the interest rate charged is also higher, perhaps by as much as one to two percent on average.

The length of time it takes to get local government approval for a project also deters extensive new construction. Typical delays are of 6 to 24 months from the time of the initial request to the approval and initial construction activities. And developers also cite the typical unprofitability of rental properties as a major problem. Certainly one can say that rental operation is not as profitable as converting a building.

There was no agreement on the effect of mortgage rates on the demand for conversions. Some experts felt that the market was too variable to make any projections at all. Those that predicted a drop in mortgage rates to a level closer to what they were six months ago, were split on whether such a change would stimulate demand or depress it. Since most experts felt that demand for conversions was a subset (and reflection) of the demand for housing in general, they felt that whatever happened to the demand for "ownership" would happen to conversion demand also.

Government Regulations

Government action was seen as extensively affecting conversion activity in both Los Angeles and all the surrounding communities. Rent control or the threat of it provided a disincentive for the continued operation of rental properties and zoning restrictions against high-density and multi-family projects was reported as a major factor inhibiting new construction. The actual time required for the review process for proposed construction activity was seen as altogether too long and an additional disincentive for new construction.

Almost all communities surrounding Los Angeles have some form of condominium regulation. These regulations are basically similar tying conversion to vacancy rates, requiring some assistance to tenants forced to relocate, and imposing certain physical requirements (such as additional parking spaces) on converted buildings. For the most part, the low vacancy rates and the prohibition against conversion in low vacancy rate areas means there will be few conversions. Requiring at least 1-1/2 and sometimes 2 parking spaces per unit also tends to reduce the likelihood of conversion. Most developers argue that such controls will, in fact, mean the end of conversions.

At the state level, conversions are monitored by the California Department of Real Estate. Before a rental property can be put up for sale, the airspace in that building must be subdivided and that subdivision recorded with the state. Most local governments also have similar laws.

Only one federal regulation was reported as having an effect on the rate of conversions. In the late 1960s or early 1970s, the Federal tax code was altered so as to reduce the attractiveness of owning rental properties. These changes reduced the annual depreciation granted by the federal government and because of the loss of this tax break, the cash flow in a rental project became more important. When the cash flow slipped, either absolutely or relatively, the rental owner began looking for ways out of rental property investment. Conversion (or, more likely, sale to a converter) was one alternative.

Effects on Households

Beyond talking about the general effects or details about a very small number of instances, no one in the Los Angeles area has any idea of how conversions affect households. There is no agreement among tenants, local government officials, market analysts, and developers even on the numbers of tenants displaced. The highest average estimates of tenants buying (20-25%) are given by developers, the lowest (0-5%) by tenants. However, both agree that there is substantial variation in these figures.

What happens to displaced families is a matter of even greater controversy and less information. Tenant representatives and some local government officials cite examples of tenants not finding anything comparable and safe for less than $100 more per month in rent. They say few if any tenants are given assistance and even then the assistance provided is minimal. Developers, however, report that they provide extra time to households leaving, help them locate apartments, pay moving expenses, provide them with subsidies, and make cash settlements. They say the greatest problem is that tenants want to remain in the same nicer neighborhood, but do not want to pay the going price. The following are two remarks which capture the view of the developers on the issue: "The tenant wants the landlord to subsidize continued residence in the better neighborhoods."

There is agreement on some of the more general effects of converison. For the most part, it appears that after conversion, the typical resident in a converted building is likely to be younger, more often non minority, and more likely to have a higher income than the typical renter was in the same building prior to conversion.

Effects on Tenants

There have been several efforts by tenants to organize and there are at least three tenant groups active in the Los Angeles area. Each group is concentrated in a different geographic area but they have intermittent contact and sometimes cooperate. One group is a local chapter of Tom Hayden's Campaign for Economic Democracy (CED). The other two groups (Renters Against Condominiums Conversions and the Campaign for Economic Survival [CES]) are more narrowly focused on housing issues and generally resist being compared to CED.

The general tactics of the groups differ, but all use highly emotional appeals. For example, they always present the picture of the elderly or the mother and baby being evicted from a unit. CED does a lot of election- and referendum-organizing activities while the CES often attends the County Supervisors meetings and engages in shouting matches and disruptive actions. The Renters Against Condominium Conversion focuses on the city council and attempts more traditional tactics.

In addition to the organized groups, there was one significant "indigenous" action that resulted from a building being approved for conversion. It was the contention of tenants in that building that the California Environmental Quality Act (CEQA), which required an environmental impact report (EIR) for proposed developments or changes, was applicable to conversions to condominiums. The argument was made in a very formal and low-key manner. This group was successful in gaining acceptance of EIR as a general principle but was unsuccessful in stopping the conversion of the original building.

The other three groups have had varying success. The greatest success has been in dealing with the Los Angeles city government and with the suburb of Santa Monica. In Los Angeles, effort was concentrated on the council members representing the districts most affected by conversions. In Santa Monica, where renters comprise over 75 percent of all residents, the anti-conversion groups have succeeded in electing one of their number to the city council. In both places, the groups are also active in support of rent control and both communities have rent control legislation in force. The Los Angeles County Board of Commissioners, which has authority over all unincorporated parts of the county, has been less receptive to conversion regulation. In mid-November 1979, however, the board issued a 21-day moratorium on the issuance of new conversion approvals.

Perhaps the most interesting aspect of the condominium situation in the Los Angeles area has been the response of the developers and converters. They have attempted to put together a coalition of real estate industry representatives to counter anti-conversion publicity. They have hired local and state lobbyists and public relations firms and have held several public conferences. There are actually two groups involved. One group is the Affordable Housing Council which focuses primarily on dealing with negative publicity and legislation affecting the ability to convert. The second group, the "Housing Supply Task Force" focuses on government regulations and "lack of support" for building rental housing.

Effects on Housing Market

For the most part, the impact of conversion appears to be limited. The group that appears to have greatest difficulty is the elderly, who often are living on relatively low, fixed incomes, and may not be able to afford to make down payments, to qualify for mortgages, to afford to move to other comparable units and (pay what they assume to be) higher rents. But in Los Angeles, for the most part, conversions have taken place in at least middle-income apartments. Many of these are one-bedroom apartments renting for $400-$500 per month. The tenants in these buildings are generally not living on social security alone and do not fit the stereotyped image of the low-fixed-income elderly. For the most part, they do not want to buy their current residence even though some, (or many depending on whom one talks to) could afford to buy. The impression is that they could move into safe, but less desirable areas and occupy comparable units for, at most, only slightly higher rents. This impression is based on discussions with tenant representatives market analysts, developers, and local government officials. Although it is not a unanimous position, representatives of each group said that by changing neighborhoods (which most elderly persons understandably do not want to do), such moves could indeed be made.

Conversions take place in a very limited area of Los Angeles: it is only in the western parts of the county and the San Fernando Valley that extensive conversions have taken place. In these areas, conversion appears to have had a significant impact on the availability of rental housing. Of course there may be some impact on rent levels from conversions, but distinguishing that impact from the impact of "decontrolled rental vacancies", and the high demand in housing in this area, is not possible. There is no evidence that conversion activity has significantly altered the renter-owner percentage in any jurisidiction.

Effects on Neighborhoods

No group or individual reported that conversion had an effect on, or relationship to, private investment in older neighborhoods. But conversion reportedly does have an effect on the income, race, and age composition of a neighborhood -- younger residents, who have higher incomes, and fewer minority group members. However, the extent to which that occurs varies. Most often conversion has slight impact on race, and more marked impact on income and age characteristics. There has been no study attempting to document any such changes and so the responses of local experts were, as many admitted, "seat-of-the-pants" estimates.

In general, local experts were uninformed about secondary displacement or the impact of such displacement on the availability and the cost of rental housing. If any comment was made at all, it was something like - "Oh I assume their must be some such displacement and certainly some impact but I don't know how great it might be."

Local tax benefits from conversion were not known in detail. All parties were aware that the tax base increased, but no specific data were available. A spot check of two buildings showed a 77.5 percent increase after conversion in the assessed value for a three-unit building ($17,600 to $31,245) and a 294 percent increase ($1,038,750 to $4,096,715) for a 99-unit building.

Relationship To HUD and Policy Alternatives

No experts in the Los Angeles area knew of any HUD-subsidized project that has been converted and none recognized any relationship between HUD programs and conversion activity. These experts were split on whether or not the Federal government should play a role in encouraging or discouraging conversions. Those encouraging HUD involvement were primarily tenant representatives and a minority of local government officials, while the developers and market analysts were cool towards HUD involvement.

Several experts, primarily tenant representatives but also one local government official, thought that Community Development Block Grant funds should be used to leverage local governments into some sort of a policy against conversion. Most often they considered the use of threats implied by such leverage appropriate to halt further conversions. Other suggestions, including those by the various local government agencies, were fairly standard: HUD should standardize regulations across housing markets; HUD should require some strict consumer protection legislation; HUD should provide special mortgage money to tenants who do wish to purchase; conversion should be tied to matching rental housing production; and HUD should encourage the production of rental housing. When asked if conversion curbs were a local government's responsibility, tenants representatives said that local government was unwilling or acted too slowly. They felt HUD could enforce local compliance with federal regulations if they were adopted.

Virtually all developers and most local government officials seem unlikely to support federal action to regulate conversions. They did feel that increased assistance to potential buyers, especially the elderly and handicapped, would be useful. One developer felt that a requirement that some number of units be held by converters as rental units would not be burdensome since he and several other converters do that as a matter of course. The same converter also suggested that HUD should consider converting some of its acquired stock. "They are probably marginal as rentals due to deferred maintenance, etc., therefore, why not sink some capital into the repairs and let the government turn a buck?"

The Conversion Process

Actually there appears to be no "typical process" of a conversion project. Developers indicated they, or other converters they knew, used various forms: selling limited partnerships or entering directly into partnership with the owner of a building, buying a rental building for cash and converting, putting up a small part of the purchase and financing the greatest part of the cost through a lender. Almost all used some experts -- property acquisition people to identify and procure good projects; advertising experts; sales groups to dispose of the product; and market analysts for feasibility studies. Financing mechanisms were varied -- few paid cash, most borrowed or were guaranteed 80-95 percent from a lending institution (a surprising number reported borrowing from east coast or eastern banks -- Citicorp, for example) drew it down in two or three steps, and paid back at an accelerated rate.

There were two points of particular interest. Because most lenders wanted to sell the mortgage on the secondary market, 20 percent was the maximum number of units that could be financed for nonowner occupancy (Federal Home Loan Mortgage Corporation will not accept a greater percentage). Developers indicated that they keep the percentage of known investors down to 10-15 percent so that they are sure to make the 20 percent ceiling. The second interesting aspect is that there is some participation of foreign money in conversion ventures. Canadian companies are involved reportedly because of strict Canadian government controls on development in that country.

Field Report

Conversion Activity in the Miami, Florida SMSA

Background

The Miami SMSA (composed entirely of Dade County) contains 27 local jurisdictions, the three largest of which are the cities of Miami (the central city), Hialeah, and Miami Beach. Each local jurisdiction has its own governing body and the county has a consolidated governing function. The county has overall responsibility for growth planning and property tax appraisals/records while local jurisdictions share responsibilities for zoning and building code matters with the county. The state, however, reserves authority for regulation of most real estate matters especially with respect to condominium legislation.

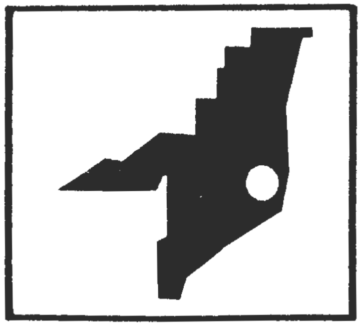
The housing industry (and perhaps the entire economy) in the Miami SMSA may be "recession-proof". Population figures for the county show an 85 percent increase between 1950 and 1960, a 36 percent rise in the 1960 to 1970 period, and a 22 percent increase in 1979 over 1970. 1/ Total employment in the SMSA has risen in recent years, along with a concomitant decrease in the unemployment rate from 7 percent in 1978 to 5.4 percent in 1979, and from a housing perspective, building permits for both single-family and multi-family (largely condominium) units have risen sharply in recent years. Equally important is that the savings and loan institutions in the past year have experienced a 20 percent increase in inflow providing a sufficient pool of resources to meet the mortgage financing demand of a growing population. This demand is strong despite rapidly escalating shelter costs and the high cost of money. Condominiums (both new and converted) represent a growing proportion of the demand for mortgage financing in the SMSA.

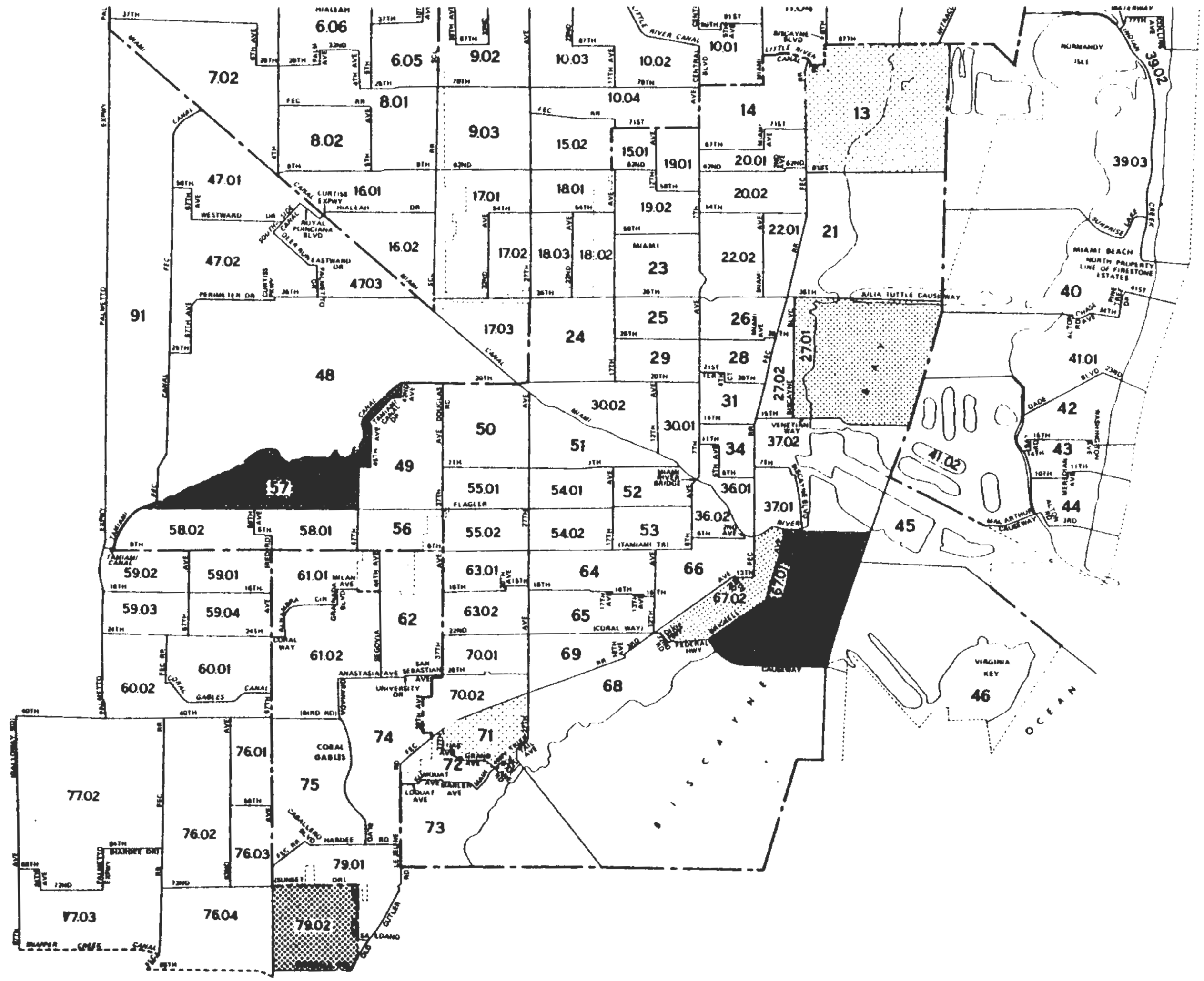
Although the Miami Beach area has always catered to high density living, the remainder of the SMSA is becoming increasingly dense. This is attributable to rapidly escalating prices of single-family homes, the relative scarcity of single-family homesites, the high costs of construction, the lengthy approval process associated with new subdivision development, the desire to live near work centers, and a desire to limit urban sprawl. 2/

1/ These, as well as most data in this section, are from Economic and Real Estate Report For South Florida, Economic Report Services Div. of Appraisal and Real Estate Economic Associates, Inc., July 1979.

2/ Ibid.

Condominium Conversions in Miami, Florida
January 1977 to September 1979





Range of Converted Units Per Census Tract

- 1-50
- 51-100
- 101-200
- 201-500
- 501-800
- 801-4000

259 Numbers are census tract numbers.

Condominium conversions have occurred in two waves in the SMSA. The first wave occurred in the 1970 to 1972 period when perhaps as many as 1,500 to 2,000 units were converted to condominiums. These conversions were aimed at sales to tenants and according to local experts, the average of tenants buying their units was at least 50 percent. The second wave of conversions began in 1977 and is still underway. More than 5,000 units were converted in the SMSA between 1977 and 1979. These conversions are aimed more at investors and non-tenants than were those in the first wave.

The rental market in the SMSA is extremely tight -- the current vacancy rate is one percent and turnover is rapidly decreasing. 3/ Important in this regard is that very little, if any, new rental construction is occurring and unless the market changes dramatically, none is expected in the foreseeable future. Much of the decrease in turnover is attributable to the conversion phenomenon since the availability of some rental units is reduced (leading to fewer units to absorb those who would otherwise move) and some tenants, fearing a possible conversion in any new building, choose to remain in current residences.

In 1975, slightly more than 50 percent of the households in the SMSA were homeowners (67 percent within the central city and 44 percent outside the central city). Condominium conversions have seen these percentages increase. At the same time, the total number of rental households decreased from almost 250,000 in 1975 (in the SMSA) to approximately 210,000 in 1979. A large majority of the households in both years was outside of the central city of Miami.

Demand

The Miami SMSA has been a leader in the condominium "movement". For many years, retired persons have moved to the area and found condominium living to their liking. As such, a demand for condominiums has been a major part of the Miami housing market dating at least to the early 1960's.

Except for the 1973 to 1976 period of overbuilding which Miami shared with most other places, the demand for condominiums continued unabated. Through the early 1970s, however, the demand for rental units equalled or exceeded the demand for condominiums.

3/ This vacancy rate may be somewhat misleading in that it does not include condominiums that are available for rent for all or part of a year. In the Miami SMSA, this can be a considerable number of units since many are owned by investors (usually South Americans) who are sheltering resources in the Miami housing market.

By the beginning of 1977, the oversupply of rental and condominium units had all but disappeared, the cost of single-family homes had begun to escalate, and the population continued to grow. All this led to increases in demand for lower cost homeownership alternatives, especially condominiums. At the same time, demand competition for condominium units arose from foreign sources seeking real estate investments as a way to protect income and from "snow birds" seeking part-time residence in Southern Florida. Some local experts estimate that as many as 40 to 50 percent of the units in some non-Federal Home Loan Mortgage Corporation condominium buildings have been sold to investors and there was virtual unanimity among experts that demand for condominiums from all sources will remain strong for at least the next few years. Experts point to the facts that the Dade County area is still growing and that young professionals, both single and newly married, are now buying condominiums units as evidence of a strong and growing demand for this product. 4/ This is true even though the monthly costs of owning a typical condominium now greatly exceed the typical monthly rental. In the first wave of conversions, rents and homeownership costs for the typical unit were roughly comparable.

There is not a strong middle-income demand for inner-city locations in the Miami SMSA nor is there any evidence that re-gentrification is going to occur. According to most experts, a necessary forerunner to any significant movement "back to Miami" would be an improved commercial network and greatly improved infrastructures, both physical and service oriented.

Supply

The notion of what constitutes a "convertible" property is the area of greatest disagreement among housing market experts and developers in the Miami SMSA. The resolution of this disagreement will determine both the type and number of conversions to occur in the area in the near future. According to some experts, there are very few rental properties of sufficient quality remaining in the area that are suitable for conversion and that, therefore, the issue has peaked. According to others, however, very few multi-family properties are unsuited to conversion and they expect the conversion boom to at least continue at present rates or perhaps to increase. The consensus appears to be that there will be some conversions in the near term but that the actual number of conversions undertaken

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4/ Prior to the late 1970s condominiums were occupied by older, retired persons or those seeking temporary leave from more severe climate.

will be more a function of the money market than of anything else. If the cost of money decreases, as most financial experts expect, then more conversions will occur. 5/ As more conversions occur and as demand remains strong (as noted earlier), rental properties that may have been considered as only marginal investments, either because of quality or location, may become more attractive. In fact, many properties have been bought by developers with the intention to convert but are being operated as rentals pending more favorable market conditions.

Except for the properties on Miami Beach, the kinds of multi-family buildings converted to condominiums have been garden apartments and other low-rise buildings. On the beach, many high-rise, luxury buildings have been or are being converted. There are very few high-rise buildings anywhere in the SMSA outside of Miami Beach. Most converted buildings are between seven and ten years old prior to conversion, and the economics of conversion are such that some of these were converted prior to being fully depreciated by the most recent, pre-conversion owners who still showed profits on the transactions. Converted units containing more than two bedrooms are the exceptions providing some insight into the household composition of condominium dwellers.

Conversions are occurring all over the SMSA not just in the central city or in a few suburbs. The current trend is toward the south and west of Miami but this is not to say that it will remain so for very long. Within the city limits of Miami, the consensus is that no more than five percent of the rental stock has been converted and that the percentage will not increase substantially. Outside the central city, the percentage may be as high as seven or eight percent. At one extreme, a savings and loan representative expects that as much as 50 percent of the rental stock in the SMSA will be converted but most developers expect no more than 10 to 15 percent.

Market Conditions

The rental market in the Miami SMSA is in serious trouble. Vacancy rates in most jurisdictions do not exceed one percent and turnover, which used to be substantial, has dramatically decreased. Most local experts agreed that conversions contribute to both the very low vacancy rates (decreasing the supply of rental units) and the low turnover rates (by inducing some renters to remain who might otherwise seek other rental accommodations). Contrary to expectations, however, low vacancy rates and continued strong demand for rental units have not caused rents to rise sufficiently to make rental operations a profitable endeavor.

5/ The cost of acquisition and rehabilitation will be lower as will the cost of owning an individual unit.

For many years, rents in the Miami SMSA remained low (due to a large supply and a high vacancy rate) and only in very recent years have rents begun to increase. Inflation, however, has more than eroded the income gains associated with these rent increases.

From the property owner's perspective, this has been the main cause of the condominium conversion movement. The property owner, noting that there is a strong demand for condominiums, has found a ready market for his/her property (in the form of converter/developers) and has found that the property can be sold for considerably more than its assessed value and for considerably more than it would bring if sold strictly as a rental property. 6/ Since profit on the sale of property to converters is taxed at capital gains rates and since there are no financial incentives to operate rental units (especially in those cases where most or all of the depreciation benefits have already accrued), many owners have sold their way out of the rental market. 7/

On the other side of the coin, low vacancy and turnover rates have not led to the construction of any new rental units in the SMSA. The costs of construction (for materials and labor), the costs of financing, and the expected rent levels that the market would bear simply do not add up to a profit position. A local savings and loan institution prepared an analysis of the cost of construction and the cash flow of a typical 50 unit rental complex and found that after debt service, the project would yield a negative cash flow of almost $43,000. Most every housing expert in the SMSA favors some change in the tax laws to provide incentives for the construction and operation of multi-family rentals. (Some specific suggestions are given in later sections of this report.) This situation, as well as the rationale for selling properties, given earlier, is not unique to the central city or to the suburbs but rather characterizes the entire SMSA.

The single-family housing market in the Miami SMSA is experiencing conditions not unlike those found elsewhere in the country. Prices for new and resale houses have rapidly escalated in the past few years as has the cost of land for new homesites. These rising costs and prices have served to make condominiums even more attractive as homeowning alternatives

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6/ Lending institutions have not been adverse to making loans on property greater than assessed value since they know that the property is to be converted and will yield sufficient cash flow to retire the loans.

7/ Some developers feel, however, that inflated asking prices for multi-family properties (as a result of the "condo boom") may mitigate any rise in the conversion rate. Prices may just be too high, in some cases, to warrant the risk.

in an area where they were already attractive. Condominiums are replacing smaller, single-family detached units as the "starter" house for many people and are being viewed as the only way to begin developing equity in real estate. Important also is that new single-family houses, where built, tend to be further from work centers and, therefore, appear less attractive than they would otherwise be. Most local experts agreed that sales of condominiums, including conversions, have already impacted, or will soon impact, the traditional single-family detached market. Although mortgage money is available in the SMSA to support single-family sales (assuming that applicants can meet stricter requirements), it appears as though the typical loan portfolio is shifting in favor of condominiums despite the fact that single-family sales have not dropped sharply.

There is little doubt that developers perceived the rising costs of single-family houses as spurring the demand for condominiums and found that they could provide units faster and at lower cost through conversions rather than through new construction. In a sense, the developers created a strong demand, among themselves, for multi-family properties which, in turn, made it profitable for property owners to abandon the rental market. One market expert noted that a converter could experience a 50 percent return over his cost of acquisition and rehabilitation with just minimal marketing. The converter's return on his equity (exposure) would be significantly higher.

As noted earlier, most local experts expect that interest rates will decline to perhaps 10-1/2 to 11 percent by May 1980 and then level off after that. If this does occur, most observers feel that conversions will increase and that condominium sales may then have an increased impact on the single-family market. This will be due to the fact that multifamily properties will be easier to acquire (lower cost wrap-around mortgages for acquisition) and cheaper to rehabilitate (lower cost bridge loans). Lower financing costs will also cause "marginal" projects to be converted. These converted units will find a strong and growing demand for housing in the price range at which they will be offered.

Government Regulations

In Florida, the state has reserved the power to regulate condominiums -- no jurisdiction in the Miami SMSA has any local ordinance governing condominiums or conversions and only Miami Beach has attempted to regulate conversions. The state law deals only with disclosure and the time current tenants must be allowed to decide whether to buy or move when faced with a conversion. The disclosure provision of the state law deals with the soundness of the building and its major systems (as attested to by a required engineering inspection report) and with termites (as attested to by a required termite inspection report). The time limit provision allows a tenant 180 days to decide whether to buy -- recently increased from 120 days. These provisions have had little, if any, impact on the rate of conversions or on the character/quality of conversions anywhere in the SMSA. The reasons include: (1) most developers in the area provide at least 180 days since it allows them sufficient time to convince tenants of the virtues of homeownership; (2) many developers prefer selling to tenants for many reasons; (3) higher "in-place" sales is good public relations for the next conversion; and (4) more pre-sales allow for more favorable financing terms for bridge loans.

Even though the state law attempts to protect tenants through disclosure, inspections, and the honoring of existing leases, some difficulties have developed. In some cases, for example, units have been sold to foreign investors who are required to honor existing leases. But when maintenance problems arise for the tenants in these units, the resident property manager refers the tenants to "landlords" who may be in South America, Canada, or some other unreachable place.

On the local scene, only Miami Beach has attempted to provide some local control of the rental market. Rent control does not exist in any of of the 27 jurisdictions in the SMSA and is not likely to exist in the near future. Miami Beach's attempt at rent control was ruled unconstitutional. Most experts view the court's ruling in this case, and the state's preemption of the issue through its Condominium Act, as prohibiting any local action. About the only local regulation to exist is on the county level and it requires a certain number of parking spaces per unit in new and converted condominiums. It is conceivable that future building code and zoning ordinance regulations may come to pass but their impact will be marginal, at best. Certainly nothing like a local moratorium on conversions is expected. It is surprising, however, that many local experts rated "the possibility of rent control" as an important cause of conversion.

What is likely to occur is further effort on the state level to regulate condominiums. These regulations will emphasize consumer protection issues but if passed, may impact on the rate of conversions. Some of the items expected to be introduced at the state level include:

- protection for citizens 62 years and older by providing them with the right to some extension of existing leases;
- requiring a minimum percentage of tenants to approve the conversion prior to its undertaking; and
- providing additional guarantees and warranties to condominium unit buyers.

One observer estimates that these provisions have an excellent chance of being incorporated into state law by next year. Their impact, however, is not at all clear. The first measure may simply lead property owners to avoid renting to senior citizens or to look for ways to sell property while the other measures are already incorporated into the standard procedures of many developers.

Effect on Households

In the Miami SMSA, only one of the two groups of tenants typically thought of as being adversely affected by conversions is experiencing any difficulties. Very few, if any, buildings that house low- or moderate-income households (one of the groups usually affected) have been or are being converted. Therefore, these households could only be affected if there was some filtering down of renters who, when faced with a conversion and a dwindling supply of rental units, increase the competition for rentals serving low- and moderate-income households. There is no evidence, however, that this has occurred.

The other group -- the senior citizens -- are experiencing difficulties but even here, their experiences may not be typical of the experiences in any other SMSA. Many of the buildings that have been converted, especially those in Miami Beach, are luxury buildings with high rent levels. The incomes of households in these buildings are such that they could probably afford to buy (especially with some help from family members) but have chosen to rent. Many of these households are comprised of senior citizens who have developed "set" lifestyles and patterns but who are now faced with essentially "non-economic" difficulties and decisions. They are renters who are finding that for basically non-financial reasons, they cannot continue to do so unless they double-up, move to significantly different locations within the SMSA, or leave the SMSA entirely. These things are occurring to some extent but since most of them moved to their present locations because of the proximity to the ocean (and the warm climate), many are buying their units perhaps to an extent much greater than in any other SMSA. Estimates of "buyers in place" range between 20 percent for some buildings to as much as 85 to 90 percent for others. The most typical is that 30 to 35 percent of renters choose to buy their units rather than move out. In the first wave of conversions (in 1970 to 1972), the average was as high as 50 percent.

According to most experts, there are no socio-economic differences between those who choose to buy and those who choose to move. In fact, many of those who choose to move become owners anyway -- they just choose not to buy in the buildings they occupied as tenants. Most experts also agreed that there were no significant differences among those who "bought in place" and those who bought units as outsiders.

Most converter/developers are providing at least the minimum 180 day notice required by state law and in some cases, tenants are being offered longer periods of time in which to make decisions. No converter is providing relocation financial assistance and few, if any, are providing tenants with leads on other rental units. Many converters are, however, providing discounts and other incentives aimed at inducing tenants to purchase their units. Some are also arranging for tenants to stay on as renters when their units are being purchased by investors -- albeit at higher rent levels.

Effect on Tenants

Tenants in the Miami SMSA are not very active. Only in Miami Beach is there a visible tenant association but even there, the group has not actively sought to stem the conversion rate. Rather, the association, chartered by the State of Florida, seeks to promote the tenant/landlord relationship, to answer tenant questions, and on occasion, to provide attorneys who offer legal assistance in certain matters. On occasion, the association has met with converters and asked for more "time" to allow tenants to seek alternatives, especially "during the season." The group has been successful in convincing some converters to refund security deposits when tenants, facing conversion, find suitable alternatives and want to leave prior to the expiration of their leases.

During the first wave of conversions, in the early 1970s, tenant fear and disorganization were not the norm. Converters targeted their sales compaigns at tenants and in response, tenants gained certain concessions like additional warranties on major systems. In addition, tenants were able to take title to their properties without having to agree to 99 year ground and/or recreation leases. These leases have proved to cause significant financial problems for condominium buyers in later years since in the typical case, the developer entity would create companies to manage grounds and recreational facilities at yearly costs that escalated far above the actual value of the properties. This is due to the typical management contract granting yearly increases in management fees to keep pace with the cost of living -- in essence, the value of these contracts doubles every five to seven years. In very recent years, the use of these leases has disappeared.

For those households who can afford it (but choose to rent), the major problem associated with conversion consists of the decision whether or not to buy. As noted earlier, this is more often non-economic decision that deals more with changes in lifestyle than with finances. A decision to continue renting often will necessitate a change in location which runs counter to the original decision to live in the present unit. For those households unable to buy, the major problems are more serious including having to compete for a dwindling supply of supply of units (with rising rents) some of which they will not be able to afford, and with changes in location and quality of housing. Most experts agreed that for households in this category, i.e., the elderly on fixed and small incomes, comparable housing will generally not be available.

In only one case have tenants been successful in purchasing their own building. Approximately six years ago, tenants in a rental building in Surfside purchased and converted their own units to condominiums. Cooperatives have never been popular in South Florida and are not expected to become so in the foreseeable future.

Effects on Housing Market

In general, conversions have led to an across the board increase in rents and to a tighter rental market. This has occurred in several ways. The first is a normal function of supply and demand in that when supply decreases, as a result of some units being removed from the market, and demand remains constant or increases, prices will increase. In other words, most experts in the SMSA agreed that conversions have resulted in fewer available rental units and that those remaining on the market to meet a strong demand command higher prices. In this sense, price (rent) serves as an allocation mechanism. The second is that many converted units are bought by investors who return them to the rental market but at rent levels higher than the pre-conversion levels. This is to cover the debt service unit owners are paying on mortgages. A third way impacts on market tightness; as demand increases and supply decreases, the number of of vacancies at any given time is likely to decrease, the turnover rate is likely to decrease, and the market becomes tighter.

Renters in middle- to upper-income categories in all neighborhoods within the SMSA face these problems, but as noted earlier, the elderly are more seriously affected. Low- or moderate-income households have not been affected by the supply problems and the tight market in the same way as others, since rentals serving them have not been converted in the Miami SMSA. It is possible, however, that the general rise in the rent levels throughout the SMSA has caused them to pay a greater percentage of their income for shelter. It is conceivable also that in the future, an expanded rate of conversion will see these households facing competition for their units from higher income households stepping down (filtering) in quality in order to continue renting.

Most experts agreed that speculation in the Miami real estate market has driven up prices for convertible properties and for converted units. In some cases, developers exacerbate the situation by withholding some units from the market for sale later when they "expect" prices to be higher (regardless of the actual movement in prices).

Effects on Neighborhoods

Most housing experts in the Miami SMSA agreed that conversions played no role in any revitalization of any neighborhoods in the area. As noted earlier, these experts felt that before housing of any sort can play a revitalization role, commercial and infrastructure systems would have to be improved. Since there appears to be some private re-investment in the commercial establishment in some parts of the SMSA, it is possible that housing (and perhaps conversions) will play some future role.

Condominium conversions do not have any effect on income, race, or age mixes within buildings or within neighborhoods. As noted earlier, those who buy in place do not differ from those who move out or those who buy in when a building is converted. There is some disagreement among experts, however, as to whether conversions lead to more stable neighborhoods. According to some, those buying into a building (and to the neighborhood), along with a high percentage of investor-owned units on the rental market, results in a mix of owners and tenants who do not share a sense of community with those already in the building and, therefore, will not aid in the creation of stable neighborhoods. Others feel that since a condominium conversion increases the number of households who are owners rather than renters, these new owners will seek to protect their investments and contribute to more stable neighborhoods.

There is no doubt that the local tax effect of the typical conversion in the Miami SMSA is to increase the property tax base and, therefore, to increase the total "tax take". In almost every case, the sum of the assessed values of individual units (after conversion) is larger than the assessed value of the property prior to conversion. In some cases, usually where very small properties are converted, the after conversion tax liability can be smaller. This occurs when the owners of record of the new units qualify for homestead, disability, and senior citizen property tax exemptions which can amount to a reduction of over $10,000 in the value of the property used to compute actual tax liabilities.

Relationship to HUD and Policy Alternatives

To date there has been no involvement or relationship between HUD programs and condominium conversions in the Miami SMSA and most experts do not expect any in the foreseeable future. These experts, especially those in the public sector, however, do see a role for the Federal government. This role is not in regulating or controlling conversions -- they all prefer that the Federal government maintain a hands-off policy in favor of state control -- but rather is in providing incentives for the development of more multi-family housing. In essence they suggest that the Federal government should create a climate whereby investment in multi-family housing could be profitable. This attitude is indicative of the general feeling existing in the SMSA that conversions per se are not the problem but that the lack of new rental housing is. It is also indicative of the fact that experts foresee no new multi-family construction, especially for moderate-income households, without Federal intervention.

Some of the specific proposals under discussion in the SMSA, most of which address Federal policy and tax laws, include:

- Recommending 300 percent declining balance depreciation (triple declining balance) rather than the maximum allowable 200 percent. This would stimulate investment in multi-family housing since it would improve the profit potential.

- Allowing capital gains tax treatment of depreciation allowances. Again, this would improve the profit potential.

- Allowing the immediate deduction of construction loan interest charges, rather than ten year amortization. This would improve the cash flow position of a project.

- Allowing a part or all of rent payments as income tax deductions. This would induce more households to remain as, or to become, renters, would greatly increase the demand for rental housing, and would allow for a substantial increase in rents perhaps to a level sufficient to make rental properties profitable endeavors.

- Providing graduated property tax payments for new multi-family projects allowing smaller payments in earlier years and larger payments in later years.

The effects of these proposals on condominium conversions are unclear. It is possible, for example, that if a substantial number of new multi-family rentals were available, the demand for condominiums could abate and the profitability of conversions could diminish. On the other hand, new multi-family rentals may just serve to increase the number of properties suitable for conversion especially if the demand for condominiums remains strong. A third possibility is that the demand for both rentals and condominiums would remain strong enough to clear both markets without any appreciable effects on the rate of conversion.

The Conversion Process

There are between 15 to 20 converter/developer entities active in the Miami SMSA but approximately five of them do the bulk of the conversions. Most of these are doing other real estate business as well as conversions.

The typical conversion package will involve three phases for financing: acquisition, preparation for marketing, and actual marketing. The larger developers typically use local lending institutions to finance acquisition (at two points over the prime interest rate) but experience difficulties arranging for wraparound acquisition mortgages especially when the first trust is held by an insurance company or a pension fund. Most savings and loan institutions do not provide acquisition loans since they have a history of appraising property at rental value rather than post-conversion sales value. In most cases, however, the amount of developer equity exposed in a project is small and the exposure is usually for less than one year. One large converter/developer gives purchase money mortgages, having sufficient resources in the firm to back them up.

Rehabilitation, repair, and replacement costs in the typical conversion are not major expense items and in some cases are covered by the firm's resources. In other cases, short term loans cover these costs -- again at two points over prime. Most converters arrange for a package of end-loan financing through local savings and loan institutions to whom they refer prospective buyers.

In some cases, converter/developers will use specialists for various phases of the conversion process. Some will use research firms to prepare general analyses of the real estate market or for analysis of a particular building (in terms of comparable "other" buildings). Others will use assistance in locating potentially convertible properties while still others will employ specialists to help prepare and market converted units.

Field Report

Conversion Activity in the Milwaukee, Wisconsin SMSA

Background

Conversions have not been a significant phenomenon in the Milwaukee area housing market over the last ten years. They have become more prevalent since 1977, but even so, conversions have been relatively few in number.

Between 1970 and 1979, approximately 1,600 rental units were converted in the greater metropolitan area, with about one-half in the City of Milwaukee and the other half in the suburbs of the SMSA. (The 1975 Annual Housing Survey indicates that approximately 25 percent of the housing outside the central city is renter-occupied, which means that Milwaukee's conversion activity has not been concentrated in the area with the greater rental/owner ratio.) In three years 1977-1979, approximately 1,000 units, or over one-half of the total for the decade, were converted. Conversions within the city have not been concentrated in the downtown area, but more often are in the outer city areas or along Lake Michigan. Conversions have not, therefore, been associated with any substantial "return to the city" movement.

Various reasons were suggested for the low level of conversions to date in the Milwaukee area. According to several local officials and real estate representatives, condominiums generally were not very popular until recently. Bankers involved in financing conversions emphasized the "conservative nature" of the major actors in the Milwaukee housing market and the strong tradition of the single-family detached home. In addition, the plight of new condominiums built in the early- to mid-1970s and marketed during the 1974-1975 recession discouraged many rental conversions.

A second reason given for few conversions is that downtown Milwaukee is not perceived as a highly desirable place to live. Access to the downtown area is relatively easy -- not more than a 15 minute drive -- from most of the suburban areas. One luxury high-rise condominium, The Regency House, is located in the downtown area. It was converted by American INVSCO whose principal conversion experience was in Chicago where demand for inner city luxury housing is strong. According to several local officials and bankers, sales at The Regency House were slow in coming because of the weak demand for inner city living -- especially among those income groups capable of paying the purchase price of the units.

A third reason for low conversion activity is that rents in the city remain relatively low. City officials argued these low rents were in part due to the city's population loss and in part to the significant presence of many two- to four-unit apartment buildings. Usually, the owner lives in the building and has a long-standing relationship with some or all of the tenants. Landlords are presumably reluctant to raise their rents because of their fear of angering good tenants who may be friends. Thus, while no official rent control exists in the city, local officials note a kind of unofficial rent control with these "mom and pop" or "family affair" rentals. The alleged consequence is to decrease potential demand for ownership among renters because the tax advantages of ownership are not perceived as outweighing its higher costs. From the landlord's perspective, conversions should be a profitable alternative to continued use of these buildings as rentals, but most of these small landlords are not converting.

One housing planner (who believes there may be significant "mom and pop" conversions in the future) suggested a fourth reason for the relatively low level of conversion: new condominium construction activity. According to him, new condominiums have the edge over converted units in the condominium market, with new-construction costs relatively low. But converted units may become more popular in the future.

Last, several observers felt that the strong preference of most households for a single-family detached home acted somewhat as a deterrent to demand for converted condominium units. While the cost of such single-family homes is increasing, they are more affordable in Milwaukee than in other metropolitan areas. Everyone agreed, however, that this was beginning to change, but this is leading to new condominium construction rather than conversions.

Demand

Demand for condominium units is considered fairly good but does not approach the level of demand experienced over the last two years in Chicago. Appreciation on condominium units has averaged between 12 and 15 percent annually in 1978 and 1979 -- slightly more than the appreciation rate for single-family homes. Most of those interviewed believed prices were not being driven up by speculative fever. Investor owned units comprise a very small proportion of total units primarily because the banking community hesitates to make loans to such buyers, and because investor demand is simply not high.

Profiles of the buyers of converted condominium units are as expected. The luxury units, particularly those in downtown Milwaukee, contain the elderly, empty nesters, and single middle-aged professionals, while suburban conversions attract younger couples who use the condominium as a means of building up equity for future purchase of a single-family detached home.

According to an assessor who maintains records on all condominiums in the Milwaukee metropolitan area, there has been a big switch in buyer demand from 1974. While three- and four-bedroom townhouses were the "darlings" of the condominium market in 1974, the demand now is for smaller two-bedroom townhouses, along with units in both walk-up and elevator buildings. The reasons he suggested for this switch were the desire for security, and more important, the prevalence of single buyers. His statistics revealed that single person households constituted over 60 percent of all sales and resales of condominium units (new and converted). Overall, the buyers attracted to condominiums and those attracted to single-family detached homes differ.

The demand for converted and new condominium units has slowed recently because of the high mortgage interest rates, but sales continue. Several developers have obtained end-loan commitments at relatively reasonable interest rates for purchase of converted and new condominium units. In fact, condominium sales are doing better than sales of single-family homes. However, one banker predicted that as soon as these current projects have sold out, the conversion market will halt. As of March 1980, there were no lenders providing interim financing to conversions unless converters had obtained end-loan commitments, and savings and loan institutions were not giving such commitments. The banker predicted that conversions would slow by the fall of 1980 unless interest rates decline significantly.

Supply

A very small proportion of the rental supply in the Milwaukee SMSA has been converted to date: about one third of one percent of all rentals. Most of those interviewed believed the rental market was very soft in the city--one rental vacancy estimate was ten percent--and is a factor in landlords' reluctance to increase rents. However, this view of the rental market is somewhat at odds with the rental vacancy rate reported in Milwaukee's Housing Assistance Plan (HAP) for 1978/1979. According to the HAP, the vacancy rate was 5.3 percent for the city, a rate only slightly above the national norm, and one which is not indicative of a very "loose" rental market. New rentals are being constructed but most of them are subsidized housing for the elderly.

Most of the buildings selected for conversions are either garden-style apartments or townhouses. Few high-rise buildings, mostly in the city, have been targeted. This pattern reflects the predominant characteristics of the rental supply in the Milwaukee SMSA.

Conversions seem to divide into two major groups according to several real estate brokers involved in conversion projects: (1) those buildings or apartment developments with a history of good management and located in good neighborhoods and (2) those buildings or apartment complexes which have been poorly managed in the recent past and which have a poor image but which are located in or near good neighborhoods. This second category is somewhat atypical of national experience in certain respects. The buildings in the first category are primarily upper income rentals.

One conversion of the first type was undertaken solely by the landlord, an interior designer by occupation. He decided to convert his building after his experience working on the interior design of a building being converted in Washington, D.C. The building in question was constructed in 1919 and contains 16 units, 12 of which have three or four bedrooms. Having been fairly well-maintained, it did not need major rehabilitation. The landlord spent between $60,000 and $70,000 to cover installation of a new security system, carpeting in the common areas, painting and a few other miscellaneous repairs. The four bedroom units, which rented for $350 to $400 per month prior to conversion, sold for $45,000. In six months, the landlord had sold all of the units, with 50 percent of them purchased by tenants in the building.

Another example of the first category of conversion was undertaken by a developer. This was a 75 unit high-rise building located along Lake Michigan near downtown. It sold out in six months with 23 percent of the units bought by existing tenants at a ten percent discount. Between $50,000 and $100,000 was spent on mostly cosmetic rehabilitation. One bedroom units renting for $250 to $260 per month prior to conversion sold in the high $20,000s.

The second type of conversion is less prevalent but still a significant phenomenon in Milwaukee. Riverside Terrace was the name of a garden-style apartment complex with 132 two bedroom units. Re-christened "The Glades," it is being converted, with 50 percent of the units sold as of November 1979. Characterized as a "disastrous rental" by the converter -- high rent delinquency, vandalism, shootings, and poor maintenance -- conversion was described as a source of salvation for the complex. Only five of the units have been sold to tenants and 127 tenants have moved out, presumably because they could not afford the cost of purchase even with the $1,000 discount offered to tenants. Rents for the two bedroom units were $206 per month prior to conversion, and the sales prices ranged betwen $33,900 and $39,900 at the time of conversion.

While the building had been poorly maintained, little rehabilitation was undertaken at the time of conversion. According to the developer the complex was only 19 years old and in pretty sound condition. Thus, the units were sold basically "as is", with some redecorating, painting and carpeting. Unit sales were reported to be proceeding but not rapidly; the agent involved in selling the units said "Milwaukee is on the other side of the world from Chicago." His company was hoping for a ten percent return on its investment, but he was not sure it could reach that goal.

This conversion was not part of any neighborhood revitalization effort since the complex was located in a fairly good neighborhood. It was described as having been a "sore thumb" in the area. Conversion, was not instrumental in bringing about physical rehabilitation (which was not needed) but it changed both occupants and management. A relatively low-income rental before conversion, it became a moderately priced condominium attractive to middle income households after conversion. The developer indicated the reason for choosing to convert this particular apartment complex was its relatively low acquisition cost.

There was a consensus among those interviewed on the reasons behind the decision to convert a building to a condominium. Most of those involved in Milwaukee conversions indicated that, while most of the rental buildings being converted were doing well in cash flow, the expected return to the landlord, either from sale of the building to a developer, or from converting the building himself, exceeds the return from the building as a rental. One developer indicated buildings sell for approximately 25 percent more as potential conversions than as rentals.

Government Regulations

The State of Wisconsin has had some sort of condominium regulations since the 1960s, and over the years these regulations have been amended to expand the protection offered tenants and consumers. The most recent change in these regulations became effective in August 1978.

The state requires that a condominium declaration be made at the time of conversion. This declaration must contain the name and address of the condominium, a description of the land on which it is located, a description of each unit and the common elements, as well as other details in connection with the property.

In addition to this requirement, which affects both new and converted condominiums, the regulations also provide for certain tenant protections. A residential property may not be converted to a condominium unless the owner of the property gives 120 days prior written notice of the conversion to each of the tenants of the building or buildings scheduled for conversion. The tenant also has the exclusive option to purchase the unit for a period of 60 days following the date the notice is delivered.

The state regulations also provide for selected consumer protection. For example, the condominium association may terminate contracts or leases entered by the converter, such as management or employment contracts and leases for recreational or parking areas, with at least 90 days' notice to the other party. Also, not later than 15 days prior to the closing of the sale of each unit, the owner/converter must furnish, among other things, a copy of the proposed declaration, condominium bylaws and any rules or regulations, a copy of any proposed management contract, employment contract or other contract affecting the use or maintenance of the condominium, a copy of the projected annual operating budget, and data on any contemplated expansion of the condominium.

No additional local ordinances are in effect throughout the Milwaukee SMSA, nor do local officials anticipate any will be enacted in the near future.

Effects on Tenants

Tenant-related concerns are not at the forefront of the conversion phenomenon in Milwaukee. Little or no organized tenant opposition to conversions was reported, in spite of the existence of fairly strong tenant organizations. None of the city officials believed conversions are contributing to serious displacement of the elderly or are aware of any complaints by tenants, nor have tenants been involved in any attempt to purchase buildings in order to convert them.

The proportion of rental tenants buying units varies with the type of building being converted. If the apartment complex was a "troubled" rental prior to conversion, the proportion of tenants purchasing varies from 5 to 15 percent. Better maintained buildings with higher rents have a higher proportion of tenant purchase, although, even in these buildings, the figure varies from 23 to 50 percent (estimated).

While most developers or landlords offered tenant discounts, none of those interviewed offered any relocation assistance, and believed tenants had little difficulty in finding alternative housing. Moreover, with the small number of conversions, even if these problems exist they are of little magnitude.

Effects on Housing Market

City officials, real estate representatives, and bankers believed conversions were good for the city's tax base. Several indicated that the assessments on the converted buildings actually doubled. Nevertheless, the overall impact of conversions on the local tax base is probably not very significant because of the small number of conversions. No systematic information on this question, was available from local officials.

Effects on Neighborhoods

Conversions do not play a major role in neighborhood revitalization either in the city or suburbs, nor are conversions perceived to be a force drawing substantial numbers of middle class households back into the city. Most of the middle class couples who buy condominiums wish to live in the suburbs, though a few middle class singles do buy in the city.

In most cases, racial and economic profiles of neighborhoods have remained the same after conversion, because few neighborhoods have had any concentrated conversion activity and because most conversions are in better buildings in good neighborhoods. In low- to moderate-income rentals, the make-up of the tenancy changes dramatically. However, those interviewed had no systematic evidence on the extent to which this has changed neighborhood composition.

The degree of rehabilitation at the time of conversion is usually limited to cosmetic improvements. It was argued that most converted buildings in Milwaukee do not require extensive rehabilitation. Even those low- or moderate-rent buildings which have not been well-maintained only receive cosmetic improvements. According to the developer involved in these latter conversions, the buildings were relatively new and not in terrible shape; only minor repairs were done in order to keep purchase prices low.

The same developer also noted that conversion could prevent some neighborhoods from "turning bad". Conversion would result in better management and long-term maintenance for those buildings which had become neighborhood sore spots. In sum, neighborhood effects appear to be minor, except in those cases where the economic status of the tenancy in large apartment complexes changes.

Relationship to HUD and Policy Alternatives

No HUD subsidized projects are known to have been converted. However, at least one HUD-insured apartment complex, Riverside Terrace, was in the process of conversion as of November 1979. No other HUD-related properties are being converted.

When asked about policy preferences, city officials, bankers, and real estate representatives uniformly agreed that the Federal government should not regulate, and certainly not impose an outright moratorium on, conversions. A strong consensus existed among all of those interviewed that state and local levels of government should regulate conversions if any regulations should be enacted at all. Most of those involved in conversions were satisfied with the revised state regulations.

The Conversion Process

The conversion process has several variations in the Milwaukee area. Many conversions involve the acquisition of an apartment building by an outside developer who then handles all aspects of the conversion. An example of this type of conversion process was the Regency House in downtown Milwaukee (converted by American INVSCO). Other conversions exclude the developer -- that is, the landlord does the conversion alone. This process is less frequent and usually typical of smaller buildings. A third conversion variation includes the landlord as a central actor working with a real estate agent who provides technical and marketing expertise. One real estate broker in Madison, Wisconsin, had been involved in several conversions, acting as the landlord's representative. Unlike the developer who buys the building from the landlord, the real estate agent performs the role of a broker and marketing agent for the landlord.

Overall, the conversion process in Milwaukee is rather straightforward. While Wisconsin has state regulations, they do not seriously delay or complicate the process. For instance, there is no statutory tenancy for the elderly, nor is there a required number of tenants who must purchase, or a regulation that constrains the number of conversions in an area to a particular vacancy rate.

Field Report

Conversion Activity in the Minneapolis-St. Paul, Minnesota SMSA

Background

Condominium conversion in the Minneapolis-St. Paul metropolitan area is a very recent phenomenon and has occurred primarily in the suburbs, rather than the central cities. Nevertheless, conversion has become a fairly important political issue in both cities, particularly in Minneapolis -- which has recently completed a below-market interest rate loan program designed to enable conversions there. In St. Paul, most of the conversions have occurred in an historic district which had experienced a significant decline but in the last ten years has been "rediscovered" and hence rehabilitated. The questions of gentrification and displacement are major issues, and two recent studies have addressed these issues in connection with single-family home revitalization and condominium conversions.

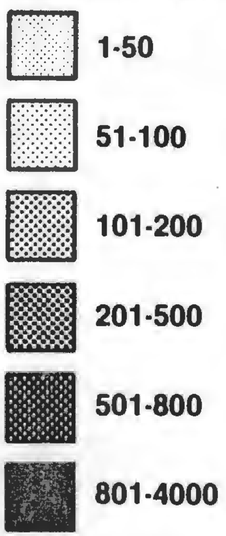
HUD's Economic Market Analysis Division (EMAD) prepared a Twin Cities market report earlier this year, and the findings help to set the context for condominium conversion. The overall economy of the Twin Cities is strong and diversified. In 1979, there were 171,600 more families earning above $25,000 per year than there were in 1970. While there has been little population growth (117,170 added since 1970 for a population in 1979 of about 2.2 million), there has been a considerable increase in the 30 to 39 year old age group. Whereas growth in most major age groups since 1970 has been 6 to 8 percent, it has been 41 percent for this baby boom cohort.

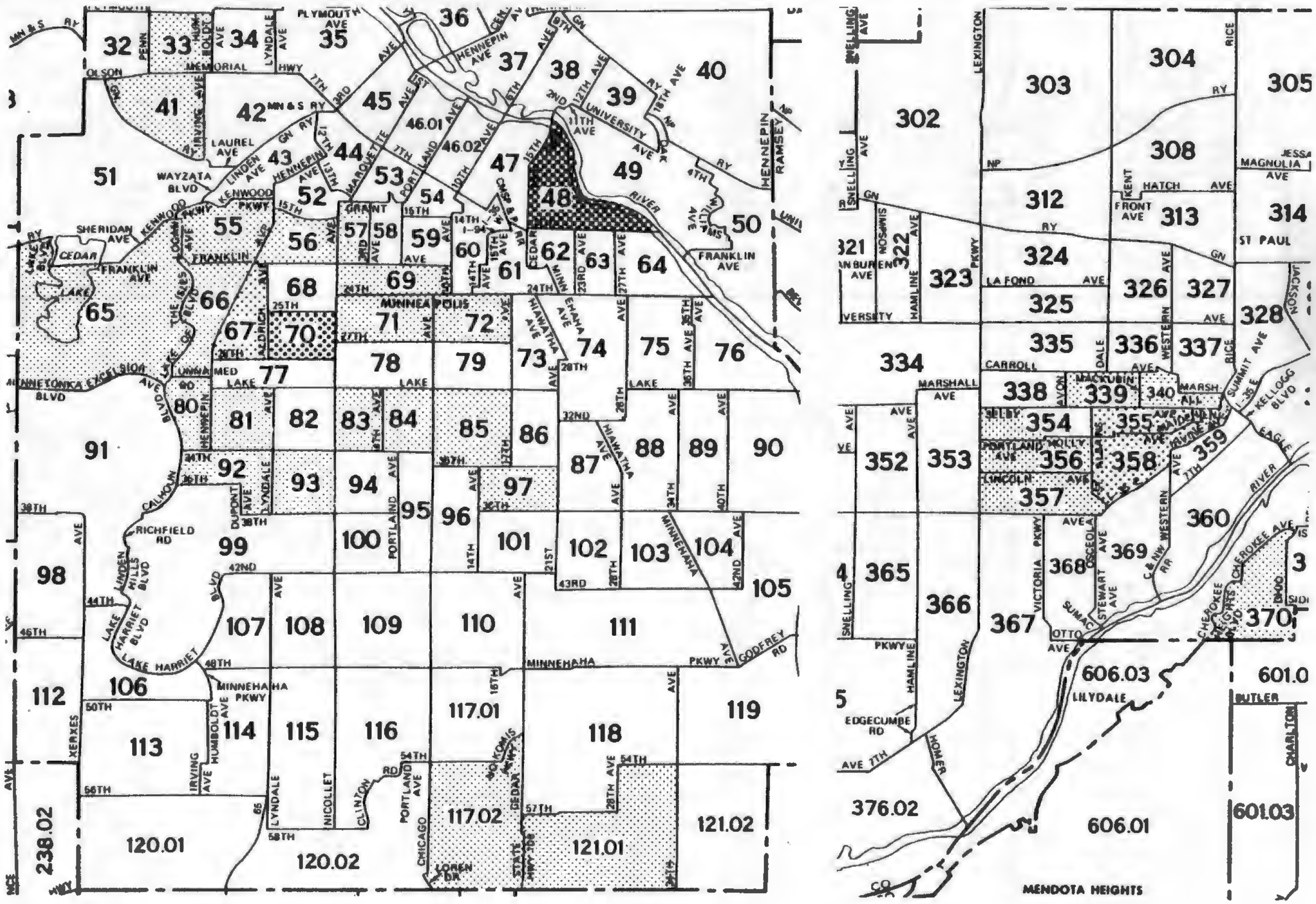
Although the population increase in the 1970s was lower than in the 1960s, the rate of household formation has not slackened. Of the 12,500 households added each year, about 70 percent are in the form of individuals living alone or with other nonrelated individuals. Consequently, the average household size has decreased from 3.2 persons in 1970 to 2.86 in 1979. In the cities of Minneapolis and St. Paul, the average household size has gone to 2.29 and 2.41, respectively. Clearly the increase in disposable income in the Twin Cities area, combined with a great growth in smaller, younger households, is having a tremendous impact on the housing market there.

On the supply side, conditions in the Twin Cities are similar to those in other metropolitan areas. Since 1970, there has been a great deal of fluctuation in housing production, and while the total amount of housing produced in 1978 does not differ greatly from 1970 production, the ratio between single-family and multi-family housing has been immensely altered. In 1970, 64.4 percent of total production was multi-family, compared to 22 percent in 1978.

Condominium/Cooperative Conversions
Minneapolis-St. Paul, Minnesota
January 1977 to September 1979

Range of Converted Units Per Census Tract





417 Numbers are census tract numbers.

Yearly multi-family production has fallen from 18,340 units in 1972 to 4,630 units in 1978. Because population size has increased, this has resulted in an increased tightening of the housing market. While there was approximately a 7 percent rental vacancy rate in 1972, the 1978 figure was about 2.9 percent (EMAD citation of Apartment Outlook Survey). The tightening of the multi-family market has permitted rents to rise about 8 to 10 percent a year since 1976 and landlords to be more selective.

All these general market conditions have combined to create a climate favorable to condominium conversion. Table 1 shows the conversion of apartments for each year for Minneapolis-St. Paul combined and for the suburbs:

Table 1

Twin Cities Condominium and Coop Conversion
(in Dwelling Units)

Year	Minneapolis-St. Paul	Twin Cities Suburbs
1970	34	0
1971	12	0
1972	18	51
1973	568	217
1974	48	0
1975	57	313
1976	54	199
1977	142	1,191
1978	198	1,944
1979	667	2,071
	1,798	5,986

Total All Places = 7,784

Sources: Discussions with local public officials.

Apparently, the majority of conversions have occurred in the Twin Cities suburbs and, except for 1973 (an unusual year because of the conversion of one 512 unit building), conversions did not reach significant levels in the central cities until 1979. Most of the activity has been in the western suburbs such as St. Louis Park, Edina, and Bloomington. As would be expected, these are suburbs of higher than average income and are generally regarded as very attractive places to live. In Minneapolis, conversions have been concentrated in a number of neighborhoods forming a semi-circle south of the central business district. This area consists primarily of single-family houses interspersed with small multi-family buildings. In St. Paul the situation contrasts strongly with Minneapolis, since nearly all of the conversions have taken place in a single area generally known as Historic Hill, a bluff overlooking the central business district which contains many architecturally significant older homes and apartment buildings.

Finally, there have been a number of cooperative conversions in the Twin Cities area, primarily in the period prior to 1977. Most, if not all, of these were aided in their conversion by the city's Apartment Home Ownership Program (which will be discussed in the section on regulation).

Demand

Demand for condominiums in the Twin Cities area appears to be quite strong and likely to remain so. The reasons for this should be clear given the demographic evidence on household formation in the 30 to 39 year old age bracket, the high costs of single-family dwellings and the growing interest in either central city living or maintenance-free living.

As in other metropolitan areas, there appears to be strong demand for condominiums expressed by several groups: empty nesters and young singles or couples without children. Many of the young singles are women who are now able to purchase units because of the liberalization of mortgage lending requirements since 1976. It appears that younger professionals are more strongly involved in the central city markets because they seem to have a greater desire for central city living. This is especially true in the Historic Hill area of St. Paul. The suburbs appeal more to the empty nester couple who have sold their single-family home, often in the same community, and now want to enjoy maintenance-free living. A number of these are also snow birds and have used the money they earned from selling their houses to purchase condominiums in both the Twin Cities area and in the Sunbelt.

According to one market analyst, there should be about 1,500 to 3,000 units converted per year in the future. New construction, encouraged by the increase in prices of multi-family units, could lessen the demand for converted units, leading to a softer market by 1981. In general, however, this analyst foresees a strong demand for the next three years and also believes cooperatives will become more popular in the next two years. There have been several HUD 207 projects converted to cooperatives recently; one was a high rise that sold out in four months. In general, it appears that there is fairly strong demand by middle income groups for central city living.

Supply

The market analyst quoted above suggests that there are three major grades of rental properties--type A, B, and C--and that the Twin Cities do not have as many of the two better types, A and B, that some other metropolitan areas have. The Type A building represents the best rental projects, with the best construction, parking, amenities, and an excellent rental reputation. This analyst believes all Type A buildings in the Twin Cities have been purchased for conversion to condominiums. This leaves the Type B projects which have had a good rental history, but lack Type A detail work of sound control, use of concrete between floors, and landscaping. These types of buildings will provide the source of conversions in the next three years, but the degree to which this portion of the market will be converted depends upon how much rehabilitation costs increase over what they were for Type A buildings.

There are very few residential high-rise buildings in the Twin Cities area: consequently, most of the conversion has taken place in low-rise (usually two- to three-story) buildings. In the suburbs, the buildings are newer, garden type apartments, often with underground parking and security protection. In Minneapolis, both older (40-50 years old) and newer (ten year old) buildings have been converted, mostly low-rise. Some older hotels in or near downtown are being converted as well as some older luxury apartments located in the Lake area in the western part of Minneapolis near St. Louis Park. In St. Paul, nearly all the buildings are fairly old. Some were built as apartment buildings while others are townhouses. As suggested above, these buildings have an architectural and historical distinctiveness that makes them especially attractive.

The proportion of multi-family stock that has been converted varies from one area to another in the SMSA. In Minneapolis it appears that slightly over 1 percent of the stock has been converted, with the rate being higher in those areas where most conversions have occurred. According to the latest figures, in St. Paul 1 percent of the rental stock and 1.1 percent of the multi-family rental stock have been converted. In the various suburban communities a much higher proportion of the multi-family or rental stock has been converted. In Roseville, 546 of 4,846 multi-family units have been converted, 14.5 percent of the total multi-family stock. The planner for Roseville says that three-quarters of the total number of multi-family units there could be converted in the next four to five years. In Edina, 30 percent of the multi-family stock has been converted. In St. Louis Park, about 13 percent of the rental stock of 5,400 units has been converted, and it is estimated that about 2,000 more units could be converted in the near future.

With regard to the future of the condominium conversion market, while the supply side is not as strong as in other cities and most desirable properties have been converted, it appears that there is substantial stock remaining that is suitable for conversion. A market analyst thinks that 15,000 to 20,000 units of multi-family housing are suitable for conversion in the Twin Cities area or approximately 10 percent of the entire SMSA's stock of 214,000 rental units (1974 Annual Housing Survey estimate).

Market Conditions

In Minneapolis, there is some controversy over which vacancy estimate to use. According to a January 1979 study conducted by HUD's Economic Marketing Analysis Division (EMAD), Minneapolis has a multi-family vacancy rate of 1.9 percent while the rest of Hennepin County (Minneapolis's western suburbs) shows a rate of 2.3 percent. In neighboring Ramsey County, both St. Paul and its suburbs have the same rate of 2.3 percent. The City of Minneapolis conducts its own vacancy survey based on data from the local electrical utility on shutoffs. The Minneapolis data indicate a higher vacancy rate of 4.1 percent as of July 1, 1979. The city admits, however, that when units that have been vacant for six months or longer are taken out, this percentage falls to 3 percent. Whatever the exact figure, it appears that the vacancy rate in the Twin Cities is very low.

Because there is no neighborhood level vacancy rate information, it is not possible to tell what the relationship is between real vacancy rates and conversion activity. A source in the St. Paul Planning Department indicated that while the Historic Hill area has a declining vacancy rate, its rate is not as low as other areas in the city that have had few or no conversions.

It appears that the current condition of the mortgage market has made it very difficult or impossible to get mortgage money for conversions. It also appears that converters are hit harder by tight money than builders of single-family housing. Converters have to purchase end-loan mortgage commitments. Also, according to a savings and loan officer, in the market of mid-November 1979, lenders would have to charge 12-1/2 percent and 8 points in order to make a profit because the state usury law prevents them from charging the 13-1/2 percent that would be profitable. At such rates, this observer says, loans for condominium mortgages become prohibitively expensive.

Under different circumstances below market interest rate mortgages funded by the sale of revenue bonds in both Minneapolis and St. Paul would lessen the impact of the tight money in the private market. But because of the controversy surrounding conversion in both cities, St. Paul has decided to make their revenue money available only to conversions in which the building is already vacant or where the converter has a plan for aiding in the relocation of displaced tenants. In Minneapolis, the new allocation of revenue bond money expressly forbids the use of this money to enable the purchase of units in a converted building.

It appears that the diversity and strength of the Twin Cities' overall economy will moderate the effects of any national economic recession. If money can be borrowed at decent rates it does not appear that a general recession should slow down the market.

A poor market for rental properties appears to have a great influence on the decision to convert. Observers claim that rents are lower in the Twin Cities area and this, coupled with increasing costs, has led to very limited profitability in the multi-family sector. One expert stated that 4 percent was the maximum rate of return before taxes on multi-family rentals. At the same time, it is very hard to get mortgage money to sell a rental property to someone else who will continue to operate it as such.

As a result, these sales can only be made through contract for deed or land contract procedures in which a high downpayment is required and the seller cannot get cash out very quickly. Because converters are willing to pay a higher price -- reportedly raising the asking price for rental properties 25 percent in the last five years it is more feasible to get mortgage money which enables a quick sell out.

Government Regulations

Thus far there has been relatively little regulation of condominium conversion in any of the Twin Cities municipalities. In October 1979, Minneapolis passed an ordinance that requires 120 day notice be given tenants except those who are elderly or who have children in their household. In these cases, the length of notice is extended to 180 days. This statute was passed after much political debate between the Minnesota Tenants Union and the apartment owners. An alderman had originally included in the bill a provision that would give the right to the city to approve each proposed conversion and that would deny each such request when the city's vacancy rate fell below a certain point. Both this and a provision that would have required complete code compliance were not passed by the City Council.

In St. Paul, there are no regulations concerning conversion, but studies are now being conducted by the City Planning Department that may lead to future legislation. In the suburbs, there has been no legislation. According to planners in these communities, city leaders and residents did not want multi-family housing in their areas and would like to see rental housing converted to owner occupancy. According to planners in Edina, the police can tell when a building goes condominium because of the dropoff in the number of calls and complaints they receive. At the state level, there is only legislation covering division of property.

The Uniform Condominium Act has been submitted the past several years but has not been passed. According to one observer it will pass in the next year. While the local Multi-Housing Association (landlords) supports the legislation, the builders are opposed. Some observers also think that Bloomington and perhaps Roseville will pass legislation similar to that adopted in Minneapolis.

The most significant form of governmental intervention was Minneapolis' 8 percent mortgage-interest-rate program available to purchasers of condominiums. This program involved direct servicing and origination by the local lending institutions and technical assistance to converters by the Housing Authority's Apartment Home Ownership Team (AHOT). Between August 1978 and July 1979, revenue bond financing was made available to 462 units of housing converted to condominiums and between 53 and 260 units converted to cooperatives.

Substantial controversy has surrounded this program. First of all, the Minnesota Tenants Union (MTU) has attacked it because of complaints received from tenants who were asked to buy or move out. One conversion, in particular, involved certain problems during rehabilitation and the fact that the building was becoming adult only. Parents with children had no choice but to leave and single parents with children were particularly hard hit by the conversion. These families faced a more difficult housing search, since according to one newspaper article, studies have shown that 69 to 75 percent of the landlords advertising in the Sunday Tribune refuse to rent to families with children. While this was the most publicized conversion, MTU has also received complaints from tenants in other buildings, many of whom are elderly and cannot or prefer not to purchase their apartments.

A second major issue surrounding the AHOT program has been the high proportion of tenants in those buildings that were aided who moved rather than buy their unit. According to city data, 93 percent of the tenants moved, when originally AHOT expected that one-third to one-half of the residents would buy their units. Everyone agrees that a 93 percent moveout rate is very high, but no one knows why this occurred. A city survey showed that tenants felt that the time period given was too short to allow them to make the decision whether to buy.

One observer said that the monthly payments, after conversion and the calculation of tax benefits accruing to the homeowner, would not be much greater than the rent before conversion. Despite this, people either were simply not interested in buying or did not have the adequate cash flow necessary to make the increased pre-tax monthly payments.

Some have suggested that many residents moved out of their building because the apartments were of poor quality and and not worth purchasing. Indirect support for this assertion comes from a survey carried out in the Whittier neighborhood in South Central Minneapolis, the same general area in which most of the city's conversions have taken place. Residents were sampled and asked whether they were interested in purchasing a condominium or cooperative. While 27 percent would consider buying a condominium or cooperative in the Whittier neighborhood, only 4 percent were willing to say they would purchase their present unit. The author of this survey concludes that residents of older apartment buildings, such as those in Whittier, are almost "too familiar" with their unit and building and hence are less able to perceive their apartment as it might be after rehabilitation. The survey's author has suggested that many of these buildings were "mom and pop" operations and hence their rents were below market rate.

Whatever the explanation, the city was concerned about the low rate of tenant purchase; and that according to one newspaper article, 40 percent of those who bought apartments under the AHOT program came from outside Minneapolis. This figure provides evidence to the city's tenant groups that former tenants were replaced by young professionals from the suburbs.

A third major issue surrounding the AHOT program was the involvement of the lending institutions used to originate and service the mortgages. Some people felt that the lending institutions used their position in the program to focus conversion on older mortgages that they wanted to refinance. According to published reports, one lender apparently set aside $3 million of the $5 million allocated to provide mortgages for three buildings owned by its service corporation. While this is not illegal, it has been suggested that higher priority was given to refinancing buildings than to housing people.

Also, there is evidence that one of the buildings converted went through a four year period of being traded back and forth, with its value going from $200,000 to about $750,000 and the aggregate value after the units were sold as condominiums was $1.6 million. If this is true, then it appears that the AHOT program enriched at least one lending institution in Minneapolis. Even if other conversions were not so profitable, it is clear that the program lacked safeguards to prevent lending institutions from refinancing their multi-family properties, selling these new mortgages to the city, and then reinvesting what was previously tied up into newer properties.

Finally, there has been some general criticism leveled against the quality of monitoring provided by the AHOT program. A specific instance was provided by the president of a homeowners association whose building had recently converted under the AHOT program. In this building, mechanics' liens on the property resulted from bills the developer did not pay. Moreover, repairs that the developer had promised to make were not made and the yearly operating budget was underestimated. The utility costs were underestimated even though there was an adequate history of utility bills that could be used. While not as significant in its overall impact, an example of "low balling" was found in the developer's estimate for annual elevator repairs: $240. In Minneapolis, the annual inspection fee alone is $250. As a consequence of the underestimates made in the budget, residents have been forced to increase their monthly maintenance fees an average of 33 percent in the first two months of occupancy. Since the program limited participants to those who earn no more than $22,500 per year, this increase is especially unfortunate. While there is no evidence of how widespread these problems are in the AHOT program, it seems that program monitoring was not sufficient to prevent some condominium buyers from facing unexpected expenses.

It is also evident that the prices charged for AHOT units were probably too high. Several public officials agree that the subsidy provided by the eight percent financing was not completely passed on to the consumer. Asked what they would do in the future to prevent a recurrence of this failure to pass program savings onto the consumer, these officials agreed that no more than half of a building's units should be covered under a below-market-rate program. Because both subsidized and unsubsidized units would be priced the same, these officials think the converter would be less likely to pocket the subsidy.

Effects on Households

One market analyst's estimate is that 23 percent of tenants in the Twin Cities bought their units. Since it is known that only about 7 percent bought in Minneapolis, and the leading converter in St. Paul estimates that 10 percent of tenants buy there, suburban purchase should be higher. This appears to be the case: a leading suburban converter reports that roughly 30 percent of tenants in the suburbs buy their units, although his experience shows this ranges between 2 percent and 40 percent. One market analyst said his studies show that one-half of those who move rather than buy will buy another unit within the next year. According to this source, many of these people say they want to buy, but not their present unit. People are not economically disqualified from buying, but simply want more for their money.

In the St. Paul Historic Hill area, it appears that there are significant differences between movers and buyers. To reiterate, this neighborhood was once a fashionable area but suffered a 30 to 40 year decline. In the late 1960s, this area was rediscovered by upper middle class professionals, and the character of the neighborhood changed radically. Evidence of this transformation is provided in a survey of both movers and buyers. (Sonia Sands, "Population Change Due to Housing Renovation in St. Paul's Ramsey Hill Area," June 1979.)

The researcher interviewed 54 outmoving households, 13 of which reported moving because of condominium conversion. She also interviewed 71 households that had bought into the area, 33 of which had moved into converted condominiums. Her study shows there are some major differences between movers and buyers: while only 24 percent of the former residents were 30 to 39 years of age, 43 percent of the new residents were in this age group. Of the buyers, 45 percent were professionally employed compared to only 29 percent of the former residents. nearly three times as many new residents had incomes over $30,000 per year as former residents (30.9% versus 11.6%) and 19 percent of the former residents had incomes of less than $5,000 per year compared to 2 percent of the new residents. Of those that moved from a rental in the Ramsey Hill area (part of the Historic Hill neighborhood) and moved to another rental, most had to pay a higher rent at their new residence. When those moving were asked to compare the condition of their new residence to their previous one, only 10 percent were willing to say that their previous unit was better. This was also true for those who said they had moved involuntarily, which includes those who moved out of buildings that were converted to condominiums. Of the outmovers, 22 percent say they preferred their old residence to their new one. Hence while only a small proportion of outmovers feel the condition of the housing they live in declined as a result of their move, a significantly higher proportion appear to still prefer their old home.

Effects on Tenants

While there has been a fair to significant degree of tenant response to conversion in Minneapolis, there appears to be only one building in which the tenants are attempting to purchase and convert their building. In this case, a community organization is assisting the tenants group.

Effects on Housing Market

According to the EMAD study, the rental housing market has been growing steadily tighter since 1972, and conversion does not appear to have played a major role in creating the tighter market. In general, however, it appears that conversion has not had a strong impact on lower income rents since the buildings which have converted did not usually serve low-income tenants.

Neighborhood Impacts

In Minneapolis, where private reinvestment has not been as concentrated as in St. Paul, but occurs throughout the near south side, it appears that conversion has lagged behind reinvestment. Rehabilitation occurred in the Stevens Square and Loring Park neighborhoods as early as 1973-74, long before the current surge in condominium conversion. In contrast, the reinvestment taking place in the St. Paul Historic Hill area appears to have received a boost from conversion. Several sources said that the conversion of bigger buildings in this area to condominiums led to more general private reinvestment in the area. The conversion of these structures, some of which were vacant, made the remaining single-family homes more attractive to renovators.

At this time, it is not clear what effects conversions have had on neighborhoods. In Minneapolis, observers' impressions suggest there has been little change in the kind of people who live in areas where conversions have taken place, although the Minnesota Tenants Union sees conversion as an attempt to bring more young professionals to the city. In the St. Paul Historic Hill area, the evidence provided in one study suggests that there has been significant change in age and income, but not in race. Most of those who moved out of converted buildings were white. In other parts of the Historic Hill area, however, there is a larger black population, and as a result, racial transformation may occur as conversions continue.

Relationship to HUD and Policy Alternatives

No expert believed there was any significant relationship between HUD programs and condominium conversion. One converter spoke of some of the problems involved with dependence upon the secondary mortgage market. Both the Federal National Mortgage Association and the Federal Home Loan Mortgage Corporation will buy condominium mortgages when 70 percent of the units have have been sold in a project. As mortgage money becomes tighter, lending institutions become more dependent upon the secondary market. This, in turn, makes financing more difficult to obtain, because it is at this time that the sell-out period is the longest.

Sources in the HUD Area Multi-Family Office indicated that there have been two 221(d)(4) projects (Multi-Family Rental Housing for low- and moderate-income families) that have converted to condominiums. According to this source the mortgage insurance criteria are such that 221(d)(4) provides the type of coverage that converters prefer. Of the two projects, the first has been allowed to convert since no regulations prevent conversion and the rents in this building are low. The converter is terminating the HUD mortgage insurance on the second project.

The Conversion Process

The major difference between the Twin Cities and other markets appears to be the availability, in the past at least, of below-market financing. Local savings and loans institutions served as orginators and servicers of these loans and would then sell them to the city. The cities thus acted as the secondary mortgage market. In privately assisted financing, it appears that interim loans and end-loans are made by separate institutions, even for the same conversion. Banks usually make the interim loans, normally at two points over the prime rate, while savings and loans institutions make the end loans. One savings and loan officer said that because conversion involves the marketing of a building for about 30 percent above its value as a rental property, they require a presale and a feasibility study before they are willing to commit themselves to providing mortgage loans.

Field Report

Conversion Activity in the New Orleans, Louisiana SMSA

Background

The New Orleans SMSA consists of the central city of New Orleans, located in Orleans Parish (county), and the three surrounding parishes, Jefferson, St. Bernard, and St. Tammany. Within the central city, the proportion of unemployed or underemployed persons is significant. In 1975, the median homeowner income was $13,600, while the median renter income was $7,900.

According to the final report of the Mayor's Housing Task Force issued in June 1979, the number of households in the city of New Orleans is far greater than the number of existing housing units meeting minimum housing standards. The task force reported that in 1975, there were 205,534 households in the city but only 171,039 units of standard housing; almost 35,000 units short of the calculated need. In 1975, about 52 percent of the housing units in the SMSA were owner-occupied.

Between 1974 and 1979, tax assessors for Orleans Parish reported that about 450 units (nine buildings) of rental housing were converted to condominiums. It was indicated that most conversions have been concentrated in Orleans Parish and Jefferson Parish, but data were only available for activity in Orleans.

Demand

Traditionally, the greatest housing demand in the New Orleans metropolitan area has been for smaller structures for one or two households and the condominium concept is just beginning to catch on. One market expert described condo demand as weak but most agreed that the concept is becoming more popular and that demand is steadily increasing. Most condominium buyers are generally young couples who cannot afford single-family homes and elderly households who do not want the responsibilities of maintaining large houses.

Several reasons are given for the increased demand. Some market experts believe it is due to the rising cost of single-family detached homes and the fact that condominiums represent the most affordable homeownership alternative for middle-income buyers. Others suggest that the demand is directly tied to rent levels; as rents escalate, tenants conclude that buying offers advantages over renting at only slightly higher costs. However, if renting is perceived to be more economical than buying, people will continue to rent. One market expert indicated that the increased demand is in direct response to the growing level of conversions and to households feeling "forced" to purchase. There is also a growing demand for inner-city residential locations -- as evidenced by increased levels of private reinvestment in housing stock located in these areas.

Supply

New Orleans is one of the oldest cities in the country. The majority of the city's existing housing stock was built prior to World War II. City officials report that about one-fourth of all existing housing units in the city are considered substandard.

Thus far, a minimal proportion of the city's rental housing stock has been converted; estimates range from 1/2 of one percent to less than two percent. Most conversions have occurred in the city's "uptown garden district" along fashionable St. Charles Avenue. In practically every case, converted buildings were extremely high-cost rentals catering to wealthy elderly tenants. The buildings are described as soundly built high-rises and garden-style apartments. A limited number of conversions has occurred in the less affluent east side of the city and in suburban communities of adjoining Jefferson Parish. Buildings in these areas tend to be newer than those located in uptown New Orleans and rents charged prior to conversion were much more moderate.

Two-household structures, commonly referred to in the area as "doubles", make up a significant proportion of the housing in the New Orleans SMSA. In many cases, doubles that were formerly rentals have been bought, rehabilitated, and "converted" to single-family residences. In a few instances, doubles have also been "condominiumized." It is probable, however, that this practice will not reach trend levels since it seems to be felt that the condominium concept works best in buildings with at least 15 to 25 units.

Wage levels in the New Orleans area have been traditionally low in comparison to other metropolitan areas across the country. Similarly, rents have been historically low. It was suggested that the inability of property owners to raise rents to provide a reasonable profit margin is a major factor leading to conversion.

Market Conditions

The cost and availability of land, labor, materials, and money, serve to discourage development of new multi-family rentals as well as single-family homes in the New Orleans metropolitan area. Prospective low rents and the high costs and reduced availability of home mortgage loans deter new multi-family and single-family development. Raw land is epecially expensive to develop in New Orleans since most available land in outlying areas is "marsh land" which requires application of extensive and complex technology for improvement.

It was indicated that the demand for multi-family rental housing is fairly strong in a rental market that is described as "very tight." The overall vacancy rate is estimated to be less than two percent. A prominent property owner in the New Orleans East section where several conversions have occurred, indicated that vacancy rates for that area are much higher -- seven to eight percent. However, there has been no observed relationship between vacancy rates and the level of conversion activity.

Virtually no mortgage loans have been made recently by local financial institutions in the metropolitan area. The only homestead (local term for savings and loan institutions) making mortgage loans was financing 70 percent of the purchase price at 11-3/4 percent plus three points. Better mortgage market conditions would produce increased levels of lending. In an effort to put more money into local mortgage markets, municipalities in the State of Louisiana are authorized to issue bonds to provide below-market interest loans to homebuyers. Bond revenues are deposited in local homesteads that handle the application for, and the disbursement of, the loans. The state subsidizes the difference between the interest rate offered and the current market rate. Recent application of the program provided mortgage loans at 8-1/4 percent plus three points. The maximum eligible income for the head of household is $30,000 and 46 percent of the program's resources are reserved for minority applicants.

Since conversions are relatively new and uncommon in the New Orleans area, most local experts were not aware of any observed relationship between the single-family and multi-family housing markets and the level of conversion activity. Market experts did generally believe that as the price of homes and rents rise, there will be an increased demand for conversions and supply will increase accordingly. Also, as long as conversion continues to be a particularly attractive investment, more developers will enter this market thereby "forcing" or creating the demand for these units as more rental residential properties are lost to conversion.

Government Regulations

The Louisiana condominium law was first enacted in 1972. Prior to its passage, there were no newly-built or converted condominiums throughout the state. Generally, the law addresses minimum housing standards and certain disclosures that the developer must make regarding the life expectancy of the unit and its appliances. The law has never been amended to address conversion activity specifically.

The only local ordinance relating to condominiums in the central city is a zoning ordinance that regulates the location of condominiums and other multi-family housing. This ordinance is not considered restrictive.

There were no indications of local or federal tax incentives that affect the relative profitability of conversions. A local real estate lawyer who has handled several conversions, however, indicated a very definite tax incentive for the owner of a rental property to sell the building as a whole rather than convert to condominiums and sell the units to individual purchasers. The advantage is that income derived from the sale of the building as a whole is treated as "capital gains" while income from the sale of individual units would be considered "ordinary income" and therefore taxed at a substantially higher level.

Most experts do not foresee local restrictive conversion legislation since activity has been minimal and has mostly affected middle- and upper-income households. Some do predict, however, additional consumer protections at the state or local level in the form of minimum housing standards and developer disclosure. It is felt that this sort of legislation will have no effect on the level of conversion activity.

Effects on Households

Thus far, as noted, most conversions of rental units to condominiums in the New Orleans area have been in luxury apartment buildings whose tenants have been middle- or upper-income elderly persons. In almost every case, a substantial proportion of the tenants bought units; estimates range from 40 to 80 percent. In many instances these were cash sales.

Perceptions of outmover experiences were limited because of the relatively low level of activity and the lack of public discussion. A few observers did suggest, however, that movers, in all probability, have little difficulty in finding suitable alternative housing, particularly in the New Orleans East section or in Jefferson Parish. There was, however, some indication that less wealthy elderly tenants in Jefferson Parish have expressed fear of being "pushed" out of their apartments under the threat or rumor of conversion. It was suggested that movers probably pay more for units of comparable quality given that they were likely paying relatively lower rents anyway. Those interviewed had no knowledge of any relocation assistance.

Effects on Tenants

Local experts were not aware of any cases in the New Orleans area where tenants have organized in response to announced conversions. Similarly, there was no indication that tenant groups have actually purchased their buildings for conversion to condominiums. Several experts suggested that "tenant-sponsored" conversions and "organized" tenant responses are perhaps more frequently observed in areas which have experienced higher levels of conversion activity. Although experts indicated that these kinds of tenant responses may be possible in the future, they did not suggest a threshold of conversion activity that most likely would evoke such responses.

Effects on Housing Market

Local experts gave no indication that conversions in the New Orleans SMSA have led to a tighter or higher priced rental market for any group of renters. Household relocation as a result of conversion has been minimal. There is no evidence that conversion activity has significantly altered, as yet, the ownership/rental ratio in any jurisdiction of the SMSA. Experts do suggest, however, that the potential for alteration does exist.

A tenants' representative suggested that any future plans to convert low- or moderate-income rental properties will have a devastating impact on the already limited supply of such housing in the New Orleans areas, and that affected households will be left with few housing alternatives. He further indicated that the limited amount of new multi-family rental development in the area would not adequately accommodate a "significant" number of low- or moderate-income households displaced as a result of conversion activity.

Effects on Neighborhoods

Most experts saw a moderate but growing amount of reinvestment in housing located in central city neighborhoods, with most of this activity, concentrated in structures for one or two households. In a couple of cases, conversions have occurred in neighborhoods bordering areas undergoing revitalization, but even in these instances, conversions occurred after and not necessarily because of private reinvestment efforts.

Thus far, conversions are not perceived as having a significant impact on neighborhood income, race, or age mix, since converted buildings appear to attract people with similar characteristics to those who were tenants -- indeed, in most cases, a substantial portion of building tenants bought their units and continued as residents. Some experts believe conversions may play a role in the retention of a small percentage of middle- or upper-income families in the central city, but will not be able to attract such families from the suburbs. Overall, conversions are perceived as adding further stability to already stable neighborhoods.

Local experts indicated that the lack of sufficient data makes it difficult to assess the local tax effects of conversions. It was suggested that local treasuries may actually lose tax revenue as a result of conversion activity because of the state "Homestead Exemption" law. This law, which was originally passed just after the depression to encourage homeownership, provides for the deduction of $5,000 from the assessed value of all owner-occupied housing in the state. Since local property taxes are equivalent to 10 percent of current market value, households in houses or condominiums valued at $50,000 or less effectively pay no property taxes. For rentals, on the other hand, the local government collects 10 percent of the current market value in property taxes.

Relationship to HUD and Policy Alternatives

There was no indication of any relationship between HUD programs and conversion activity in New Orleans. One real estate broker did indicate that the lengthy processing time generally associated with HUD programs discourages their use. Developers and market experts agreed that there should be no government action either at the federal or local level to regulate or stimulate conversions. They felt that such issues are best addressed by the local market which, in time, will appropriately respond to local demand and supply factors. Moreover, the federal government, they believed, was incapable of developing a national policy to respond to the individual needs of communities. It was suggested that the most appropriate government response to perceived "ill-effects" of conversions should be increased incentives to private developers to build rental housing. One expert suggested that in an effort to equalize the situation, renters might be provided tax advantages similar to those received by homeowners. The predicted result of such an action would be substantial rent hikes, and thus fewer conversions.

On the other hand, tenant representatives and most local government officials thought there was a need for government regulation to minimize displacement of any limited or fixed income households affected by conversion activity. Along with the provision of relocation assistance, they thought policies and programs should also be developed to expand homeownership opportunities for such households. Most experts of any kind either supported or would not object to additional consumer protection or consumer education-oriented legislation at the state or local government level.

The Conversion Process

Financial packaging of conversions in the New Orleans area has not been complex. Generally, the developer secures interim financing from a local lending institution at an average rate of two percent over prime plus one percent (fee). The local bank which is most heavily involved in conversion financing was lending money (fall 1979) at a rate of 15-1/4 percent. This particular bank requires a bulk end-loan commitment from a lending institution and cash equity of 15 to 20 percent. It was indicated that Federal National Mortgage Association (FNMA) plays an active role in the secondary market and requires 75 percent presale of units within the building. Developers generally arrange permanent mortgage loans for individual purchasers with local homesteads.

Field Report

Conversion Activity in the New York City and Nassau-Suffolk, New York SMSAs

Background

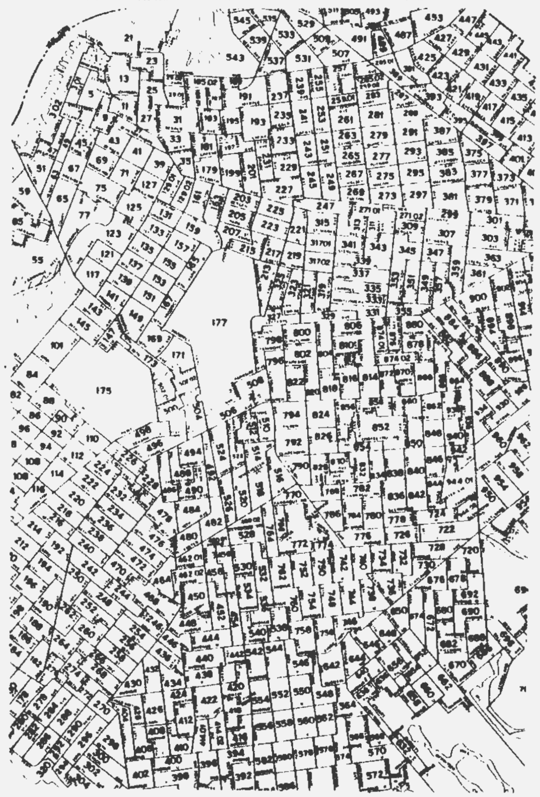
The conversion phenomenon in New York is unique in several ways. First, most New York conversions are to cooperatives rather than to condominiums. Second, two types of conversions are prevalent, one which allows evictions of tenants who do not buy, and a second which permits no evictions. Under the latter plan, tenants may continue to reside indefinitely in the building as renters. Third, while not of primary interest in this study, there are many loft conversions in New York - that is, conversions of non-residential buildings to residential uses. Fourth, the nature and complexity of New York State and local conversion regulations substantially affect both the conversion process and the types of conversion that occur. The following sections provide a summary description of the housing market characteristics in New York City. 1/

Population and Household Trends: The number of people living in New York City has been declining since 1970, primarily from out-migration which, according to various experts, may be tapering off. To a lesser degree, the decline is due to a decreasing birth rate. Between 1970 and 1978, there was a 4.4 percent decline in the total population of New York City and a 2.3 percent decrease in the total number of households. Additionally, there was a 2.2 percent decline in the average number of persons per household (from 2.76 persons in 1970 to 2.61 persons in 1978). One of the more interesting phenomena in the New York City housing market is the increase in single-person households, particularly in rental units which comprise 73 percent of the total housing stock. In 1976, single person renter households numbered 26.9 percent; by 1978, this figure had risen to 37.82 percent. In Manhattan, over 50 percent of all households were single person in 1978.

Vacancy Rate and Housing Supply: Both published data and opinions of housing experts in New York suggest a tight housing market in New York City and surrounding areas. Table 1 shows the net rental vacancy rates for New York City over the years 1960 to 1978.

1/ Unless otherwise noted, the statistics cited in this background came from Peter Marcuse, Rental Housing in the City of New York, Supply and Condition 1975-78 (New York City, 1979).

Condominium Conversions in New York, New York
January 1977 to December 1979



Range of Converted Units Per Census Tract

- 1-50
- 51-100
- 101-200
- 201-500
- 501-800
- 801-4000

5736 Numbers are census tract numbers.

Table 1
Net Rental Vacancy Rates for New York City, 1960-1978

1960	1965	1968	1970	1975	1978
.8%	3.19%	1.23%	1.5%	2.77%	2.95%

Source: Peter Marcuse, op. cit., p. 101.

This table shows a tight market over the entire period. Moreover, because many rental conversions have occurred since 1978, the vacancy rate may well have declined somewhat since then, especially in Manhattan. The very marginal increase in the vacancy rate from 1960 to 1978 is due most likely to a small decline in the total population and number of households rather than to an expansion of the housing supply. According to several observers, roughly 300,000 New York housing units have been abandoned over the last 15 years. The 1978 New York City Housing and Vacancy Survey found that there had been a net loss of 56,000 housing units just between 1975 and 1978. Only 45,000 new units were constructed during this period, and most of these were primarily financed by direct public aid or with tax exemptions.

Table 2 shows the number of occupied and vacant units, as well as the net rental vacancy rate, for 1978 in the five New York City boroughs. The boroughs with the highest vacancy rates are Brooklyn and the Bronx, where fewer rental conversions have taken place to date. In addition, less desirable neighborhoods have higher vacancy rates; the 1978 survey found that 45 perent of vacant units available for rent are reported to have boarded-up units on the same street.

Table 2

Net Rental Vacancy Rates by Borough, New York City 1975 - 1978

	1975 %	1978 %
Bronx	3.31	5.18
Brooklyn	2.72	3.07
Manhattan	2.73	2.39
Queens	2.19	1.88
Staten Island	5.01	2.57
New York City Average	2.77	2.95

Source: Peter Marcuse, op. cit., p. 102.

Rent Control: There are three classes of rental units in New York City: controlled, stabilized, and non-regulated. The Rent Control Law and Regulations have jurisdiction over occupied private rental units in existence before February 1, 1947. All increases in rent are set and must be approved by the New York City Rent Control Division. Approximately 350,000 to 400,000 units in New York City are controlled --

roughly 21 percent of the city's occupied rental housing. Under law, all rent controlled apartments voluntarily vacated after June 20, 1971, are no longer subject to the jurisdiction of the Rental Control Law. If the unit is in a building with fewer than six units, it becomes decontrolled; if the unit is in a building with six or more units, it is subject to rent stabilization.

The Rent Stabilization Law covers: (1) units in structures of six or more units which were built between 1947 and 1974 and were not subject to the rent control law; (2) units in structures with six or more units which were built in 1974, or later, and received tax abatements through the J-51 program (described later); (3) units in structures which were converted from non-residential to residential use and which received tax abatement to aid the conversion; and (4) units in structures built before 1974 which have been decontrolled. About 850,000 to 900,000 units are considered stabilized -- roughly 45 percent of the rental stock. The Rent Stabilization Law is enforced by the Rent Stabilization Board, a semi-autonomous organization with landlord and tenant representatives.

The remainder of the rental housing units are neither controlled nor stabilized. They comprise about 34 percent of the rental supply and include new units built in 1974 and later (which is not a very large number), units never regulated (such as those in public housing), and units decontrolled in structures with five or fewer units.

Rent controlled units house proportionately more lower income households than do stabilized or decontrolled units. The median gross rent for rent controlled units in 1978 was $164 per month as compared to $296 for stabilized units. According to most local housing and conversion experts, relatively few rent controlled units are being converted.

<u>Demand</u>

Until the early 1970s, cooperatives in New York were limited primarily to the wealthy or relatively wealthy. Banks were not seriously involved in cooperative financing, and if they were involved, the terms were stringent. A 1971 New York State law authorized commercial and savings banks to make long-term loans to cooperative buyers, and in the mid-1970s, lenders began to increase loan-to-value ratios on cooperative loans. Thus, a whole new class of people with less capital who were previously excluded from buying cooperatives now were capable of buying. Since then, demand for cooperatives has increased. The sources of this demand are many but the following three profiles emerged most frequently from discussions with market experts.

In Manhattan, the primary groups of buyers consists of dual-earner professional households in the 30 to 40 year old age group whose annual incomes range between $50,000 and $80,000. Most of these buyers already live in Manhattan and prefer to remain in the city rather than move to the suburbs, even though the amount of housing space there may be considerably greater for the same amount of money.

Another group of buyers consists of middle-income households, most of them living outside Manhattan. They are able to enter the conversion market when they are offered large tenant discounts on cooperative shares. Since discounts of 30 to 60 percent below market value are offered to tenants when the conversion involves an eviction plan (because the landlord wants 35 percent of the tenants to buy), the prices of certain cooperatives, particularly those in Brooklyn and Queens, are reasonable enough for this group of households. Many households in this income group can also afford non-luxury cooperatives converted to condominiums in the outlying suburban areas.

A third group of buyers consists of very wealthy persons who have always been a source of demand for luxury cooperatives. Several real estate experts indicated that wealthy foreign buyers have recently been making many purchases. Buyers from South America, Germany, and the Middle East perceive New York real estate as attractive because it is less expensive than comparable real estate in other foreign cities.

Two demand-related issues discussed with conversion experts concerned the number of speculator- or investor-owned units in converted buildings, and the degree to which single-family homes and cooperatives or condominiums are alternatives. The infrequency of investor-owned units in cooperatives is due primarily to cooperative boards wanting owners to occupy their units (because investor ownership will diminish the control exercised by the cooperative over the make-up of the tenancy), and because most bankers do not give cooperative loans to investors.

While no one could provide hard data on the extent of investor ownership in the suburban areas, most experts felt it was somewhat more prevalent there than in New York City. There are more condominiums in the suburbs and condominiums allow more freedom for investor demand than cooperatives do. Nevertheless, more conversion specialists felt investors are a small proportion of buyers -- roughly 10 percent.

Those people interviewed agreed that those who are in the market for cooperatives or condominiums are usually not the same as the buyers in the single-family market. In New York City, there is hardly any single family housing so that little choice exists in any case. Single-family housing is available in Westchester, Rockland, Nassau and Suffolk Counties, and demand for these homes may be affected by the growing presence of converted units: the extent to which this is happening is not known. Most people felt the conversion market was not hurting the single-family market, suggesting that even in the suburbs the sources of demand are somewhat different. Households looking for condominiums or cooperative units are more likely to be childless or single-person households.

Most experts argue that future demand for cooperative or condominium ownership should be strong. In New York City, demand will remain high as long as the City is an attractive place to live, and mortgage money is available. Since November 1979, savings banks have not been active lenders and while national banks, such as Chase Manhattan and Citibank, picked up the business, their most recent interest rates are beginning to discourage buyers. As of March 28, 1980, the rate of Citibank was 17 percent with 3-1/2 points for banking customers and 18 percent plus 3-1/2 points for others. Furthermore, buyers now must pay a 30 percent down payment. Before November 1979, a purchaser could obtain up to 85 percent of the purchase price at 10 percent from a savings bank such as The Bowery.

According to one real estate broker involved in many conversions, high interest rates first affect the resale market. If that begins to slacken, so will conversion efforts. There is some evidence that the resale market may be slowing down. According to a New York Times article on March 24, 1980, one recent study indicates that the number of resales has declined by 25 percent in the last six months -- presumably because of the shortage of mortgage money. However, sales at the top end of the market are less sensitive to interest rates since wealthy buyers are not particularly dependent on bank financing. If sponsors of conversions do not offer financing, they cannot successfully convert. Several brokers say they are moving along with conversion sales because of owner financing at 11 to 15 percent.

Supply

As can be seen in Table 4, most of the activity in the state is in the New York and Nassau-Suffolk SMSAs. Some 84 percent of all state activity is in New York City, and most conversions there have occurred in Manhattan. Recently, there has been a growing number of conversions in Brooklyn and Queens, but there has been little activity in Staten Island or the Bronx.

Table 4

Number of Conversions for State of New York and for New York and Nassau-Suffolk SMSAs 2/

	Conversions
1973	40 (2334)
	39 (2179)
1974	23 (1330)
	21 (1190)
1975	21 (895)
	19 (772)

2/ These data were compiled by Patrick Rohan, Executive Director of the Governor's Temporary Commission on Rental Housing in conjunction with the Real Estate Financing Bureau, New York State Department of Law.

Table 4 (cont'd)

1976	21 (721)
	19 (589)
1977	45 (3213)
	42 (2857) 3/
1978	123 (6504)
	118 (5928)
1979	132 (4872)

Note: The first figure represents the number of buildings; the number in parentheses is the number of units. For each year, figures are given first for the entire State of New York and second, for the combined New York and Nassau-Suffolk SMSAs. A conversion is defined here as a building in which the legally-required proportion of the rental tenants in the building at the time a final Offering Plan is presented agree to buy a unit within the prescribed period.

Since all conversions must have an Offering Plan submitted to the Attorney General's Office, this source gives a comprehensive list of all conversions throughout the State of New York. The lists compiled by the Commission cover the years 1973 to 1978. Data on 1979 were obtained directly from the Attorney General's Office (which allowed HUD staff to collect untabulated data from the 1979 Offering Plans).

The figures for 1979 represent only Offering Plans and only through August 31, 1979. Since some of these plans may not succeed as conversion, this number may be somewhat larger than the actual figure.

The proportion of the total rental supply converted to date is less than one percent. Furthermore, rentals that have been and are being converted are predominantly at the upper end of the rental market, especially in Manhattan. More modest rentals are being converted in Brooklyn, but such conversions are not a major part of total activity. While many luxury and semi-luxury buildings have been converted in Manhattan, most observers feel that many more "convertible" buildings exist there and even more exist in Brooklyn and Queens, where conversion activity has been less frequent and is beginning to take off. Most experts believe that conversions will not be constrained in the next five years by the lack of suitable buildings. However, they do not foresee much conversion of buildings that are completely rent controlled. One market expert and banking consultant predicted that 15 years from now 50 percent of the present rental units in New York City would be owned.

3/ In 1977, the Parkchester, a large apartment project in the Bronx filed for a non-eviction conversion plan. Although this complex contains over 12,000 units, only a little over 1,000 units have been sold as condominiums and only these are included in the 1977 total.

While the majority of units converted to date are in the middle- to upper-end of the rental market, the types of buildings being converted vary. Most converted units in the city are located in older high-rise buildings, though a considerable number of small buildings, such as four to six unit brownstones, are being converted. Loft conversions in Manhattan include a variety of mid-rise or high-rise buildings which were or are used for manufacturing or commercial purposes. More recently, office buildings near Wall Street have been converted. In the suburban areas, such as Westchester, Nassau and Suffolk Counties, conversions are being carried out in garden-style developments.

When asked about the factors which underline the decision to convert, all those interviewed agreed that conversion was more profitable than continued operation of the building as a rental or than sale of the building as a rental. Rent control or rent stabilization and rapidly increasing operating expenses have made rental property an unattractive investment. Many of the buildings being converted have been "good rentals" from a cash-flow point of view. Nevertheless, landlords can make more money by converting than by selling a building as a rental to another landlord. While estimates vary, most observers suggested that the building is worth about 25 percent more as a conversion than as a rental sale. A building's depreciation schedule was considered by most an unimportant factor in the decision to convert.

Market Conditions

Most of the conversions in the New York and Nassau-Suffolk SMSAs are cooperatives rather than condominiums, as condominiums were not authorized by New York State Law until 1964. Where condominium conversions do occur, they are primarily in the suburban areas outside New York City -- in Westchester, Nassau and Suffolk Counties. The reasons given by those knowledgeable about conversion activity for the prevalence of cooperatives include the long history of housing cooperatives in New York City (since the turn of the century) and the willingness of New York lenders to provide cooperative financing. This willingness probably stems from the fact that lenders can charge an interest rate one percent higher than the interest rate they can obtain from condominium or single-family home loans. Savings banks can charge one point over the state usury limit, which until January 1980 (when it was overridden by Federal legislation) was 11-1/4 percent. National banks, not subject to the state usury limit, may charge one point over the Federal discount rate.

Many experts argued for the superiority of the cooperative over the condominium. First of all, in a cooperative, it is possible for the owners to "control the tenancy"; that is, to have veto power over applicants for cooperative membership. Cooperatives are not supposed to discriminate on grounds of religious affiliation, sex, ethnic or racial background, but they can choose to prevent someone from buying proprietary shares for almost any other reason.

While enthusiasts for cooperatives admit to potential negative effects from this kind of control, they argue that it provides a sense of community and shared responsibility.

A second commonly cited reason for the superiority of cooperatives is the blanket mortgage held on the building. This allows for refinancing at a time of needed capital improvements. In condominiums, each unit must be assessed separately for a certain amount of the total cost, and it is argued that more conflict among owners accompanies these assessments than accompanies the refinancing of a blanket mortgage in a cooperative.

The final frequently-given argument in favor of cooperatives involves the potential of mortgage default given the shared financial responsibility among cooperative members. According to several observers, only one building has defaulted in the history of New York cooperatives.

Most of the cooperative conversions involve rental buildings but more recent activity has occurred in manufacturing and office buildings. Between January and August 1979, there were 26 commercial buildings (408 units) pending conversion. While no data were available for previous years, the conversion of non-residential buildings to cooperatives appears to be on the increase (according to the Attorney General's office, which monitors conversion activity for the entire state). These conversions should not be confused with the conversion of non-residential buildings for residential rentals. There are thousands of rental units created in New York City through this latter "conversion" process.

New York is unique in that many conversions have non-eviction plans. This means that a tenant in a building at the time of conversion may continue to rent if he or she decides not to purchase a unit. Table 3 shows the number of eviction and non-eviction buildings by year for 1973 through 1978.

TABLE 3

Eviction and Non-Eviction Status of Conversion Plans Filed Between 1973 and 1978

	Eviction Buildings	Units	Non-Eviction Buildings	Units	Not Applicable Buildings	Units
1973	48	1,729	5	65	2	5
1974	23	1,751	3	108	3	35
1975	21	1,011	3	15	1	36
1976	6	356	14	653	3	16
1977	25	1,916	19	8,778	4	48
1978	54	3,657	52	2,759	14	88

Source: Patrick Rohan, Report of the Temporary Commission on Rental Housing (New York City, 1980).

The number of non-eviction plans was very small from 1973 through 1975, began to increase in 1976, and jumped dramatically in 1978. The sharp increase may have taken place in response to the 1978 law that 35 percent of tenants must purchase a unit before a landlord may evict any tenant. Many sponsors of conversions do not want to deal with the controversy that often surrounds an eviction plan and so opt for the non-eviction plan. With a non-eviction plan, it is necessary for the sponsor to get only 15 percent of the tenants to agree to purchase units. The landlord may not evict any tenant and can only sell a unit once a tenant decides to move. If the tenant does not move, the lease may be renewed and the tenant may continue to reside in the building as a renter.

One conversion specialist indicated that while non-eviction buildings may have lower initial controversy, tensions between renters owners arise later in these "hybrid" buildings. Another lawyer working with conversions said that buildings should have good turnover rates (defined as 10 to 20 percent annually) if non-eviction plans are used. Buildings with low turnover rates (less than 5 percent) would have very delayed conversion. With a non-eviction plan, conversion takes place, on the average, over a period of six to nine years as opposed to two to five years for an eviction plan). Because of the shorter time involved, some landlords opt for the eviction plan even with its attendant tenant opposition and controversy.

One additional complication in eviction plans is the presence of "rent controlled" and "rent stabilized" units, both possibly in the same building, and each having a different time limit for achieving the 35 percent minimum. Of "rent stabilized" units 35 percent of the tenants must buy within 18 months of the presentation of the final Offering Plan by the sponsor. Thirty-five percent of the "rent controlled" tenants also must buy but within six months. Hence, it is possible that a plan may be effective so with respect to "rent stabilized" tenants, but not effective with respect to "rent controlled" tenants. If 35 percent of both groups do not buy, the plan must be abandoned and cannot be resubmitted for another 18 months. If this happens, the sponsor (usually the landlord) may simply choose to change from an eviction to a non-eviction conversion plan so that the plan does not have to be withdrawn.

A 1979 New York State law addresses the issue of elderly renters and covers both non-eviction and eviction buildings. Elderly tenants, (62 years and older) whose annual income does not exceed $30,000, cannot be evicted. As a consequence, buildings with very high proportions of non-wealthy elderly households may not be suitable for conversion.

Government Regulations

Most of those involved in the conversion process thought the Federal government should not attempt to regulate the conversion process or act to inhibit it in anyway. Arguments may be summarized as follows: (1) conversion is a local phenomenon with local characteristics and regulation, if it is to occur, should be at the local or state level; (2) New York already has sufficient regulations to protect both tenants and cooperative/

condominium buyers; and (3) conversions are for the most part beneficial to purchasers, the housing stock, neighborhoods and the city generally.

Tenant representatives, of course, had different preferences regarding the role of the Federal government. They argued that in spite of the considerable regulation of conversions in New York, the local and state governmental response to conversions has been inadequate in curtailing conversion and in protecting tenants rights. They wanted a national moratorium on conversion.

A few observers suggested ways in which the Federal government should encourage conversions. Frequently, the suggestions included a program to help finance low-income households' purchase of cooperative units. Others argued that organizations within the secondary mortgage market should be encouraged to buy cooperative loans from primary lenders in order to facilitate the availability of money.

1. A Description of State and Regional Laws/Ordinances Which Relate to Condominiums/Coopeatives

A. Martin Act

Section 352-e of the New York General Business Law requires that every offering plan or prospectus relating to the conversion of rental housing to cooperative or condominium status be submitted for filing to the New York State Department of Law (the Attorney General's Office). The submission of the Offering Statement or Offering Statement is required no matter how small the number of apartments involved in the conversion.

This is basically a disclosure statute which requires that every Offering Statement fully disclose all the material facts relating to the conversion. The General Business Law requires that the Offering Plan contain certain specified information, including data on the financing of the conversion and the background of the developers or sponsors. It also provides that the Offering Statement should contain such additional information as the Attorney General may prescribe in order to give purchasers "an adequate basis on which to found their judgment and shall not omit any material fact or contain an untrue statement of a material fact."

Once a plan is submitted to the Attorney General, a letter which states either that the offering has been accepted for filing or that it has been refused and the reasons for the refusal, is sent to the sponsor/developer within 15 days.

The issuance of the Attorney General's letter indicating that the Offfering Statement has been filed permits the offeror to present the plan to prospective purchasers. Any material change in the conversion plan or any material change in the facts set forth in the Offering Statement would require an amendment and an additional filing with the Attorney General.

B. Goodman-Dearie Law

This was a state-wide law which was originally enacted in 1974 for two years. It was extended for a third year and then expired in July 1977. The principal provision of this law required that 35 percent of the existing tenants had to purchase a unit before a plan could be declared effective. Furthermore, the plan had to be declared effective within one year of presentation to tenants or it was to be abandoned. In this case, a new plan could not be submitted to tenants for another 18 months. The law also required that a finding had to be made by the State Attorney General that apartments had not been kept vacant prior to conversion in order to make it easier to reach the necessary 35 percent (this practice is referred to as "warehousing").

It is alleged, and the figures indicate that as a result of this law the number of conversions dropped during its lifetime.

C. Suburban Law (1978) and Lehner-Flynn Law (1979)

In 1978, the New York Assembly passed a bill similar to Goodman-Dearie. It regulated conversions in the City of New York and the Counties covered by the Emergency Tenant Protection Act (see below) -- Nassau, Westchester, and Rockland. However, because the New York Senate refused to enact protection for New York City tenants, the bill which eventually passed both houses provided protection on a local option basis only in the three suburban counties.

An Amendment to this suburban law was adopted in 1979 (Chapter 135 of the Laws of 1979 for the State of New York). The Lehner-Flynn Law, as it is called, modifies the rules governing conversions in either the Business Law or the Martin Act described previously. Since the 1979 amendment applies only to the City of New York, the suburban counties now have slightly different provisions (as set under the 1978 Law) than does the City of New York. The following table describes these differences.

Comparison Between Suburban and City Laws

Provision	City	Suburban
Minimum percentage for eviction plan	35 percent of tenants in occupancy at date plan is accepted for filling	35 percent of tenants in occupancy on effective date

Comparison Between Suburban and City Laws

Provision	City	Suburban
Minimum percentage for non-eviction plan	No provision	15 percent of tenants in occupancy on effective date
Seniors protected under an eviction plan	62 years or older (and spouse regardless of age), with annual income under $30,000; Senior must have lived in building for at least two years as primary residence	No exclusion for non-purchasing senior citizen

D. Rent Control Law/Rent Stabilization Law

The rent control and rent stabilization codes in the City of New York are usually viewed as statutes designed to regulate the level of rents. While this is their primary function, they also serve to assure continued occupancy to tenants renting a unit in a building which is to be converted. Th eviction of rent controlled tenants in New York City from apartments in buildings converted to cooperatives or condominiums is governed by Section 55 of the City Rent and Eviction Rgulations. The eviction of rent stabilized tenants in New York City from apartments in buildings converted to cooperative or condominium ownership is governed by Section 6 of the Code of the Real Estate Industry Stabilization Association. (No figures on eviction of tenants in these units were available.) While the provisions differ somewhat, neither type of occupant may be evicted until the minimum 35 percent of the tenants in the building being converted have purchased units.

E. Emergency Tenant Protection Act

The adoption of the Emergency Tenant Protection Action in 1974 permitted individual communities in Nassau, Westchester, and Rockland Counties within the New York SMSA to adopt a system of rent stabilization. It is a form of local option legislation which becomes effective in a particular city, town or village only on determination by the local legislative body of the existence of a public emergency and the need to regulate and control residential rents within the community.

While the regulations contain provisions relating to evictions, they are silent with respect to evictions in the event of a cooperative or condominium conversion. The regulations do, however, permit evictions in the event that an owner desires to occupy an apartment for his own use. This has been interpreted to permit the purchaser of a cooperative or condominium unit to evict a non-purchasing tenant on relatively short notice.

Effects on Tenants

Tenants' responses to conversion activtity in New York vary over time and according to the type of conversion plan. Conversions initially stimulated much more opposition than appears to have occurred in the last year. In fact, tenant opposition to an attempt to convert a Bronx apartment project with over 8,000 units was a factor in preventing that particular conversion; it also was instrumental in the passage of the Goodman-Dearie Law in 1974. This state law required converters to obtain agreement of 35 percent of the tenants to buy before the conversion could even occur, and during the three years it was in effect, conversions decline in number. Whether this slump in conversion activity was due to the law or to general economic conditions is not clear; nevertheless, the law certainly made conversions during that period more difficult.

While conversion remains an emotional issue among many tenants, it appears that the extent of opposition has somewhat diminished and the pattern of reactions to potential conversion is more mixed. Some tenants feel a sense of harassment at the prospect of conversion; others view it as a good investment. According to tenant representatives, one of the unfortunate things that happens during a conversion is the development of a schism between those tenants who wish to buy and those who oppose the conversion. This schism only occurs, however, in conversion plans which allow for eviction of those tenants who do not buy. Nevertheless, even in eviction plans, tenant opposition has not been strong as it once was.

Real estate representatives argue that the primary reason for diminishing opposition is that tenants realize they can benefit from conversions, especially when the media highlights some of the windfall profits made from the resale of cooperative units. Furthermore, as rent control regulates fewer units over time, tenants are faced with higher rents, so that the advantages of ownership appear to be greater.

Tenant response to conversion varies also by the stage of the conversion process for any particular building. According to several real estate brokers, 35 percent of tenants want to buy at the time the plan is offered to them; 70 percent want to purchase by the end of the year; and in the last days before units go on the open market, another 10 to 25 percent buy -- bringing the total to 80 or 90 percent. These figrues only refer to eviction plans and are probably more reliable for high-rent buildings located in the better neighhborhoods of Manhattan than for buildings in transitional or revitalizing areas, in Brooklyn. According to one real estate broker working both in New York City and in the outer suburbs, tenant oposition to conversion is greater in the suburbs, and the proportion of tenants buying is usually smaller.

Very few tenants appear to have been evicted as a result of conversions. A New York City Commissioner in the Department of Housing Preservation and Development provided the following figures for rent controlled units:

1975	26 evictions
1976	17 evictions
1977	12 evictions
1978	4 evictions

Data on the number of evictions from rent-stabilized units were not obtained but are also relatively small according to city officials. On the other hand, the number of tenants who move out under duress before they are evicted is not known. Most city officials and industry representatives felt that displacement was not a big issue, a view not held by various tenants' representatives. Tenants' groups argue that the number of evictions are actually much larger than city or real estate brokers suggest. Furthermore, they argue that the low vacancy rate makes it very difficult for lower-income households to find alternative housing.

The main reason why displacement is not perceived as a major issue is due to the growth of the non-eviction plans. In addition, a recent state law prevents the eviction of anyone 62 years or older with an annual income under $30,000 who has lived in the building for at least two years. Therefore, the lower-income elderly are given strong protection against eviction.

State legislation has been proposed in 1980 which would raise the minimum requirement for an eviction plan to more than 50 percent, rather than the current 35 percent. It would also prohibit owners from filing conversion plans for two years after they acquire title on a building.

Another characteristic unique to New York City conversion is the displacement of commercial or manufacturing tenants because of loft conversions. According to a Fortune article in November 1979, the city has lost 610,500 jobs since 1969. Of this loss, 10 perent was due to corporate relocation, and 50 percent was due to moves by manufacturing concerns that traditionally supplied one in three jobs in the city. If the city continues to revitalize, however, demands for commercial and manufacturing space may increasingly compete with demands for residential space.

While the previous discussion has focused primarily on the negative effects of conversions, proponents of conversion point out benefits. For one, homeownership changes attitudes; owners no longer have a "renter psychology," that is, they have more of a personal commitment to their building, their street, their neighborhood and their city. Several real estate brokers and lawyers involved in conversions suggested that conversion and the consequent opportunities for ownership created "citizenship" in a public which has become too apathetic.

Effects on Housing Market

Cooperative conversions apppear to have a negligible impact on the assessed value of the buildings. Unlike condominiums, in which each unit is assessed separately after conversion, cooperatives have blanket mortgages like rental buildings. In New York City, they are taxed at the same rate as rentals. Examination of a few assessment records revealed no evidence that assessments on converted buildings increase substantially at the time of conversion. Conversion specialists corroborated these findings.

Tax assessments could increase, however, if there are substantial improvements to the building. Earlier, it was noted that approximately 25 percent of rental conversions are characterized by substantial rehabilitation. However, the potential financial benefits to the city from increased assessments from rehabilitation are curtailed by the city's J-51 program. This tax abatement program, which converters must apply for, provides a 12 year exemption from increased real estate tax assessments from building improvements and a 90 percent abatement of the fair value of the improvement taken at the rate of 8-1/3 percent per year. There is no way to estimate what potential city revenues are lost because of this tax abatement.

While assessment increases do not take place at the time of conversion, analyses by two cooperative management firms (reported in the New York Times, March 1980) show that assessment increases for cooperatives have occurred very recently, particularly for buildings located primarily in the upper income section of Manhattan -- the East 50s. According to some experts, these assessment increases are greater than those for rental properties, but it is unclear at this point whether recent conversion is responsible for these differences. City officials, however, noted that assessments of commercial and rental properties in Manhattan also rose. Whether the assessment increases on rental buildings in the same neighborhood as converted cooperatives were comparable awaits further analysis.

A pending case has tremendous implications for future tax treatment given to cooperatives. The case involves a cooperative in Bronxville, New York, known as the River House. The cooperative is challenging its assessments for the years 1976 through 1978 on the grounds that they were both overvalued and unfair. Historically, the fair-market value of a cooperative is estimated by treating the property as an income-producing rental building and comparing it to similar rental buildings in the neighborhood. In this case, the taxing jurisdictions ascertained fair-market value by analyzing recent sales of units in the River House and similar cooperatives in its vicinity. As a result, the figures on which the assessments were based were considerably greater than those developed by the cooperative. Should the taxing jurisdictions prevail in this case, an important precedent may be set for the future assessment of converted cooperatives.

In sum, the evidence to date suggests that at the time of conversion there is no significant change in a building's assessment unless substantial rehabilitation has occurred. In that case, the J-51 tax abatement program (if applied for) curtails increased taxes. There is evidence to suggest that cooperative buildings in selected areas of Manhattan recently may have been reassessed more than comparable rental properties.

Aside from the question of assessment increases, most experts argued that conversions strengthen the tax base in the long-run. As evidence, they noted that, not only has one cooperative in the long history of cooperatives in New York ever defaulted, but that currently no cooperative is in arrears in its tax payments. This contrasts with a pervasive problem of tax delinquency among multi-family rental owners.

Effects on Neighborhoods

In New York City, it appears that the majority of conversions are in upper-income neighborhoods. Within these areas, conversions may involve high rent, well-maintained, luxury buildings or middle-income rentals which have been less well-maintained but which have a sound structure and architectural appeal. In either case, the conversion has minor short-run impact on neighborhood stability and economic and racial characteristics. One impact conversions may have is prolonging the useful life of these buildings. In most cases, only cosmetic improvements of these buildings occur at the time of conversion -- painting, carpeting of the common areas, and so on. Most informed sources felt that these "cosmetic conversions" constitute the vast majority -- approximately 75 percent of the total changes.

Conversions are also occurring in revitalizing areas, particularly in Brooklyn. It is not clear, however, that these conversions act as the stimulant to revitalization. Certain real estate brokers attributed a tremendous revitalization effect to conversion activity in certain areas and saw it as a way to prevent future abandonment. They referred to "brave developers" who take a building on a poorly maintained street and turn it over through rehabilitation and conversion. Once one building improves, it attracts in quick succession the conversion of other buildings in the same area.

Generally conversion takes place after other reinvestment efforts have occurred. Even if conversions do lag behind other reinvestment efforts, they probably do contribute to gentrification of these neighborhoods.

According to most housing experts in New York City, loft conversions have had profound neighborhood effects. Areas with the greatest concentrations of such conversions include Tribeca, Soho, Noho, the Northeast Village, the Bowery, and Midtown South. While many of these neighborhoods continue to be primarily commercial and manufacturing areas, others have now become middle- to upper-income residential areas with accompanying retail services.

Relationship to HUD Programs and Policy Alernatives

The extent of the relationship between HUD programs and conversion activity in New York depends on the type of cooperative. There is little HUD involvement in the conversion of rentals to the market rate cooperatives that have served as the focus of discussion so far. No HUD-subsidized buildings and only a very few HUD-insured buildings have been converted. (There are two such buildings currently in the process of conversion, although it is not definite that both will actually be converted.) Limited-equity cooperatives generally have low-income tenants and are subsidized with some form of government funding. These cooperatives limit the amount of equity appreciation which any owner can realize on his unit because of the government subsidy or mortgage insurance.

Limited-equity cooperatives have a long history in New York even though the number of units involved is much less than the number of units in the full-equity cooperatives. Section 213 cooperatives, for instance, have been and are still relatively popular in New York. Currently, the city and HUD are involved in converting certain HUD-subidized buildings to limited equity cooperatives. Since this initiative is relatively new there is not very much information on it.

The Conversion Process

The conversion process in the State of New York generally and New York City in particular is considerably different from other major cities, not only because cooperatives rather than condominiums are the major form of ownership, but also because of the nature and complexity of the regulations which govern conversions. The list below shows the major stages in a typical conversion:

1. The sponsor of the conversion submits a draft of the Offering Plan for the proposed conversion to the New York State Attorney General's Office and to tenants in the building for their comments. The landlord, rather than an outside developer, usually sponsors the conversion. Real estate brokers and lawyers provide technical expertise in the various phases of the legal and marketing process. Recently, tenants have initiated a few conversions, usually in smaller buildings. In these cases, they act as the sponsor of the Offering Plan.

An Offering Plan refers to the prospectus for the conversion developed by the sponsor and the real estate brokerage or law firm representing him. The Plan contains among other things a description of the building, selling prices of unit shares, engineering reports on the condition of the building, architectural maps, and notification of extensive rehabilitation.

2. After the preliminary draft is given to the tenants, they usually have two weeks to present comments on the accuracy, completeness or other aspects of the Offering Plan to the sponsor or the Attorney General's Office.

3. The Attorney General sends a letter to the sponsor of the Offering Plan indicating the name of the reviewing attorney.

4. The Attorney General conducts a background check on the sponsor(s) for the existence of a criminal record. If a sponsor has been convicted of a felony, the Attorney General requires that he be removed as a partner in the sponsorship.

5. Simultaneously, the Attorney General requests reports from state engineers and state architects to provide an updated description of the building. If the state investigation of the building reveals any problem not noted in the draft of the Plan, that finding must be included in the final Offering Plan or it will not be accepted by the Attorney General.

The tenants in the building may hire an attorney and may have their own engineering report done on the building. Items of particular concern to them are the apartment prices, size of the reserve fund, and the condition of the building.

6. An affidavit must also be filed with the Attorney General to indicate that there has been no excessive long-term vacancies "arranged" by the landlord to make it easier to meet the 35 percent vacancy requirement. If it is determined that there has been excessive vacancy (greater than 10 percent over the last 5 months), the Attorney General may refuse to accept the Plan.

7. After the background investigation and reports on the building are completed, the Attorney General responds to the sponsor and may ask for certain amendments to the draft Plan, based on State or tenant-instigated reports.

8. The developer/sponsor must respond to these suggestions of the Attorney General in a new draft of the Offering Plan. This revision is then resubmitted to the Attorney General. The process may be re-repeated if the Attorney General is not satisfied with the new draft. (The Attorney General has refused to accept filing plans which contained traps for the purchaser, such as a long-term recreation lease or an association management contract.)

9. When the revised draft is accepted by the Attorney General, it may be sent to final printing. At this point, the sponsor begins to seek sales.

10. In order for the conversion plan to be effective, the sponsor must sell to 35 percent of existing tenants if he/she plans to evict those who do not buy. Of rent stabilized tenants 35 percent must buy within 18 months of the presentation of the final Offering Plan; of rent controlled tenants, 35 percent must buy within 6 months of the presentation. Unless both requirements are satisfied, the Plan must be abandoned and cannot be resubmitted for another 18 months. In this case, the developer may simply choose to change from an eviction to a non-eviction conversion so that he/she does not have to withdraw it. On the other hand, if the Plan is declared effective, "rent controlled" tenants still have another

30 days to buy their apartments at the tenant discount. Furthermore, they can stay as renters for another two years after the building becomes a cooperative, unless 80 percent of the tenants have bought; in that case, the rest can be evicted immediately. Rent stabilized tenants who do not buy may remain in their apartments until the latest of three dates: one year after the Plan was accepted for filing by the Attorney Generals's Office, the effective date of the conversion plan, or the expiration of their lease--unless it has a 90-day cancellation clause.

In order for a non-eviction conversion plan to be effective, the sponsor must obtain purchase agreements from only _15_ percent of the existing tenants. Non-purchasers do not have to move and continue to pay rent controlled or stabilized rents. They can also obtain lease renewals for life.

Field Report

Conversion Activity in the Newark, New Jersey SMSA

Background

Newark, long known as a distressed city, remains in a tentative stage in the reinvestment process. Some commercial reinvestment is underway but firms prefer not to go out on a limb and reinvestment in housing has proceeded more slowly than commercial reinvestment.

No new construction of any type occurs without tax abatement. The city's housing stock is in need of upgrading, but the incomes of residents cannot support the needed repairs. The hundred-year-old brownstones built by Ballantine Brewery provide a structurally sound shell that could, when rehabilitated, supply good housing to residents. The city also contains deteriorated high-rise apartment and frame buildings -- some deteriorated beyond rehabilitation.

Eighty-five percent of the residents of Newark are minority persons, and most of the city's residents have low incomes. Their inability to purchase owner-occupied housing has made for a large renter-occupied housing stock. Increasing conversion activity would depend on drawing into the city households able to purchase condominiums -- which is not likely.

Between 1971 and 1976, rental units that were converted were converted to cooperatives for low and moderate- income households. Non-profit organizations purchased deteriorated properties and developed them first as rental units. Typically tenants who were interested in owning their unit came from public housing in the city. All of the tenants were Black or Hispanic; most were under 35 and had children. One-third of the tenant households were headed by women. Within two years of development the units were converted to cooperatives. All residents were aware of conversion plans at entrance.

Knowledgeable experts indicate that four projects were converted totaling more than 200 units. All conversions were in low- and moderate-income neighborhoods within center city Newark. Recently-two of the four projects have experienced problems: one cooperative was unable to meet its payments and HUD foreclosed, while the other has management problems, and its return to rental status is being negotiated.

New Jersey state law requires filing documentation of conversion to condominium in the relevant county. Records at the City of Newark Planning Department show two conversions to condominium, one a 21 unit complex under private development (conversion work halted) the other four units already developed and sold. This second project is the James Street Commons developed in a joint venture by the city, Chamber of Commerce, and the Housing Development Rehabilitation Corporation (HDRC) of Newark. HDRC is a non-profit corporation which operates with city, state, and federal funding in the area of community reinvestment.

Demand

The potential demand for condominium units in Newark is difficult to ascertain. Most current residents of the city do not have the incomes necessary to purchase units at market interest rates, so the demand must come from outside the city. No "back to the city" movement was in evidence, though city hall is hopeful that such a movement may develop and is encouraging middle-and upper-inome households through its involvement in James Street Commons and in private commercial development ventures. In fact, experts cited the 200-plus requests about the James Street condominiums from suburban households as evidence of middle-income interest. This should be viewed with caution, however, since only 19 of 200 were in the lottery to purchase units (which required a $300 refundable deposit).

Supply

Not only does Newark have a weak demand for condominiums, it also has a small rental stock suitable for conversion. A large portion of the housing stock consists of frame structures that are unsuitable for conversion. A market expert said that the city's high-rises were not ready for conversion and the brownstones "keep getting torn down." Attrition from the housing stock has been high.

The four units converted represent a minute portion of the rental stock. In the area where the conversions occurred, most of the building are the Ballantine brownstones. The factors that prompted conversion of the buildings were (1) location near the central business district and Rutgers University (Newark), (2) historical designation of the buildings, (3) location in a Community Development Block Grant (CDBG) target area, and (4) market ability of units after rehabilitation. The majority of the buildings in this area are abandoned properties or properties in extreme disrepair (or both).

Market Conditions

Housing construction is at a halt in Newark. The risks with new construction are great; and private initiatives are few. In addition, Newark labors under other restraints to construction:

(1) The state usury ceiling of 10 1/2 percent has negatively affected the sale of properties;

(2) The city has legislated a requirement of 25 percent minority involvement in construction;

(3) Property tax rates in the city are high ($9.31 per $100 of assessed value), so that construction does not take place without tax abatement; and

(4) Developers (according to the experts) add nearly 20 percent to costs of construction to cover expected loss of materials if building in the city.

Government Regulation

The City of Newark has rent control legislation. The ordinance allows an annual five percent increase in rents. Special application must be made for a higher percentage increase. The regulation applies to renter-occupied buildings of more than four units.

Some experts indicated that tenant services are being slowly cut back and that there have been several fires. Abandonment seems to have not been affected by rent control: "Abandonment was at one building a day before, and it's still the same" in the words of one observer.

New Jersey's Planned Residential Development Full Disclosure Act requires filing of conversion intent with the State Division of Housing. The registration includes documentation showing clear title and a public offering statement. Sales of units are regulated by the offering statement, the deposit money is held in escrow, and a seven day cooling-off period applies to the purchasing contact. In addition, State landlord-tenant laws apply to the conversions. The building may be converted but tenants under an existing lease may not be evicted for a period of three years. However, the landlord may offer comparable housing. Application to the court may be made for a one year extension to the three if comparable housing cannot be located. After four years, the landlord may offer five months rent to fulfill his/her relocation requirement. In short, there is a strict standard for conversion and relocation of tenants.

Effects on Households

Conversion activity in Newark has involved converting deteriorated or abandoned units to cooperatives and condominiums. The households that formerly occupied these units were moved to better housing through the Urban Relocation Act. After the conversions, none of the original tenants returned to purchase units. Consequently, families in the James Street area are expressing concern about being forced to leave their neighborhood. One expert summarized their fears as two: (1) not being relocated properly and (2) not having specific "right of return". The upgrading of the buildings means they will be unable to return and purchase.

Effects on Tenants

A tenants organization has begun to work in the James Street area where future conversions are planned. The organization is trying to generate a cohesiveness among tenants and to research tenants' rights issues. But tenants are likely to react only when they receive notice of conversion. Possible alternatives are limited by that time.

Effects on Neighborhoods

The conversions to cooperative in Newark upgraded the housing in the area, but they did not substantially change the racial and income mix of the area. All households purchasing cooperatives were either Black or Hispanic. One would expect that purchaser incomes were somewhat higher than other households in the area but the selling price of a unit was only $9,000.

On the other hand, the James Street conversion to condominium was designed to encourage neighborhood change. Although the project upgraded the units for sale to middle-income households, the neighborhood, was not affected substantially by the in-moving households. Once all fourteen planned units are sold, the area may experience some change in the hoped-for direction.

The plan to develop James Street Commons was presented by the Mayor's Policy and Development Office in 1977. Basic work began with Historical Preservation District designation, which paved the way for Department of Interior funding to the neighborhood. The area received Community Development funding as well. In fact, a variety of public funding was used to revitalize the area, which is the location of prime housing stock in Newark, although the stock has substantially declined.

The residences, built around 1900, are rowhouses of masonry construction, known as brownstones. They are structurally sound buildings in need of gut rehabilitation, and they could provide a housing source within walking distance of Rutgers University. But that has not been the use of the housing to date.

The project was developed by the James Street Commons Urban Renewal Corporation, a loose partnership among the city, Chamber of Commerce, and HDRC. Work involved acquiring the property, relocation of residents, gut rehabilitation, marketing, and financing sales. The city acquired the property and relocated former residents. HDRC directed the rehabilitation of units; Department of Interior funds financed the rehabilitation. Total repair expenditures was over $180,000. The Chamber of Commerce assumed day-to-day responsibility for the project. The units were advertised to be sold by lottery with the stipulation that the household must live in the unit for three years (to prevent speculation). Nearly 200 inquiries were received, and 19 households were in the lottery. The households that were chosen by lottery were from outside Newark: two suburban residents, two from other cities in New Jersy. Two of the households have members who are now students at Rutgers; the other households have members who work in downtown Newark. Financing was provided by the New Jersey State Mortgage Finance Agency (MFA), which operates a below market interest rate mortgage program and a secondary market in areas in which lending institutions have been unwilling to make loans.

The New Jersey State Mortgage Finance Agency (MFA) provides a program to aid low- and moderate-income persons purchase condominium units. In 1970, the State Legislature passed legislation creating MFA. The Legislature perceived that the housing crisis in New Jersey resulted, in part, from lack of available mortgage credit. MFA was given authority to raise money through tax exempt bond financing and to make the proceeds available for mortgage lending to state residents. The program was further refined in 1977 with a targeted loan program, the Neighborhood Loan Program (NLP).

NLP offers below market interest rates to households buying homes in designated neighborhoods. By targeting the loans, NLP attracts a higher income purchaser to urban neighborhoods. NLP argues that the dual regulations, below market rates and neighborhoods targeting, produce an income mix rather than gentrification of a neighborhood.

Criteria for neighborhood selection are strict. Eligible neighborhoods must be primarily residential with predominately one to four family homes, basically sound housing stock, evidence of disinvestment by the lending industry or by current residents of the area, limited number of abandoned structures, and must have municipal commitment to improvement of the area. The James Street neighborhood in Newark meets these criteria.

MFA provided financing for the converted units. It provided permanent mortgages for homeowners at 90 percent of value. The below market interest rate was 8 1/4 percent. (The rate depends on the tax-exempt bond sales.)

Between 1977 and mid 1979 approximately 5,000 NLP loans were made with no loss to date. The following is an excerpt from article in the July, 1979, Journal of Housing characterizing the NLP purchasers. It must be added that 72 percent of NLP loans have been to minority households.

> The typical NLP borrower is 36 years old, upwardly mobile, married, with two children. The NLP homebuyer typically purchases within the city of his former residence, has worked for his current employer for the past six years and, together with working wife, has a combined yearly family

income of $21,000 of which 19 percent is spent for housing expenses. The average sales price for a house is $29,866, with an average downpayment of 11.8 percent. Ninety-one percent of NLP borrowers were renters before entering the program; 36 percent of borrowers have been single, with 15 percent of that number being women.

The MFA program provides a model for private reinvestment in distressed neighborooods and for low and moderate ownership of condominium units. In the James Street project these objectives were combined. Before and after MFA there has been hesitation to lend in Newark, but with MFA operating, these has been some lending increase in the city.

Relationship to HUD and Policy Alternatives

Expert policy preferences on conversions in Newark reflect the view that condominiums can stimulate a back-to-the-city movement in a distressed city. However, there was disagreement on the role of government. Some felt the Federal government should encourage conversion with programs and incentives. Others were opposed to Federal government intervention in local matters. The latter were those who had developed successfully the James Street projects.

The general point of agreement was that condominiums could aid renewal of an area. Some expressed concern about the need for monitoring the relocation of displaced persons. They believed the city should take an active role with final oversight by the Federal government. Another suggested the proper Federal role was offering technical assistance to developers, municipalities, and purchasers (counseling, management skills).

Field Report

Conversion Activity in the Philadelphia, Pennsylvania SMSA

Background

Center City Philadelphia is once more a viable and attractive area as revitalization and reinvestment activity in the Society Hill-New Market area, Rittenhouse Square, and Queens Village has spawned a downtown housing market surge. Living in the Center City connotes status.

Recently, non-local developers brought conversion activity to the city and for a variety of reasons, were highly successful. Experts familiar with conversion in Philadelphia attribute the success not only to the fact that the Center City area is a desirable place to live, but also to the fact that converting rental units to condominium units offers substantial quick profits to owners and developers. In addition, purchasers receive the tax advantages and investment potential of homeownership.

Philadelphia conversion of rental units to condominium units occurred in two distinct time periods. Marked differences can be seen in the style of converted buildings, in demand for condominium units, and in the type of developer.

The first period of activity, 1971 to 1974, produced conversion of 1,402 units in nine buildings. The styles of buildings were two unit to mid-rise (two to sixty units), the single exception being the Rittenhouse Savois with 228 units. The developers performing the conversions were local firms also involved in new construction. One developer, who was unsuccessful with a conversion in 1973, revealed that there was little expertise among local developers concerning condominium conversion at that time. Moreover, the preferred single-family homes were available at affordable prices, rental units were available at bargain prices, and financing institutions were reluctant to lend in an untested condominium market. The period was marked by low demand for condominium units as households chose the more traditional single-family home. Conversion activity in this period ended with the recession of 1974-75.

The second period of activity, in 1979, produced an explosion of Declarations of Conversions. The Philadelphia Department of Records showed a total of 3,856 units in 15 buildings declaring conversion intent. But conversion and sale of units has taken place only in a few instances, the most notable being Society Hill Towers, a high-rise of 705 units on urban renewal land overlooking the Delaware River. Society

Hill Towers is typical of the second period conversion buildings: that is, most of the buildings are high-rise luxury buildings in the Center City. Society Hill Towers is also typical in that the building was sold to a non-local firm which undertook the conversion. A housing market expert commented that local developers "were caught sleeping." They did not recognize that a demand for condominium units was growing, and local firms had not developed the expertise to participate in conversions.

Demand

The strong demand for condominium units in 1979 is a function of other demands and considerations: (1) the locus of professional employment is in the Center City area; (2) the Center City has undergone successful revitalization to the degree that it is now a prestigious housing location with shopping, cultural activities, and nightlife; and (3) the homeownership tradition in the city remains strong, but the supply of single-family houses has been absorbed by the demand, condominiums provide a lower-cost alternative.

In sum, it is the centralization and revitalization of the Center City area that is strengthening by the demand for condominium conversion in Philadelphia. The demand appears to be largely from middle-and upper-income households and is likely to remain strong as the Center City renews. However, the conversion boom days of 1979 are over inasmuch as the conversion of buildings has been halted for 30 months by a local moratorium.

Supply

During the two periods of conversion activity, less than one percent (perhaps half of one percent) of the rental housing stock was converted. However, the geographic location of the conversions was concentrated in Center City Philadelphia. The areas adjacent to Center City were strengthened conversions, and the commuter train corridors were objects of activity. In the Center City, luxury high-rises and the adjacent area townhouses were converted, but it was along the transportation corridors that the large, rambling mid-rise apartment buildings of the 1920s vintage were converted.

The recent supply of buildings comes from rental owners who can realize a substantial profit. A rental owner, who sold to a non-local developer, explained that although it was possible to operate his luxury building at a steady profit, a developer offered a price at which he could realize an immediate huge profit. It was an offer he could not refuse. This scenario is typical of the luxury rental conversion in Center City. Outside the luxury buildings, landlords are less able to charge rents that result in a profitable cash flow: as rent levels finally rise, one expects these owners would also be willing to sell to developers.

Government Regulations

The intervening variable in the conversion activity has been public opinion. A broad coalition influenced the City Council to pass an ordinance prohibiting conversions for a period of 18 months. Supporters of the ordinance were tenant groups who did not want their buildings converted, local developers losing business to non-local firms, and citizens concerned about "outsiders" profiting in the Philadelphia housing market. The fact that 1979 was an election year meant that the Council was especially disposed to public-pleasing action and although the number of declarations was large, most experts agreed that the issue of condominium conversions became highly politicized during the summer.

With Senate Bill 65 (which addresses conversion regulation) languishing in the Pennsylvania State Legislature, the City Council passed an ordinance amending Title 9 of the Philadelphia Code to include regulating the conversion of apartment units to condominiums. Under the ordinance, for a period of 18 months from the date of passage (27 September 1979) no declarations of condominium can be filed, and tenant notification in writing by certified mail must occur one year prior to the date of the scheduled conversion. These two provisions of the ordinance effectively halted all conversions in the City of Philadelphia for the 30 months following the September passage.

Other provisions of the ordinance address tenant rights and consumer protection. But the most interesting feature of the ordinance is the moratorium. The 18 month period is set aside for study of the process and the effect of condominium conversions, formulation of proposals for legislation, and development of a comprehensive plan for achieving a balance betweeen rental and condominium housing stock. That study is now underway by the City Planning Commission, but according to Commission staff members, it was too early (at the time of this survey, November 1979) to predict what changes in legislation may be proposed. However, one real estate expert predicted that the moratorium would successfully be challanged as unconstitutional because it prohibits change of ownership.

Any attempt to kill the moratorium may be delayed or irrelevant since the mortgage money market makes completing sale of a unit very difficult. At the time of survey, money was expensive and loans in amounts greater than $50,000 not available. In addition, as the interest rate climbs above 11-3/4 percent, the state usury law requires additional qualifications and buyer protection mechanisms.

Effects on Households

Conversions in Philadelphia are marked by a high number of tenant buyers. Several facts may account for this phenomenon: (1) luxury buildings with residents more able to buy were converted, (2) the converted units were located near the prime downtown business district; (3) the desirable area had a low vacancy rental rate making relocation within the area difficult; and (4) developers experienced in marketing were performing the conversions.

Effects on Tenants

The conversion of buildings led to the realization that Philadelphia had become a prime target of major non-local development firms. Fears were expressed that Philadelphia would experience the same level of conversion that Chicago had. In this atmosphere several tenant groups formed. The most vocal group was the Council of Tenants Associations (COTA), representing three of the five contiguous counties, organized on the single issue of fighting conversions. This council was involved in drafting the city's condominium conversion legislation. To bring public attention to the issue, COTA scheduled a television debate of the issue with developers. The televised debate did not take place, as the developers cancelled their appearances. COTA remains organized to defend expected challenges to the legislation.

Effects on Housing Market

Traditionally, Philadelphia has had a high level of single-family ownership, but recently the cost of owning a single-family home has risen. One expert ventured that condominiums are attractive as an alternative means of homeownership when single-family homes are priced 150 percent higher than condominiums for equivalent space. He indicated that this was the present condition in Philadelphia. In addition, Philadelphia has a history of low rent levels (no one could cite the reason), but rents have begun to rise. There are several possibilities for the rise -- energy costs, maintenance costs, increased tax assessments or low vacancies due to conversion. Further, commuting costs have caused properties near public transportation to appreciate in value.

Even with conversions, the lack of new construction, lowered vacancy rates, and higher rent levels, it is still possible to find standard rental housing in Philadelphia, but units of all types are most scarce near public transportation routes. What the future conversion activity would be without the moratorium and one-year notice period cannot be predicted accurately. The demand for condominiums is strong, and with less than one percent of the rental stock converted and with a large inventory of older sound units, there is a good supply of convertible buildings. Mortgage banks are anxious to participate in condominium purchases; therefore, one would expect the activity to be high if the money market remained strong.

Effects on Neighborhoods

As mentioned earlier, conversions have occurred in or near the Center City of Philadelphia. Some conversion has been on land that was previously upgraded during urban renewal, land that moved from lowest housing choice to highest.

Since renewal, the apartment units in the area attracted middle- to high-income tenants but, in the opinion of knowledgeable experts, it is the higher income tenants who buy condominiums, making the neighborhood and area more homogeneous. Those who cannot afford to purchase move to adjacent areas, causing secondary displacement and, perhaps, driving up rent levels. The converted units are occupied then by households of similar income. The areas experiencing conversion -- the Center City neighborhood, areas adjacent to this neighborhood, and commuter train corridors -- are those best served by public transportation.

One other community impact concerns the potential revenues which accrue to the city as a result of conversion. Most experts argued that condominium conversion led to increased assessments for the converted properties. However, the extent of increase in the city's overall property tax revenues due to conversions is not known.

Relationship To HUD and Policy Alternatives

Generally, experts felt that the Federal government should not be involved in regulating local conversion activity. Rather the Federal government's role should encompass controlling conversion activity and increasing the rental housing supply. The former could be done by reforming tax laws to discourage huge profits accruing to the owner and the develo er, preparation of minimum standards for consumer protection, provision of information and technical assistance to condominium buyer associations, and subsidies for low-and moderate-income households to buy their units. The latter includes programs which reduce the risk of constructing multi-family rental housing, actions to decrease administrative processing time of mortgage insurance programs, and a reduction of environmental controls which increase new construction costs. The state and local government role should be the regulation and enforcement of more stringent legislation dealing with procedures that protect non-buying tenants and with coordination of the mix of housing units available.

Case Study I - Luxury High Rise in Center City

Center City Philadelphia contains several luxury high rise apartment buildings that are 10 to 20 years old. The buildings provide a good return on investment since profitable rents can be charged. Recently out-of-town investors/developers have offered owners prices that produce tremendous profit to be taxed at capital gains rates.

In discussion, the former owner of a Center City building described the transaction. He had prepared the building for selling in anticipation of rent control legislation. The paperwork was within 30-days of filing. Instead, he received an offer that would immediately provide a larger profit that he could make from the rental units over the next ten years. The non-local developer was one who had experience in other major cities.

The building contains 540 units in excellent condition. Prior to selling, a more efficient heating system was constructed as a regular measure to reduce operating expenses. Otherwise, no changes were made. The building is 16 years old and was never subject to deferred maintenance.

The selling price of units will be 120 times the monthly rent. Sale of units has not taken place. All units will not be sold. Ten percent will be retained as rental units for elderly tenants and any other hardship cases. It is assumed that 40-50 percent of present tenants will buy. In addition, other investors are expected to participate by purchasing units for rent.

The building is located in a prestigious location (not a mixed neighborhood). Finding comparable housing would be difficult since the building is at the top of the market although tenants could well afford alternative housing. It is expected that previous tenants and new buyers will be similar -- upper income professionals.

Case Study 2 - Older Apartment Building Along Public Transport Corridor

Philadelphia is well served by commuter rail service linking the city with adjacent areas and suburbs. Along the lines are spacious mid-rise apartment dwellings built in the 1920s. Most are in need of major rehabilitation, but they are sound buildings whose values are increasing as commuting by train becomes more desirable.

One such building is the object of conversion activity. The building is an eight story mid-rise with 46 units in need of repair. At the time of conversion over two-thirds of the units were vacant. All major systems had dilapidated since construction in 1927.

The impetus for conversion was default on the mortgage. The bank that held the property decided to rehabilitate the property and sell it as condominium units. The bank faced a substantial carrying charge during the conversion since major rehabilitation of the declining building was necessary. However, since the building was only partially occupied, renewal could take place while tenants remained in residence. In addition, the bank would finance the condominium mortgages. The bank, a local institution, was investing in a declining area and gaining a good public image. The bank expected a 20 percent profit on the investment as well.

The units were luxury rentals in 1927, but they had declined substantially. The total dollar value of repairs, $800,000, brought the building to standard condition with no deferred maintenance -- new roof, plumbing, elevators, heating system, electrical systems.

Prior to conversion one bedroom units rented for $215 and two bedroom units rented for $250. The selling price of the units will be $24,000 and $30,000 respectively. Previous tenants who purchase a unit receive 10 percent off the selling price as a down payment. Ten percent of the units (5) were retained as rentals for elderly tenants. These units serve as an investment but other investors were discouraged by the bank. Marketing of units is underway at present.

Visiting the building and viewing both old and renewal units made it clear that the building, which was previously two-thirds vacant, had been substantially upgraded. Since the building is one block from the commuter train station, a unit appears to be a sound investment at this price.

The building is in a racially mixed neighborhood. Too few units (3) have been sold to determine the racial composition of buyers.

Field Report

Conversion Activity in the Phoenix, Arizona SMSA

Background

Phoenix has been experiencing tremendous population growth for several years and housing production of all kinds has been at high levels since the last economic downturn in 1974-1975. Phoenix is also unique because of the number of less-than-year round residents, known as "snowbirds", who swell the population during the winter and spring months and impact the housing market. According to 1979 Inside Phoenix, in 1978 Maricopa County (the Phoenix SMSA) experienced the largest net increase in population in a single year since 1973. The 65,000 person gain amounted to a 4.7 percent growth rate; the total household figure grew by 33,000. These figures include both less-than-year-round residents and those living in group quarters. It is estimated that 60,000 to 100,000 "snowbirds" come to Phoenix for varying time periods during the winter months.

Demand

The demand for converted units appears to consist of (1) households with high incomes and/or substantial equities from previous homes, (2) young single(s) and childless couples who are first time home buyers, (3) investors, and (4) tenants. The households with high incomes and/or substantial equities are most often "empty nesters." The condominium buyer generally is affluent, professional, and wishes to escape the work required for single-family ownership, after the children have left home. Condominiums, for this group, must provide superior quality units, with amenities, and often a convenient or prestigious location. The second category of conversion buyers are young single(s) and childless couples. Many of these newly formed households are looking for an investment hedge against inflation (or a tax shelter) and may view the converted unit as a starter home on the way to trading up to a single family unit later. In some cases, young households with children have purchased condominiums as starter homes because of the high price of new and used single-family homes. Conversions were also cited as a primary housing resource for the rapidly growing number of single professional women seeking homeownership advantages, and are likewise attractive to those who are sharing residence with others.

The third category of condominium buyers are tenants in the building undergoing conversion. The percentage of tenant purchasers ranged from 10 to 65 percent in various projects with the most commonly cited estimate being at the low end. Well-off tenants, often snowbirds living in prestigious buildings and locations who maintained the apartment for seasonal use, were often mentioned as a prominent category of tenants who bought units. Other tenant buyers appear to fit the young single and childless couple profile of category two.

The fourth category of buyers is made up of investors. Most developers indicated that no more than 20 percent of their buyers were investors (because of the use of Federal Home Loan Mortgage Corporation (FHLMC) secondary mortgage market financing). But, the 20 percent limit was cited as difficult to police and the rate of investor purchases might be higher. Two major kinds of investor buyers were suggested. The first and largest group appeared to be high-income conventional investors looking for tax shelters and rapid appreciation in property values. In many cases, converters or partnership syndicates retain units in the project as deferred profit for larger longer term gain and tax avoidance purposes. Another but smaller investor category is composed of persons who are looking to buy a retirement home in Phoenix and see the conversion unit as both a short-term investment and an eventual primary residence.

A market expert in Phoenix argued that there is essentially a condominium market with two segments: new and conversion. The conversion unit generally offers selling prices substantially below new condominium sales prices but in similar locations. The conversion-new condominium price continuum is best seen when sales for new and converted units are compared in the same areas.

TABLE 1

Area	Conversion Units		New Condominium Units	
	1 BR*	2 BR*	Range Low	High
N.E.	48,840	65,903	22,900	285,000
Scottsdale	51,283	65,374	66,000	213,800
West Central	-	51,208		-
NW	-	46,900	39,500	96,900
Metro	50,416	63,755		

*Weighted Average Sales Prices

Source: Market Study: Condominium Conversion Activity, Phoenix Metropolitan Area, Ronald Brock, A. Ronald Button II (Brock, Button & Associates, Ltd., Russ Lyon Realty Company, October 29, 1979).

Thus, in the opinion of a private sector report prepared for the city, conversions, "in addition to placing a lower priced housing unit into the market, also provide closer-in housing in more desirable areas at a lower price than new construction apparently is capable of doing. This is largely the result of the closer-in areas being more mature in their development; consequently, land available for development is either already in use -- or is too high priced to justify condominiums on a highest and best use basis."

Supply

Between 1972 and 1974, approximately 1,715 units were converted to condominiums. This occurred at a time when the apartment unit inventory increased from 93,338 in 1972 to 104,304 in 1974. The market softened during 1974 and properties sold slowly. In 1975, only two properties were converted. Condominium conversions constituted 1.4 percent of housing units newly offered for sale in 1972-74. These conversion units offered excellent financing terms and were positioned to sell well below the general sale market (including new condominiums). Little conversion activity occured in 1976, but two projects of 59 units were offered in 1977, followed by 802 units in 1978, and 1,776 units in 1979.

Conversions are taking place in the middle-income ana ıuxury rental housing stock of both desirable close-in and suburban locations in the Phoenix SMSA. As indicated in Table 1, conversion activity is located in the North Central, Northeast, and Scottsdale districts, closely aligned along the Camelback Road corridor. These areas, especially the northeast and Scottsdale districts, are considered to be the most exclusive and expensive homeownership and rental areas in Phoenix. Table 2 indicates the proportions of units in the process of conversion in the Metropolitan area.

TABLE 2

Number of Units in the Process of Conversion, Phoenix SMSA

Area	TOTAL UNITS	Percent of All metropolitan conversion	Average Units Per Project
N.E.	742	34%	62
Scottsdale	1,067	49	133
North Central	364	17	121
N.W.	16	1	16
TOTAL	2,189	100%	91

The 2,189 rental units now in the process of conversion to condominiums constitute 1.9 percent of the 115,900 multi-family units in the Phoenix metropolitan area. However, the metropolitan wide conversion proportion does not adequately capture the impact of conversions. When conversions as a proportion of rental stock are analyzed by planning district, a significant variation is highlighted (see Table 3). Thus, Scottsdale has over 14 percent of its multi-family stock in the conversion process and Paradise Valley has 8.9 percent, while other districts have a very small percentage of the multi-family stock in conversions.

Table 3

Conversions In Process as a Percentage of Multi-Family Inventory, Phoenix SMSA

Planning District	Multi-family Inventory (units)	MF Inven. as Percent of all units in Dist.	Units in Conversion Process	Units in Process as Percent of MF Units in Dist.
Scottsdale	7,489	17.3%	1,068	14.3%
Paradise Valley	2,900	11.5%	257	8.9%
Sunnyslope-North	3,843	12.1%	16	0.4%
North Central	10,155	38%	375	3.7%
Northeast	7,980	38.8%	129	1.6%
Uptown	10,266	44.9%	189	1.8%
Central West	3,753	20.8%	156	4.2%
			2,189	

One bedroom and two bedroom/two bath units account for 70 percent of all units converted. The remaining 30 percent involve studio and three bedroom units. The larger units are generally geared toward the family market and are in the West Central area of Phoenix. A 156 unit former hotel was converted to studio condominiums.

Market Conditions

The Phoenix housing market has been growing at a rapid pace with a 69.6 percent increase in total housing units from 1970 to 1978. Since the beginning of the fourth quarter of 1978, a total of 40,924 units have been added to housing stock. Single-family units have led the way, accounting for 66.8 percent of the new units, followed by new condominiums, 5,514 (13.5%) multi-family 6,979 (17.0%), and Mobile Home Pads -1,104 (2.7%) units. Single-family houses are still available for an average of $55,000 in the Phoenix area.

Because of the amount of single-family new construction and its affordability, it is argued by Phoenix observers that families still have a means of buying into the American dream. It is also argued that the market for condominiums, especially conversions, is different from that for single-family units. Many condominium buyers are not interested in single-family units but rather want the advantages of location, convenience, and investment that condominium conversions present. It is also argued that conversions, rather than being a substitute for the single-family homes, are really an extension of the new condominium market -- that is, their pricing provides affordable housing for the marginal condominium market in Phoenix.

The interest-rate increases and tight money supply have had the most significant effect on spot loans (i.e. resales), according to one mortgage banker. Several developers also indicated a slow down in buyer interest in conversions as well as greater difficulties in qualifying potential buyers. A financial expert indicated that (as of Fall 1979) he was having little or no difficulty finding money at prime interest rates for development. Indeed, he was involved in 15 new projects involving 2,500 units and had turned down six to eight projects involving 750 units. On the basis of his experience, he estimated that there could be as many as 8,000 units in the conversion pipeline altogether.

Government Regulations

To date, regulation has been limited to developer compliance with the Arizona state statute on the sale of subdivided lands, administered by the Department of Real Estate. This requires a full disclosure on the sale of land and involves detailed reporting on the status of title, liens, public improvements and limitations on advertising. The state conducts a review of information and may turn down an application. Upon compliance with regulations, the commissioner of real estate issues a public report authorizing the sale of lots within the subdivision. The report contains data in accordance with law, and the subdivider is required to reproduce and furnish each prospective customer with a copy.

The City of Phoenix is now studying the extent of conversion activity and reviewing its legal authority to regulate the area. Preliminary opinions from the city's legal counsel indicate that no authority exists to regulate conversions without a state enabling statute.

Effects on Households

There are few data, outside of anecdotal accounts, on the effects of conversion activity upon tenants. The percentage, of tenants buying appears to depend on the location and quality of the building, socio-economic status of tenant population, and the developer's goals. For example, one developer makes every effort to sell at low prices and thus as quickly as possible. This appears to help retain a high percentage of tenants. In one of his small projects, 65 percent of the tenants bought. However, his project was occupied by young, single professional clientele. Where there is a high number of older retired persons, the percentage purchasing is low. The exception to this appears to occur in the exclusive and expensive buildings and areas of the city. The presence of the wealthy elderly often results in higher proportions of elderly purchasers in such exclusive areas as Scottsdale.

Since there is no state or local conversion legislation on notice, the developer has only the legal obligation of following his lease requirements. However, a number of developers said that they gave long advance notice to tenants, often as a part of the information process trying to get tenants to purchase. In other cases, developers indicated that they gave lease extensions to tenants. Developers do not generally provide much monetary assistance to tenants, but a number helped in moving and relocation. One developer, who owns a number of rental buildings, says he moves non-purchasing tenants, at his expense, to vacancies in his rental inventory.

The converters and market experts say that tenant displacement is not a problem because (1) there is significant apartment turnover despite a low two percent vacancy rate, and (2) there are almost 10,000 rental units coming into the market in the near future. It was stated flatly by an industry representative, and agreed to by a tenant representative, that tenants are not staying in the streets. In addition, the Phoenix rental market has both slack and tight rental periods, depending on the season. Finding new housing in the city was said to be easier during the spring/ summer than during the winter. However, the rapid conversion of the luxury stock in exclusive areas such as the northeast and Scottsdale would tend to reduce rental options in those areas since the quantity of rental stock that was available was low to begin with. It was argued, but without evidence, that displacement would not result in an inability to find comparable rental housing with the same amenities, cost, and services, especially for the elderly.

Effects on Tenants

Tenants have not yet formed an effective organization around the conversion issue. A state senator from the central Phoenix ward where conversions are occurring has taken up the issue and started to research policy/legislation options. His data have been limited to anecdotal accounts of the problems facing tenants after conversions. Similarly, a local city councilman has become concerned with the impact of conversions on tenants, especially the elderly, and he has conducted a public hearing on their problems. He was also instrumental in getting a resolution passed by the Council calling for the city carry out a study of conversion activity. This study will be completed in by December, 1979.

Tenants are trying to form an organization with a broader base than just those affected by conversions. But, the organizing is barely in its beginning stages.

Effects on Housing Market

There is no evidence to indicate that the number of conversions so far has led to a tighter rental market. However, the significant proportion of the rental stock converted in exclusive areas such as the northeast (8.9.%) and Scottsdale (14%) would seem to suggest some tightening of the rental stock and perhaps higher prices in these major luxury rental submarkets.

Since new construction of single-family and multi-family units has been at high levels since 1974, conversions have not changed the ownership/rental ratio in Phoenix as a whole. The two exclusive areas of Phoenix with significant conversion activity have necessarily had a change in rental/ownership proportions. If conversion activity continues in the middle-income and luxury rental markets of Phoenix, the proportion of rental housing will decline in those areas. The total Phoenix proportions will depend largely on the level and proportions of new single- and multi-family housing. It is critically important that (according to many real estate developers and financial sources) nearly all the new multi-family housing being built in Phoenix has been designed and planned for conversion to condominiums after maximum tax advantages have been taken on the projects as rental investments.

Effects on Neighborhoods

Although some conversions included significant renovation and may thus have had positive effects on the neighborhood, it appears that virtually no conversion in Phoenix is related to revitalization of older central city neighborhoods. In addition, since the units converted are in middle- and upper-income projects in exclusive areas there has been little effect on racial and income mix. It is possible, however, that there is displacement of some less well-off elderly retirees by younger and late middle age (empty nester) professionals, and in some cases affluent retirees. Virtually no information on the effects of primary displacement is available, much less on secondary impacts.

The general belief is that converted projects return more taxes to the locality than rentals. However, Phoenix has an assessment rate differential between single-family (15%) and multi-family projects (18%). There are efforts in the legislature to lower multi-family rates to the single-family level.

Relationship to HUD and Policy Alternatives

No one could cite any HUD projects converted in Phoenix. The key Federal program related to and indeed, essential to the financing of condominium conversions is the Federal Home Loan Mortgage Corporation's (FHLMC) purchasing of mortgages. The eventual commitment of "take out" or permanent financing is usually a keystone in completing a condominium deal. Without it, the interim financing for acquisition and repair is not available. Nearly every developer indicated 20 percent as the investor portion of units in the project -- the FHLMC limit.

In Phoenix, several developers believed that the 20 percent FHLMC limitation on investors had a negative impact on the elderly. This occurred, according to them, because many children of elderly parents would be willing to buy the unit for their parent but for the requirements for primary occupancy. It appears that the children, in these cases, would view the purchase as an investment and tax shelter. They would probably rent the unit at a nominal to market-rate rent to their parents and carry the negative cash flow. Another constraint on tenant purchasing, especially by the elderly, is the FHLMC guideline on percentage of mortgage expenses to income, and percentage of other debts. It was argued by developers that these rigid rules are inappropriate because the elderly person does not have the same budget variables as families do. Generally, the elderly should be able to carry a higher shelter/income ratio than similarly situated families.

Developers in Phoenix believed that there should be little or no government interference in the market for condominiums. They were sympathetic and concerned about the elderly, but suggested the essential federal role was to come up with programs to expand the ability of <u>all</u> tenants, though especially the elderly, to afford homeownership in conversions. Besides changing the shelter/income ratios for elderly, developers believed discounts should be counted as downpayments. In addition, they saw subsidized interest on principal as an acceptable program to expand homeownership opportunities in condominiums, especially for the elderly.

The Conversion Process

No detailed information was gathered.

Field Report

Conversion Activity in the Pittsburgh, Pennsylvania SMSA

Background

Pittsburgh and its surrounding suburbs have experienced a moderate level of conversion activity. 1/ About 3,600 units in the entire SMSA were converted from 1970 to 1979 and 1,984 of those were converted between 1977 and 1979. Most of this activity has been in the suburbs. In the last ten years, suburban conversions have comprised 66 percent of the total in the Pittsburgh SMSA with the remaining 34 percent in the city of Pittsburgh. While the proportions have evened out in the last three years (1977 to 1979) it is clear that conversions have not been associated with a "return to the city movement". They have taken place almost excusively in desirable, stable neighborhoods in both the city and suburbs and have not played any role in the revitalization of the inner city areas of Pittsburgh.

The Pittsburgh metropolitan area has had a relatively stable population base over the last ten years (1970 to 1980) while the city of Pittsburgh has lost population, primarily through out-migration of the 20- to 44-year old group. However, the average household size has dropped, so that the number of households in the city has remained about the same and has increased somewhat for the entire SMSA. A sizable proportion of the city's population remains relatively poor. The Allegheny County Department of Planning and Development reported in 1975 that 41 census tracts in the City of Pittsburgh (about 25 percent of all census tracts in the city) had an average of 80 percent or less of the city's median income for all tracts and also were 20 percent black. Another 18 census tracts were low income (by the same definition) and had less than 5 percent black population.

A 1975 report on tax delinquency in the city described the housing market as weak, as the result of a "rapidly declining population and a resulting over supply of housing." Property values were described as falling, since the lack of interested buyers meant a weak resale market and the vacancy rate was considered high. The study concluded that "uncertainty regarding protection

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1/ The Pittsburgh Standard Metropolitan Area (SMSA) covers Allegheny County (which includes the City of Pittsburgh), Beaver, Washington, and and Westmoreland Counties.

of the owner's investment in the form of equity and/or continued rental income leads to lower levels of property maintenance, non-payment of taxes, and ultimate abandonment." 2/ Its recommendations to the city were to evaluate and control the impact of additional new construction on the already weak housing market.

During the mid-1970s, selected suburban markets of the Pittsburgh SMSA, where there had been an over-building of luxury units, also had relatively high vacancy rates. In four or five "distressed" suburban communities, high vacancy levels were accompanied by under-maintenance and substandard stock. On the other hand, standard quality rental units, priced for middle- or lower-income households and located in generally stable neighborhoods were considered to be in short supply.

Recent vacancy statistics from the Housing Assistance Plan for Allegheny County, 4,228 rental units were vacant in May 1979. However, 2,621 or (62 percent) of these were considered to be substandard. Therefore, while the overall rental vacancy rate in the county was 4.1 percent, the standard rental vacancy rate was 1.35 percent, a figure indicative of a very tight housing market.

Demand

Until interest rates began to climb rapidly in the Fall and Winter of 1979/1980, demand for converted units was considered to be moderate to good. Condominium conversions sell in a price range 12 to 63 percent below that of the single-family home market for the same census tract, according to the city's report on conversions. The report concludes that conversions provide home-ownership opportunities to those who cannot afford a single-family home in the same area. Most converters, however, believe the demand for single-family homes and the demand for converted condominium units comes from different sources--except perhaps (in a few cases) for luxury condominium units and the single-family market.

Buyers of converted units in the Pittsburgh SMSA tend to be young singles or couples in the middle- to upper-income ranges, often professionals, or, "empty nesters". The former group dominates in the suburban conversion market while the "empty nesters" buy primarily

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2/ Arthur Young & Company and Center for Urban Policy Research, Analysis of Property Tax Delinquency in the City of Pittsburgh, Volumes I through IV (Rutgers University, 1975) in the city. The younger households appear to be the major buyers. Most of them have previously rented. According to two developers, the converted unit is often a "starter home" for many households who want to begin to accumulate equity and cannot afford the down payment or monthly mortgage payments for a single-family home.

The proportion of existing tenants buying at the time of conversion varies between 15 to 20 percent and 65 to 70 percent. One of the determinants seems to be the median rent of the building prior to conversion. The higher the rent, it seems the larger the proportion buying units, though there are no hard figures to support this conclusion. Tenants are usually given discounts of seven to ten percent from the prices paid by outside buyers.

The number of investor-owned or speculator owned units in the conversion market is also a subject on which there is no systematic information. According to developers involved in conversions, speculators or investors did buy blocks of units prior to the high interest rates, but that type of demand has died recently. (This source of demand was estimated to be involved on the average, in five to six percent of all units sold.) Also, in some converted buildings, developers keep up to 20 percent of the units as rentals; these may often be used for elderly tenants who do not buy.

In conclusion, demand for converted units was reported to be moderately good prior to the advent of high interest rates. Even so, one of the authors of Pittsburgh's report on conversions argued that demand for converted units would not spread to other areas of the city (and presumably not to other suburban areas). First, those areas do not contain buildings suitable for conversion. Second, and more important, most households still want to buy single-family homes. While more expensive than converted units, single-family homes are still relatively affordable here.

Since the period of high interest rates began, conversions have slackened considerably, with one major developer out of the business altogether. This developer indicated that interim financing was not available nor was he able to line up end-loan financing for potential buyers. Interest rates, as of the middle of March 1980, were 16 percent plus 2 points for condominium mortgages. In short, the future of the conversion market, at least from the demand side, is very uncertain at present. Whether the current slump in sales and new conversion efforts is only temporary is "anyone's guess" according to one converter.

Supply

A small proportion of Pittsburgh's rental supply has been converted --about 1.1 percent--while outside Pittsburgh, the figure is closer to 2 percent.

A recent study on conversions conducted jointly by the Department of City Planning and Department of Housing found that only 15 of 187 census tracts in the city (about 8 percent) have experienced any condominium conversions.3/ No conversions have taken place in the northside or southside areas. The middle- to upper-income neighborhoods of Shadyside, North Oakland, and Squirrel Hill contain approximately two thirds of all the conversions in the city. Conversions within the city affect the middle to upper end of the rental market, and in the neighborhoods mentioned above the rental market is considered quite tight. According to several observers (including a representative from a tenant-oriented housing council), conversions have not exerted to date a significant impact on the availability of moderate- to low-income rentals or on rent levels. Conversions are viewed primarily as a "middle class or upper class" phenomenon whose principal negative effect is to displace the middle- to upper-income elderly tenants who do not wish to buy.

Most local officials and developers believed that future conversion activity would not be constrained by the lack of suitable buildings to convert. According to one developer, his biggest problem, aside from interest rates and the availability of mortgage money, was that landlords were asking for too much for their buildings--the asking price higher than the resale value.

One of the key reasons underlying the conversion phenomenon in Pittsburgh is the fact that conversion is more profitable than continued use of the building as a rental or than sale of the building as a rental, even though no rent control exists in Pittsburgh and the surrounding suburban communities. According to several real estate representatives, landlords do not believe they can raise rents sufficiently to meet their operating costs. It becomes easier to convert rather than to worry about the effect of raising rent levels and risking the hostility of good tenants, many of whom are retired and on fixed incomes.

3/ Department of City Planning and Department of Housing, Report on Condominium Conversion (City of Pittsburgh, 1979).

The tax status of the building is not considered a key factor. While most of the converted buildings had already taken advantage of most of their depreciation, developers and landlords argued that this was one of several factors, and not the primary one, in the decision to convert.

Government Regulations

The regulations which currently affect conversions in Pittsburgh are minimal. Developers who plan to convert a building must register or file a declaration of intent to convert, but beyond this declaration, neither the state nor any of the Pittsburgh metropolitan area municipalities regulates conversions. In August 1979, one city councilor in Pittsburgh proposed a six-month moratorium, but nothing came of it. The councilor now says that a ban is not needed. Instead, he is pressing for various sorts of regulations on the conversion process, such as those supported by the Shadyside Action Coalition.

A bill currently under consideration at the state level (Senate Bill #65) is based on the new Uniform Condominium Act developed by the National Conference of Commissioners on Uniform State Laws. The bill requires apartment tenants to be given 120 days notice, prior to the conversion, no matter when their lease expires. Among other things, the bill also proposes a two-year warranty against structural defects in the building and common areas. According to several developers (and other real estate industry representatives), many other amendments to the state bill have been offered by tenant groups from Philadelphia. The developers feel these amendments would cripple the condominium and conversion industry and consequently oppose them.

In any event, it is likely that some form of a state condominium bill will be passed soon. Originally, Senate Bill #65 was introduced primarily as a consumer-protection bill, and it had considerable support from the condominium construction/conversion industry. Should some of the amendments be adopted, the thrust of the bill could be changed considerably; support from the industry would decline as tenant support would (presumably) increase.

Effects on Household

The major tenant-related issue in the Pittsburgh metropolitan area concerns the elderly households affected by conversions. There is no systematic information on what happens to the elderly in Pittsburgh conversions nor has concern on this subject exhibited itself in well-organized or vocal tenant action. The City of Pittsburgh's report on conversions examined the percent of conversions which were replaced by subsidized elderly housing units in the same census tracts. It found that 65.4 percent of all converted units were "offset" by subsidized elderly construction within the same set of tracts; that is, for 1,089 converted units, there were 713 new units for the elderly. Unfortunately, no more detailed information is available on the difficulty or ease of finding alternative housing or on the characteristics of such housing. According to two developers, most people who move out of converted units do not have any problem finding alternative housing within the same area. While these developers provide no relocation assistance, they said they often extend the rental lease for 2-1/2 to 3 years for elderly households who did not want to buy. On the other side of the issue, one representative of a management firm argued that people are pressured to buy because of the threat that the building, they move to will also be converted. How often this has happened is not known.

One example of a neighborhood group which has actively pressed for regulation of conversions is the Shadyside Action Coalition, a group of tenants and condominium owners in the area of the city where most conversions have occurred. They have proposed an amendment to a state bill which is currently being considered in Harrisburg. Their amendment proposes a 12 month period be given to tenants after notification of the conversion. Additionally, tenants would be given six months to decide whether to purchase a unit before the building goes on the market to the public. They also recommend that persons over 65 years be given an unlimited period of time before eviction or that relocation service be provided.

Effects of Housing Market

Most of those interviewed--tenant representatives, local officials, and real estate industry members--felt that conversions lead to increased tax revenues. One developer conjectured that assessments on some buildings double after conversion.

One interesting example shows how conversion may ultimately lead to a loss of revenues for a suburban township. Pennsbury Village is a white-collar community of 500 converted garden-style and townhouse condominiums. It was converted in 1974 and has approximately 1,000 residents. Units in the Village cost between $20,000 and $25,000 when offered for sale in 1974. In 1976, this 48 acre complex was granted permission to break away from its mother township to become a separate municipality. It is believed to be the nation's first borough composed solely of condominiums. The incorporation removed about ten percent of the tax revenues of Robinson Township, which unsucessfully contested the secession. The stimulus for the secession effort was dissatisfaction with municipal services provided by the township, especially an expensive tie-in to a township-wide sewer system.

Effects on Neighborhoods

Most of the conversions have occurred in the stable middle- to upper-income areas of the city and suburbs. As indicated earlier, the Shadyside, North Oakland and Squirrel Hill neighborhoods of the city (around the University of Pittsburgh and Carnegie-Mellon University) contain roughly two-thirds of the city's conversion. Furthermore, the city's conversion study shows that the median income in the census tracts in which conversions are found ranges from 120 percent to 210 percent of the city-wide median income.

In the suburbs, most of the conversions have taken place in the south or north of the city, rather than in the east and west. Once again, these tend to be the higher-income suburban areas. Scott and Robinson Townships, for example, have had a large amount of the activity.

Most of those interviewed felt that conversions in the Pittsburgh metropolitan area had not brought about any significant change in income and racial mix. In part, this is due to the fact that little conversion activity has taken place in transitional or revitalizing neighborhoods. Even if a large proportion of the tenants in a particular building does not buy, the buyers from outside apparently do not differ substantially from previous tenants. Both local officials and developers thought that, in most cases, those who did not buy were successful in obtaining alternative housing within the same areas. But there were no systematic data available on this issue; the city's analysis of the conversion phenomenon did not include information on alternative housing found by those leaving converted units.

The extent of rehabilitation at the time of conversion varies from building to building. According to one author of the city's report on conversions, when extensive rehabilitation occurs it is done primarily on smaller buildings. There does not appear to be very much "gut" or "substantial rehabilitation" in most of the conversions. Developers mentioned, as one reason, the hassle of such work with tenants present in the building. The cost of interim financing needed for major improvements was cited as a second preventive factor, at least in recent conversions. Third, most of the conversions have been in areas where the buildings were not in substantial disrepair and did not need major work in order to sell.

By way of summary, conversions are not associated with neighborhood revitalization in the inner city of Pittsburgh to any significant extent. If anything, conversions have helped to draw some households outside of the central city, rather than back to the city.

Relationship To HUD And To Policy Alternatives

No HUD assisted or HUD-insured projects have been converted to date in the Pittsburgh metropolitan area. One developer indicated plans to convert a 221(d)(4) HUD project but those plans have been dropped because of problems in obtaining financing.

When asked about federal regulations or any Federal role in either regulating or stimulating conversions, almost all of those interviewed, including one tenant-oriented group, said that the Federal government should not go so far as to impose a national moratorium on conversions. If there was to be any regulation, most wanted it at the state or local level, though there was disagreement on the type or extent. While developers, local officials, and tenant representatives agreed on the need for consumer protection, each had slightly different notions about how far the state or local governments should go in providing such protections. The greatest disagreement existed on the issue of tenant rights. One developer wholeheartedly opposed any "statutory tenancy for elderly" while such a proposal was advanced by one tenant coalition. Several converters suggested that HUD should make low-interest financing available (combined with limits on profits to be made by the developer) in conjunction with low-interest mortgage loans to buyers who normally might not be able to purchase. A suggestion made by one real estate management firm, as well as a tenant representative, was that HUD encourage more low-income cooperatives.

The Conversion Process

Many conversions in the Pittsburgh metropolitan area are done without a developer. The owner sponsors the conversion and then often hires a marketing firm to act as the agent for the owner. This constituted a problem for certain developers who cannot find owners willing to sell when most can convert themselves with the help of an agent.

The relative absence of regulations means there are few constraints on the conversion process. The state requires that the converter register--that is, submit a declaration of intent to convert. Other than that requirement, the converters are relatively free to do as they wish. Several local officials noted that there was a big rush on declarations in the latter part of 1979 and early 1980 in anticipation of more stringent state legislation.

Field Report

Conversion Activity in the Portland, Oregon SMSA

Background

Portland, Oregon, is a four county SMSA having experienced a population increase of approximately 160,000 persons since 1970, although the number of households has increased by another 30 percent. Since 1970, employment has increased from 85,700 to 118,100 in the manufacturing sector and from 294,900 to 427,600 in non-manufacturing.

There has been significant public and private investment in Portland's Central Business District (CBD). Several new office buildings and retail establishments have been built there; in addition, a mall was constructed, further increasing access to, and the desirability of, the CBD. This has helped increase demand for housing in the close-in northwest and southwest neighborhoods. These neighborhoods have a relatively low percentage of minorities, although the city-wide figure is less than 10 percent.

Demand

Overall, housing supply has temporarily outstripped demand. But since new firms are moving into both the CBD and the SMSA, demand should increase in all locations. Given the oversupply of housing, the market for condominiums and townhouses has softened. The number of units on the market in September 1978 was 51 and they stayed on the market an average of 41 days. By September 1979, the number of units on the market was 299 and the average selling time for a unit was 82 days. The average increase in sales price was only 2.4 percent for the year. A realtor who specializes in arranging for the sale of apartment buidings to converters felt that demand would increase after people learned more about condominiums. One observer felt that condominiums would make up between 8 and 12 percent of the total market in the long run.

There is a strong demand for inner-city housing, especially on the western side of the Willamette River. Contributing to this demand is a growing office and service industry in the CBD and a very good CBD-oriented bus system. This demand is also fueled by the availability of rehabilitation funds for older housing in the inner-city.

Supply

Portland has witnessed the conversion of older centrally-located high-rise buildings (above 5 stories), large Victorian single-family housing (converted to 2 to 4 units), and suburban low-rise apartment buildings and townhouses. The city of Portland indicated that 916 apartment units have filed for conversion since 1965, over one-half (536) between January and September of 1979. However, the act of filing is only the preliminary step in creating a condominium, and the state commerce department indicated that only 123 of the 536 units had converted as of September 1979. Clearly, the intention to convert more units exists. Two apartment complexes (111 units), which have been bought in Clark County, Washington, by Californians, were recorded as condominiums and are also likely to be converted in the next five years. Owners of 462 apartment units outside of Portland have said these units will be converted, while about 350 units have already been converted.

There are over 3,000 new condominium units being planned or under construction in the Portland SMSA. At least 335 of these are in the city. Records from the City of Portland indicate that there are 1,515 units there built as condominiums. Approximately 600 of these have been built in the last two years.

Though a number of older homes have been converted, demand is low at the high prices the developers ask for these units. The difficulties in obtaining financing for this type of conversion is an inhibiting factor. One banker felt there needed to be a large number of units to insure that the owner's association and management would run smoothly. He worried that two or three of the owners might not agree on policy so that personal quarrels would lessen the viability of the investment. Moreover, these projects generally lack adequate parking, which makes it difficult to sell the mortgages on the secondary market.

A developer of these small buildings had another reservation. He found that the architectural and design costs involved in conversion were higher per unit than in larger buildings. However, he found that there were economies of scale over rehabilitating single-family units; it must be noted that the houses that this developer has converted were in very poor condition. Another local condominium developer and converter has bought a 274 unit townhouse development in northeast Portland. The developer has sold 50 units and the remainder will be sold over a seven year period. This developer believes there are many other buildings that are suitable for conversion. Overall less than one percent of the apartment stock has been converted.

Market Conditions

The single-family housing market has been in a healthy state for the last five years. Vacancy rates have fluctuated around 2 percent for the majority of this period. However, the Metropolitan Portland Real Estate Research Committee (MPRERC) reports that the vacancy rate has reached 2.41 percent (based on utility readings). They also report that the average number of days a house has been on the market increased from 44 days (7/78) to 65 days (9/79). The softening of the market has occurred because "escalating sales prices discouraged prospective buyers. Interest rates, already high, shot up rapidly in September-October. Builders had over-produced new housing. Population growth apparently had slowed in 1979." 1/

One market expert noted that it was especially difficult to build single-family housing because "less and less land is being zoned for single-family housing" and land prices have increased. He stated that about 30 percent of the cost of construction is accrued interest from delays in construction as a result of government controls and codes. The cost of lots has gone up $6,000 and the financing costs have also increased in the last 18 months (1978-1979) according to the MPRERC. Another market expert believes mortgage lenders have become more economical with the current oversupply of single-family housing.

Apartments are still available. Vacancy rates for apartments in Portland were estimated by MPRERC to be 6.2 percent. However, the city of Portland estimates that the vacancy rate was 0.8 percent in the southwest and northeast sections and 2.3 percent in the northwest section of the city. The overall vacancy rate has increased in the last year. Two market experts noted that construction costs and interest rates were up and rent levels were low. Although higher-priced luxury apartments are still being built, a developer indicated that there was a lack of available lots for multi-family housing in the city. One market expert argued rent levels were too low to support new buildings.

Government Regulations

The Oregon Unit Ownership Act of the State of Oregon requires that a developer apply to the state Real Estate Commissioner for approval to convert apartments to condominiums. The developer must furnish information describing the project and the common areas as well as the details of the management plan for the condominium.

1/ See Real Estate Trends in Portland Oregon (MPRERC), September 30, 1980.

The Commissioner reviews this information and makes a public report, and copies are made available to all potential buyers before they purchase a unit. It takes about three months for the Real Estate Commission to process applications. Experts believes this act has had little, if any, impact on the number of conversions. A developer involved in converting single-family houses to three-to-four unit condominiums reported that the legal fees amount to $1,500. Tenants groups are proposing a conversion ordinance in Portland. One proposal is outlined below. There is also pressure for a state-wide ordinance to protect tenants from eviction.

Effects on Households

The Northwest Gray Panthers Housing Task Force is concerned that conversion is causing displacements. They argue that most people in a converting building do not want to buy and many, especially the elderly, cannot afford to buy. The Gray Panthers point out that it is difficult for an elderly person, however affluent, to get a 20 year mortgage.

According to one condominium developer, most tenants do move. The developer estimates that only 30 percent of the tenants will buy in his 274 unit project. Since the conversion is to be done in stages, he will be able to find temporary rentals for some of those that are displaced.

Experts report that movers are more often low-income, while high-income tenants are more likely to stay. The preliminary findings of the city of Portland's condominium study partially support the conclusion that tenants are having a difficult time. These findings are quoted below: 2/

1) Replacement housing is available, however, in most cases the rent is higher. To a large degree, the rents previously paid were lower than market demand because those people displaced were long-term (as long as 30 years) tenants in older buildings.

2) A large percentage of the displaced renters we have talked to have expresed some amount of bitterness over having to move. This is particularly the case of elderly people who considered their apartments as homes for many years. Some of these people could afford to find quality housing at a higher cost but miss the charm and the neighbors of their former buildings.

2/ City of Portland, Briefing on Condominium Conversions in the City of Portland, 1979.

3) In almost each larger building, we have heard that one elderly person moved to a nursing home.

4) In some cases, elderly renters have found subsidized housing within the same neighborhood.

5) There are a few occasional success stories as well. In one building downtown, a unit was purchased and rented back to two elderly tenants who had formerly lived in separate units. While the unit rent is higher, they help each other out and and are very satisfied with the arrangement.

6) Those former renters who are happy about the conversion of their buildings are obviously those who purchased their units. Until the survey is completed, we do not know exactly what the percentage of renter purchased condominiums is. We have found, however, that:

    a) Many of the purchasers are elderly;

    b) Those renters who have purchased are extremely satisfied with their decision; and

    c) Few have an intention of moving.

7) There seems to be an effort on the part of some developers to encourage their renters to buy. Well over 50 percent of the units at the Hillsdale-Laurels in the Southwest were bought by renters in 1977. We also understand that the Binford Manor in the Northeast is giving renters incentives to buy.

Some of the buildings that were converted were in central locations well served by public transit: renters who move may find alternate housing but have less access to the city. This can be especially troublesome for those without cars, including the elderly, the handicapped, and the poor.

In a few cases, buildings have been uninhabitable before conversion. This was the case with two Victorian houses. The City of Portland Development Commission is proposing that it buy and convert a partially burned vacant multi-family building into a housing cooperative. In short, conversion may return units to the housing stock.

The Housing Authority of Portland and a private developer are in a joint venture to convert an apartment building into condominiums for the handicapped and the elderly. Some of the units will be kept by the Housing Authority for use in their Section 8 program. The Housing Authority is encouraging the elderly to move from their large houses so that those houses can be made available for those with larger families. Low-interest loans will be made available to help reduce the cost of the condominium units.

Though these actions have resulted in greater housing opportunity, overall, the conversion experience has not been favorable to tenants. The situation is aggravated by the steadily increasing cost of both single-family and multi-family housing.

Effects on Tenants

While tenants are reported to be concerned, they have not yet effectively organized. This may be due to the relatively low level of conversion activity and a good supply of rental housin . The tenants groups were also waiting for the results of the city's study of condominium conversions. Informal talks with people in tenants rights groups indicate that political organization around the issue of housing costs is underway. While rent control is not likely in the near future, these groups may seek this and other protection for tenants eventually.

The following is a condominium conversion platform developed by the staff of the Gray Panthers:

1. Limit the number of rental units that can be converted to condominiums in any one year, to assure an adequate supply of rental housing stock.

2. Forty percent of the tenants must approve a conversion in order for the process to proceed.

3. There must be 120 days notice to tenants, in addition to the normal 30 days for eviction.

4. The city or the developer must pay relocation costs to displaced tenants.

5. Displacement of elderly and handicapped tenants must be prevented through use of a long-term rental agreement.

6. At least ten percent of all units converted must be for low- and moderate-income people, in order to maintain the low-income housing stock. And that determination of low and moderate housing stock must be linked to rents at least six months prior to application for conversion.

7. There must be no eviction of tenants without cause for six months prior to application for conversion.

8. The City must set up a non-profit housing management corporation to assist tenants in the formation and operation of condominium and cooperative housing management associations.

Effects on Housing Market

Less than one percent of the rental housing stock has been converted. The conversions have taken place in all parts of the city, and so have not had a major impact on any one area or on rent levels. The conversions have been in buildings with medium to high rent levels: one expert stating that "some proposals for lower income buildings were not financeable because of the cost of rehabilitation and common heating systems."

The City of Portland intends to have new condominiums along the "Park Blocks" and the Willamette River (one built with Urban Development Action Grant money). Development of these two desirable locations should siphon off some of the demand for conversion in the center of the city. New condominiums are being built in suburban communities and these should slow conversion in these areas. But rising construction costs and the lack of centrally located building sites could make the older apartment buildings prime targets for converters in a few years. A rapid increase in the number of households could give rise to a rash of conversions.

Effects on Neighborhood

There is no consensus on the impact of conversion on neighborhoods. Market experts and developers tend to believe that conversions have upgraded housing. One market expert who was involved with an early conversion of six older townhouses argued that this project stimulated others to rehabilitate housing. Over $10,000 for rehabilitation was spent on each of the six units that sold for $25,000 to $35,000. The low selling price was due to very conservative appraisals and the fact that this project was the first to be completed. The units are now selling for over $100,000.

Market experts and developers also believe that conversions keep higher-income individuals in the city or attract them to it. Developers indicated that the taxes paid on the units after conversion were significantly greater than before conversion. A developer who does not do extensive rehabilitation said that there is a "50 percent to 100 percent increase in taxes without any new expenditures" by the city.

Public officials generally felt that there were only minor neighborhood effects, though conversions may have been a leading edge in reinvestment in one or two areas. One, however, felt that there was more renovation of rental housing and corresponding increases in rents were creating problems for low-income households.

As noted earlier, the City of Portland and the Housing Authority are attempting to rehabilitate a number of buildings and convert these to low-income condominiums and cooperatives. The Housing

Authority will have the right of first refusal for purchasing condominiums at prices pegged at the tax assessment and rate of inflation. In this way, these units will be kept at prices affordable to low and moderate income households, ensuring an adequate supply of housing for these groups.

A representative of the Gray Panthers believes that conversions make neighborhoods "viable from middle class terms" but are "particularly destructive for older people who have long-term relationships in their neighborhoods" and must move.

Relationship to HUD and Policy Alternatives

Private developers are not using HUD programs. The Housing Authority is hoping to use Section 8 rehabilitation funds to rehabilitate those Section 8 rental units in a building that will be partially converted. It will also be using low interest mortages made possible through the sale of a tax exempt state housing bond issue.

One banker felt that there was no need for Federal regulation of condominium conversions. A consultant argued that if the objective is to keep low-cost housing, stopping conversions will not help. "If you want to help people", he stated, "helping them make the down payment would be constructive."

Another consultant indicated he would like to see conversions stimulated by subsidizing the purchaser -- "Using Section 8 for buying as a way of getting away from projects." He also felt that there was enough subsidized housing in the downtown area.

One developer/realtor suggested that there should be a housing stamp program to bring the cost of housing down to 25 percent of income. Another believed there should be no government programs. A realtor specializing in conversions favored a policy requiring a reasonable relocation payment of about $350. A local official had reservations as to the wisdom of federal involvement, arguing that "HUD can't make regulations that are flexible enough."

One government official took the opportunity to make a number of suggestions on federal programs. He felt that (1) more HUD money should be made available for multi-family units, possibly for land writedowns in the inner-city, and (2) there should also be a counter-cyclical program for housing. When vacancies get scarce, more money should be made available for housing. The federal government should stop adding restrictions to programs because one or two communities abuse the program and Federal Housing Administration should reduce processing time, since by the time the applications are processed, the allocated money may be spent.

The housing section of the Portland Planning Office is studying the feasibility of financing various housing programs with the increased tax revenue generated by increased assessments after conversion.

The Conversion Process

One developer is buying and converting a large project in stages. He is self-financing this conversion. The reason for purchasing the project in stages is the current owner's tax situation. One-half of the mortgages are being financed through Oregon's low interest loan program for veterans. The mortgages will not be sold on the secondary mortgage market.

Another developer indicated that savings and loan associations were financing conversions and giving mortgages. The mortgages cannot be sold on the secondary mortgage market either because they do not meet off-street parking requirements or because there is not a sufficient number of units involved to justify the costs of certification for sale on the secondary market (estimated to be about $5,000).

Field Report

Conversion Activity in the San Antonio, Texas SMSA

Background

The San Antonio SMSA has experienced a moderate amount of population growth since 1970. In the 1970-1977 period, the region gained 136,000 persons, a 15 percent increase. Total population in the SMSA in 1977 was 1,025,000 persons. The increase due to net inmigration was 50,000 persons, or six percent of the total increase in population. Although Bexar County (which includes San Antonio) grew by only five percent, most of the net inmigration occurred there. The balance of the SMSA grew by 23 percent, while the increase due to net inmigration was 17 percent. The bulk of the 1970 population in San Antonio (52%) was of Spanish heritage while only nine percent was Black. The 1970 Census showed 62 percent of the households to be homeowners, and 18 percent of the population below poverty income limits.

The San Antonio region has had a moderate amount of new construction. In 1977, the SMSA had a total of 6,300 housing starts, of which 3,900 were single-family and 2,400 multi-family units. In 1978, there were 7,700 new starts, of which 3,900 were single-family and 3,800 were multi-family. In the first eight months of 1979, there were a total of 5,900 housing starts. In each year, the bulk of the new single-family units were located in San Antonio, with 77 percent in 1977, 66 percent in 1978, and 73 percent in 1979. Most of the multi-family units were also in San Antonio.

The unemployment rate in San Antonio ranged between five and seven percent in 1977 and 1978. It is expected that population and housing growth in the region will continue at a moderate rate.

Demand

It is suggested that a fairly large demand exists for condominiums in San Antonio, even though many units on the market remain unsold. Condominiums are still relatively new in San Antonio and it is said that conversion have outpaced the existing demand for the types of units being converted. It is unclear whether condominiums will become acceptable to San Antonio consumers in other types of buildings or in other locations than those recently being developed.

The amount of middle income demand for close-in locations has been small; most of the conversions have been north and west, not in the downtown area. But conversions appear to be taking up some of the slack in an overbuilt apartment market in which vacancies are reputed to be 10 to 13 percent in some areas. Conversions have been ranging in price from $20,000 to around $60,000 in most projects, thus providing fairly low cost housing. New housing is still fairly cheap in price and is accessible, so there has been little general market pressure to buy condominiums.

Supply

The only type of apartments converted to date have been garden style apartments; there are relatively few high-rise rentals in San Antonio and those have not been converted. One rental high-rise has been purchased with conversion planned in the near future. It is likely that the smaller apartment projects in better condition in the neighborhoods where housing values have been rising will be the most likely candidates for conversion in the near future -- they probably amount to five or six percent of the multi-family housing stock. It is doubtful that as yet, anything over one percent has actually been converted of the multi-family housing stock. Possibly the lack of conversions in townhouses and high-rises has contributed to the slow acceptance of condominiums in San Antonio, but in fact, most of San Antonio's apartments are of the garden style variety.

Market Conditions

It is likely that conversions are being used primarily to reduce oversupply in the market. However, some of the projects have taken longer to sell than was expected. There is some oversupply of both rental apartment units and converted condominiums in San Antonio at the present time. Part of the problem has been the tightness of mortgage money and the uncertainty about future monetary conditions. However, the public may not yet be convinced of the advantages of a condominium lifestyle, and still prefer to buy single-family units farther from the central areas. It is possible that out-of-town converters may have misjudged the market and converted projects inappropriate for the San Antonio buyers. Several out-of-town firms are reputed to be purchasing apartments and waiting for mortgage money to become available before converting. The lack of mortgage money has effectively curtailed all new projects for the present time, except those that had pre-arranged end-loan financing.

Government Regulations

There has been no local level regulation of condominium conversions in San Antonio. The only state statute requires the registering of a Declaration of Condominium. There are no specific tax incentives or disincentives related to condominium conversion and there are no growth controls on new construction. There are several measures that private sector experts expect to be enacted -- stricter fire codes, soundproofing, management of condominium regulations, required smoke detectors, and parking regulations. These are all items related to consumer protection rather than tenant rights and most local experts think they can be enacted through modification of existing municipal ordinances rather than requiring new condominium conversion ordinances. It is not expected that these measures will have any effect on the level of conversion activity in San Antonio.

Effects on Households

Most of the households faced with conversion have chosen to move to other apartment projects rather than stay and buy a unit. Generally less than 20 percent have been purchasing their unit or a unit in the same project. There appears to be little difference between those who stay in the converted building and those who leave. Most conversion projects only give 30 day notices or honor the remainder of existing leases, although one project is known to have given 120 day notices. No assistance is given in finding new rental apartments. Plenty of reasonably priced rental units seem to be available in the San Antonio area at this time.

Effects on Tenants

Tenants have not organized in response to threatened conversion, nor have any purchased their buildings intending to carry out conversions themselves. A few tenants have voiced their displeasure at having their building converted to the City Manager and to some members of the City Council, but no specific action has been taken as a result. Former tenants of several converted buildings have publicly expressed disbelief that "this" could ever occur in San Antonio, but they readily found comparable housing in the same vicinity in which they were living.

Effects on Housing Market

There is no evidence that conversions have led to a tighter or higher priced rental market: there have been relatively few conversions and the rental market was already fairly open. It is possible that some families paid higher rents after conversion because they moved to some of the newer apartment complexes. There has been no noticeable change in the ownership-to-rental ratio in San Antonio as a result of conversions.

Effects on Neighborhoods

Condominium conversion seems to be independent of any efforts at neighborhood revitalization. Most of the converted multifamily housing has been in above average rent areas and most of the displaced tenants moved to the newer apartments. Taxes on converted properties probably bring close to three times the amount of revenue received from the units.

Relationship To HUD and Policy Alternatives

There have been no conversions of HUD-insured or subsidized buildings in San Antonio and there has been no activity related to use of Community Development Block grant (CDBG) funds for conversions. There were no policy proposals made by any groups for condominium conversions. Public and private groups felt that only local housing regulations protecting consumers were necessary to regulate conversion activity. They believe that any Federal regulations would impair the proper functioning of the local housing market.

The Conversion Process

Most of the local conversions have been completed by out of town developers from various locations -- Houston, Dallas, California, Chicago, and Canada -- and have used out-of-town money to finance the purchase of buildings. They have then converted or operated the buildings as rental properties while waiting for mortgage money to become available. Most of the unit mortgages are being packaged to sell to the Federal National Mortgage Association or the Federal Home Loan Mortgage Corporation.

Field Report

Conversion Activity in the San Diego, California SMSA

Background

The San Diego SMSA (San Diego County) has a population that exceeds 1.8 million. Population growth has been extremely rapid in the last ten years, and the County Planning Department estimates the 1980 population will be 32.9 percent higher than the 1970 population. It has been reported that of the 54,000 people gained by the county in 1978, 37,000 (69%) were gained through immigration. The central city has a population of over 750,000 and is the only city in the county with more than 100,000 persons. Three other jurisdictions have a population greater than 50,000 (Chula Vista, El Cajon, and Oceanside).

The SMSA contains about 630,000 dwelling units (1979 est.), of which only about 11 percent were constructed before 1940 and over half (55%) since 1960. According to the most recent Annual Housing Survey data for the San Diego SMSA, 59 percent of the units are single-family, 36 percent multi-family and the rest are mobile homes. Owner-occupied units account for roughly half of the total stock and condominiums for six percent. The county-wide vacancy rate is about 4.6 percent (1979 est.), but there is considerable variation among the various jurisdictions. Generally, the lowest vacancy rates are in the communities nearest the Pacific Ocean.

In the county as a whole, total employment is strong; estimates in the first quarter of 1979 were that 618,600 persons were employed, up almost 12 percent from March of 1978. It is also estimated that only 10 to 11 percent of the population has an income below the poverty line. In general, the San Diego SMSA is affluent, growing, and has substantial immigration. It is growing at a faster rate than the Los Angeles SMSA and the impact of net inmigration is more profound.

Demand

According to most experts, the potential demand pool for condominiums is not nearly exhausted. Two factors -- the rapidly rising cost of detached housing in San Diego County and general population pressures from the net immigration each year -- contribute to demand.

Since October 1976, the annual rate of appreciation in the price of a home in San Diego has been 25 percent. According to the Real Estate Research Council of Southern California, this ratio is unmatched in any other part of Southern California. The average price for an existing single-family dwelling was indexed in April 1979 at 4.67 times the 1967 average. The next highest appreciation has been the Ventura County area (3.79 times). According to the Real Estate Research Council, the average market price of San Diego homes is $97,600, which means that a substantial portion of the population is unable to afford the cost of owning a home. In fact, the Sanford Goodkin Research staff estimates that 80 percent of the households are priced out of the current homeownership market in San Diego County. For many of the remaining 20 percent, converted condominiums offer the only real opportunity for homeownership. In 1978 the median price for converted condominiums was $45,400, substantially below the median for all other types of units ($73,150).

Overall, high costs and inmigration of households with somewhat above-average income create a high demand for converted rental properties. One report indicated that conversions accounted for over 14 percent of total residential sales in 1978. This prediction may be close to accurate; one year later (August 1979) converted condominiums were up to 22 percent of all residential sales in San Diego County.

Supply

There is no single comprehensive and reliable source on the number of conversions that have taken place in San Diego County. The best estimate available is that the following:

	1974-1977	1978	1979	Total
Central City	862	1597	1335	3794
Outside Central City	842	520	533	1897

There were also several projects with a large number of total units (approximately 850) approved for conversion and advertised for sale during the 1977-1979 period, but no actual sales could be verified for these projects.

In addition to units already converted, there is a sizable number of units that have been given conversion approval at the local level in the city of San Diego. As of August 1, 1979, over 12,000 units were approved and an additional 3,500 under consideration. Comparable figures for the various suburban jurisdictions are not available. These communities do not keep accurate up-to-date records on the number of conversions but instead rely on rough estimates when asked how many approvals they have issued or how many applications they have received.

San Diego has approximately 305,000 occupied housing units (1979 est.) and in 1975 a special census indicated a 46.3 percent renter occupancy. Using these figures as guides, 8.7 percent of all rental units in the city have been approved for conversion since January 1, 1978, and applications for an additional 2.5 percent of the rental units have been submitted. A great amount of the publicity that surrounds the conversion phenomenon in San Diego appears to be exaggerated. In several cases tenants offered buildings which were originally constructed as condominiums as examples of conversion. The large share of the stock that is condominiums (6%) may account for this confusion.

The factors cited most often as encouraging the conversion of rental properties to condominiums are the declining profitability of rentals and the threat of rent control. The third most frequently cited factor is the potential for quick profits. In this regard there are virtually no differences between the views of experts in Los Angeles and experts in San Diego.

Market Conditions

There was virtual unanimity among the respondents regarding the strength and financing of the multi-family and single-family rental market in the San Diego area. In general, the demand was seen as high and the financing weak for any rental project. Lenders are not interested in financing rental projects, even though projects would most likely rent quite fast. Lenders say they would be willing to make more rental loans if only the proven developer would come to them with proposals. It is the contention of lenders and developers alike that no one wants to build rentals.

There is not unanimous agreement on the tightness of the market. Developers say there are ample vacancies to offset any displacement while tenant representatives disagree. Local officials "feel" the market is tight (vacancy no more than 3 percent), but a recent survey conducted by the city indicated a vacancy rate of between 5 and 6 percent. Disagreement here seems to center on the availability of units in neighborhoods where conversion takes place -- areas with low vacancy rates.

There was no consensus among these experts in San Diego regarding the potential impact of fluctuating mortgage rates on the conversion market. Some experts thought the situation was far too variable to permit accurate forecasting while others projected lower demand or higher demand. Virtually all experts viewed conversion demand against the general backdrop of a high demand for housing.

Government Regulations

Regulation is an important issue in San Diego County. However, for the most part, San Diego local controls over rental projects and condominium conversions have been only discussed and if in force at all, are quite weak. In San Diego there is no rent control. A petition to get a rent control initiative on the ballot failed to gather enough valid signatures. There is a conversion ordinance, but it is mild compared to other California legislation. The ordinance ties conversions to vacancy rates, specific tenant notification procedures, and other features common to all California conversion statutes.

There is one clause which distinguishes the current San Diego conversion statute from statutes in other parts of Southern California. This clause designates as a "Public Interest Project" any "residential project that was financed by funds obtained from a governmental agency to provide for elderly, handicapped, disabled or low-income housing shall not be considered for a Condominium conversion Permit." There is no clause in other Southern California regulations which places such projects in a special category.

The greatest regulation of conversion activity comes from the San Diego Zone of the Coastal Commission. This group has authority over developments and projects in the geographically limited coastal zone. The most significant feature of regulation by this body is a proposal to require at least 25 percent of converted units be available to low- or moderate-income buyers.

In general, the entire county provides a more favorable atmosphere for developers than areas to the north. There is still a marked pro-growth attitude on the part of many local officials. One member of the City Council has been quite outspoken in his opposition to both rent controls and conversion controls. This Councilman has been successful in winning some support. The leaning of the San Diego County Board of Supervisors is also slightly different from that in Los Angeles County. While Los Angeles County recently resisted effort to get conversion controls passed, the San Diego County supervisors specifically ordered the planning department not to address the issue and not to include conversion issues in the general plan.

Effects on Households

Good information is unavailable on the impact of conversion on tenants. Developers saw few or no justifiable complaints from displaced tenants but expressed special sympathy for the elderly; tenants saw nothing good as a result of conversion. There appear to be two groups which are viewed by tenant representatives as having a difficult time -- the elderly and households with children. The elderly are assumed to be living on low fixed incomes and, therefore, to have few choices of residence. The major problem in this seems to be the extremely suburbanized nature of the San Diego area. It has a very small "downtown" with good transportation and access to shopping. Future conversions in this area would force elderly, nonbuyers to move to areas inadequately served by transportation. Households with children have a difficult time finding housing in Southern California because of the reportedly large number of "adult oriented" projects in the area.

Effects on Tenants

In San Diego tenants have organized to oppose conversion. However, they have been less successful here in getting tough, across-the-board bans, moratoria, or other ordinances passed. Their inability seems to be a function of one of two attitudes held by the majority of public officials. Some local officials hold the pro-growth (development) position noted above. This means they are likely to be unsympathetic to tenant claims. For a number of other public officials, however, the current vacancy rate (over 5 percent according to a city government survey) is not low enough to constitute a "crisis" and, therefore, does not justify anti-conversion legislation.

Tenants have, however, been successful in blocking the attempted conversions of two projects which were originally developed with the intent of providing low-income and elderly housing. These two projects, which fit the definition of "public interest projects" were blocked by a close city council vote.

Accounts given by the local media in San Diego indicate that the people who are displaced are not faced with as severe a problem finding suitable replacement housing as are displaced tenants in Los Angeles. Tenants do not appear to have ben involved in attempts to purchase their buildings.

Effects on Housing Market

Systematic information regarding the impact of conversions is not available. Even the "educated guesses" of the experts vary greatly. Converters and developers see no significant impact from conversions and agree (with each other) that the rental market is not so tight that it cannot absorb displaced households with only minimal change in rents. They contend that the net loss in rental units is not automatically 100 percent of units converted suggesting that 15 to 20 percent of converted units are rented out and that between one-half and three-fourths of all conversions are purchased by first time homeowners -- so that only a small percent of the supply is actually lost without a comparable loss in the demand to offset it.

Tenant representatives suggest a much different picture. "No units are available" for displaced tenants, "rents are much higher", "conditions are much worse", are typical comments. If one looks at subgroups within tenants, the elderly and families with children seem to be placed in more difficult straits than other groups. Because conversion activity in the San Diego area has not been as concentrated as it has in Los Angeles, no neighborhood-specific problems have been focused on.

Effects on Neighborhoods

Conversion is playing no role in the revitalization of San Diego's only old central city neighborhood. Little, if any, effect was reported on racial composition, since most conversions take place in relatively homogeneous white neighborhoods; for the most part, nonminority renters are replaced by nonminority owners. Within neighborhoods, conversion does lower the average age and raises the mean income.

Relationship to HUD and Policy Alternatives

The only direct link between HUD programs and conversion has been efforts by converters to convert to condominiums two projects built with HUD assistance. These projects fit the definition of a "public interest project" outlined in the section regarding regulation. City council included a prohibition on considering such projects for conversion and even though the conversion regulation is not now in effect, the city council also refused to permit conversion of two projects built with HUD assistance.

Field Report

Conversion Activity in the San Francisco, California SMSA

Background

The San Francisco SMSA includes two major central cities, San Francisco and Oakland, and five counties (San Francisco is both a city and a county). Since 1977, there have been approximately 6,334 1/ rental units converted to condominium ownership and 1,021 units converted to cooperative ownership. The following table illustrates the SMSA totals by county:

Table 1

Conversions In The San Francisco SMSA

	January 1977 to September 1979	Pending Approvals/Applications
San Francisco	1,018	198
Marin	552	890
Contra Costa	1,886	974
Alameda	2,081	750
San Mateo	1,818	3,159
	7,355	5,961

It appears that just over 1 percent of the SMSA's total housing stock has been converted. However, conversions have had significant effects on some housing markets, especially on suburban areas where few rentals exist. One suburban community has had 18 percent of its rental stock converted since 1973 and 12 percent converted in 1979. Both central cities have experienced significant increases in conversion applications since 1977. For example, the following table illustrates the growth in conversions in Oakland:

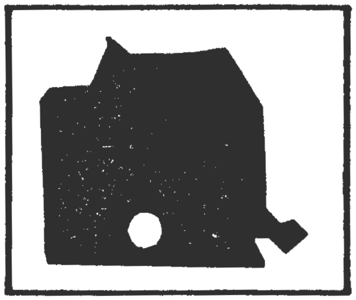
Table 2

Conversions In Oakland, 1972-1979

	Applications Files		Tentative MAPS Approved		MAPS Filed With Recorder	
	No.	Units	No.	Units	No.	Units
1972-76	24	908	22	786	18	538
1977-78	43	1015	31	1032	18	435
Jan.- Sept. 1979	39	1361	28	862	11	379

1/ Condominium Conversion in San Francisco. San Francisco, California: San Francisco Department of City Planning, 1978.

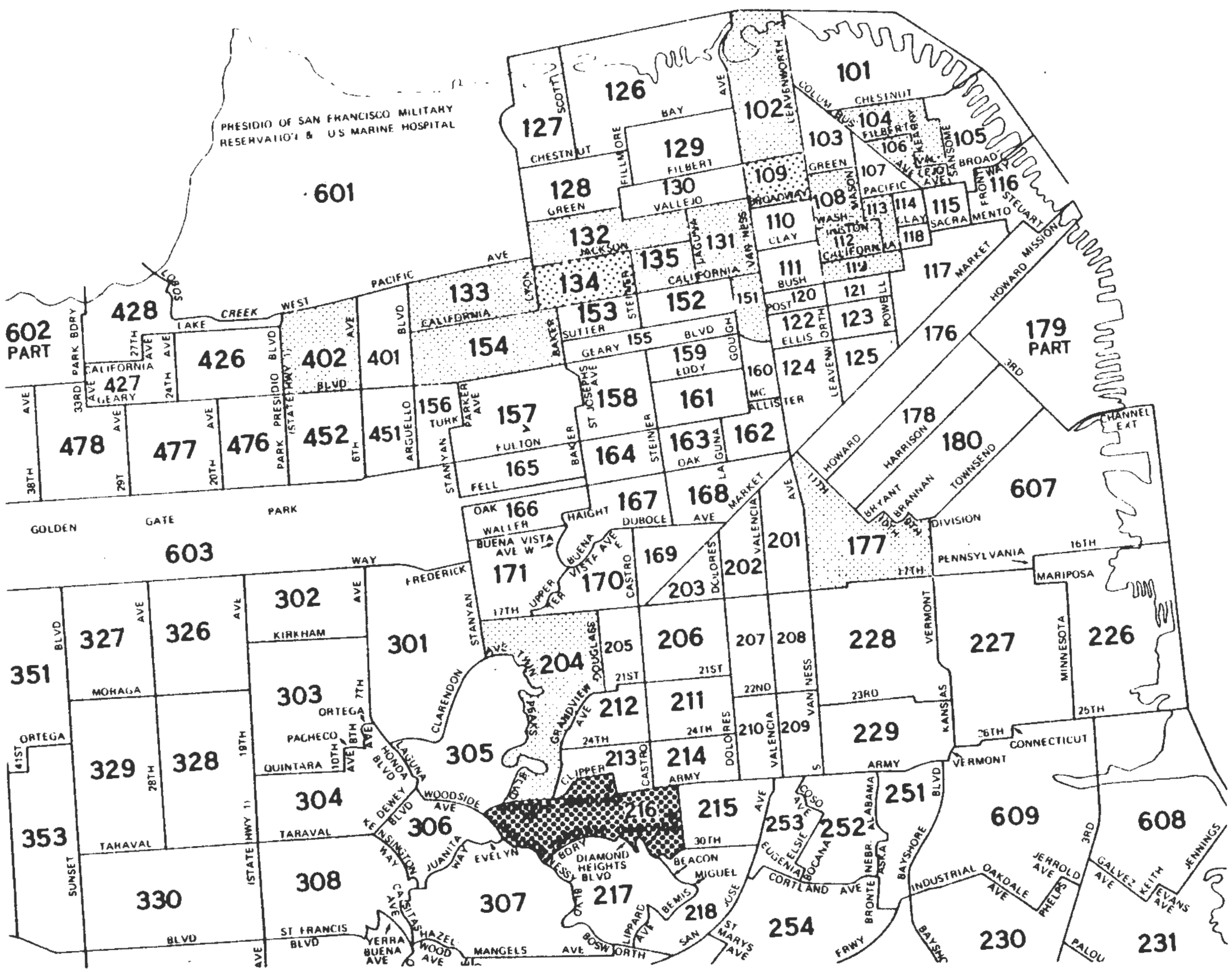
Condominium Conversions in San Francisco, California
January 1977 to June 1979



Range of Converted Units Per Census Tract

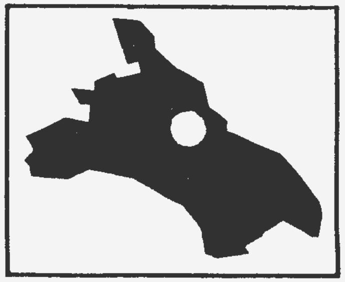
- 1-50
- 51-100
- 101-200
- 201-500
- 501-800
- 801-4000

233 Numbers are census tract numbers.



Condominium Conversions in Oakland, California

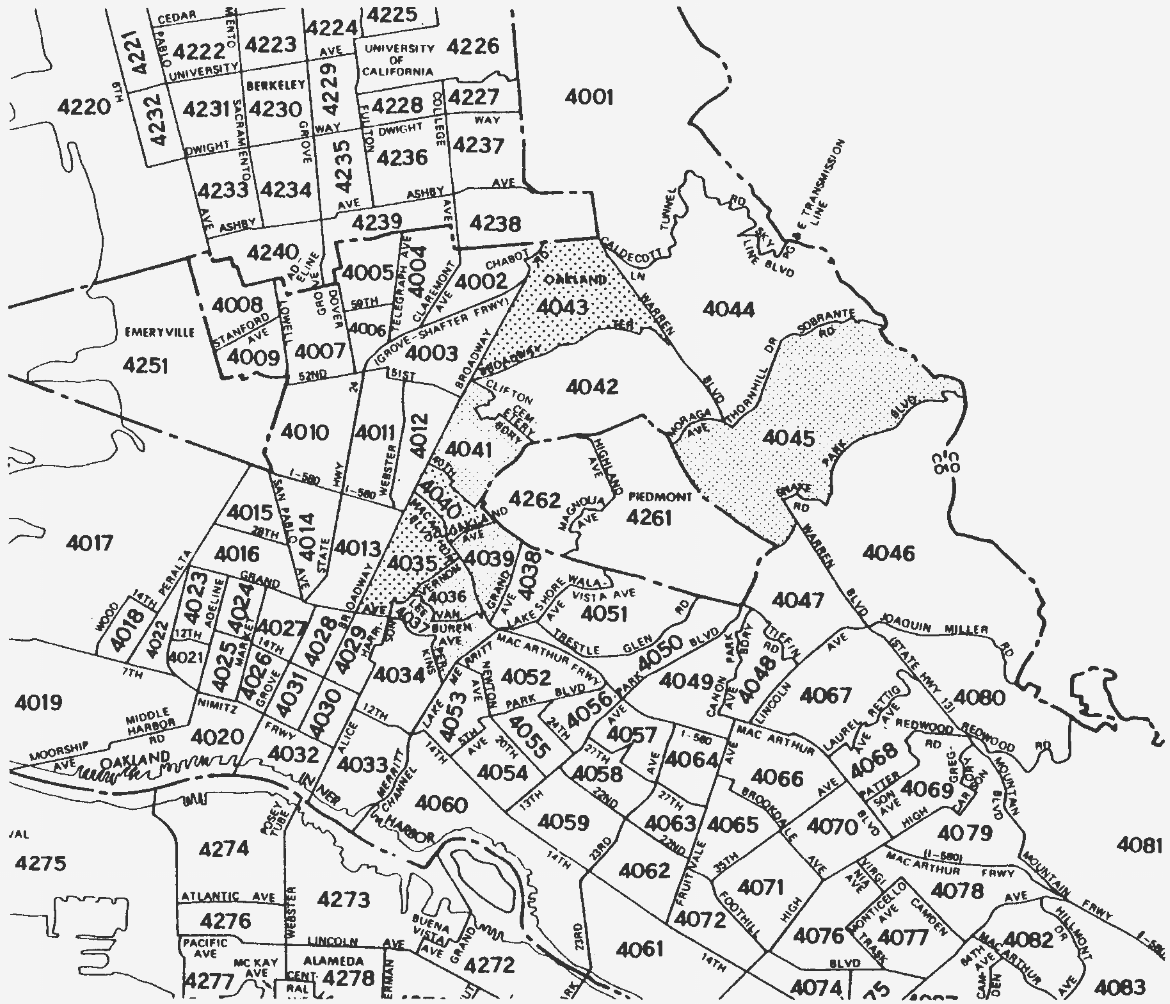
January 1977 to June 1979



Range of Converted Units Per Census Tract

- 1-50
- 51-100
- 101-200
- 201-500
- 501-800
- 801-4000

4214 Numbers are census tract numbers.



In San Francisco, approximately two-thirds (200,000 units) of the city's 315,000 dwelling units are rental. Since 1970, conversions have affected approximately 3,000 units or 1.5 percent of the rental stock.

In the estimate of one study, conversion activity in the central cities has grown out of the shortage of rental apartments at prime locations. In the suburbs, conversions have made up for a lack of affordable ownership housing. Conversions also have filled an increasing demand for condominium ownership which reflects new market demographics. An increasing number of smaller, higher income households, such as retirees, young professional singles and couples are buying condominiums.

The growth in conversion has prompted several moratoria and stricter regulation by local governments. In addition to the state requirement of full disclosure to buyers of the physical, financial and legal condition of converted condominium and cooperative properties, each jurisdiction within the five counties has the authority to regulate planning and zoning approvals which affect conversions. Many jurisdictions have passed a variety of regulatory ordinances covering tenant and buyer protection, and the preservation of the rental housing stock.

Demand

Since 1950, the population of San Francisco has declined from about 775,000 to 654,000 persons in 1977. It appears that moderate- to middle-income families have been the predominant groups to leave the city to obtain higher quality, less dense housing with better amenities and neighborhoods with better job opportunities. The City's population was characterized by three dominant age groups in 1970: children (0 to 14 years) constituted 18.5 percent of the population; young adults (25 to 34) made up 14.0 percent of the population; and the elderly represented 14.0 percent of the population. San Francisco has more singles, more female-headed households, and less married adults than the SMSA averages.

The number of households in San Francisco has increased despite a decline in population between 1960 and 1970. Seventy-one percent of all housing units are occupied by one-person (40%) or two-person (31%) households. Seventy-nine percent of all households have no children under 18 years of age.

Employment trends in San Francisco indicate that white collar occupations are increasing in the education, health, finance, insurance, real estate, government, professional and the service sectors.

The housing stock in San Francisco is overwhelmingly rental. According to the 1970 census, approximately 65 percent of the City's stock is renter occupied. Most of the owner units are single-family, while rental units are found in multi-unit structures. Between 1971 and 1976, 10,371 housing units were built while 4,406 were demolished for a net addition of 5,965 units. Higher density units comprised two-thirds of this new construction. Since 1970, condominium ownership (both new and converted) has increased 92 percent, to 3,656 units. Two sources indicate that the vacancy rate is less than three percent, although the 1975 Census estimate was 8.3 percent.

One study conducted by the San Francisco Planning Department provides additional information on characteristics of the buyer of converted condominiums. 2/

- Eighty-nine percent of the buyers were white, and 6 percent were Asian. Buyers reflect the racial make-up of neighborhoods experiencing condominium conversion but not the make-up of the City as a whole.

- The median income of buyers was $32,325 and the median income of owners who were former tenants in the building was $40,834.

- Seventeen percent of the buyers were former tenants of the building.

- Fifty-six percent of the buyers had been tenants before purchase, and 40 percent had been homeowners.

- Elderly buyers generally purchased the least expensive units ($59,500 on average, but 30% were under $25,000), while buyers under age 41 purchase the most expensive units ($74,900 on average).

The above demographic, housing, and job trends provide significant insight into the existing and future demand for condominium and cooperative ownership, (especially for conversions) in the city of San Francisco. San Francisco is experiencing an increase in households entering the homeownership market for both shelter and investment reasons. The rise in the single, (unmarried and divorced), and childless couple households which desire close-in living arrangements is occurring at a time of relatively little city housing production. This increasing number of affluent singles who can afford to live alone requires smaller units, such as studios or one-bedroom units of sizes found in modern high-rise apartments.

2/ Condominium Conversions in San Francisco, op. cit.

The Oakland City Planning staff was able to obtain some information concerning buyers of converted units through contacts with developers. 3/ However, responses were received on only six buildings (containing 142 units) so these results must be viewed with caution. Of the 142 units, 85 percent were purchased by owner-occupants. Of the 15 percent held by investors, 17 of 21 units were rented to existing tenants in the building. Forty-five percent of the owner-occupants were under 40 years of age, while 16 percent of the owner-occupants were 60 years of age. Twenty-four percent of owners were in the 40-49 age group, and 14 percent were in the 50-59 age group. Small households were dominant, with 75 percent having one person, and 25 percent having two persons. Seventy-five percent of the residents were previous residents of Oakland. Sixty-three percent of the buyers had been tenants elsewhere, 21 percent had been a tenant or owner in the building, and 15 percent had been owners prior to purchasing a unit in the building.

Supply

The study conducted by the San Francisco Department of City Planning 4/ found that all conversion neighborhoods (except Diamond Heights) had similar characteristics. Neighborhoods experiencing condominium conversions have a higher percentage of 20 to 34 year old adults and senior citizens than does the City as a whole. These neighborhoods are predominantly white and in the Nob Hill, Russian Hill and Telegraph Hill sections of the City. The housing stock is predominantly renter-occupied and vacancy rates are low; 3 percent for rental units, and less than one percent for owner units.

The number of converted units has been increasing in old neighborhoods since 1970. The housing stock in conversion neighborhoods is older and more extensively developed than in the city as a whole. Seventy percent of the structures were built before 1940, and 60 percent of all units were in buildings of 5 units or more. The neighborhoods are evenly split between persons who have lived there for ten years or longer and those who have lived there for two years or less. Conversion neighborhoods also have some of the city's most expensive rental and homeownership housing.

3/ Staff memorandum to City Planning Commission of Oakland, July 31, 1979.

4/ Condominium Conversions in San Francisco, op. cit.

While Diamond Heights has some characteristics which are similar to the other neighborhoods, there are a number of differences. This neighborhood has a higher proportion of family households (children and adults age 35-44, and large households) than the other neighborhoods. Since this neighborhood has undergone redevelopment in the last ten years, it had newly-built housing units, with large, modern living areas and amenities similar to suburban condominium projects.

In San Francisco, conversions have most frequently occurred in the prime rental stock which is located near downtown business, recreation and cultural activities. The majority of the buildings that have been converted are three or more stories and were built before 1940. According to the 1978 San Francisco City Planning Department Study, conversions have been concentrated in three planning areas: Marina, Northeast and Diamond Heights (see Map 1).

Table 3

Condominium Conversions By Location: San Francisco

Planning Area Name	Neighborhood Name Name	Number of Conversions
Marina	Pacific Heights	535
Northeast	Russian Hill	305
	Nob Hill	336
	Telegraph Hill	256
Central	Diamond Heights	644

Source: Condominium Conversions in San Francisco, op. cit., p. 27.

The following table illustrates the bedroom mix of converted buildings, the prior median rent, and the median sales price.

Table 4

Condominium Conversion Units By Size And Price: San Francisco

	Studio	1-Bedroom	2-Bedroom	3-Bedroom
Proportion of Converted Units	15%	50%	20%	15%
Median Rent	$286	$375	$490	$475
Median Asking Price	$46,500	$85,500	$135,000	$79,000*

*Skewed by large numbers of units in $65,000 to $84,000 category in a particular property.

Source: Condominium Conversion in San Francisco, op. cit., p. 22.

According to the San Francisco study:

> ... A variety of different types of buildings have been converted in San Francisco: the 3-unit flats on Russian Hill, the 1920 elevator building with 36 two-bedroom units in Pacific Heights, the modern elevator building with 24 one-bedroom units, the 400-unit modern apartment complex in Diamond Heights, ... This range of buildings suggests that essentially any building may be appropriate for conversion, provided it can generate a profit. Thus, it is the contributing factors and not the building itself that determines whether a building is attractive for conversion. 5/

In Oakland, conversions have occurred in the upper income area of Lake Merrit. This area has always been an exclusive area in Oakland even after the considerable socioeconomic and racial change that took place in the city during the 1960s and 1970s. The Lake Merrit Area is considered to be a "hot" area reflecting on a new demand for relatively reasonably priced housing and a close-in (to Oakland and San Francisco) location (see Map 2).

5/ Condominium Conversions in San Francisco, op. cit., p. 31.

According to an Oakland City Planning staff study, 6/ there have been 100 applications filed for condominium conversions since 1972. Eighty-five percent of the buildings contain 20 units or more, and 95 percent of the buildings had over 10 units. Approximately, 90 percent of the units in these applications are found in a small area of the city in all census tracts north of Lake Merritt. On Map 2 (attached) the area is labelled as the condominium conversion Inner Area.

Table 5

Condominium Conversion Applications 7/
By Size and Location Since 1972: Oakland

	Number of Buildings	Number of Units
Core (6 tracts)	67	1,986
Inner Area (11 tracts)	83	2,477
Rest of City	17	352
Total	100	2,829

The highest level of condominium conversion occurs in the six-tract core area within the Inner Area. The Core Area contains 70 percent of all units requested for conversion.

Opinions varied as to whether the character of the rental housing stock would have an effect on the rate of conversions. The variety of views expressed reflected the difference in converter operations. A large converter, DAON, indicated that conversions would slow because large, high-quality complexes were gone. The DAON representative said, however, that the company had an inventory of rental units which would keep the company in the conversion business for the next two to three years.

The large DAON operation is not the only converter in San Francisco. There are hundreds of smaller converter/developers who take on projects which would not interest a large converter. In addition, there are a number of converters rehabilitating older buildings. They are not affected by the quality of the building but rather by its size, charm, and location. Thus, conversions will probably continue in the San Francisco and Oakland area, even if the high quality, luxury rental stock is depleted by conversion.

6/ Inter-office letter from Director of the City Planning Department of Oakland to Acting City Manager, March 9, 1978.

7/ Ibid.

Market Conditions

The San Francisco SMSA, along with all of California, faces a serious housing shortage. Real estate prices have increased phenomenally since 1970, and especially since 1976. The growth in California's population and constraints on housing production are discussed in various sections of this report. According to state officials, the state rental vacancy rate is under five percent, while many communities have even tighter markets. There appears to be a strong relationship between the high cost and availability of new single-family, detached, Planned Unit Developments (PUD), and condominium housing and the attractiveness of condominium conversions. In addition to cost and supply of new housing, the presence of a new demographic group of households desiring ownership and/or the convenience of central city living has added to the demand for converted units.

Assessing the effect of mortgage market conditions on conversion activity requires making distinctions among the markets for converted units. There is, especially in the central cities, a very high-income market for certain luxury conversions in high status neighborhoods. The properties in this market are often the large high-rise and smaller low-rise buildings with a spectacular view of San Francisco Bay or the city. They are located in exclusive neighborhoods convenient to the central city. These units sell for several hundred thousand dollars. For this market, mortgage availability and interest rates are not a constraint in purchasing a converted unit.

The middle-income segment of the conversion market has not been significantly affected by current market trends either. Demand is strong enough so that sales are only slowed, not stopped completely by higher interest rates. There was some agreement that suburban projects might be more affected by mortgage market conditions than inner city projects. According to one San Francisco converter, people will pay whatever interest rate is available in San Francisco because of the demand for inner city living and because buyers believe that prices will go up and investments in condominiums will appreciate. One savings and loan officer felt that converted units are becoming the only affordable homeownership opportunity for first-time buyers.

Rental housing vacancy rates are very tight in the entire SMSA. For example, San Francisco's rate is estimated to be about 3 percent; Oakland's rate is 1.1 percent. However, there is a need for caution in relying exclusively on vacancy rates to realistically describe the rental market. Turnover rates may be very high, thus providing many rental opportunities, even in the face of a low vacancy rate.

Government Regulations

In California, there are three key statutes which concern rental housing conversions. The overall requirements on the creation, organization and management of condominiums are contained in the Condominium Law; condominium conversions are defined as a subdivision under the California Subdivision Map Act (which gives local governments the power to review a conversion project under its zoning, building and public safety authority); and the Subdivided Lands Act, which empowers the State Department of Real Estate (DRE) to review a proposed conversion and issue a public report on the building or complex planned for conversion. This report must be filed with the state and furnished to potential purchasers before any sales are allowed.

Local governments in California are empowered under the California Subdivision Map Act to review conversions of rental apartments of condominium 8/ and community apartment 9/ projects. Until the Map Act was amended in 1979, it was unclear whether stock cooperatives 10/ were included in the Act. A number of cities and the California Coastal Commission had argued that cooperatives came under the Act. As of January 1, 1980, the California State Legislature explicitly included stock cooperatives under the Map Act. A 1976 amendment to the Map Act specifically directs that a local legislative body not approve a final map for the subdivision of a property to a condominium or community apartment unless: (1) each tenant is given 120 days written notice of the owner's intent to convert; and (2) each tenant is notified that he or she has a 60-day exclusive right to contract for the purchase of the unit which is being converted.

Under the Map Act, a local government can only approve a final subdivision map if it makes several specific findings. First, the proposed subdivision must be consistent with the local general plan or specific plans. One of the specific plans every community is required to have in its general plan is a housing element which "shall make adequate provision for the housing needs of all economic

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8/ A buyer in a condominium project purchases an undivided interest in the underlying property and a separate interest in the one space in which the unit is located.

9/ A buyer in a community apartment gets an undivided interest in the land coupled with the exclusive occupancy of the apartment located within.

10/ A buyer of cooperative obtains right to occupancy through ownership of stock or membership in a cooperative corporation.

segments of the community." (Government Code 63502(c).) A 1977 amendment requires that a community has to specify its objectives and policies concerning condominium conversions in its general or specific plans before it can review a conversion under the specified subdivision approval criteria.

DRE has authority under the Subdivided Lands Act to review and issue public reports on several kinds of real estate developments, including converted properties. Until a converter has met all of DRE's requirements, no sale may be made to the public. The process starts with a developer's filing of an extensive application with the DRE, usually after most of the local government review has been done. DRE will not issue its final report until local government approval is given.

The following information is required on the subdivision application: (1) names and addresses of owners and subdividers; (2) a statement of the condition of the legal title to the property and a statement of the conditions of sale; (3) any provision limiting uses (e.g., covenants, conditions and restrictions); (4) any liens; and (5) an estimate of indebtedness. In the case of converted buildings, the DRE requirement also includes: (1) the date of any renovation or replacement of the building's mechanical components; (2) a statement of conformity to the local building code; (3) engineering reports; (4) a statement of renovations to the common areas and a statement regarding the operation of the homeowners association; and (5) a plan for financing the sale of units to purchasers.

After reviewing this information, the DRE issues a Preliminary Public Report which allows the converter to accept refundable reservations from potential purchasers for individual units. If the converter has complied with all of DRE's requirements and the DRE review is positive, a Final Subdivision Public Report is issued. This Report allows the converter to enter into binding agreements for the sale of units. The converter must provide the Public Report to each buyer and obtain a receipt for the Report from the buyer before the sale of the unit is valid.

The Report includes the following information and provides a full disclosure of information considered necessary for consumer protection: (1) identification of the legal title or any other interest conveyed; (2) the location and size of the property; (3) the management and operation of the converted building or complex; (4) maintenance and operational expenses; (5) a statement that the project is a converted building or complex and the age of the structure; (6) the future tax position of purchasers; (7) conditions of sale; (8) a description of the common areas and facilities; and (9) pertinent convenants, conditions and restrictions related to the subdivision.

Virtually all incorporated areas of the San Francisco SMSA have enacted ordinances dealing with condominium conversions. This section analyzes only those controls related to tenant and buyer protection and the preservation of the rental stock. 11/

While the absolute level of converted units and proportion of the rental supply which has been converted in San Francisco have been small, the political response to it has been significant. The first set of controls in San Francisco was adopted in 1975 and included requirements such as a building's history, property reports by an expert, conformance to housing codes, right of first refusal to tenants, adequate notice of conversion, and provision for public hearings concerning conversions. The San Francisco ordinance required that the converter provide relocation services and pay moving expenses; and for builidngs over 50 units, 35 percent of the tenants had to consent to the conversion before the city would approve it.

In addition, if the city determined that any units planned for conversion were part of the low- or moderate-income housing stock, then the purchase price had to be geared to lower-income purchasers. If the price was not sufficiently low, the application for conversion would not be approved. 12/

According to San Francisco city planners, there have been instances where either the existing tenant or a qualified low-income buyer from outside the converting building bought one of the lower income units and then sold it at full market value within a short time, thus frustrating the intent of the program.

The 1975 San Francisco ordinance also provided that a proposed conversion could be rejected if rental vacancies increased, elderly or disabled tenants were displaced or discriminated against, or if evictions occurred to vacate the building before conversion. Approval for conversion could be denied, too, if rents were raised to an excessive level in the 18 months preceding the conversion application.

New amendments to the 1975 Act were passed in July 1979 and mandated that: (1) no more than 1,000 units may be approved for conversion each year; (2) 40 percent of the tenants must either agree to purchase a unit or be eligible for a life-time lease; and (3) the

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11/ See the Field Report for the San Jose, California SMSA for a full discussion of local ordinances related to conversion activity.

12/ For example, if by using the Section 8 maximum low-income limits as a basis, the city determines that the rental threshold for a unit is $276, the maximum sales price allowed would be $33,125. Under moderate income levels, if the threshold rent was $414, the maximum maximum sales price would be $49,688.

developer must pay up to $1,000 in relocation costs per unit and provide assistance in finding housing to those moving from the converted building.

Another new set of regulations specifies that the converter must set aside 10 percent of a building's units for low- and moderate-income households, construct a similar number of new units, or contribute to the city's Housing Development Fund an amount equal to ten percent of the difference between price of all units sold at the market rate and the total price if the units had been sold at the moderate income rate. The loophole allowing low to moderate-income buyers to sell at a high price was closed by giving the city the right of first refusal to purchase the unit at a price which allowed for improvements made and changes in the cost of living.

Opinions varied as to the effect of these new regulations. One converter felt that conversions would continue, despite these controls. However, an attorney noted that the city is turning down conversion applications on discretionary grounds because the regulations have not stopped conversions. This attorney is advising owners not to convert their buildings because of the difficulties the local controls present.

The existence or anticipation of rent control was cited by all those interviewed except tenants, as a significant reason for the sale of rental properties to converters. It should be noted that in the San Francisco SMSA building owners usually have done all the necessary work to obtain local government approval for conversion, and that many converters only buy buildings which have all the necessary local approvals in place. Rental building owners have, in effect, obtained conversion approvals for their buildings at the first sign of either rent control or conversion regulations so that they have the future option of converting the buildings after these types of laws are enacted. This may be why a large number of buildings in the SMSA have been approved for conversion but have not yet been converted.

There is evidence that converters shift their attention within the SMSA from jurisdictions with significant controls to those lacking regulations. Thus, according to one developer, conversion controls result in investment money flowing out of San Francisco to more "hospitable" (less regulated) areas both in and outside of the state.

Nearly all interviewees identified the shortage of ownership housing as a significant factor in the demand for converted units. Those in the private sector said, and a number of those in the public sector agreed, that the significant increase in state and local regulations has limited the production of housing and escalated its costs. Local zoning decisions were also cited as affecting new housing cost and production. Other ways in which new housing production is limited is the increasing refusal of local government to pay for housing development infrastructure such as roads; the California Coastal Zone Commission's regulations limiting development near the coast; and the requirement that Environmental Impact Statements must be filed on local housing developments. One San Francisco real estate attorney added that local government approved and aided office development and, as a result, less resources were available for new housing production. Converted units helped meet the needs not filled by new construction.

Effects on Households

Most tenants did not buy their rental units. However, the proportion buying in any building varied significantly, depending upon the building's location, renter clientele, and the sales price of the units. The percentage buying in buildings ranged from zero to 70 percent. 13/ A developer in San Francisco indicated that the number of tenants buying in her projects varied a great deal. Five out of six tenants purchased in one building, but the developer contended that the average number of tenants buying usually was 20 to 25 percent. The same developer felt that the proportion of tenants buying in large suburban projects was about 10 percent. A suburban planner estimated 15 percent of the tenants bought in that jurisdiction.

The study done by the San Francisco Department of City Planning 14/ found that 17 percent of tenants purchased their units. Tenants who purchased their units were older than the tenant group as a whole. The median age of tenant purchases was 53 years of age versus 40 years of age for non-purchasers. The reason most often cited by tenants for not buying was the prohibitively high sales price. The study also found that the housing cost of renters who bought went up significantly upon purchase.

According to the study, relocated tenants found units of similar size in an average of three months. Most found units in either the same or adjacent neighborhoods. Tenants who relocated to one-bedroom units paid rents ten percent higher than their former units, while rents for studios and two- and three-bedroom units were lower. Fifty-seven percent of the relocated tenants found their new unit to be equal to (17%) or more desirable (40%) than their old unit, while 37 percent found their new unit less desirable.

13/ Department of Housing and Urban Development, Field Interviews in 37 SMSAs. Conducted by HUD Staff, September and November 1979.

14/ Condominium Conversions in San Francisco, op. cit.

Tenants were generally younger than buyers of converted units; 22 percent of tenants were 30 years of age or younger while seven percent of all buyers were in that age category. Tenants had a lower median income ($22,893) than condominium buyers. Tenant buyers had a median income of $40,834. Most tenants (85%) and buyers (89%) were white; Orientals were the next largest group in each category. Both tenants and condominium buyers are different than the City's population as a whole, but they are typical of the socioeconomic make-up of conversion neighborhoods. Both tenants and condominium buyers were generally members of childless households. Sixty-four percent of the tenants had lived in their unit for less than three years. Tenants had lived in San Francisco for an average of 14 years with 40 percent having lived there for 5 years or less.

Effects on Tenants

Tenants have been highly organized and politically active in the entire San Francisco Bay Area for several years. Originally organized to oppose urban renewal, tenant groups have also pushed for increased legal rights in both public and private market housing. More recently, tenant groups have concentrated on obtaining local rent control. Thus, a highly sophisticated network of tenant activities mobilized very quickly when the number of condominium conversions occurring in the Bay Area became significant.

In 1974, a number of local governments, responding to tenant pressure and concerned about the impact of conversion activity on the rental stock, passed a variety of tenant protection measures. Generally, these were geared to providing advance notice to tenants of the impending conversion, providing a right of first refusal to a tenant who wished to purchase, and giving tenants relocation assistance. With the significant increase in conversion activity in the Bay Area since 1976, tenant groups have fought for additional protection, particularly for controls which preserve the rental stock.

Until lately, the San Francisco Board of Supervisors would routinely overturn Planning Department denials of conversions. For example, since 1975, 37 of 44 conversion applications rejected by the Planning Commission were subsequently approved on appeal to the Board of Supervisors. However, in April 1979, in response to complaints about rising rents and increasing conversion applications, the Board issued a 45-day suspension on considering new conversion applications. This suspension was extended until a new set of controls, including a 1,000-unit limitation per year, were enacted.

Tenant and neighborhood groups were able to place a very comprehensive and specific initiative on housing and community development issues before the electorate in November. Significant new rent control requirements and condominium conversion limitations were included. However, to the surprise of its proponents, the initiative was defeated.

According to a suburban community planner, tenant reaction to a proposed or announced conversion of their buildings varies. In some projects, tenants have organized and strongly protested a conversion. It was her feeling that there has been little opposition in luxury or higher cost projects, because tenants were more likely to be able to afford their units or find other suitable options. Senior citizens have been a very vocal and organized segment of the population opposed to conversions in individual projects. Elderly interest groups have also been very effective in influencing local government to control conversion activity.

There appears to be little or no tenant purchases of buildings. HUD programs were not utilized, although the secondary mortgage market, especially the Federal Home Loan Mortgage Corporation, appears to play a significant financing role in a number of moderate- to middle income conversion projects.

Effects On Housing Market

In the central cities, conversion activity has been concentrated on only a small proportion of the citywide housing stock so that the owner/renter mix has not been affected. For example, in San Francisco, condominium conversions have affected only 1.5 percent of the 200,000 rental units (two-thirds of all housing units in the city). However, in some suburban jurisdictions which were predominantly developed as single-family communities, the conversion of large projects or several projects has affected a substantial proportion of the rental stock and thus, the owner/renter mix. A city planner in Walnut Creek, an outlying suburb west of Oakland, indicated that 18 percent of the City's rental stock had been converted since 1973 and 12 percent since 1979.

It should be added that to the degree that conversions in San Francisco and Oakland have been concentrated in one or a few neighborhoods, the owner/renter mix in those neighborhoods may have been affected.

Effects on Neighborhoods

Several older central city neighborhoods in San Francisco and Oakland have experienced some revitalization as a result of condominium conversions: buildings have been renovated; property values have increased; and higher income households have moved in.

Condominium conversions in San Francisco probably affect neighborhood income levels. The incomes of households living in condominiums are higher than the incomes of households living in rental units, but lower than households who own single-family homes in the neighborhood. There is little racial change in the neighborhood as a result of conversions, except for conversions occurring in Oakland. In Oakland, conversions appear to be changing both the income and racial mix of the principal neighborhood undergoing significant conversion activity, Lake Merrit.

There was little evidence that indicated an increased level of public services provided to a conversion project or demanded by conversion residents. The Alameda study found that it was not more expensive to provide public services to condominium projects as compared to rental projects. Police and fire officials in the City indicate no measurable difference between the two kinds of projects in the study. The Police Department did report that in condominium projects with a longer history than those included in the study, there was a much lower incidence of police calls than is normal for apartments.

There was nearly universal agreement by all respondents that local government received increased tax revenues from condominium conversions. Two studies provide documentation on the extent of the financial benefits to municipal governments through conversion of rental projects to condominiums. In 1973, the City of Alameda had a consultant prepare an extensive study of condominium conversions occurring in the City. One aspect of the study analyzed the financial impact of conversions on the City. Data from the Assessor's Office was gathered on four groups of projects:

- Condominium conversions where sales are complete
- Condominium conversions where sales are still incomplete
- Proposed condominium conversions where the sales prices have been given
- Rental projects

The effect of conversions on assessed value was compared with several rental projects' increase in value for three years starting July 1, 1971. During this time, rental projects increased 11 percent in assessed value, completed conversions increased 93 percent, conversions with incomplete sales increased 68 percent and proposed conversion projects where prices had been announced increased 103 percent. 15/

The assessed value of rental income property is determined by the capitalization of net income while condominium apartments assessed value is determined by market value from sales price.

While some increased value of condominium conversions is due to physical improvements made to buildings and grounds, the study indicated that the bulk of the increase was due to transformation in assessment method.

15/ Investigation and Report: Condominium Conversion Subdivision in Alameda, California. San Francisco, Calif.: E. M. Shaffran and Co., 1973.

The most sophisticated analysis of the impact of condominium conversions on local property tax revenues is found in a 1978 joint study by the San Francisco Planning department and members of the real estate industry. 16/ The analysis includes not only a pre- and post-conversion analysis of assessment value but also a comparison of its value if resold as a rental property. The analysis assumes a six-unit unrenovated building in Pacific Heights which is purchased for rental at $300,000 and assessed in 1975 at $250,000. Three scenarios are considered: (1) the building is not sold since 1975 and is operated as a rental business; (2) the building is sold today for $525,000 and operated as a rental business; and (3) the building is subdivided into condominiums selling for $140,000 each or a total of $840,000. Each of these scenarios is analyzed to determine the effect on 1978 to 1979 tax revenues to the City. The following table indicates that a building which is subdivided for conversion will increase real estate tax revenues by 223 percent over the revenues the building would generate if it had not been sold since 1975 and been operated as rental business, and 60 percent over a current sale as a rental building.

Table 6

Assessor's Cash Value

	Rental	Rental/Sold/Rental	Rental/Conversion
1975	$250,000 ($300,000 Sales Price) a/	$250,000	$250,000
1978-79	$260,000 b/	$525,000 c/	$840,00
Taxes d/	$ 3,277	$ 6,615	$ 10,584

Source: Condominium Conversions in San Francisco, op. cit.; p. 82

a/ Sales price estimated based upon monthly rent per unit of $425 times Gross Rent Multiplier of 10 (rounded).

b/ 1978 to 1979 assessed cash value based upon $1.04 increase.

c/ 1978 sales price is estimated on rents of $600 and Gross Rent Multiplier of 12 (rounded).

d/ San Francisco property taxes are computed on 25 percent of assessed cash value times $5.04 per $100.

16/ Condominium Conversions in San Francisco, op. cit.

Finally, there is evidence from the field visit on the magnitude of the increase in assessed value between rental and conversion uses of projects. Post-conversion assessed valued increased 152 percent for a 25-unit building and 755 percent for a seven-unit building in San Francisco.

Table 7

Assessed Value Pre- And Post-Conversion

	Pre-Conversion		Post-Conversion	
	Assessed Value	Taxes	Assessed Value	Taxes
7-Unit Building	$112,500	$5,693	$962,000	$48,677
25-Unit Building	$275,000	$13,915	$692,750	$35,053

Source: Field Interviews, op. cit.

Relationship to HUD and Policy Alternatives

Very few conversions in the San Francisco SMSA were identified as being FHA-insured projects. One Federal Housing Administration (FHA) project in San Francisco had its mortgage prepaid and then was converted. Officials from the State government indicated that a 1,000-unit Section 221(d) (4) (Multifamily Rental Housing for Low- and Moderate-Income Families) project in San Bernardino had tried to convert but failed in the face of substantial local opposition.

There is little or no relationship between HUD programs such as Community Development Block Grants and conversion activity in either the central cities or suburbs of the San Francisco SMSA.

Virtually, all categories of respondents, including developers, lawyers, public officials, bankers, and tenant and public interest representatives, indicated a need to stimulate and increase the supply of affordable rental and homeownership housing. Some persons felt that the tax code should be revised to provide better incentives for builder/investors to construct rental housing. A number of different respondents felt that conversions would be eliminated if more new construction of single-family and condominium units were encouraged. Most professionals in the housing industry, and even several public officials, focused on the variety and number of local and state regulations which have caused housing costs to escalate or have cut off needed housing production.

Many suggested the need to reconsider such local policies as downzoning, environmental impact statements, and no-growth controls in terms of their adverse impact on the cost and supply of housing. Several public officials and tenant representatives felt that the differential tax code treatment of homeowners versus renters should be examined and a better balance in favor of renting be considered. Building and real estate industry representatives often spoke of the need to create better tax incentives for the production of rental housing, often stating that recent tax reform measures have hurt the industry. One expert suggested that demand for cheaper conversions could be switched to new construction (condominiums and single-family) if costs could be reduced by lengthening the mortgage term from 30 to 40 years.

Condominium converters suggested several ways to eliminate the impact of tenant displacement. Some mentioned the need to find ways of helping more tenants purchase their units. Several persons strongly urged that developer discounts to tenants be counted towards downpayment requirements. One developer suggested the need to consider innovative programs which, for example, combine condominiums and rentals.

Such a scheme was implemented in a Section 8 (Lower Income Rental Assistance) cooperative recently developed in Berkeley. According to the consultant, a cooperative buyer's unit appreciation is limited to a set percentage per year computed on the initial share payment. For example, in one project a cooperative buyer's downpayment (share) of $500 would appreciate at six percent (tied to savings passbook rate) per year. A number of additional controls are placed in the deed to prevent cooperative owners from revoking earlier arrangements and selling at the market rate.

A close examination of a limited equity cooperative scheme reveals serious problems. A prime consideration for homebuyers, especially today, is the market appreciation of the unit over time. The limited equity approach eliminates a major advantage of homeownership as an investment geared to significant, continuing inflation. In addition, where the project is oriented to low- and moderate-income ownership, the significant tax advantages compared to renting are eliminated. This occurs because persons are in non-taxable income brackets.

An advocate conceded these points but indicated that the limited equity cooperative approach gives tenant-owners more project control. In addition, given the deep subsidy involved when Section 8 is present, it was felt that allowing the units to slip out of affordability would be self-defeating, since low- and moderate-income households would suffer.

All the private experts agree that condominium conversion regulation, especially as it related to controls to protect the rental stock, was better handled at the local and State level than at the Federal level. Even tenant and public sector representatives were generally not disposed to favor Federal action, possibly since State and local controls were so pervasive and pro-tenant. One official from the State agency which administered the full disclosure statute felt that by the time "the Feds got around to conversions, the local controls would have cut down the activity." A private sector professional indicated he felt local government had a better feel for the issue, and that it was hard to take the temperature of California from the District of Columbia.

Field Report

Conversion Activity in the San Jose, California SMSA

Demand

The demand for condominiums has been increasing since 1974, and according to most experts, should remain strong into the 1980s. The underlying reason for condominium demand appears to be the sharp price increases in single-family homes since 1974. According to one study, larger homes in Palo Alto increased from $85,000 to $150,000 between 1974 and 1978. Larger tract homes increased from $60,000 in 1974 to $120,000 in 1978. Smaller homes sold for $35,000 in 1974 and $80,000 in 1978. The demand for homes in the San Jose SMSA has been fueled partly by the rapid job creation of the electronic and computer industries in "Silicon Valley" during the 1960s and 1970s. It appears that part of the inflationary push in housing prices is caused by either speculative or investment buying of homes. According to the Palo Alto study, 31.6 percent of the total houses in the market were bought for these reasons. Another principal factor in the escalation of prices is the scarcity of land suitable for development, resulting from both full development and environmental no-growth policies. Even where higher density planned unit developments and condominiums are constructed, the combination of land, construction, and labor costs cause prices to be high. Thus, converted units offer affordable prices at the lower end of the condominium market. Some conversions serve as "starter" housing for those who traditionally would have sought a single-family house but who can no longer afford that market segment.

Athough dated, a 1974 study of early conversion activity in Palo Alto has some information on demand for converted buildings. According to the study, between 1960 and 1970 the city's population increased only 7 percent (to 55,966) while the employment base increased by 70 percent from 29,557 to 50,282. At the same time, limited site availability and tighter environmental and growth policies have narrowed single-family and multi-family rental, and new condominium construction opportunities.

In Palo Alto, shifts in age composition have increased the demand for condominiums. Thus, while the total Palo Alto population increased only 7 percent between 1960 and 1970, there was a 22.5 percent increase in the persons aged 55 years or over. In addition, average household size declined from 3.09 in 1960 to 2.72 persons in 1970. The 1974 study also found that tenants did not generally purchase their units. Compared to renters, buyers of condominiums have smaller households and have fewer younger children. Buyers are older, have a higher percentage of family heads over 50 years, and have fewer young children.

In addition, condominium buyers have higher incomes than renters. Among respondents surveyed for the Palo Alto study, 39 percent of the buyers and 27 percent of the renters reported annual incomes over $20,000; 13 percent of buyers and 25 percent of renters reported incomes over $10,000. Most significantly, most buyers came from Palo Alto and over half were homeowners before buying converted units.

Supply

The San Jose SMSA has little that approximates the classic central city-suburb dichotomy. San Jose is the principal city and could be considered the central city. There are 14 other incorporated communities which could be considered suburbs of San Jose, but, in some cases, they are more part of suburban San Francisco. The SMSA is contiguous with Santa Clara County and, in most instances the county has zoning authority only in the unincorporated areas. Exhibit A presents the data on the 15 incorporated areas and the unincorporated part of the county. From 1975 to 1979, there have been 3,595 units either converted or approved for conversion. This constitutes 2.92 percent of the 156,897 rental units in the housing stock. 1/

Mountain View, in the San Jose SMSA, has the highest number of conversion approvals. The City of Mountain View lies immediately south of Palo Alto. It has a population of 60,000 and 27,000 dwelling units, of which 10,000 are single-family homes, 1,000 are condominiums (built as such), and 16,000 are rental apartments. Census data from 1975 indicates that 61 percent of the housing was rented and 39 percent was owner-occupied. The city's planning department notes that 72 percent of all households are renters due to significant rentals of single family houses (estimated at 25 percent). In the 1960s, perhaps due to developer influence, a decision was made that Mountain View would have an eventual population of 120,000 and have a significant portion of its housing stock devoted to rental units. Since that time, the community plan has been downgraded so that at full development in 1980, the community is expected to have a population 68,000.

In considering conversion policy, this community was presented with a significant dilemma, because it had what is generally considered an inappropriate owner/renter mix. The implications of having over two-thirds of the population as renters included a high degree of transiency resulting in high turnover in schools; low voter turnout; and little sense of community. Crime was higher in multi-family renter sections than single-family areas. Mountain View planners found that renters stay one and one-half years, but owners remain in

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1/ This includes 989 units covered by conversion applications but not yet converted.

their units four to seven years. Planners concluded in 1978 that for Mountain View, there may well be a greater rationale for actually encouraging condominiums (while making every effort to minimize adverse impacts on tenants). The city policy and its evaluation, discussed at length in the next section, generally followed a liberal view until the threat of rent control caused a massive wave of conversion applications and an attendant tenant political backlash.

In Mountain View, the city of San Jose, and Santa Clara, the prime middle and luxury rental housing stock has been the source of conversions. These complexes are characterized by large units, quality construction, and significant amenities. Because activity has been kept low, there remains a large number of rental projects of the same high quality which could be converted. Conversions have not been confined to any specific areas in the three cities; but it was suggested that a number of projects tended to be located in predominantly single-family areas.

A building industry association representative argued that rents have lagged in the Bay Area and this has pushed building owners to consider conversions as a more profitable alternative. The major reason, he proposed, for lagging rents is competition. He essentially "blamed" rent lag on the fact that the rental housing industry is fragmented and composed of a large number of "mom and pop", long term property owners. These owners have low fixed mortgage costs and have a personalized management relationship with their tenants which results in self-restraint (below what market would bear) in rent increases. These operations have hurt the larger, "true business" portion of the rental industry. Apparently, rental businesses are not able to raise rents above operating costs to receive enough profits and long-term property appreciation to justify investment.

However, according to several real estate experts, rents have been increasing lately. Likewise, the prices of rental buildings offered for sale have been rising rapidly. According to a real estate attorney, investors are pushing prices up even if a negative cash flow occurs so that tax shelter is gained. In addition, the presence or fear of rent controls pushed many building owners to sell out. This is often coupled with, but can also be independent of, the enhanced profitability of a building that is marketable for condominium conversion.

The recent rise in interest rates and controls on money supply were seen by nearly everyone as having an effect on the sales and perhaps development of conversions. The higher interests rates would make it difficult to qualify buyers but demand was felt to be sufficient to still generate sales. Opinions varied on what the interest rate would be in the next year. Some felt that within six months, the interest rate would drop, while others felt it would stay high or even increase.

Government Regulations

The fear of rent control was often cited as a principal reason why building owners have filed applications for conversion. For example, one builder/property manager in Mountain View moved to convert as soon as a local group began to organize and circulate an initiative calling for rent control. The number of conversion approvals shot up from 500 to nearly 2,000 as property owners reacted. The number of conversion applications approved (the number of conversions actually going to sale has been small) created considerable apprehension and displacement among tenants and became an organizing issue for the same tenant coalition which had formulated the rent control initiative. While the rent control initiative had to be delayed until the Spring of 1980, on technical grounds, the Committee To Preserve Affordable Housing got enough signatures to get a tough, "stop conversion" initiative before the public for a November 6, 1979 vote. To the surprise of the pro-conversion side, the anti-conversion coalition was able to mount a tenant registration drive and get a heavy tenant turnout and pass the initiative measure. Virtually all communities in the Santa Clara County/San Jose SMSA have adopted some form of condominium controls.

Nine of the 15 incorporated communities in Santa Clara County have initiated moratoria ranging from four months to over two years. These moratoria have been generally used to preserve the status quo while the community conducts a study and fashions a policy on condominium conversions.

Four incorporated communities and the County (having jurisdiction over the unincorporated area) have not utilized moratoria or passed any specific regulations controlling conversions. These communities appear to be small and either have no or very little rental housing. Two incorporated communities have issued policy statements on conversions. Eight incorporated communities have adopted conversion controls by amending their subdivision ordinance (3) or zoning ordinance (5). One community was considering some form of regulation. Six communities initiated regulations between 1973 and 1976 and four communities since 1977. Several communities have strengthened their conversion regulations since initial approval.

As indicated earlier, communities have decided to regulate conversion activity through their zoning or subdivision powers. Local government has power to review conversions of rental apartments to condominium and community apartment projects under the California Subdivision Map Act. As a result of an Attorney General opinion and a 1977 amendment, local governments can review conversions under the Map Act only if a community's general plan addresses the issue of conversion. The housing element of the general plan, by state law, "shall make adequate provision for the housing needs of all economic segments of the community." Thus conversions can be disapproved under the Act if a community sets up objectives, programs, and policies for minimizing tenant displacement and for maintenance of the affordable rental housing stock in its housing element of the general plan.

An alternative source of authority for regulating conversions, which several communities have utilized, is their zoning power. However, state law provides that local zoning ordinances shall be construed to treat like structures, lots, or parcels in like manner, regardless of whether the ownership is divided by sale of condominiums, unless a contrary intent is clearly expressed. This means that condominiums in an apartment district must be treated like an apartment except where a community indicated clearly the opposite in its zoning ordinances. A community may then exercise review power through its zoning ordinance by requiring a conditional use permit. According to several city officials, the conditional use permit allows a community the greatest discretion in considering individual projects for conversion.

San Jose and Santa Clara do not have any restrictions on the number or rate of conversions. However, since the conditional use permit review is discretionary, and because several substantive standards (such as parking) have been developed which make it difficult to convert, few conversions have taken place. However, more applications are being submitted before each community.

Palo Alto developed one of the first conversion regulatory schemes, and since its development, no conversions have taken place. Palo Alto allows no conversions when the vacancy rate is below 3 percent, except where two-thirds of the tenants approve the conversion.

Mountain View has revised its ordinance several times. After a moratorium, Mountain View drafted an ordinance with extensive tenant and buyer protection provisions, but no pacing control. After the threat of rent control caused a large number of conversion applications, the City Council, on October 29, 1979, passed a limitation on the number of conversions approved per year. Henceforth, no more than 5 percent of the total rental units existing in developments of four or more units could be converted per year. Approximately one week after the 5 percent pacing ordinance was passed by the City Council, the voters of Mountain View approved, through an initiative process, a much tighter restriction on conversions. The ordinance allows no conversions below the initial number of rental units, 2/ except where 50 percent of the tenants approve the application. The ordinance in effect requires new construction to create a surplus of units about the initial number if owner/developers are to convert.

2/ The base number of rental units in Mountain View was initially calculated by the planning agency in December 1979.

Alternatively, tenant approved conversions create a deficit which must be made up by the initial number of rental units plus replacement over that number by new construction to allow owner/developer conversion.

A variety of tenant protection measures are contained in the ordinances of the four communities just discussed. The most common are those related to giving tenants advance notice of the impending conversion. San Jose, Palo Alto, and Santa Clara follow state law in requiring 120 days notice. Mountain View requires a one year advance notice. San Jose and Santa Clara require tenant notice of the zoning hearing on a conversion application. All four communities give tenants 60 to 90 days to exercise a right to purchase a unit at equal or more favorable terms than generally available.

Palo Alto provides tenants with a variety of lease concessions, where possible, ranging from the right to terminate the lease without penalty to lease extensions of 90 days or to the end of the school term.

Other tenant protection provisions include: prohibition of discrimination against family rental/purchase (Mountain View); prohibition of retaliatory action against tenants opposing conversion (Mountain View), and detailed information on age, length of occupancy of tenants, current rents, and history of last two years' rent increases (Palo Alto).

There appear to be three principal categories of buyer protection. The first involves the enforcement of substantive standards on individual units, buildings, and project quality. All four communities require that buildings be brought up to present building codes. This often means compliance with a number of higher standards enacted since the construction of the building, such as shock-mounted appliances to reduce vibrations and noise, sound proofing, two hour fire walls, separate utility meters, and water shut-off valves. In addition, parking standards are often upgraded from 1-1/2 spaces per unit at the time of construction to two spaces per unit. In some, ordinance waivers of the new standards are allowed but in most instances, the standards are applied strictly with the explicit purpose of limiting the possibility of conversion.

A second major category of buyer protection involves full disclosure of building conditions and the proposed budget and legal organization of the condominium. In all four communities, some form of property and structural report on the existing building is required. In some instances, the report must be prepared by a certified engineer selected by the city (Mountain View, San Jose). San Jose requires a detailed building history including a listing of major repairs and renovations over a certain amount. A number of ordinances require analyses of the expected life of major systems. Santa Clara goes one step further and requires an estimated cost and replacement date of major systems. In most communities, a preliminary annual budget for the Homeowners Association is to be given to prospective buyers. Palo Alto goes one step beyond and requires that a sinking fund for major maintenance be set up. In addition, a number of communities require that a copy of the approved conversion application form be given to a prospective buyer. Finally, there are a variety of local requirements providing for prominent notices, disclaimers, and warnings in the various condominium documents provided to buyers. Palo Alto requires that a condominium information booklet, approved by the city, be provided to buyers. The HUD Condominium Brochure is specifically mentioned as qualifying in this regard. All communities review organizational documents and Santa Clara also retains veto power over amendments.

A third major category of buyer protection involves the granting of warranty rights on appliances, mechanical systems and the building structure. Mountain View provides for a one year warranty on each of the above aspects of the condominium.

In addition to the above three major categories of buyer protection, there are a large number of miscellaneous protections. Mountain View provides the condominium purchaser a right to cancel the contract within 15 days of its signing. Three of the four communities have provisions in their ordinances which give homeowner associations the right to terminate any management or maintenance firm contract after control passes from the developer. Mountain View requires the developer to pay temporary housing costs for any tenant purchaser in excess of the regular rent and moving costs as a result of renovation. Mountain View also requires a building complex to include amenities for children when appropriate.

Effects on Households

Due to moratoria, restrictive ordinances, and the long lead time needed to process the local and state applications for conversion approvals, relatively few approved projects have either completely sold out or have even begun a sales program. Several developers, public officials, and others mentioned the elderly as an especially adversely affected group of tenants. A tenant group in Mountain View, which was instrumental in passing a new, "one-for-one" replacement ordinance, argued that young professional couples and singles from "out of town", with slightly higher incomes than existing tenants have bought converted condominium units. The tenant group felt that a mixture of people bought units, including older persons. However, a number of older people who could afford condominiums still preferred not to buy. Few tenants have bought in the buildings which have gone to sale so far. In one 48 unit building, seven tenants purchased their apartments, while no tenants purchased in a 90 unit building. According to the tenant group, some tenants have moved to other cities, some to other apartments with conversion applications or approvals. Some tenants have had to double up, and others have moved to higher-priced apartments.

In reply to these tenant assertions, building owners, private market experts, and converters argue that everyone displaced by conversion has found some form of housing. More importantly, they argue that while vacancy rates are low, high apartment turnover rates suggest that there is little difficulty in finding new rental housing when displacement occurs as a result of conversions. Public officials in Mountain View, Santa Clara, and San Jose confirmed that there was a highly transient work force connected with the transistor/computer industry which predominates in the valley. Particular rental building owners cited 50, 60, 80 percent and even higher turnover rates in a single year.

Tenant notice of conversion is governed by both state law and local ordinances. Legal notice of the conversion is often tied to the right to possession. However, several local ordinances have longer notice periods than the four months required under state law. For example, Mountain View requires a one year notice. In addition to the notice required to legally dispossess a tenant, localities also require notice be given to tenants on the date of the local government hearing on the condominium application. Both the San Jose and Santa Clara ordinances provide that the city and the developer must provide the tenants of the project being considered for conversion approval with a ten day notice of the hearing. In reality most large developers, give tenants significant advance notice as a part of the sales program.

One project in Santa Clara outlined its tenant composition and its program to minimize the inconvenience that conversion would cause. The application for conversion approval stated the following facts about the project's tenants:

"(1) There are some senior citizens living on the project.

(2) There are some people who have lived on the project for a period longer than two years.

(3) There are some people who have children in junior and senior high school.

(4) There are tenants who are financially unable to commit to a long-term lease.

(5) The project experiences an annual turnover greater than 80 percent."

The developer offered the following program to tenants:

"(1) All tenants will have the right to lease these units through December 1979 (1 year).

(2) Tenants who have lived on the project for at least five years will have the right to lease these units for two years.

(3) Senior citizens (people 55 years or older) will have the right to lease their units for up to five years.

(4) Tenants with children in junior or senior high school will have the right to lease for two years.

(5) All the above leases may be terminated by tenants in case of financial hardship.

(6) Each tenant will have the right to buy his unit at a discount. The discount will be $1,000 plus $50 per month for each month he has lived on the project. This right will expire sixty (60) days after the owner gives the tenant written notice of his right to purchase his unit.

(7) Special hardship cases will be considered on a case-by-case basis."

In addition, the developer makes a commitment to purchase back any unit at the price it was sold for if any buyer (tenant or non-tenant) notifies the developer in writing within 90 days after escrow closes.

The Santa Clara ordinance also requires a developer to indicate the conversion impact on the rental market and public school system. In the case of the above application, the developer stated that while the number of rental units would be reduced by 478, Santa Clara had a disproportionately high ratio of rental-to-owner occupied housing. Rentals account for 49 percent of the residential units in the city and this is the second highest ratio in the county -- Mountain View is first.

Regarding the impact on the public school system, the developer pointed out that a nearby elementary school closed last year, that the school population in the Santa Clara district has been declining, and that another school is closing in the service area in which the project is located. The developer indicated that conversion would not substantially change the number of school children.

The developer's application provided one other bit of evidence of potential buyers' interest in condominium conversion approvals. The potential homebuyer interest (a large number of whom are renters) is often not considered or documented vis-a-vis tenants. According to the developer's application, "For Sale" housing in the $50 per square foot range is virtually nonexistent in comparison to the demand in the city. It was argued that young families attempting to establish an equity in homeownership are virtually excluded from buying in Santa Clara by the cost of housing currently on the market. In addition, senior citizens are "effectively compelled to rent, as there are no ownership projects which meet their needs." The anticipated range of initial sales prices for this project was stated as:

(1) Junior one-bedroom units containing approximately 450 square feet:

Approximate Sales Price	$25 to $30,000
Per Square Foot Cost	$61

(2) The average sized unit in the project contains approximately 900 square feet:

Approximate Sales Price	$42,500 to $47,500
Per Square Foot Cost	$50

(3) The largest units in the project contain approximately 1,650 square feet:

Approximate Sales Price	$75 to $85,000
Per Square Foot Cost	$48

Estimates varied on the number of tenants who bought. Most respondents guessed 10 to 20 percent. One building association official cited 35 to 40 percent of tenants buying in some projects. A tenant group in Mountain View stated that many tenants felt pressured to buy because of the sales promotion scheme of the converter. That is, discounts were offered with specific time limits for signing a sales contract. Presumably, the time allowed to decide was considered too short by certain tenants.

Effects on Tenants

The most dramatic example of tenant reaction to the threat of condominimum conversions is found in Mountain View. Tenants had organized earlier around rent control initiative before the voters seized upon the large number of applications for conversions as another equally or more powerful tenant issue. The large number of conversion applications was a direct response to the threat of rent control, according to industry sources. Tenants formed an ad hoc group called "Committee to Preserve Affordable Housing" and succeeded in getting enough signatures for an initiative to be placed on the ballot. The group conducted a registration drive to get a high tenant turnout for the election. On November 8, 1979 they succeeded in having a measure passed which requires the preservation of the existing number of rental units, except where there was new rental housing constructed or 50 percent of the tenants agreed to the conversion.

Tenant groups were organized in San Jose and to a lesser extent in Santa Clara. A written statement prepared by a tenant opposing the Santa Clara Zoning Board's approval of an application to convert her luxury rental project provides an articulate presentation of tenant arguments and the character of the tenant involved. According to the tenant spokesperson, the 254-unit rent complex had been a successful and profitable rental complex for over ten years. It was the best luxury apartment complex in Santa Clara. She described in some detail the type of people who reside in the complex.

> There are young professional men and women, corporate management people from Memorex, Fairchild, Amdahl, INTEL, etc, those very corporations who help keep taxes low in Santa Clara. There are business people and retired people with independent incomes. We <u>cost</u> Santa Clara very little by living here - no children to overcrowd your schools, and I believe that your Police Dept can testify to the fact that their services are very seldom required at V D L. On the other hand, we contribute much to Santa Clara in addition to the taxes we pay indirectly through our rent. The tenants of V D L are, by the very nature of the complex, above average earners and, above average spenders. We buy more and better cars, furniture, clothes, food etc. We are, as a group, good citizens, church supporters, and informed voters. Many of the people living here may be renters, but their roots are in Santa Clara. They are local people who, when their children left home, chose to sell their homes in Santa Clara but remain a part of this community. This is where their churches are, this is where their friends and families live. Santa Clara has all the good and desirable things, good services, convenience to freeways, close to places of employment and excellent shopping. We do not want to have to move and give up benefits. If you should grant this zone change we will be forced to move out of Santa Clara because there is no comparable rental housing available to us here.

In addition, it was stated that the character of the complex population was unique and subject to change as a result of any condominium conversion.

> V D L is an ADULT community. We who live here do so because we prefer it that way. We all love children BUT prefer they live elsewhere - and visit when it is convenient. If these apartments become condos, there

> could be no enforceable rule that people with children - or people who buy and they have children couldn't live here. They whole character of V D L will change. The lakes and ponds, instead of being a thing of beauty and enjoyment to the tenants, would become a constant source of danger and irritation to people with children.

This tenant further argued that the conversion to condominiums be rejected as well as the variances that had been requested. The Zoning Commission was asked to consider the wishes of the people who have contributed to the financial success and excellent reputation of the complex.

> Rezoning should only be approved if it is in PUBLIC INTEREST. The most important reason for regulating conversion of rental apartments to condominiums is to preserve the balance of rental and private ownership housing. Both are vital to a healthy economy. Without rental property you can achieve no growth. Rental housing is vital to new people moving into the community, young marrieds, people in the process of looking for a home, people in need of temporary housing - such as corporate executives who are subject to transfer, and last, but not least, people who have raised their families, sold their homes and are renters by choice because they no longer want the responsibilities inherent in property ownership. These are the people you will find at V D L. Rental units are vitally important to industry in the area. If adequate living quarters are not available, no amount of money will attract the top, highly qualified people necessary for their growth and profitability.

Tenants argued against the granting of variances on requirements for two-hour fire walls, parking, and sound-proofing. Finally, it was argued that the zoning law does not require that the owner be guaranteed the most profitable use of his property, but only a reasonable return.

Members of the City Council, zoning and planning commissions were said to be sympathetic to tenants in San Jose and Mountain View. This support was manifested by refusing variances to the very strict standards and in outright denials to project applications based on the community interest in having a specific project remain as rental housing.

<u>Effects on Housing Market</u>

There is no hard evidence to support the proposition that conversions have led to a tighter or higher priced rental market for any renters, neighborhoods, or jurisdictions. A tenant representative in Mountain View indicated that he felt that the conversion of moderate and luxury rentals had an inflationary effect on lower quality and lower priced rentals. The increased demand for lower priced apartments by the affluent renters pushed out of converted projects results in higher rents which, in turn, force lower income renters to double up or leave town for lower priced rentals in the Bay area.

On an SMSA level, the owner/rental ratio has not been significantly altered. For example, the number of units approved for conversions between 1975 and 1979 was approximately 2.29 percent of the SMSA housing stock. When applications pending are included, the percentage change is 2.92 percent.

However, in individual communities in the San Jose SMSA, the number of conversion approvals and applications has altered the rental/ownership ratio. For example, the number of conversion approvals in Mountain View account for 9.86 percent of the number of rentals. This number of conversions would affect the owner/renter unit mix -- now 39 percent owner-occupied and 61 percent renter occupied. Even when the absolute number of units converted is small (such as in Saratoga -- 24 units), the percentage change can be large (21.4%), because the community is basically single-family homes (only 112 rentals). (See Exhibit A.)

Effects on Neighborhoods

The cities in the San Jose SMSA have not had conversion activity related to revitalization of older, central city neighborhoods. Most of the cities have a relatively new housing stock and the type of luxury buildings likely to be converted are recently built housing in prime neighborhoods. Most of the projects were built in the late 1960s and early 1970s.

Conversions have not had any significant effect on neighborhood racial mix. Since projects are widely scattered and in better areas of most jurisdictions, conversions appeared to have little or no impact on the age or income mix of neighborhoods. However, to the extent the project's make up changes to less elderly, higher income households, then neighborhood diversity is potentially affected if the project is a large component of the neighborhood. At least two community planners argued that conversions would have impacts on the socioeconomic status of their community as a whole. In one community with a very high proportion of renters, including lower income and female headed households, conversions would replace this group with a higher socio-economic status household. Most communities did not consider conversions to have an impact on racial mix because of the smaller number of minorities in their communities and the character of the projects.

The argument is made that conversions will have impacts on the provision of local public services. In one commmunity, it was pointed out that there is a great difference in the "demand" for public services at renter complexes compared to homeownership areas. A key public service cited was police response to crime. According to the city planner, there was a significantly higher use of the police in the renter complexes than in homeowner areas (per capita figures were not presented). It was implied that the change from renter households (i.e. lower socioeconomic class) to homeowner households (higher socioeconomic class) would result in less crime and thus less need for police services.

Most city officials stated that property would be assessed for higher property taxes as a condominium.

Relationships to HUD and Policy Alternatives

There was no observable relationship between HUD programs in the San Jose SMS\ and conversion of rental units. No HUD-insured or subsidized project was identified as being converted to condominium or cooperative ownership in the San Jose SMSA. Nor did Community Development Block Grants (CDBG) programs bear any relationship to conversion projects or areas containing them.

One community planner suggested that there should be Congressional legislation to provide uniform buyer protection. However, most public officials and developers felt that local and state government regulation was more appropriate than federal intervention on condominium conversions. Developers were generally not hostile to various buyer protections but were angry with virtual bans on conversions and with rent control. A number of private and public sector experts agreed that more new construction was needed but that a combination of growth controls, bureaucratic delay, and excessive new standards have contributed to less production than in the past. This has increased demand for existing ownership units and for converting rental housing to condominiums.

A tenant representative argued that the present system of tax deductions favors homeownership and contributes to rental housing difficulties. He suggested equalizing the tax standing of both groups. In addition, he suggested the need for institutions to facilitate cooperatives, especially the limited equity kind of arrangement. Finally he suggested that federal lands, especially the local air bases, should be developed for housing.

The Conversion Process

A builder/apartment owner in Mountain View presents an interesting case study of the factors pushing apartment owners toward conversion. He owns a construction company which built most of the units he now manages. He takes great pride in his buildings, with one project having received a design award. An inspection of several projects revealed an attractively designed, lushly landscaped, and superbly maintained middle-income and luxury rental stock. He used a straight line depreciation schedule. Continuing to hold a project under these conditions would cause his tax libility to escalate. He indicated that present tax laws result in people like himself putting their money into "crazy areas" of investment rather than building new housing. Another key factor in pushing him to convert arose from a local tenant organization's effort to place a rent control ordinance on the ballot. After the filing for a rent control initiative applications for conversion to condominiums were submitted on 1,400 units, including his 180 unit project.

Exhibit A

Conversion and Regulations in the San Jose SMSA, 1975-1979

Jurisdiction	Total Rental Stock	Units Approved for Conversion	Approval a Pct. of Stock	Units with Application Pending	Total Units Approved or Pending	Units Approved or Pending as Pct. of Stock	Regulation Controlling Conversion	Date Adopted	Type of Ordinance
Campell	5,091	25	0.5	234	259	5.1	None Planned		
Cuperntino	2,927	84	2.9	0	84	2.9	Conv. Ordinance	12/78	Zoning
Gilroy	2,000	134	6.7	30	164	8.2	Policy Statement	7/68	-
Los Altos	1,100	63	5.7	28	91	8.3	Conv. Ordinance	5/74	Zoning
Los Altos Hills	224	0	--	0	0	--	None Planned		
Los Gatos	4,980	0	--	0	0	--	Conv. Ordinance	3/74	Zoning
Milpitas	1,724	0	--	0	0	--	Being Drafted		
Mount Serino	97	0	--	0	0	--	None Planned		
Morgan Hill	1,991	0	--	20	20	1.0	None Planned		
Mountain View	16,684	1,642	9.9	0	1.642	9.9	Conv. Ordinance	9/73	Subdiv.
Palo Alto	10,900	0	--	0	0	--	Conv. Ordinance	10/74	
San Jose	63,100	990	1.6	0	990	1.6	Conv. Ordinance	5/77	Zoning
Santa Clara	16,000	733	4.6	350	1,080	6.8	Conv. Ordinance	1975	Zoning
Saratoga	112	24	21.42	0	24	21.4	Conv. Ordinance	5/76	Subdiv.
Sunnyvale	17,452	0	--	92	92	0.5	Policy Statement	1/79	
Unincorporated	0	0	--	0	0	--	None Planned		
Total	156,897	3,595	2.3%	989	4,584	2.9%			

Source: Ishino, Condominium Conversion in the Bay Area (1979).

Field Report

Conversion Activity in the St. Louis, Missouri SMSA

Background

The St. Louis SMSA is comprised of the central city of St. Louis and six surrounding suburban counties -- St. Louis, Franklin, and St. Charles in Missouri, and Madison, Monroe, and St. Clair in Illinois. Since 1876, the city of St. Louis and St. Louis County have been mutually exclusive jurisdictions with no overlapping responsibilities or authorities.

According to Census and Annual Housing Survey data, the population of the St. Louis SMSA increased by about 12 percent between 1960 and 1970 and leveled between 1970 and 1975. However, for the same period (1960-1975), the population of the central city declined by about 30 percent. Manufacturing was predominant in the area's economy for many years, but has experienced sharp and continuing declines since the early 1970s. Since 1971, the SMSA's annual unemployment rate has been close to the national average.

The overall homeownership rate in the SMSA increased from 62 percent in 1960 to 67 percent in 1976. For this same period, the central city experienced a higher percentage increase in the proportion of owner-occupied housing units, 38 percent to 45 percent respectively, while the homeownership rate declined for the balance of the SMSA -- 78 percent to 74 percent. Although most newly constructed housing units in the SMSA are developed outside of the central city, there is a substantial amount of vacant land within the city of St. Louis -- the result, in part, of a high demolition rate. There is also a significant amount of abandoned housing within the central city, slated for rehabilitation through public and private efforts.

The metropolitan area has experienced a moderate level of condominium conversion activity. Thus far, most has been concentrated in St. Louis County and the City of St. Louis. Between April 1973 and September 1979, 377 units (40 buildings) were converted to condominiums in St. Louis County. In the City of St. Louis, 358 units (26 buildings) were converted between October 1977 and August 1979.

Demand

The housing market in the St. Louis area is traditional. There continues to be a great demand for single-family detached homes while the condominium concept has gained popularity only within the last couple of years. Except for one local government official, most local experts interviewed for this study characterized the demand for condominiums as fairly strong and increasing, tempered only by high interest rates or the enactment of restrictive condominium legislation. Current economic conditions have resulted in a somewhat lowered demand but most view these conditions as temporary.

The local official who disagreed with this description characterized condominium demand as moderate without much chance for significant growth given economic trends, the strong local preference for single-family homes, and general resistance to change. Condominium buyers are described as young professionals, childless couples, empty nesters, or retired elderly, all of whom prefer (and can afford) the convenience and security of the condominium lifestyle. There is also an increasing demand for inner-city residential locations in the City of St. Louis, generally attributed to a growing awareness of energy conservation and the convenience associated with urban living.

Supply

Local experts estimate that less than one percent of the rental stock in the St. Louis metropolitan area has been converted thus far. Conversions have occurred in several types of buildings, including four unit structures, townhouses, and high-rises. The majority of conversions, however, have been in smaller buildings: two units or less. In the central city, converted buildings tend to be older, constructed between 1900 and 1930, around the time the World's Fair of 1903-04. The structures are generally masonry and are described as "well-built" with spacious units.

The majority of conversions in the City of St. Louis have occurred in neighborhoods targeted for public and private redevelopment activities. There is a substantial inventory of vacant and abandoned buildings in the city and a significant proportion of conversions have occurred in this vacant stock. These areas tend to be convenient to the central business district as well as to parks or other recreational facilities. Before the reinvestment activities of the past five years, these neighborhoods were deteriorating areas of high crime whose residents were generally low-and moderate-income blacks. As a result of rehabilitation efforts and the growing demand for urban locations, the majority of the residents in these areas are now middle- or upper-income whites.

For the most part, conversions in St. Louis County have occurred in communities within the inner-ring suburbs, including Clayton, Brentwood, and University City. Buildings and neighborhoods in these areas are located convenient to public and commercial services including main thoroughfares and public transportation. A primary factor contributing to the level of conversion in the inner-ring suburbs is that a substantial proportion of the county's rather limited supply of multi-family housing stock is located there. The majority of residents -- both renters and owners in these bedroom communities are middle- or upper-income elderly, although conversions in these neighborhoods have also affected moderate- or fixed-income households.

Several experts suggest that rental properties are becoming increasingly less profitable to owners because St. Louis' traditionally low rent, do not offset increases in operating and maintenance costs.

Market Conditions

The rental market in the St. Louis SMSA is tight, with vacancy rate estimates ranging from an overall rate of five percent to zero or one percent for selected neighborhoods. Although there is a strong demand for rental housing in the metropolitan area, there has been a relatively limited amount of new multi-family rental construction over the past three to five years. The primary reasons given for the slowdown of activity are the high costs of building and operating rental properties measured against anticipated profits, and the costs and availability of interim financing.

The vacancy rate for the central city, which is reported to be five percent, mirrors that of the entire SMSA. Although market analysts generally consider a 95 percent occupancy rate to represent a "normal" rental market, this figure does not reflect the city's substantial inventory of abandoned multi-family housing stock. The City of St. Louis is a "single-family" town. In recent years, however, there has been a greater proportion of multi-family development than of single-family detached homes. Local experts indicate that much of the new multi-family rental construction in the central city and suburbs is Federally-insured or subsidized, predominantly Section 8 Elderly. This is supported in a study, conducted by HUD, of selected "soft" housing markets across the country. The study, which reviews housing market conditions in the St. Louis SMSA, indicates that 64 percent of the Section 8 New Construction allocation in the city of St. Louis is targeted for the elderly. Similarly, 60 percent of such funding in the remainder of the SMSA is allocated to housing for the elderly.

The vacancy rate for adjoining St. Louis County is also approximately five percent, but there are virtually no abandoned buildings throughout the county. A further difference between the central city and suburban St. Louis County is the fact that, in recent years, there has been a higher percentage of single-family development in the county. Some local observers suggest that the level of multi-family new construction in St. Louis County is the direct result of the county's zoning ordinance which restricts the number and location of multi-family rental units.

As is the case in most communities across the nation, the single-family market in St. Louis is experiencing a slowdown due to the cost and availability of mortgage money. This is less of a problem where larger builders have reserved mortgage financing in advance. For smaller builders and potential purchasers who must sell their current residence in order to buy new homes, financing has been extremely difficult to obtain. The situation is exacerbated by a state usury law. The state of Missouri has imposed a "floating" usury ceiling which fluctuates every three months and has run substantially below the market rate of 12 to 15 percent. Although the current money market is negatively affecting all housing markets, an official in one of St. Louis' major lending institutions suggested that conversions are most negatively affected because conversion developers allegedly "need" their profits quickly so they can quickly make other investments.

It was also indicated that conversion projects generally require greater capital outlay than single-family detached homes. There is little evidence across the county to support the statement that conversions "generally" require greater capital outlay than single-family home development. But it may be true within the city of St. Louis, given the deteriorated condition of the housing stock and the degree of renovation needed to market converted buildings. Although most experts predicted a surge of conversions in response to a better money market, at least one lender suggested that the response will be a surge in sales of individual units in converted buildings, but not necessarily more conversion.

Government Regulations

The current state condominium law in Missouri does not specifically address conversions. However, one State Senator is considering legislation that would assist elderly tenants who face displacement as a result of conversion activity. The municipality represented by the Senator is an inner-ring suburb of the St. Louis SMSA in which conversion-related legislation is currently in effect. The city council there recently enacted a conversion ordinance that provides 90-day notice for tenants in buildings to be converted. It also requires housing code compliance and, in some cases, additional rehabilitation or provision for separate utility metering and billing for each unit. A tenant representative described the impact of the ordinance as minimal, suggesting that it contained too many "loopholes" on quality standards. For example, the strength of housing code compliance requirements is diluted by the phrase "where feasible" i.e., developers shall install smoke detectors, "where feasible."

The only other municipality which has enacted conversion-related legislation is also located in the inner-suburban ring. In August 1979, the city council approved and issued a four month moratorium on condominium conversions. During this time period, the commission was to study the impact of conversion activity on elderly and other limited income tenants. The commission was also instructed to draft an ordinance regulating new and converted condominiums based on the study results. The moratorium was scheduled to end December 5, 1979, but on October 30, 1979, the planning commission recommended a 90-day extension so that it might have more time to study the issue and draft an appropriate ordinance, and the city council voted to extend the moratorium to March 4, 1980.

The character of condominium conversions in the City of St. Louis has been significantly influenced by state statute. According to Chapter 353 of the state code, private corporations may be authorized by the city to undertake redevelopment activities in designated "distressed" areas. These corporations are required to submit plans for revitalization, which must contain a comprehensive relocation plan as well as an antidisplacement strategy. Upon approval, redevelopment corporations receive the power of eminent domain and are, therefore, authorized to set minimum housing standards for the target area. The approved corporation is further authorized to take possession of any property in the 353 area that is not brought into compliance with established standards.

The city further supports redevelopment in "353" areas through full property tax abatement for ten years and 50 percent abatement for 15 years. The city also channels a substantial proportion of its Community Development Block Grant and Section 312 funds into 353 areas, as well as into Section 8 units through housing authority designation. Eminent domain and tax abatement all combine to make redevelopment, including conversion of rental units to condominiums, an extremely attractive opportunity for developers.

There is no rent control or growth control ordinance, per se, in effect within the St. Louis metropolitan area, but zoning regulations in suburban St. Louis County effectively restrict the level of new multi-family development. Most experts felt that local legislation regulating conversions will eventually be instituted, perhaps in the next year or so.

Effects on Households

Tenants in buildings slated for conversion in the St. Louis area are given between 30 to 90 days notice to vacate. The upper extreme of 90 days applies, for the most part, to the few municipalities in the metropolitan area in which conversion ordinances are currently in effect. Tenants are generally given first option to purchase units and are reportedly offered slight discounts in some cases. At least one developer indicated that he discounts the sales price by five percent for those tenants who want to purchase.

The majority of conversions of occupied buildings thus far in the St. Louis metropolitan area have affected middle-or upper-income households, particulary in the suburbs. It is reported that an average of 30 to 40 percent of these tenants purchase units, and that those who move find little difficulty in securing other rental units of comparable quality. However, they are likely to pay more for them. Several local experts suggested that rent hikes subsequent to moves from converting buildings reflect the fact that rents paid by these households for their new residences are closer to market levels than the old rents were. Although these households may have been inconvenienced or angered by the conversion process, there was virtually no public report of organized adverse tenant reaction.

Conversions affecting fixed income elderly as well as lowand moderate-income households in the St. Louis area are reportedly much more than an inconvenience. Since these households seldom have the resources to purchase units and are usually not considered "credit-worthy", they are forced to secure other housing arrangements. But developers are not required to provide relocation assistance to tenants displaced by conversion activity. In some cases developers have provided lists of alternative apartment buildings and a few have assisted tenants in their move by providing a moving vehicle and labor support. There were no reports of cash payments made to tenants to help defray costs. A representative of a senior citizen organization reported that many elderly who face displacements purchase units out of fear of not finding adequate rental housing elsewhere. In many cases, relatives buy units for these elderly tenants. Elderly tenants who move find other rental housing or move in with relatives. A senior citizen organization stated that a shortage of rental units existed in neighborhoods where displaced elderly would prefer to live, especially in the suburbs. It was suggested that moving from their neighborhoods, where many of these elderly tenants have lived for 20 to 40 years, is an extremely disruptive and traumatic experience, and when other rental housing is secured, rents are inevitably higher and the financial burden greater.

Representatives of low- and moderate-income households displaced as a result of conversion activity report experiences similar to those of displaced elderly. They suggest that developers are not sensitive to the problems of these households and that most are not interested in minimizing the negative effects of relocation. Most experts agreed that displaced households thus far have found alternative housing but that the supply of low- and moderate-income rental housing is shrinking. They note further that there is a limited amount of proposed new construction of such units in the near future to compensate for existing units lost through conversion, reinvestment, or demolition.

In two cases, large families displaced by conversion in the city of St. Louis spent weeks in a city park because they could not find alternative housing and had refused public housing accommodations. The reason given for refusing public housing was concern for their families' safety, given the high level of crime and drug addiction generally associated with these projects. Like the displaced elderly, many of the low- and moderate-income households resort to doubling-up with relatives or friends. However, the situation is exacerbated because many of these families have two or more children so that doubling up results in extremely overcrowded living conditions -- which is much less a problem with the elderly.

The larger the household, of course, the greater the difficulty in finding adequate rental housing. Several persons suggested that property managers "discriminate" against children, so that many households affected by conversions find themselves in the position of being unable to buy or to rent suitable housing. Rental costs of displaced households who successfully find other rental accommodations reportedly double or triple. A recently announced conversion in suburban St. Louis County will "force" about 2,000 low- and moderate-income persons into a rental market that is described as "seriously tight". Local government officials feel this conversion will bring stability to the community but tenant representatives view the action as having negative consequences for the displaced families as well as for the rental market. Although conversion activity has not resulted in significant displacement of households thus far in the St. Louis area, it appears that this may become an issue of concern.

Effects on Tenants

Several local organizations have begun to mobilize support and focus attention on the specific concerns and needs of limited income households who face displacement as a result of condominium conversion activity. A senior citizen's group is currently studying the issue and plans to develop legislative proposals for consideration at the state or local level. These proposals will be designed to minimize the "trauma" generally associated with the displacement of long-term elderly residents from their buildings and neighborhoods. A legal services organization is representing several low-income families who have been displaced from their apartments because they could not afford to purchase their units. Most efforts to organize tenants in response to conversion activity in the St. Louis area are preliminary; however, these groups and individuals appear to be determined to pursue strategies that will bring public and private recognition of these concerns. There were no reports of tenants organizing to purchase their buildings for conversion to condominium or cooperative. Tenant representatives suggest that in most cases tenants have neither the time nor the resources to undertake such action.

Effects on Housing Market

As yet, there is no hard evidence to suggest that conversions have generally led to a tighter or higher priced rental market within the St. Louis SMSA. Several local experts agreed, however, that conversions have exacerbated the situation in some areas where the rental market is already considered tight, particularly for large low- and moderate-income households in the central city. It was also reported that elderly tenants displaced by conversions in the suburbs have difficulty finding rental housing within the same general neighborhoods.

Rents are increasing throughout the area but it was suggested that the increase is due to factors other than the influence of conversions. Several local market experts and developers suggest that as rents increase, owners of rental properties conceivably will have greater incentive to retain these buildings, thus retarding the rate of conversions. There was, however, no mention made of the extent to which rents must rise in order to persuade property owners to continue rental operations.

Effects on Neighborhood

Public and private reinvestment efforts are strong within central city neighborhoods. The city of St. Louis has developed and implemented strategies to leverage public funds with private dollars; as a result, has successfully attracted developers -- who, in effect, have entered into a partnership with the city in order to redevelop designated distressed neighborhoods. The city has channeled a substantial proportion of its CDBG, Section 312, and (with the cooperation of the housing authority) Section 8 funds into these target areas. All of these efforts have spurred reinvestment in single-family detached homes and duplexes in revitalizing neighborhoods.

It is generally agreed, however, that although conversion of rental units to condominiums in the city of St. Louis tends to occur in neighborhoods which have undergone or are undergoing redevelopment, in just about every case conversions lag behind private reinvestment efforts.

There is some controversy over the impact of conversions on neighborhood stability. Local government officials and local market experts generally view conversions as having a positive effect on neighborhoods as well as on local government treasuries. They see conversion as an effective way of broadening homeownership opportunities while simultaneously conserving existing housing stock. Some suggest that conversions play a role in attracting and retaining middle- and upper-income households that might have otherwise stayed in, or fled to, the suburbs. Finally, some experts suggested that increased levels of homeownership will eventually boost city tax revenues and result in the provision of more efficient government services.

On the other hand, representatives of displaced households with fixed or limited income view conversions as a very disruptive influence on people and neighborhoods. Most of the households, who are forced to move not only must give up long-term residences but leave established social networks and support systems. It is reported that conversions disturb the sense of community that exists among building tenants and other neighbors. This is considered especially true in suburban neighborhoods where many of the residents are retired elderly. Representatives of these households clearly view conversions which result in substantial tenant displacement as a negative influence on neighborhoods.

Most agreed that conversions in suburban neighborhoods attract potential owners who resemble former tenants, which mean that conversions are not viewed as having a significant impact on the racial or income mix in the neighborhood. For the central city, some experts report little or no change in neighborhood composition since most conversions have affected, as well as attracted, middle- or upper-income, predominantly white households. Others suggest that neighborhoods became more diverse as a result of conversions since converted buildings, in some cases, are attracting middle- and upper-income white households into neighborhoods whose residents were at one time predominatly low- and moderate-income blacks. Still others indicate that it is difficult to determine the true impact of conversion on the composition of central city neighborhoods -- given that the most dramatic income, race, and age changes occurred as a result of redevelopment and reinvestment activities several years ago.

There is no hard evidence to support the hypothesis that conversions independently affect the level of local public service delivery to those neighborhoods in which they are occurring. However, conversions occurring in 353 areas targeted for redevelopment do receive the benefits of concentrated targeting of CDBG, Section 312, and capital improvement funds as part of the city's overall redevelopment strategy. Finally, there was no indication that conversions have had a significant impact on local tax revenues in the city or in the suburbs although some experts expect this will be the case.

Relationship To HUD and Policy Alternatives

The only relationship reported between conversion activity and HUD programs is the targeting of CDBG, Section 312, and Section 8 housing funds into redevelopment areas within the City of St. Louis. Although these targeting strategies preceded conversion activity in the city, many conversions have occurred in these revitalizing areas. It is clear that the local targeting of Federal funds into redevelopment areas has encouraged private reinvestment efforts; however, it is less clear whether these efforts would have occurred in the absence of such strategies.

Policy proposals made by local experts center on the issue of perceived property owners rights versus perceived tenants rights. Those arguing for property rights believe property owners should be fully allowed to dispose of their properties as they wish without the review or sanction of any outside party. Thus, any attempt to dictate the conditions under which owners may sell their properties is a violation of rights. The government, therefore, should not take action to regulate or to stimulate conversions. In order to offset the loss of rental units, the government should aggressively facilitate the production of new rental housing, including Section 8 Elderly. It was strongly felt that a national policy could not, and should not, be developed to address local issues and local markets.

Others who view the problem see a need to protect households facing displacement as a result of conversion activity. It was suggested that developers should be prevented from evicting those tenants who do not purchase until they secure alternative housing. Once housing is secured, displaced tenants should be provided relocation assistance similar to that provided under the Uniform Relocation Act. It is suggested that in order to preserve the supply of rental units, each unit lost through conversion should be replaced on a one-to-one basis to provide assistance to low- and moderate-income rental property owners to help defray operating and maintenance costs. Such assistance may serve to retard sales of rental properties to converters.

Several experts, including developers and tenant representatives, proposed the development of strategies and Federal government programs to broaden homeownership opportunities for low- and moderate-income households. Such programs would minimize displacement resulting from conversions while at the same time providing limited income households with the the advantages of ownership.

<u>The Conversion Process</u>

Financial packaging of conversions in the St. Louis area is fairly straightforward, with limited use of specialists. Developers first secure interim financing from local banks at an interest rate of 1-1/2 to two percent over prime. The Federal Home Loan Mortgage Corporation requires a minimum of 70 percent of the units be committed to sale in order to be approved for financing and also requires that the building proposed for conversion have at least 24 units. Smaller buildings are considered to be higher risks as condominiums. Once the interim financing is secured, developers generally arrange for mortgage loans through a local savings and loan institution.

These institutions usually finance 80 to 95 percent of the mortgage at interest rates which are governed by the floating State usury ceiling. Market experts indicated that Federal National Mortgage Association (FNMA) plays an active role in the St. Louis area mortgage market, but there was no indication that FNMA activity has had a significant impact on the level of conversions in the St. Louis area.

Field Report

Conversion Activity in the Seattle, Washington SMSA

Background

The Seattle-Everett SMSA suffered when the Boeing Aircraft Company, the major employer in the SMSA, lost sales in the early 1970s. The economy began to improve in 1975, however, as new industry located in the SMSA, other firms expanded, and Boeing increased business.

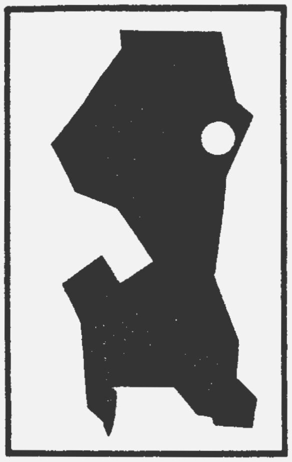
Office construction in the Seattle CBD is progressing at a rapid pace with a resulting increase in the number of white collar jobs in the CBD. Since Seattle is located between Puget Sound and Lake Washington, the supply of land easily accessible from the CBD is limited. Therefore, housing in the center of the city is at a premium, and those locations with good views command even higher prices.

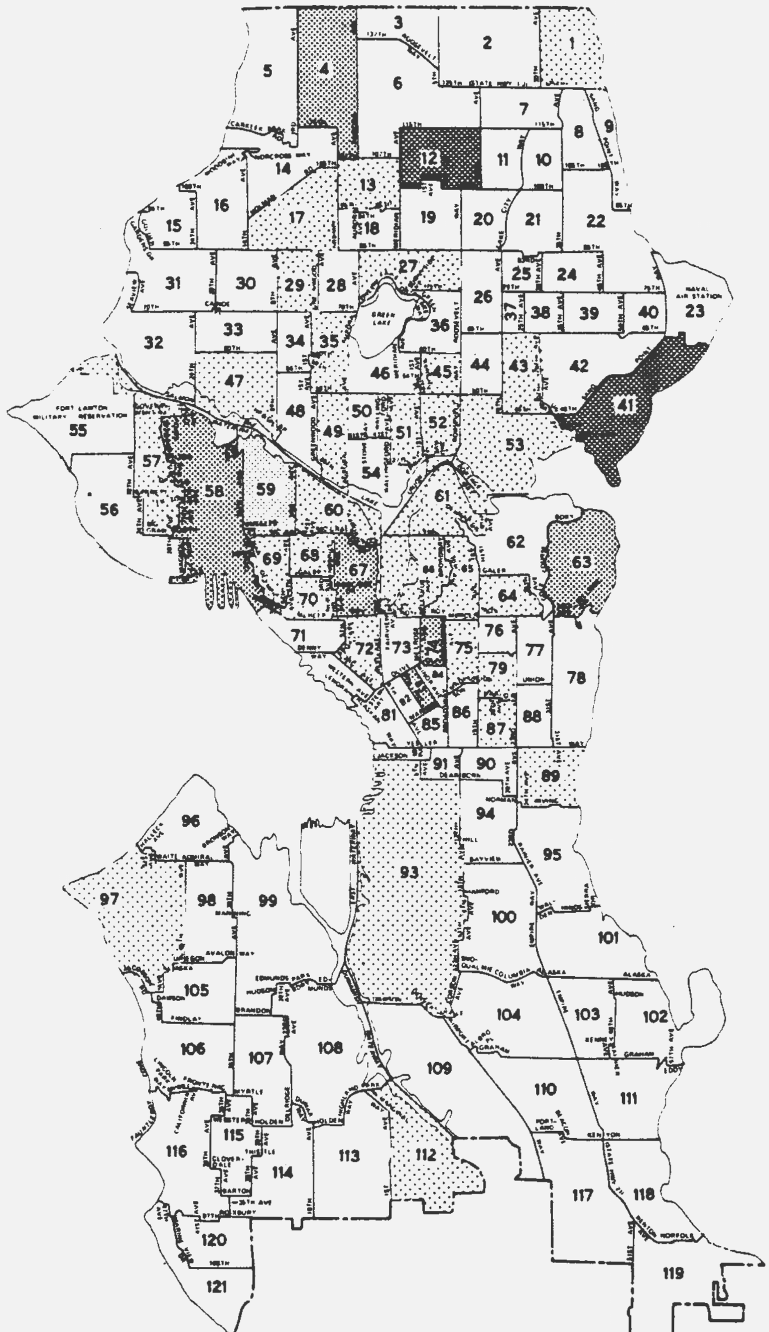
Demand

In late 1979, it is difficult to measure the demand for condominiums at this time because interest rates are at an all time high and the supply of mortgage money is low. Therefore, buyers are staying out of the market. Local experts differed, characterizing demand as anywhere between having dropped off to being very strong. A leading condominium market analyst reported that there is a large inventory of units priced above $75,000 but those in the $40,000 to $60,000 range are still selling. Overall, the analyst indicated that 30 percent (7,907) of all recorded condominiums in King County as of September 30, 1979 were unsold. The lowest percentage of unsold units (20%) were in the city center area and the highest percentage (45%) were in southern King County. The average monthly sales of condominiums have increased from 71 in 1975 to 551 in 1979. A major developer, however, felt that both the downtown and suburban markets were saturated and a few suburban conversions have been cancelled or postponed. This view is substantiated by one analyst's data showing an inventory that could meet 14 months of demand at current sales volume.

A number of experts indicated that demand would increase when financing becomes available at lower cost. All felt that demand would be strong over the next two or three years. This estimated demand is caused by a continuing immigration into the area and the rising cost of single-family ownership. A developer went as far as saying that we will eventually see half the people in multifamily condominiums. One public official and one developer felt that the overall demand for housing will slacken in five years. This view was based on a belief that the current rate of new job creation would slow in the first half of the 1980s.

Condominium Conversions in Seattle, Washington
January 1977 to September 1979



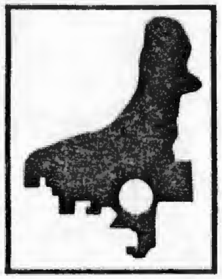


Range of Converted Units Per Census Tract

- 1-50
- 51-100
- 101-200
- 201-500
- 501-800
- 801-4000

420 Numbers are census tract numbers.

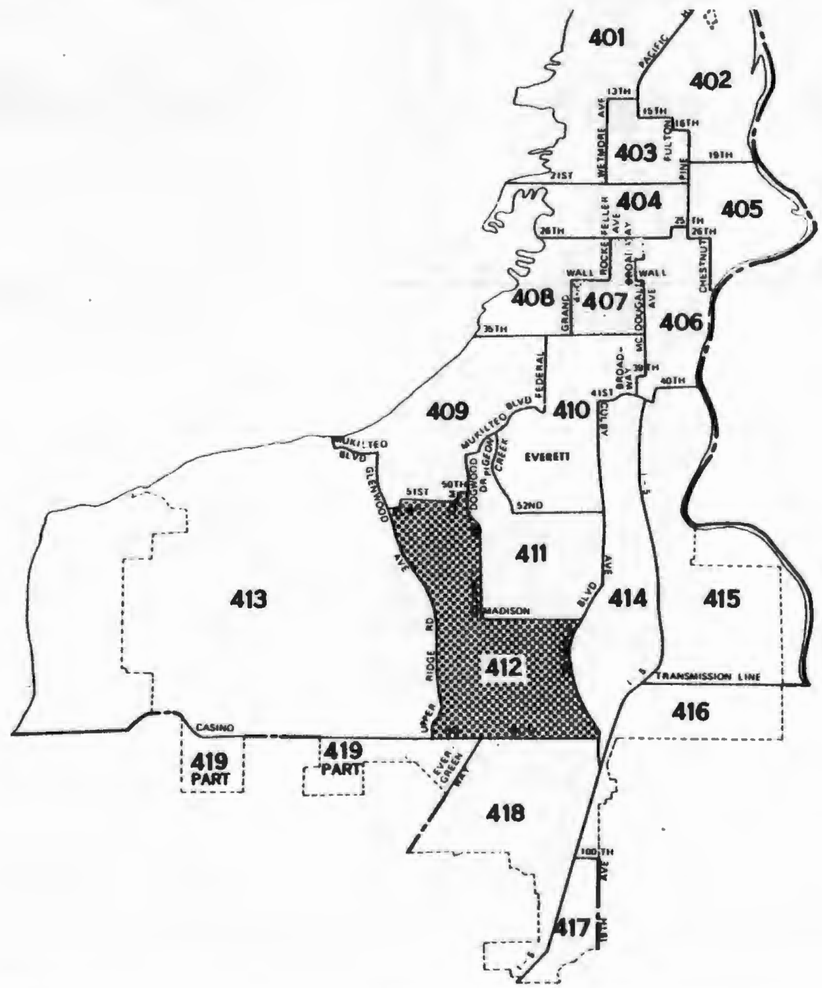
Condominium Conversions in Everett, Washington
January 1977 to September 1979



Range of Converted Units Per Census Tract

- 1-50
- 51-100
- 101-200
- 201-500
- 501-800
- 801-4000

511 Numbers are census tract numbers.



Demand is strongest for units with a view, near the water, and located close to the CBD. A city councilman felt that the demand for condominiums in the downtown area would be greater than supply for the next five years. Queen Anne Hill, First Hill, Capitol Hill, and the University District were mentioned as locations of past conversions.

There is strong demand for all types of housing in central locations; demand for housing in the central and northern neighborhoods of Seattle is especially strong. There is considerable reinvestment in older houses and there is some indication that the middle income households are beginning to move into predominantly lower income neighborhoods south of the CBD.

In summary, the demand for central city housing, including condominiums, is likely to remain strong. This demand is tied to the strong office industry in the CBD, the growing number of families without children, and rising energy costs.

Supply

There have been approximately 6,000 apartments converted to condominiums in the Seattle-Everett SMSA since 1970, 4,500 of which were converted since 1977. There were 8,775 units platted as conversions since 1970. Thus, approximately 6 percent of the total 147,700 apartment units have been platted but only four percent converted. Over 5M870 plats were filed in 1978 while there were only 911 plats in the qirst 8 months of 1979. The most activity took place in King County and was about equally divided between Seattle and the remainder of the county. Approximately 2.6 percent of the total rental stock and over 4 percent of the multi-family stock has been converted in the city of Seattle. Approximately 7.5 percent of all rental apartments outside the city have also been converted.

In Snohomish County, north of King County, conversion activity took place in the cities of Everett, Edmonds, and Lynwood. There was little activity in the rural areas due to the lack of multi-family housing as well as the lack of water and sewer facilities.

Buildings with as few as two units and with more than 200 units have been converted. In reviewing a list of conversions in Seattle, it was found that 41 of 107 conversions involved ten or less units. Only 18 conversions involved projects with 50 or more units. Suburban projects tend to be larger. One developer involved in 20 conversions indicated he preferred projects with fewer than 50 units and which had at least 40 percent of the units with unobstructed views. He also preferred the downtown market.

The age of the buildings did not seem to be a factor in conversions, but the quality of the structure was important. Developers prefer buildings that are well built and well maintained because less time and money is needed to upgrade the buildings. They also like buildings that were designed as high priced rentals. These have amenities that make them easier to sell. In addition, the rents and incomes of the renters are likely to be higher and, therefore, a higher percentage of the tenants should be able to purchase units.

While developers felt that the demand for condominiums was going to continue, they were less bullish on the future of conversions. Although many felt that there were very few good buildings left in the city or the suburbs, a few felt that there were a number of good inner-city buildings left. One of these developers indicated, however, that the buildings were not always for sale. He stated that, unlike some cities, there are very few people who own more than one building in Seattle. It was his opinion that the person who owns one building wants the income, rather than quick profits.

A representative of a Canadian firm with rental holdings in Seattle felt that his firm's inventory was not suitable for conversion (i.e. not high quality). He did indicate that others might choose to convert these types of buildings and his firm had sold suburban properties to people who have converted. Like the small investor, his firm is also interested in long-term cash flow, perhaps explaining why the firm has held on to some properties.

A developer/realtor indicated that recently mandated inspection standards in Seattle have made poor quality buildings ineligible for conversion. The secondary mortgage market also sets standards that are difficult for poor quality buildings to meet.

Another reason that developers feel that the rate of conversions will decrease is that the asking prices of the remaining apartment buildings have risen as the owners try to capture part of the converted value. The asking prices could not be supported by the rents if the buildings were continued as rental properties. The average price increase of apartment buildings was estimated to be over 40 percent per year between 1976 to 1978 (Seattle Displacement Study). These higher prices effectively lower the profit developers can make through converting the buildings.

Related to the previous reason is that the demand for apartments has increased with corresponding increases in rents. As a result, older apartment buildings are worth more as rentals though not enough to justify the higher asking prices.

In addition to the above reasons for predicting few condominium conversions is the fact that new condominiums are being built. These units fulfill some of the demand for condominiums. One banker indicated that one 15 unit conversion on Capitol Hill has not sold any units in six months because newer and better units were available.

However, limits on new construction may be imposed by community groups that are worried about changes in their neighborhoods and have put pressure on city hall to deny building permits (see Government Regulations below).

Another source of condominiums may also be on the market soon. It was rumored that a warehouse on the waterfront may be converted to condominiums. The precedent of converting low value industrial buildings to high value housing has been set in New York City and is beginning to take place in Chicago. It appears to be starting in Seattle as well. There was no attempt to measure whether there was a significant amount of such space available and in suitable locations.

In summary, the choicest apartment buildings have been converted. However, a high demand for homeownership exists. Therefore, there is every likelihood that other buildings will be converted. But the rate of conversion will be slower. Future research on the number of buildings being converted will be difficult because many new rental buildings are going to be platted as condominiums because developers fear additional restrictions on conversions may take place in the future. They want to ensure that their building is platted as a condominium, and avoid any future conversion moratorium.

Market Conditions

The Seattle-Everett SMSA contained 147,675 multi-family units as of January 1979. This was an increase of 14,930 since February 1978. There were 13,034 units under construction as of January 1979 (8.8% of the existing multi-family units) and a vacancy rate of 2.2 percent. The vacancy rate was 3.2 percent a year earlier despite the additions to the housing stock. This reflects the increase in number of jobs (and, therefore, households) in this SMSA. (Real Estate Research Report, Spring 1979).

The number of employed persons in the Seattle area dropped from 516,000 in 1970 to 490,000 in 1971 as a result of the drop in sales at Boeing. However, by January 1978, there were 661,000 employed and the Seattle housing market had recovered from the early 1970s. In the next year 74,000 more jobs were created. The vacancy rate continues to fall. As of April 1, 1979 the multi-family vacancy rate was approximately 2 percent according to the housing industry (Real Estate Research Report). Planners felt that it is closer to 1 percent today.

All experts were sure that the demand for multi-family rental units was strong. They were less confident about the likelihood of a large number of units being built. The reasons for this include the high cost of land, the lack of suitable land, the high cost of construction, high interest rates, and rent levels that will not cover the costs of building and operating the units. In addition, many developers, market experts, and even a government official felt that the State environmental assessment procedures were providing community groups with a lever to slow or stop the building of multi-family housing. Even though land may be zoned for multifamily housing, a developer still is subject to these reviews.

Single-family housing has experienced an annual appreciation rate of approximately 30 percent since October 1977. Rent levels for the same units have increased by about 15 percent in the last year. With some new expensive apartments being built, the average rent for all units has probably increased at a greater rate.

In the single-family rental market it is no longer profitable to buy a house for rental income. The cost of older houses has doubled, the required down payment has gone from 10 percent to 20 percent, interest rates have increased, and banks are not making loans on non-owner-occupied single-family housing. Even if financing was available, houses that 5 years ago cost $22,000 now cost $40,000. The typical rent would go from $250/mo. to over $400/mo. and many potential renters cannot afford that.

The Real Estate Research Report (Spring '79), gives vacancy rates by area over time. As of April 1979, the single family vacancy rate in areas of Seattle varied between 0.67 percent and 2.46 percent. In the northern county of Snohomish, the single-family vacancy rate was lowest in Marysville (0.32%) and highest in Mountlake Terrace (1.9%). Everett had a vacancy rate estimated to be 1.0 percent in January 1979. The low vacancy rates indicate that there is a strong demand; a fact confirmed by the number of building permits issued.

The jurisdictions in the Seattle-Everett SMSA issued over 14,000 single-family building permits per year in 1977 and 1978 and during the first quarter of 1979, permits were being issued at this same level. There were a total of 413,667 single-family units in the SMSA as of January, 1979. The new construction represents approximately 3.4 percent of the single-family housing stock. More could have been built absent the many impediments to new construction.

The major impediments to single-family construction are the same as those for multi-family. All elements of construction costs are up and land is scarce. This is especially true of the large tracts that lend themselves to economies of scale during construction. Community opposition to new development was also mentioned by one developer. Municipal codes and processing time were mentioned as other problems. One developer did indicate that suburban development, far from the CBD, was less desirable now that transportation costs have increased.

The State of Washington has a 12 percent usury limit. This will bring new construction to a halt if interest rates remain high since people will be unable to borrow money even if they qualify and can afford to pay it back.

Government Regulations

There are a number of ordinances that affect condominium conversions in the Seattle market area. The individual conversion ordinances are summarized at the end of this section. In addition to ordinances regulating conversions, the State of Washington has passed the State Environmental Policy Act (SEPA) which affects large construction projects and may make new construction more difficult to produce. While there are no rent control ordinances in the Seattle area, that too is being proposed.

There was general consensus that the condominium conversion ordinances have very little impact on the rate of conversions. There does tend to be a drop-off in conversion activity after the typical ordinance is passed, because it usually contains a 120-day notice requirement and converters take a little time to adapt. Most, but not all, experts felt that the current slow-down in conversions was related to the changes discussed earlier in the market rather than to any ordinance. This view was held by both tenant groups and developers.

This does not mean that developers had no objections to the ordinances. One developer felt that King County's law requiring relocation payments of up to two months rent could require them to pay excessive relocation payments (up to $700-$800). However, he did not think this would prevent conversions. Another developer stated that the Seattle ordinance, which gives current tenants 120 days right of first refusal on any unit in the building, prevents all sales to outside buyers until the 120 days have passed. Those developers converting larger projects said they had always given four months notice so the act had little impact. Those developers converting smaller projects complained that the notice requirement created costly delays.

Overall, controls create a more orderly conversion process and protect tenants rights. If the selling price of a condominium conversion is set by the cost to the developer rather than the amount the buyer is willing to pay, the costs of complying with these regulations will influence the sales price of a unit.

Summary of Laws & Ordinances in Seattle Everett SMSA

1. The State of Washington - The Horizontal Property Regime Act (Condominiums) regulates the sale and ownership of condominiums. It is designed to protect the buyer. It does not provide protection for the tenants.

2. Seattle

   Seattle's condominium ordinance is divided into three relevant sections: Tenant protections, consumer protections, and complaints, penalties, and enforcement. Tenant protections include the first right to buy rental units, 120 days notice, and $350 in relocation payments if a tenant chooses not to buy. The section on Consumer Protections includes building code inspections, the repair of any code violations prior to conversion, numerous disclosures and warranties, and various other procedural requirements. Violations of the law are punishable by fines of up to $500 for each violation. Each day's failure to comply constitutes a separate offense.

Discussions with a representative of the Seattle Building Department indicate that enforcement is a problem. Currently, there is a lack of staff and enforcement depends on complaints. If a building has been converted without inspections, enforcement of the law becomes difficult because each individual owner must give permission for inspection of their unit.

As mentioned, Seattle also had a moratorium on condominium conversions. This ordinance applied to units rented as of July 1, 1978 at or below specific rents (studio $250/mo., one-bedroom $275/mo., two bedroom $325/mo.). The ordinance was passed on July 17, 1978. The number of conversions per month dropped significantly during the moratorium but no study was undertaken to verify that this was a result of the moratorium.

3. <u>Mercer Island</u>

Mercer Island, located just east of Seattle in Lake Washington, passed an ordinance designed to protect tenants and future buyers. It includes the requirement that rents during the 120-day notice period cannot exceed 110 percent of the monthly rate collected in the 12 months prior to the notice of conversion.

4. <u>Redmond</u>

It is estimated that between 50 percent to 75 percent of the apartments have converted to condominiums in this suburban community. As a result, an ordinance was passed that requires 120 day notice before conversions, gives the tenants a right of first refusal on their unit, and protects the tenants from evictions.

5. <u>King County</u>

The King County Ordinance was passed on April 16, 1979 and is slightly more detailed than Seattle's ordinance. It covers only the unincorporated parts of the county. The ordinance requires that relocation assistance be equal to two months rent but not less than $350.

6. Everett

   As a result of a public outcry over the conversion of a 240 unit apartment building, the city council passed a condominium conversion ordinance (effective April 18, 1979). This act is similar to those above.

7. Snohomish County

   This county does not have an ordinance.

Effects on Households

King County and the Washington Public Interest Research Group (Wash PIRG 1978) have conducted studies on the impact of condominium conversions. In addition, the city of Seattle has conducted a study of displacement that sheds some light on the impacts of conversions. These reports, completed in 1978, are summarized below along with the responses of some of the local experts.

1. King County has collected data on 14 conversions in unincorporated areas of the county. The information includes the date each building was built, the date it was converted, the previous rent level, the monthly costs to the owner after conversion (excluding tax benefits), the number of tenants that bought, and whether the tenants were elderly or young.

   In many cases, the cost of occupying the units went up by over $100/mo. and depending on one's tax bracket, this could be a negligible net increase. This increase had ranged between 65 cents for a unit with a pre-conversion rent of $75/mo. to $194/mo. increase for a unit that had rented for $120/mo.

   Very few renters bought units; therefore, conversion did cause displacement. The buildings that converted since 1977 contained young adults or a mixed age population.

2. In Seattle a similar study showed that the average monthly cost of converted units increased.

Table 1

Cost of Converted Units, Seattle

Apartment Type	Average Rent	Average Sale Price	Monthly Purchase Price + Taxes *	Increase	%
1 bedroom	$ 218	$ 36,126	$ 325	107	49
2 bedrooms	291	53,256	478	187	64
3 bedrooms	362	76,131	696	334	92

*Does not include maintenance
(Note: 29 buildings out of 63 conversions)

3. Washington Public Interest Research Group

   The Wash PIRG study involved a random sampling of 53 tenant households from a population representing 82 percent of the rental units converted into condominiums during the first four months of 1978. The study found small households (average 1.47 persons per household) with an average occupancy of 7.2 years. The median age of the tenants was over 50 years old, and 56 percent of the tenants were either unemployed or retired. Over two-thirds of the long-term tenants moved, while 53 percent of those who purchased felt they had no alternative.

4. The City of Seattle conducted a study of displacement which was defined as "the involuntary movement of households from their homes as a result of changes external to the household." These changes include conversions. A sample of 1,269 households was used in the study.

   The study found that "most of the forced moves were the result of increases in rent levels, rather than demolitions or conversion." This points out that conversions are only one part of the changes in the housing market.

   The study found that, when forced to move, most people were able to find housing within the same area, for only slightly higher rent. It was pointed out that for many of these people, even a small rent increase is "straining their budgets severely."

It is important to note that the rate of displacement has been increasing. This point is raised by the Displacement Coalition which believes that much of the displacement took place after the study. This is especially important when studying the role of conversions on displacement. There were almost three times as many units converted in 1978, after the study, than in the previous two years.

There was little relocation assistance to tenants before the condominium conversion legislation was passed. One developer indicated that he maintained a list of available apartments in other buildings. This developer also built and managed HUD 221(d)(3) and Section 8 units.

Effects on Tenants

According to all experts, tenant reaction has been negative and they have organized to seek the city government to protect them from conversion. The pressure on the political process has been partially coordinated by the Seattle Tenants Union and the Seattle Displacement Coalition. As the conversion of apartments to condominiums increased in the mid-1970s, these groups helped pressure the city of Seattle to pass a condominium conversion moratorium and later an ordinance. A major issue was the displacement of the elderly. Hearings were held on May 17, 1978 in City Council chambers. A 120-day moratorium went into effect in July 1978. It was a compromise between a plan calling for a 6 month ban supported by Mayor Charles Royer and a shorter term plan. Buildings could still be converted if rent levels where above a specified rent.

According to local representatives, in the final ordinance, the coalition was successful in requiring a longer notice period before eviction is allowed and they were partially successful in obtaining relocation payments. They were lobbying for a $1,000 relocation payment rather than the $350 figure that was finally adopted. The coalition was unsuccessful in requiring (1) warranties on the buildings' systems; (2) tenants approval before a conversion is allowed; and (3) a moratorium on conversions when the vacancy rate falls below a specified percentage.

There have been no instances of tenant groups purchasing their building.

Effects on Housing Market

As was pointed out above, approximately 6 percent of the rental units in Seattle have been converted to condominiums. The impact of these conversions on the housing market is difficult to estimate since other market forces are contributing to a tighter housing market.

One local expert stated: "I don't believe that it (condominium conversions) replaces home sales. People either choose condominiums and, therefore, are not replacing single-family sales or buy condominiums because they can't afford the single-family house." This view was echoed by the other market experts.

All public officials felt that rent levels were going up, partially as a result of conversions. They felt that the price that converters were willing to pay for buildings raised the value and, therefore, the rents, and as people who were paying high rents in buildings that were converted moved to other rental units, they bid up the rents in other buildings. The market experts agreed that the market was tight but they were not as willing to attribute this to conversions.

As indicated earlier, there has been a rapid increase in the number of households in the Seattle area. Before this increase, rents were depressed due to the slump at Boeing Aircraft. It is likely that rents have increased more due to the greater demand than due to the conversion of apartments to condominiums. However, it is also true that many of the more desirable buildings have been removed from the rental market. Thus, good quality rental units are now at a premium.

Effects on Neighborhoods Impacts

There was general agreement that condominium conversions have not been the leading or major factor in neighborhood revitalization. There was not much agreement on whether conversions were keeping or attracting the middle income to the central part of the city. Again, the strong demand for housing of all sorts in the central area and the supply of new condominiums cloud the picture.

In discussions with developers it was learned that in the typical conversion, most invested in landscaping and improvements to exteriors and common areas. In the early research on neighborhood preservation, these exterior improvements have been found to have a greater impact on adjacent property owners than more expensive interior rehabilitation (which also took place in some cases). Whether this exterior maintenance induced others to invest in Seattle is not known.

The impacts of conversion on neighborhood diversity is of great concern to the tenant groups. A representative of one group said that conversions:

> destroy neighborhoods -- long term residents are forced out... When it forces people out it breaks up their neighborhood.

Other representatives stated that the image of a neighborhood changes and that conversions have:

> diminished the supply of affordable rental housing and contributed to the displacement of hundreds of people. Neighborhoods depend on the diversity and we are losing that diversity. Conversions have accelerated the turnover process and deterioration is more likely to occur.

The market experts did not believe that conversions had much impact on neighborhood diversity because the buildings that were converted were better quality, higher rent buildings. This, however, must be tempered by the fact that many of the buildings had relatively low rents during the mid-1970s. In these buildings, diversity may have been reduced. Developers indicated that only 15 percent of the tenants buy their units, indicating a great potential for a change in the demographics of those occupying the building.

There is one additional positive impact. The assessed values of converted buildings are likely to increase providing a clearly positive fiscal impact for the jurisdiction; but, there are no systematic data available on the extent of this impact.

Relationship to HUD and Policy Alternatives

HUD programs have had no impact on the conversion process. In one case, a developer also developed new Section 8 housing and he was able to get some tenants into subsidized units. A housing consultant indicated that the housing authority did buy a few condominium units for rental to low- and moderate-income persons.

The market experts and developers felt that the Federal government should not stimulate or retard the condominium conversion market. They felt that local market conditions were unique and Federal involvement would not be appropriate but would increase red tape and costs.

One developer stated that Federal involvement would be like closing the barn door after the cattle had left. This sentiment was echoed by a suburban official who felt that most of the rental stock in her community had already been converted.

Those in the private sector usually did not perceive a need for tenant and buyer protection. Of those that did, most felt that the state and local levels of government could best accomplish this.

While developers had fears of regulation, they did offer some suggestions for changes in policy. One developer feared changing regulations more than the regulations themselves (as long as the regulations did not result in a ban on conversions). He did indicate that he would like to see Federal policy change to allow converters to participate in the Home Owners Warranty Program.

Another developer would like to see the standards for Section 221(d)(4) and Section 8 housing upgraded to allow units to be built under these programs that would be suitable for conversion. This would entail larger rooms and more amenities than current regulations allow.

One developer felt that tougher FNMA regulations preventing investor-owners of condominium units should be imposed. He indicated that Canadian financial institutions periodically check to see if units sold as owner-occupied units are being rented. If they are, the mortgage is called in. He also suggested that density bonuses, i.e., allowing more units per acre, should be given to those who build apartments rather than condominiums in multi-family areas. This would create greater incentives to put rental housing on the market without penalizing condominium development. A side effect would be to give the city a right to refuse future requests for conversion of any building that received the density bonus.

A number of other suggestions were put forward. One person felt that local government should require that converted buildings be brought up to code. He also felt that Federal programs were overly standardized, resulting in everyone having to have and pay for "top of the line housing." Another developer felt that tax incentives for savers should be instituted so that more money would be made available for home loans.

A common complaint of developers was that local controls and political pressure on the city council was holding up new construction that could help alleviate the shortage of condominiums and apartments. One local government official was supportive of the developers' plight while another felt it was only an excuse used to justify the removal of controls.

Local officials had mixed emotions over a strong Federal role in conversions. On the one hand, they agreed with the developers that each market is different and Federal regulations would be hard to adjust to these different (and possibly changing) markets. On the other hand, they felt that some action was necessary. One felt that uniform regulations would be helpful. Another suggested that assistance should be made available to allow low income persons to either purchase or relocate. A third thought that the tax laws should be changed to reduce the profit to converters and thus curb speculation. This might entail an additional tax on profits if no rehabilitation takes place. One person indicated that a lot of political pressure on local government could be relieved if Federal policy required tenant approval before conversions took place.

The representatives of tenants groups were in favor of Federal regulation of condominiums. One representative would like the Federal government to prohibit conversions unless 90 percent of the tenants put up earnest money to buy, or when the rental vacancy rate is below 5 percent. This representative also wants regulations to prevent evictions of tenants who do not want to buy.

Representatives of the displacement coalition could envision neighborhoods where it makes sense to convert and where the tenants approve. Given, however, that vacancy rates are low nationwide, they feel conversions should be stopped. They definitely feel that the Federal government should not stimulate conversions. They would like to see the Uniform Relocation Act used when public action may have spurred conversions and in buildings where Federal subsidies were once given. While not related to conversions, they were also fearful that the Section 312 and Section 8 rehabilitation programs were raising the quality and price of housing.

The tenants groups have formed a new organization, Renters and Owners Organized for Fairness (ROOF). ROOF's program includes rent control, tougher restrictions on condominium conversions, stopping demolitions of structurally sound housing unless replaced by affordable units, and making the city build new, affordable housing. ROOF is organizing to implement these programs in Seattle.

The above recommendations concerning government policy appear to be closely related to each commentator's role in the conversion process. The private sector is generally opposed to regulation. The public sector supports some regulation but feels torn between not wanting to inhibit production of housing and wanting to protect the low and moderate income residents. The tenants groups want to protect their constituency and peers. These groups are thus supportive of regulations and government action.

The Conversion Process

Most developers combined bank financing and land sales contracts to different degrees in the acquisition of apartment buildings. One developer bought a 13 unit building on land sales contract (at 8.5%) and sold all the units in 9 months. His downpayment was $75,000 and he estimated that he earned 12 percent on sales. His profit was approximately $67,000. He arranged mortgage financing in advance and feels that the mortgages will be sold on the secondary mortgage market.

A large development firm obtained interim financing from a bank for its last project. The firm arranged mortgage financing in advance from an insurance company for investors and from a savings and loan association for owner-occupants. The firm also arranged for the sale of the mortgages to FHLMC for a cost of 1 percent and legal fees of a few thousand dollars.

Another developer borrowed $400,000 from a bank to pay off the balance of an existing mortgage, financed the remainder of the sale ($400,000) on a land sales contract, and, it appears, put up $300,000 of his own capital for rehabilitation. A swimming pool was owned by the owners of the apartment building but was on an adjacent parcel that was rented from the city. The condominium developer had to obtain a 30-year lease on the parcel to insure the bank financing. He also arranged for mortgage financing. The developer does not believe that the mortgages will be sold on the secondary mortgage market because there is not adequate parking. If there are no delays, the developer may make $500,000 on the project or 166 percent on his capital investment. However, a significant amount of rehabilitation is being done and delays may occur.

It is hard to generalize, but it appears that the smaller developers have bought apartment buildings on contract. The large developers, with greater access to commercial financing and who are dealing in larger projects, borrow from banks and other institutions. Many indicated that Canadian money and expertise were behind many of the conversions.

Field Report

Conversion Activity in the Tampa - St. Petersburg, Florida SMSA

Background

The Tampa/St. Petersburg SMSA consists of three counties; Hillsboro (with Tampa as the central city), Pinellas (with St. Petersburg as the central city), and Pasco (with no central city of any size). Although the Tampa and St. Petersburg areas contain approximately the same number of people, 629,000 and 792,000, respectively, they do differ in a number of important ways. For example, the median age of the population in the Tampa area is 30.5 years while in the St. Petersburg area it is 51.3 years. Approximately 11 percent of the Tampa area population is 65 years old or more while better than 32 percent of the St. Petersburg area population is at least 75 years old. In both areas, however, the 65 and over category represented the fastest growing segment of the population during the 1970s. The economy in the Tampa area is more dependent upon blue collar employment and industrial development while the St. Petersburg economy is marked by white collar employment, commercial and service-oriented development, and retirement community servicing.

The housing markets also differ substantially. The Tampa area is dominated by single-family detached homes and subdivisions with an average, 1979 price of $50,000, while the St. Petersburg area is much more dependent on retirement communities and condominiums. The average price of a condominium in the St. Petersburg area is $30,000 and the average price of a single-family detached is $56,000. In the past year, housing prices in both areas have risen between 1 and 2 percent per month, although, most experts agree that this rate will decrease to approximately 10 to 12 percent per year.

The rent levels in the SMSA have been low and many rental property owners have found that with escalating operating costs, they cannot profitably operate their complexes. Vacancy rates, however, have also been very low with most experts estimating one percent. Condominium conversions are occurring in all parts of the SMSA but the large majority of them are located in Pinellas County. 1/ Between 1977 and August 1979, more than 5,000 units were converted from rentals in the SMSA with more than 80 percent of them occurring in Pinellas County. 2/ Pinellas County also has a larger ratio of filings for converted units to filings for new construction

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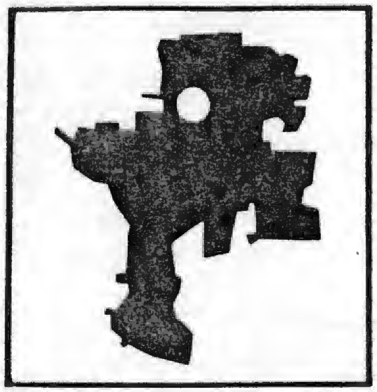
1/ For this reason, the remainder of this report will deal only with the St. Petersburg (Pinellas County) segment of the SMSA.

2/ Those few occurring in Hillsborough County tend to be larger complexes than those occurring in Pinellas County.

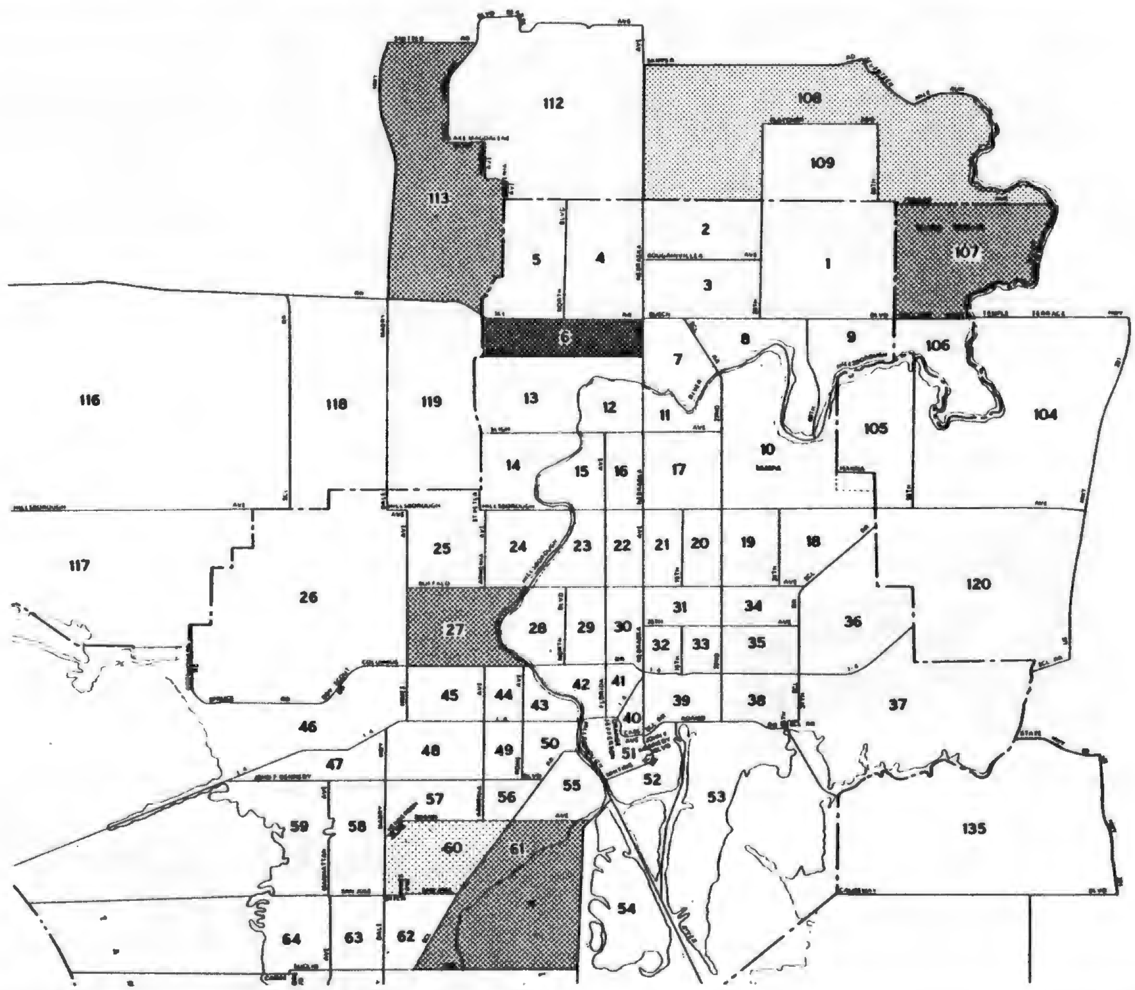
Condominium Conversions in Tampa, Florida
January 1977 to September 1979



Range of Converted Units Per Census Tract

- 1-50
- 51-100
- 101-200
- 201-500
- 501-800
- 801-4000

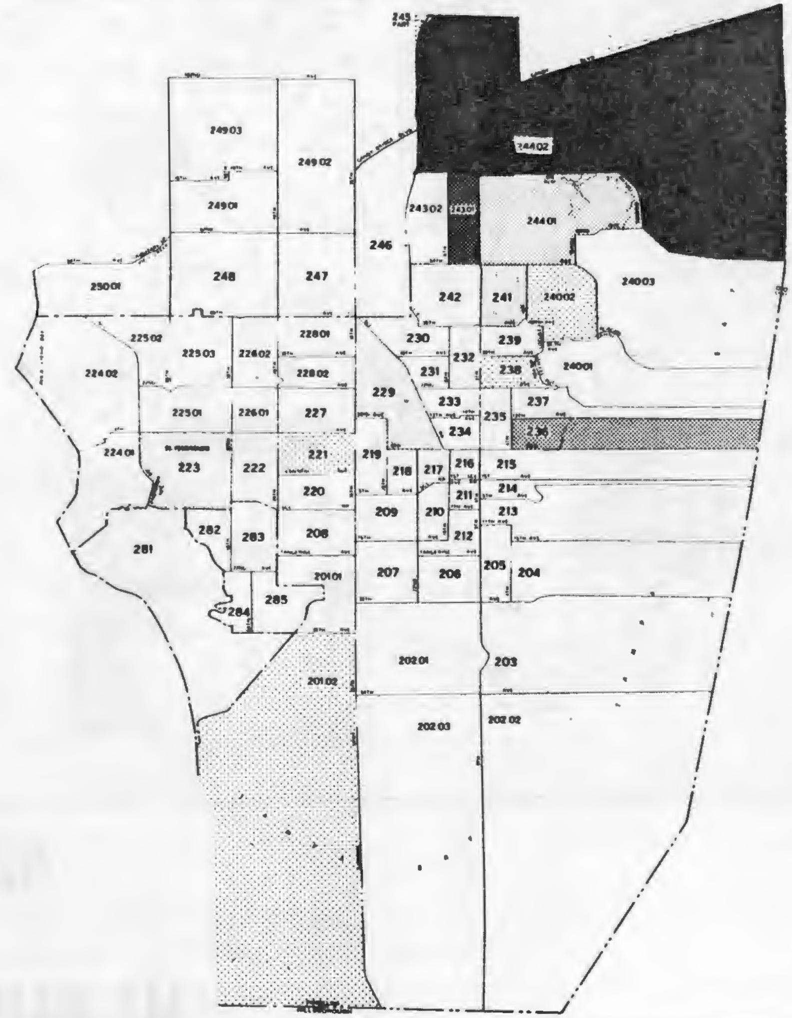
136 Numbers are census tract numbers.



Condominium Conversions in St. Petersburg, Florida
January 1977 to September 1979

Range of Converted Units Per Census Tract

- 1-50
- 51-100
- 101-200
- 201-500
- 501-800
- 801-4000



253 Numbers are census tract numbers.

condominium units during 1979 than any other county in the state. Almost 33 percent of the condominium units covered by filings in Pinellas County for 1979 involve conversions compared to 22 percent in Dade County and 17 percent in Broward County -- the other two major areas of conversion activity in the State of Florida.

Pinellas County may be the only area in the country where HUD holds title to a multi-family property and is seriously considering selling it either to current tenants who will convert, to cooperative ownership, or to a converter/developer. The project, Mandalay Shores, situated on prime waterfront land in Clearwater, Florida, was originally conceived of as a retirement home (with Federal Housing Administration support) but the rent levels were such that only 25 percent of the original tenants were elderly -- the minimum under a regulatory agreement. A chain of events, including defaults, foreclosures, changes in ownership, and disputes over use of rent receipts, has left HUD with title to the property and according to the tenants association, HUD must allow the tenants the right to purchase if they organize a Non-Profit Cooperative. The tenants have done so and have tendered an offer. According to the tenant association, HUD has also received at least one offer from the private sector, for substantially more than what the tenants offered.

Demand

The demand for condominiums in the Tampa/St. Petersburg SMSA has been very strong in the past and is expected to increase in the future. The area has always served as a retirement community and condominium living is ideal for retirees who do not want the heavy maintenance and upkeep responsibilities of single-family homeownership. If the SMSA continues to grow (as most experts expect), the demand for condominiums will continue to increase.

In recent years, the demand for condominiums by retirees has been supplemented by demand from investors. Estimates of the number of units in a typical condominium owned by investors range between 15 and 40 percent. Most experts agreed that investor demand for condominiums will continue to grow along with owner-occupant demand. The market is also propelled by investors who reserve units in new condominiums and then sell their options prior to closing.

A third factor indicating that demand for condominiums will grow is that condominium prices, on average, are significantly lower than single-family dwelling prices and as single-family costs continue to rise, more households will consider condominiums as the logical homeowning alternative. Converted condominiums will play a major role in meeting new demand since they tend to be priced below newly constructed units. If interest rates decrease in the next year, condominiums will become slightly more affordable. At the same time, however, demand for rental units will also remain strong. It is believed many households prefer to rent regardless of the alternatives, not perceiving any benefit to homeownership, and many others will feel they cannot afford to own even a condominium.

Middle-income demand for housing, in general, is very strong in the SMSA, but not for inner-city locations. Waterfront or close to waterfront locations on the Gulf of Mexico are the most preferred, while bayfront locations are second-most preferred. Those areas are experiencing increased rates of conversion.

The demand for condominiums has been supported mainly by retired households. In recent years, however, young professionals and newly married persons have entered the market and are expected to become an increasingly important component of condominium demand. There is disagreement among experts concerning the previous tenure of condominium buyers. Some believe that few households are first-time buyers (having sold other property) while others believe that most buyers were renters making their first housing purchase.

Supply

The definition of "quality" (determining whether a multi-family property is convertible to condominiums) represents an area of significant disagreement among local market experts. Accordingly, estimates of the extent of future conversions vary widely among them. A majority of housing experts expect that conversions will continue at current rates for no more than two or three years, claiming that few good properties remain and that the bottom of the barrel has been reached. Others however, believe that the conversion movement has just begun and that a significant number of projects have yet to be undertaken. One market analyst estimates that more than 10,000 units have been sold to converters who are continuing rental operations until the "market is right" for conversions.

The large majority of converted properties are two to four story buildings averaging eight to ten years of age. The average number of units in a converted project is 65. Although up to 80 percent of the conversions are located on the perimeters of the 23 jurisdictions in the SMSA, there is a concentration around St. Petersburg and Clearwater. Other areas experiencing relatively high rates of conversion include Treasure Island (a beach community on the Gulf), the Indian Rocks area, and Bell-Air Bluffs and Beach. In the very near future, all the jurisdictions in the SMSA will have experienced at least one conversion.

Luxury apartment complexes have not yet been converted in this SMSA and it is unclear whether they will be in the future. Most converted buildings serve middle-income households but some serve moderate-income households. Therefore, moderate-income households have probably directly experienced displacement and some low-income households may have been indirectly displaced

There was no consensus among local experts as to the percentage of the rental stock that has been converted. Estimates for the entire SMSA range between 2 and 15 percent of the total stock with one expert suggesting that no more than five percent of the rental stock has been converted within the city of St. Petersburg and approximately 25 percent of the suburban stock. Another expert claimed that 50 percent of the rental units outside of St. Petersburg had been converted. A significantly greater percentage of the conversions occurring on the Tampa side of the Bay are located within the city limits than are located within the St. Petersburg limits on the gulf side.

Market Conditions

The rental market in the Tampa/St. Petersburg SMSA is very tight -- most experts agreeing that the vacancy rate is about one percent (although some thought it to be as high as three percent). Unfortunately for multi-family property owners, however, rents have not risen as they might be expected to during periods of short supply. Nor has there been new construction -- the second "traditional" market response to short supply. The economy in the SMSA is such that renters could not support rapidly rising rent schedules (incomes are not sufficient); without substantial rent increases, existing property owners cannot profitably operate rental complexes; and developers display no interest in adding any new stock to the market.

Property owners, do however, have an economic alternative. Developer/converters have created a demand for multi-family properties and property owners have found a ready market for their property. In fact, asking prices have skyrocketed. The cycle of low-rent levels, unprofitable rental operations, and a ready market for multi-family properties fully "explains" condominium conversion from the property owner's perspective.

From the converter/developer's perspective, asking prices probably could never (or almost never) be too high. Condominium living has been a way of life in the Tampa/St. Petersburg area (indicating that demand for converted units is likely to remain strong) and converted units can usually be placed on the market more cheaply than newly constructed
exposes very little equity; what is exposed remains committed usually for less than one year, the return on equity is high; and profits are much more predictable than in other real estate investments.

In general, the housing market in the SMSA is experiencing higher money costs, which means that asking prices for new houses are higher, the costs of financing the purchase of housing are higher, and the costs of construction are higher. Since condominiums are typically less expensive than single-family detached houses and since converted units are typically less expensive than newly constructed condominiums converted units, are beginning to have an effect on the single-family market. For many households seeking equity in real estate and desiring to own a home, converted units represent the only affordable alternative.

These conditions are not expected to change significantly if the money market loosens somewhat next year. The price of condominiums relative to single-family houses will remain a strong inducement to conversion and rental properties will not become more profitable. If the market worsens, condominiums may become even more attractive. Investor sales, a large portion of the condominium buyer market in the SMSA, will remain high and will continue to drive prices up by (perhaps) as much as 20 to 30 percent per year.

Government Regulations

No local jurisdiction in the Tampa/St.Petersbug SMSA has an ordinance that prohibits or regulates condominium conversions or that establishes rent control. Moreover, none is expected. Surprisingly, however, many experts feel that conversions have been spurred by the fear of rent control. No expert felt that the Federal government should play a role in regulating conversions. Most expect that the state will take further action in the area of conversion to supplement disclosure and time limit provisions in the existing Condominium Act. Among the expected actions are

(1) an attempt to give "property rights" to elderly renters;

(2) an extension of the mechanical warranties required by state law;

(3) an extension of the 180 days required notice to (perhaps) one year; and

(4) an attempt at an overall moratorium.

Very few experts would comment on the expected effects of these actions. They all felt , however, that the emphasis should be on providing incentives for new multi-family construction rather than on restricting conversions.

Effects on Households

The percentage of tenants who buy their units when faced with a conversion appears to be low -- no more than 20 percent in the typical conversion project. According to one expert, the buying rate is low because converters have not yet learned how to deal with tenants, especially elderly tenants. According to a public official, however, the rate is low simply because many tenants cannot afford to buy their unit.

Given that some disagreement exists over the reasons for a low "buying" rate and given that the various reasons imply different characteristics of renters in buildings that have converted, it is interesting to note that, in the view of most experts, there is little socioeconomic difference between those that buy in-place, those that move, and those that buy in from the outside. According to some experts, however, there are psychological differences among the groups Those who choose not to buy may be "wedded" to a rental lifestyle and will exhaust every possibility before investing in a unit. Those who buy in may have been property owners at previous residences and may be wedded to that lifestyle.

According to one public official, some households have experienced significant difficulty as a result of conversion. Some, especially senior citizens, have had to double-up or take up residence in hotels. According to this official, comparable housing for these people is generally not available and those who do find alternatives are paying greater amounts for rents. A second public official, however, suggested that this was not entirely the case -- that housing can be found at comparable cost even though quality cannot be duplicated. Most market experts and developers felt that households households generally experience little difficulty if they choose to continue renting.

Effects on Tenants

With the exception of Mandalay Shores (discussed previously), there have been no tenant groups or associations formed around the conversion issue. Condominium owners have formed groups (usually around their homeowners associations) in order to buy land and recreational facilities and thus escape some prohibitive recreation and ground leases.

According to most local experts, tenants express an initial fear and anxiety when faced with a conversion with some of this attributable to a perceived threat of reduced mobility or reduced flexibility in housing choice. The experts suggest, however, that after tenants have "shopped around" for alternatives, the perceived threat dissipates. The suggestion does, however, run counter to the view held by some public officials that many households are faced with both a lack of alternatives and an inability to purchase. Whatever the case, no systematic study of conversions or displacement has been undertaken in the area and the differing views will continue to differ at least until such a study has been completed.

Effects on Housing Market

There is little doubt among experts in the area that conversions are affecting the housing market. Conversions have contributed to the very low vacancy rate in the SMSA, to the relative scarcity of rental units, and to the recent rise in rent levels. According to some of these experts, the impact may have extended to low- and moderate-income families through a general decrease in the number of units available to them (indirectly via filtering or directly via conversion) and through the general increase in rent levels. Important however, is the fact that no expert could identify any complex that prior to conversion housed low- or moderate-income families.

A variety of experts indicated that condominiums in general and conversions specifically are affecting the sale of single-family homes in the SMSA. The most common reasons given include the relative cheapness of converted units and the energy conservation features unique to condominium homeownership. One representative of a savings and loan institution, however, indicated that is it is the backlog of units created during a period of over-building in the mid-1970s that has been absorbed by the current market and that condominiums have not yet reduced the level of single-family sales.

Although current market conditions have contributed to the success of conversion projects, these same conditions, according to one expert, could disrupt the continued success of the conversion industry. If the economy remains inflated, many potential buyers of units in the SMSA -- those that have placed contingency contracts -- may find that they have to cancel for failure to have sold their previous residences. This may be especially true of those relocating from northern areas.

Estimates of the rate of appreciation on converted units range between 10-20 percent per year. One expert estimated that units increased more than 18 percent between the initial offering and the final sale, a period usually averaging six to eight months. Some real estate investors have taken advantage of this appreciation by selling their options on converted units just prior to closing to buyers who are willing to pay an amount which will give investors a profit on the cost of down payments and give the buyer units priced below current market rates.

Effects on Neighborhoods

Although there is some revitalization work underway in some areas of St. Petersburg, Tampa, and Clearwater, none of it appears to be associated with condominium conversions. Most of the work centers around commercial areas and it is not known whether, when complete, the work will lead to any changes in perceptions of these areas as places to live. According to one market expert, the fact that there are very few rentals in any of the downtown areas makes it unlikely that there will ever be any connection between such revitalization and conversion.

In areas removed from the CBD's, experts could not point to specific revitalization projects nor could they indicate whether conversions were involved in changing the character, income, age mix, or racial composition of any neighborhood. The only change that seems to be occurring is in the owner/renter ratio in the immediate vicinities of converted buildings.

Representatives of homeowner associations in the SMSA favored increased levels of conversion. They claim that conversions create more viable neighborhoods through homeownership and investment. These representatives were not sure whether owners require more public services than tenants and therefore could not comment on the "public costs" associated with conversion.

Relationship to HUD and Policy Alternatives

Other than Mandalay Shores, there appears to be no relationship between HUD programs and condominium conversions in the SMSA. Most experts agree that HUD subsidized or insured properties are of poor quality and are not feasible for conversion. Some experts did, however, suggest that the Federal government could play a role in protecting tenants and in providing a better economic climate for the operation of rental projects. Most, however, believe that the Federal government should not be involved in regulating conversions.

One suggestion involved tenant tax incentives, with the price of a unit tied to its appraisal value. According to one expert, this would avoid price gouging, would make it easier for some households to buy, and would leave property rights intact. In essence, more homeownership would be encouraged. Another expert suggested that homeownership could be encouraged in poorer sections by converting units in smaller structures. Local jurisdictions would subsidize one-quarter of purchase price, savings and loans would finance three-quarters of the purchase price, and new homeowners paying a maintenance fee to their association would have that fee used only for repairs.

The Conversion Process

There are differing views among experts whether acquisition and rehabilitation financing for conversions is obtained through local institutions. A representative of a savings and loan institution indicated that he knew of no local bank providing bridge loans. He estimated that Real Estate Investment Trusts and out-of-state banks are providing funds. Others indicated that some funds are locally provided. A converter indicated that he used a local bank for all his financing -- including acquisition, rehabilitation, and end-loan packaging. But various specialists are used in the conversion process in the SMSA: Market analysts to evaluate the potential of rental complexes as condominiums; finders specialize in locating convertible properties; marketing specialists are used to market converted properties.

Field Report

Conversion Activity in the Washington, D.C. SMSA

Background

The Washington, D.C. SMSA is comprised of the central city of Washington, the Maryland counties of Montgomery, Prince George's and Charles; and the Virginia jurisdictions of Alexandria, Arlington County, Fairfax City, Fairfax County, Falls Church, Loudoun County and Prince William County.

According to the 1970 Census, the population for the SMSA was 2,481,459 and the Washington population was 756,610. By 1978, the Council of Governments estimated 3,115,119 people lived in the Washington SMSA, and of these, 676,100 lived in the central city. Thus, in the last nine years, SMSA population increased by nearly 25 percent, but central city population declined by 9 percent.

Despite the decline in Washington's population, a recent study by the Center for Municipal and Metropolitan Research shows the number of households has grown by 18 percent since 1970, reflecting a greater number of people living in one and two person households. Change in household composition has also affected the number of households in the close-in suburbs of Arlington and Alexandria, where 60 perent of the households now contain one or two persons.

Condominium and cooperative conversions became popular in the Washington SMSA in the late 1960s, and since then over 37,000 rental units have been converted. Activity has been heaviest in the central city and in close-in suburban areas, where the bulk of the area's multi-family housing is located. The following breakdown shows the number of units which have been converted as of September 1979, and the number of multi-family units remaining.

Table 1

Conversions in the Washington SMSA

	Number of Units Converted*	Number of Units in Current Rental Stock**
Alexandria	3,541	16,344
Arlington County	5,226	25,481
Charles County	0	not available
Fairfax City	480	1,515
Fairfax County	3,051	44,328

Table 1 (con't)

Conversions in the Washington SMSA

	Number of Units Converted*	Number of Units in Current Rental Stock**
Falls Church	200	1,349
Loudoun County	418	1,148
Montgomery County	8,667	52,854
Prince George's County	4,804	55,877
Prince William County	64	4,759
Washington	12,357	143,000

*Data collected by Department of Housing and Urban Development from jurisdictions within the SMSA; September and November 1979.

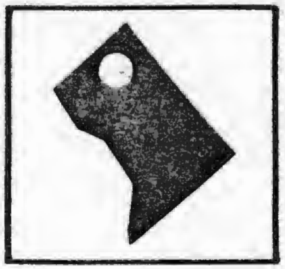
**For Washington, D.C. the information is based on HUD's 1974 Annual Housing Survey. For other jurisdictions, information is from the Council of Government's 1979 report entitled: Rent and Vacancy Characteristics for Multi-family Rental Housing in the Suburban Jurisdictions of the Washington Metropolitan Area.

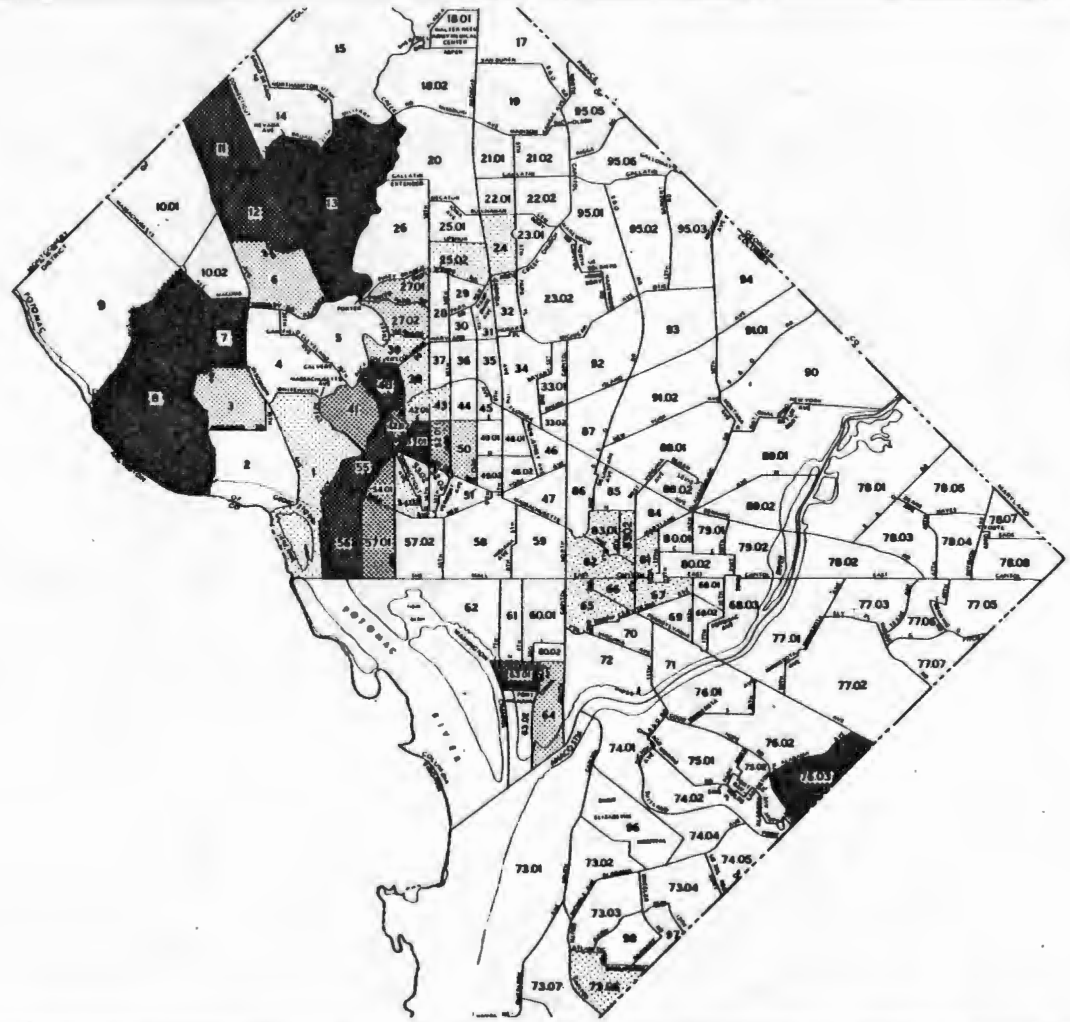
Demand

The demand pool for converted condominiums and cooperatives has been deeply penetrated in the central city and to a lesser extent in the suburbs; the demand for converted units is expected to rise in both the central city and the suburbs for the next five years. For the Washington SMSA, most experts agreed that the demand pool for condominiums is comprised of at least moderate income persons, including (1) those in their late 20's and early 30's who purchase condominiums to begin realizing the tax advantages of homeownership; (2) those in their 40's and 50's who purchase converted units after children leave home; (3) the elderly who purchase condominiums because they do not wish to move or feel they will have difficulty finding new rental units; and (4) investors who purchase condominiums for the tax advantages they offer or to hold for speculative purposes. These same groups make up the demand pool for cooperatives. But a recent trend in Washington indicates that low income tenants, who have not been included in the condominium market, may comprise a fifth category. Such low-income tenants are being encouraged to purchase their buildings and convert them to limited equity cooperatives.

This demand pool has been tapped to a greater extent in the city than in the suburbs, but this is expected to change because of the recent upsurge in suburban conversions. Among suburban jurisdictions,

Condominium/Cooperative Conversions in Washington, DC
January 1977 to September 1979





Range of Converted Units Per Census Tract

- 1-50
- 51-100
- 101-200
- 201-500
- 501-800
- 801-4000

Numbers are census tract numbers.

the market penetration has occurred in older, close-in areas of Arlington, Montgomery and Prince George's counties and in the City of Alexandria. A large share of suburban multi-family housing is located in these four jurisdictions.

In Washington, the demand for condominiums and cooperatives is expected to continue rising relative to single-family housing, because of the scarcity and expense of land and high construction costs. The current high interest rates are already reducing the demand for single-family homes, yet are having little effect on condominium sales. If anything, one developer speculated that high interest rates may contribute to more conversions as those who once may have purchased single family homes are forced into the condominium/cooperative market by the high cost of mortgage money.

The demand for rental apartments in Washington is very high, but the supply is shrinking daily in the face of conversions and a lack of new construction. According to some developers, new construction is almost non-existent because lenders are extremely reluctant to finance new multi-family buildings unless they are subsidized or their mortgages are insured, by the Federal government. Lenders blame Washington's rent control law for their unwillingness to make loans, claiming that the law reduces rental housing profitability and makes landlords poor loan risks. Some experts believe demand for rental units eventually may decrease as many tenants feel the only alternative they have in the reduced rental market is the purchase of a condominium or cooperative unit.

Middle income demand for inner city locations depends, to a great extent, on household composition since the poor quality of Washington's public schools and the high cost of private education discourages many middle income people with school age children from moving into the city. Professionals from the "baby boom" generation, whether single or married, comprise a significant share of the demand for inner city locations. According to one expert, these people have lived in, or very close to, Washington as renters and purchase condominiums or cooperatives to realize the tax advantages of homeownership while retaining a desirable urban location. Middle-aged people comprise some of the demand for inner city locales, and they make up the category most likely to have moved into the city from a single-family suburban home. Elderly city residents appreciate the convenience and accessibility to services offered by the city. Most would prefer to live in Washington as renters; but when they are financially able to do so, will purchase a converted unit for fear of eventually being forced out of the rental market.

There are market conditions peculiar to the Washington area that have propelled the demand for condominiums and cooperatives both in the city and in the suburbs. The stabilizing influence of Federal government employment on local incomes has, for example, contributed to the spiraling cost of area housing, as has the lack of land, especially in the inner city, where office building and housing developers compete for the few suitable sites. High construction costs have also forced up the prices of housing and make the cost of new multi-family buildings prohibitive. The completion of several lines of the Metro subway system has affected the Washington market, too, by creating a demand for housing near subway stops. One expert estimated that housing costs in the area have reached a level where only five percent of area residents can now afford a single-family home; ten percent can purchase a townhouse; and 15 to 20 percent can buy a converted condominium or cooperative unit.

Supply

About seven percent of Washington's rental stock has been converted; the proportion varies in the suburbs. So much media concern has attended the conversion of buildings in Washington that the extent of conversion appears much greater than it is in reality. A further factor contributing to this perception is the large number of buildings for which certificates of eligibility to convert have been issued, but which have not been converted.

Several low-rent buildings were converted in Washington during the early 1970s causing the displacement of some poor and elderly tenants. Concern that more low-income people would be displaced led to the Washington City Council's enactment of legislation which limited conversions to the "high rent" buildings, in which rent levels are periodically adjusted by City Council action. 1/ As a result, most conversions were restricted to moderate and high rent buildings, 15 to 30 years old, with 50 to 150 units, and in good structural condition. Many of these buildings were located in the vicinity of Connecticut Avenue in northwest Washington.

In the mid-1970s conversions began spreading to other neighborhoods, but they were often areas where single-family housing had been rehabilitated, such as Adams Morgan, Capitol Hill, 16th Street, DuPont Circle, Foggy Bottom and Logan Circle. Just recently, two very large complexes in the Southwest waterfront (which were built at the time urban renewal occurred in the waterfront area) began converting.

1/ Two provisions of the D.C. Condominium Act allow conversion of low rent buildings if 51 percent of the heads of household agree, or if a building has been vacant since July 1975. A loophole was also discovered in the law which enables landlords to change the use of rental buildings to apartment/hotels and then convert them to condominiums, since apartment/hotels are exempt from condominium regulations. A few low-rent buildings were converted as a result of these three factors; but, in general, the condition and location of most lowrent apartments made them unattractive to converters who continued to prefer well-cared for buildings in the more affluent parts of the city.

Some developers predict that in the future, just about every sound, well-maintained apartment building in the city will be converted to a condominium or cooperative. They maintain the lack of new rental housing, the high cost of single-family homes, and the willingness of landlords to sell buildings to tenants will keep conversions at a high level. In the past year a number of tenant associations have purchased (or have undertaken the purchase of) their buildings. This trend is not limited to high rent buildings; in fact, at least five small, low rent buildings have been, or will be, puchased by their tenant associations.

The distinction between low-rent and high-rent buildings is that the former have all been converted to cooperatives, while some of the higher rent buildings have been converted to condominiums. The alternative of converting to condominiums is favored by higher income tenants, since financing is slightly easier to obtain and condominium ownership is not as restrictive as participation in a cooperative. The District of Columbia Government is encouraging low-income tenants associations to convert their buildings to cooperatives and is providing some limited financial assistance to such groups. An innovative grant from HUD for $3.14 million was recently awarded to the city and will be used for this purpose. In addition, a number of community-based groups are helping tenants with the complicated purchase process.

Old, large single-family homes, some of which were either used as rooming houses or had been divided into very small apartments, are also being converted. It is expected these conversions will continue, especially since they are often vacant and are thus exempted from Washington's current moratorium on conversions.

Many of Washington's apartment buildings favored for conversion are over 20 years old. They are at the point where they are fully depreciated, making them a poor tax shelter, yet in need of renovation, making them an expensive maintenance problem. Landlords, perhaps urged on by the low profitability attributed to rent control, are very willing to sell such buildings to converters and to take advantage of other more profitable local real estate investments.

Rent control in Washington seems to reduce rental profitability, but there are other factors involved. Besides rent control, which all but a few experts claim reduces rental profitability, other reductions in profit are caused by these factors: (1) most apartment buildings in the area are heated by oil which has, of course, risen significantly in price; (2) the high cost of electricity, particularly in suburban Virginia; (3) relatively high wages paid to maintenance personnel; and (4) the high demand for office space which bids up the cost of land and makes it virtually impossible to build and rent apartments at a price affordable by most people.

In suburban areas, older garden-style apartments are favored for conversion, but only slightly more than high rise buildings. Luxury buildings in affluent Montgomery County have been converted, but so have some of the county's limited supply of low-income rental units. A similar situation exists in close-in Arlington County and Alexandria, but the loss of low rent garden apartments is more pronounced in these jurisdictions where there are more low-income and elderly residents.

In suburban Prince George's County, Arlington, and Alexandria where apartments are highly concentrated, only about 1 percent of the units have been converted. Montgomery County, on the other hand, has an estimated 58,000 apartments, 10 percent of which have been converted. Fairfax County also has a higher proportion of conversions with about 5 percent of its 44,000 multi-family units having been converted.

Market Conditions

The multi-family rental market in the City of Washington can be divided into two categories: low to moderate rent (under $250 per month) and middle to upper level rent ($250 or more per month).

Even though there are legal restrictions on the conversion of low to moderate cost multi-family units, the market for this type of housing is still very tight. The removal of almost half the city's rental, single-family houses in the last ten years has been one reason for the tightening. Another reason was offered by one city official who noted that Washington's housing filtration process has already been affected by conversions. Units which, in theory, should be filtering down to lower income residents are being retained as middle income dwellings. A new practice which may cause further contraction in the low rent market is the conversion of low rent buildings to tenant cooperatives.

The market for multi-family units with higher rent levels is also very tight. Developers of condominiums and apartment owners maintain the market is not as tight as tenant groups and some government officials claim. Citing an estimated vacancy rate of 2 to 3 percent and the ability of tenants displaced by conversions to find replacement housing in a relatively short time, they maintain that housing opportunities have been strained, but not eliminated for people seeking rental units. Developers also point to the fact that no one has an accurate figure for the number of units which are converted, but still remain on the rental market. This occurs when investors buy units and offer them for rent. Some estimate that as many as 35 percent of the converted units in Washington are still rented under this arrangement, despite the FNMA and FHLMC requirement that only 20 percent of the units whose mortgages they buy may be held by investor-owners.

Tenant groups and city officials place the vacancy rate at 1.5 percent, but emphasize that some neighborhoods with heavy levels of conversion have extremely lower vacancy rates. Since no generally-accepted vacancy rate has been calculated for Washington since the 1970 Census, it is difficult to judge the city's actual vacancy rate.

The multi-family rental housing market in the suburbs is not as tight as in Washington. However, in jurisdictions near the city, such as Arlington and Alexandria and close-in areas of Montgomery and Prince George's Counties, there are indications that a tightening is beginning and will continue.

In Arlington and Alexandria a strong increase occurred in 1979 in the number of conversions, accompanied by a decline in multi-family rental construction. Both areas have a number of older, garden-style apartment projects which are sound but which are also slipping into disrepair, because low rent levels do not meet high maintenance costs. Such projects have become very attractive conversion targets not only to local developers, but also to some large, out-of-area firms, such as Klingbeil of Ohio and Mobil Oil Corporation. A 1978 survey of surburban vacancy rates conducted by the Council of Governments (COG) placed Arlington's vacancy rate at 1.57 and Alexandria's at 2.46 percent.

Montgomery County imposed a three-month moratorium on conversions in 1979 to slow the pace of low rent conversions. This county has little new multi-family rental construction, and it is estimated that 10,000 units from its supply of 58,000 units will be converted by late 1980.

Prince George's County has an estimated 90,000 garden type apartment units described by one expert as "ripe for conversion." These units rent from $200 to $250 and are deteriorating because landlords cannot make needed repairs given the low rents. The Prince George's County government is encouraging conversions in an effort to upgrade the county's housing stock and tax base. Of the close-in jurisdictions, Prince George's County had the highest vacancy rate of 3.62, according to COG.

The short supply of rental units in parts of the Washington SMSA where there is a high demand for such housing may be creating what one expert described as a "panic mentality," or the desire by people who can afford it to purchase a unit rather than try to remain in the shrinking rental market. Elderly tenants, in particular, seem prone to this problem.

The lack of financing and land for new multi-family rental construction was blamed by several developers as a reason why people are seeking a converted condominium or cooperative unit instead of trying to find rental housing. In Washington, it is very difficult to obtain financing for multi-family projects unless they are subsidized or insured by the Federal government. Current interest rates have aggravated the situation, even though the city recently raised its usury limit to 15 percent. Tight money may slow the rate of conversions slightly or it could, as one expert speculated, accelerate the pace of conversions to meet the demands of people closed out of the single family housing market.

The single-family rental housing market in Washington currently has an estimated 25,000 units and was greatly affected by the imposition of rent control in the early 1970s. During the four years during which rent control applied to single family units, approximately half of these houses were sold. Inflation and tax incentives have caused many middle income people who may have rented houses at one time to become homeowners; currently few homes enter the rental market even though rent control no longer appplies to them. As with multi-family housing, there is little profit to the landlords, given higher maintenance costs. The demand for rental houses in Washington is limited and is comprised of lower income households (primarily with children), students and other groups of young people who share houses, and more affluent people (including foreign diplomats) who either will be in Washington a few years or who do not wish to purchase housing. Demand is seasonal, with an increase in the fall as students enter the market and people relocate to the city following vacations.

The supply of single-family rental housing numbers about 3,000 units in the suburbs. In more affluent areas, such as McLean and Reston, Virginia and Chevy Case, Maryland, demand comes from foreign embassy personnel and high ranking military officials who will be assigned to the area for only a few years. In closer-in areas, there is more demand from low income families and group renters. In the Alexandria and South Arlington areas, enlisted and lower ranking military officers place a heavy demand for rental houses close to the Pentagon and other military installations.

More new single-family construction is occurring in suburban areas than in the the city, although there is some indication that higher cost mortgage money has slowed construction very slightly.

Although the stabilizing influence of Federal govenment employment insulates the Washington area to some extent from economic decline, market experts, concede that a national economic recession would have at least a slight effect on the rate of conversion, especially if the decline persisted.

Government Regulations

Washington's rent control law is blamed by most developers and landlords, and some tenant representatives, as the principal reason for condominium and cooperative conversions in the city. Local government officials, especially those concerned with the administration of the law, and some tenant group representatives, acknowledge that rent control might contribute to conversions, but the law may not be as influential as real estate interests assert.

Real estate experts maintain that rent control has depressed the city's rental housing stock by limiting landlords' profitability and thus encouraging them to sell buildings, for conversion. In addition, financial institutions hesitate making loans to conventional developers because the presumed low return on their rental property investment makes such developers poor loan risks.

Although real estate interests claim Washington's lower income tenants are not significantly affected by conversions, some city officials argue that the effect of conversion is already being felt by this category of tenants and will grow worse in the future when units no longer filter down to the low-rent market.

City officials and tenant groups say rent control has not fueled conversions and cite the extensive conversion activity in cities such as Chicago and Houston where no rent control exists. They point out, too, that Washington's rent control law does not reduce profitability because landlords may apply for a hardship rent increase when their profits fall below 9.6 percent. High fuel and maintenance costs are more explanatory of a landlord's diminished profits than rent control. Tenant representatives, in particular, contend that landlords would sell buildings with or without rent control because of the handsome profits they realize from such sales.

Another split exists in Washington with regard to other regulations imposed by the city government. Real estate representatives identified four problems with current conversion regulations: (1) the certificate of eligibility required for most condominium conversions generally enhances a building's value and makes a sale to a developer more likely; (2) the fear of a continuation of the city's moratorium or other potential legal restrictions accelerates conversion activity; (3) the restrictions placed on landlords violate an owner's right to dispose of property as he or she wishes; and (4) the $9,000 homestead exemption from city property taxes offered for owner-occupied dwellings creates more demand for home-ownership opportunities, most likely to be met by a converted unit.

Tenant groups and government officials note some of the positive aspects of city regulations (such as those giving tenant groups an opportunity to buy their buildings) in arguing that regulations have been effective and claim the real estate industry overstates the negative aspects of city regulations. These same groups also criticize the city regulations for not being strong enough, particularly in protecting elderly and handicapped tenants living in converting buildings.

Montgomery County is the only suburban jurisdiction to have ever enacted a rent control law. This law permitted a yearly increase for landlords of ten percent and exempted newly-constructed units from its provisions. In July 1976 the law was amended to permit release of individual units from rent control as they were vacated. The rent control law expired on December 31, 1977 and a system of voluntary rent guidelines was subsequently enacted. Rent increase in excess of the 9.9 percent guidelines prompted the enactment of the Rent Stabilization Law and the Hardship Rental Assistance Program which became effective April 1, 1979. This law covers approximately 23,000 units of the nearly 58,000 units in the county, since it applies only to those units renting for less than $600 monthly and those occupied by current tenants prior to July 1, 1976. Even though nearly 35,000 other units in the county are not under the guidelines, landlords claim the controls encourage them to sell buildings to developers at a profit rather than hold them and suffer from escalating costs and low profitability of owning rental housing. A county task force on condominium conversions, however, found that a number of the buildings being converted either were not under the 1979 guidelines or had a large number of units which had been decontrolled.

Montgomery County has enacted a number of regulations aimed at halting conversions, particularly of low income units. The regulations have slowed, but not halted, conversions and the county is presently seeking means to help low income tenants purchase buildings. Some Montgomery County landlords claim that the county's strict housing code standards, particularly for fire, have added substantially to their costs and made rental units in the county unprofitable.

Prince George's County has passed no local laws to supplement the Maryland law on conversions. Virginia jurisdictions may not pass any local laws regulating conversion activity by the terms of the state's Condominium Act. Arlington County has issued a number of guidelines for developers related to relocation payments and other forms of tenant assistance, but the guidelines have had little impact on conversion rates in the county.

There are currently no expressed suburban growth controls in the Washington SMSA. However, both Prince Georges and Montgomery Counties have, at times, imposed moratoria on new sewer connections. These have tended to affect single-family housing more than multi-family units, since they have occurred more in areas zoned for single-family construction. Developers believe that sewer moratoria have had little effect on conversion activity, except to the extent that an occasional person may have purchased a converted unit rather than a single-family home.

It appears that future governmental actions will result in more conversion. Governmental actions in Washington are expected to take two forms in the future: (1) continued tight regulation to restrict conversion of low rent housing to condominiums; and (2) laws which help tenants purchase buildings as condominiums or cooperatives. A bill introduced in Washington's City Council in November 1979 calls for lifetime rental rights for low-income elderly occupants, a tax as high as 4 percent on condominium sales to finance a mortgage money pool for low income tenants wishing to purchase buildings; and tax abatements to landlords who sell or continue to rent to low-income tenants. This law typifies future legislative initiatives likely to be taken in Washington. The thrust of Washington's regulations has been to protect and assist low income tenants, but some of the safeguards, particularly those ralated to tenant purchase of buildings, have helped higher income tenants, as well.

The low-income market is becoming susceptible to conversions as more and more high rent, better quality buildings are converted. The law helping low-income tenants purchase buildings aims at reducing their vulnerability by providing them with the opportunity to become homeowners.

Suburban Virginia jurisdictions are prevented from enacting local regulations by the terms of the Virginia Condominium Act. The state law provides some safeguards to tenants, but concentrates more on protecting the rights of condominium purchasers. Virginia jurisdictions which are currently experiencing high conversion levels are pressing the Virginia Legislature for additional protections, particularly for elderly and low income tenants. Local jurisdictions may isssue guidelines related to conversions, and Arlington County has begun to do so. Arlington County is also encouraging tenants to purchase their buildings.

Prince George's County, Maryland, has not enacted any legislation to supplement the Maryland Condominium Act, which is basically a consumer protection law. It is unlikely that this county will enact restrictive legislative in the future since the present political climate favors conversions.

Maryland's Montgomery County, on the other hand, has regulated condominium conversions extensively. A moratorium on conversions was in effect from August to November 1979, and the County Executive has introduced several bills aimed at protecting purchasers, lessening speculation in the condominium market, and taxing condominium sales. It is expected future Montgomery County legislative activity will be in this genre. It is also predicted that such legislation may slow down, but will not fully stop, conversions. Montgomery County is also evaluating methods to encourage and assist tenants particularly those with low incomes, to purchase their buildings as cooperatives. Future legislative activity in this area is also likely.

Within the last year, it appears that local jurisdictions are tending more toward helping tenants, particularly those with low incomes, purchase their buildings as cooperatives or condominiums while at the same time trying to maintain a rental housing market by regulating conversions. This trend began in Washington and has spread to Montgomery and Arlington counties.

Effects on Households

Little information is available on the impact of a "typical" conversion. A 1979 telephone survey of 150 households moving from buildings which were converted in Washington in 1978 and early 1979 found that those who moved were able to find rental units in the same area of the city, if not the specific neighborhoods; paid slightly more for rent; and found new units with few problems. 2/

2/ Raymond, Parish and Pine, Inc., Development Economics Group, Condominium and Cooperative Conversions in the District of Columbia, (Washington; Development Economics Group) 1979.

No outmover experiential information is available for suburban jurisdictions, except newspaper accounts and anectodal statements that outmovers have to pay somewhat higher rents for units when they move and their new residences may not be as desirable as those they vacated.

Specific data on the experiences of tenants who remained in buildings as tenants was not collected; however, information on tenants who purchased units in converted buildings shows their experiences varied. In some instances conversions were done well, rapidly, and with minimal disruption. At other times, the process was drawn out and created problems for purchasers. A frequent complaint was the necessity to move within a building or complex as conversion proceeded, a hardship purchasers expected, but still did not welcome.

There are two separate notification periods for Washington's tenants. Under District of Columbia law, owners must notify building tenants of their intent to sell a building. Tenants then have 30 days from the date of notice to form an organization which is legally able to purchase a building. If the tenants form such a group and attempt to purchase the building, they have an additional 30 days to sign a contract to purchase and another 60 days to go to settlement on the building. When tenant groups, landlords, or developers wish to convert buildings, a certificate of eligibility to convert must be obtained from the D.C. Government. The applicant must notify tenants of the issuance of a certificate of eligibility within 10 days, even if it is a tenant conversion. After this notification is made, tenants have 120 days to either move from or purchase their units.

Relocation payments are made in Washington if incomes fall below income levels ranging from $8,879 for a one person household to $21,308 for a household with 6 persons or more. If households have elderly or handicapped members, the relocation assistance income level rises significantly. For example, for a one person elderly household, a relocation payment will be made if the tenant has an annual income less than $15,981. The relocation payment is $125 per room (excluding kitchens and bathrooms) and is paid by the developer of a building. In some instances, developers in Washington have made relocation assistance payments well above what the law requires. Generally, this has occurred when a low rent building is being converted under the provisions of D.C. law requiring 51 percent of the tenants in such buildings to agree to conversion before it may proceed.

Besides the relocation payment, the D.C. Government may make a judgment, that a low-income tenant is entitled to additional housing assistance for a five year period. The developer is responsible for making any payment for the first three years, while the D.C. Government pays for the last two years.

Little information exists on tenants who receive relocation assistance. One brief, incomplete report prepared from data obtained from Washington's relocation assistance office showed that "most" of the applications for relocation assistance filed from "1978 through the first couple months of 1979" were from "residents in apartments in the upper Northwest area of the city." 3/ This area is the site of extensive conversion activity. Unfortunately, the report does not indicate how many applications were received, the exact time period, or the number of residents in the city's northwest quadrant who applied for relocation assistance and whether they met the assistance criteria.

The report noted that 48 percent of those seeking relocation assistance were moving within the city, while 13 percent were relocating to suburban Maryland, 10 percent to suburban Virginia, and 6 percent to areas outside the Washington SMSA. The remaining 23 percent did not indicate or did not have a new address at the time they sought relocation help. New rent levels shown on assistance applications indicated that 81 percent of those who moved within the Washington SMSA were paying a higher rent than at their previous residences, but the degree of difference was not indicated in the report.

The proportion of tenants purchasing units in converted buildings changes from building to building. The recent Development Economics Group survey of 30 Washington buildings converted in the last year and a half showed that of 2,106 units, only 24 percent were purchase by tenants. 4/ If a building is purchased and converted by tenants themselves, sales among tenants tend to be very high because units generally cost much less than in a developer-converted building. Tenants in their late 20s to mid-50s appear to purchase units more often than younger or elderly tenants. The higher and more stable incomes of this middle group seems to explain their greater inclination to purchase. Elderly tenants, however, are likely to purchase units if they fear no other convenient rental housing alternative is readily available.

In suburban areas of Washington, there is also great variation among tenant purchasers. Some projects, such as Parkfairfax in Alexandria, retained a great many tenants because developers tried to limit displacement by offering discounts to tenants or performing minimal rehabilitation to hold down costs. In other instances, tenant purchases have been very low, particularly when tenants believed a building's renovation was insufficient to correct its shortcomings.

No information was available on the characteristics of tenants remaining in or moving from converted projects in suburban Washington.

3/ D.C. Department of Housing and Community Development, "An Analysis of Displacement Caused by Condominium Conversion," unpublished paper, August 1979.

4/ Condominium and Cooperative Conversions in the District of Columbia, op. cit.

Effects on Tenants

Tenants in Washington have become highly organized on both a city-wide basis and within their individual building or complexes. City-wide groups became active in the early 1970s when high rent increases led tenants to organize and demand rent control for the city. The strength and size of the groups grew with the increase in condominium conversions and tenant opposition to them.

In the mid-1970s, city-wide groups concentrated on bringing political pressure to bear on the Mayor and City Council to slow down conversions and to continue the protection of low-income tenants from displacement caused by conversion. Recently, such groups have begun pressing the city government to provide assistance to tenant groups attempting to purchase buildings for conversion to cooperatives or condominiums as well as providing lifetime tenancy in converted buildings to the elderly and handicapped.

Tenants in almost every moderate to high rent building in Washington have formed a tenant's association, often spurred by rumors that their building was to be converted. Such groups had been concerned with stopping the conversion of their buildings, but in most instances were unsuccessful. Within the last year, apparently with a new awareness of the advantages of homeownership in Washington's inflated real estate market, a number of groups have been purchasing their buildings. Also, tenant activism has recently increased among low-income tenants who are being organized and assisted by community groups.

In Washington's suburbs, the degree of tenant activism varies but is growing. Tenants in Montgomery County, Maryland, have been organized since the early 1970s when they successfully lobbied the County Council to impose rent control on apartments. The Montgomery County Tenant Association was also instrumental in the County's adoption of the 1979 moratorium on condominium conversions.

Tenants in Arlington County had been loosely organized until late 1978 when Mobil Oil Corporation announced its intention to raze the 1,086 unit Colonial Village complex, near the Rosslyn commercial center. To oppose this move, Colonial Village activated its existing tenant's group which eventually became the genesis for the Tenants of Arlington County (TOAC). TOAC emphasizes the preservation of rental units and is credited with convincing an Ohio developer to retain the 1,820 unit Buckingham complex as rental apartments. TOAC also stopped Mobil's demolition of Colonial Village by agreeing to a compromise which calls for restoring 75 percent of the existing buildings as cooperatives and condominiums and allowing the construction of office buildings after 25 percent of the units are demolished.

Other Washington suburbs have, at times, responded to the conversion of buildings with ad hoc groups urging the halt of condominium conversions. While such groups were unsuccessful in stopping conversions, they sometimes were able to extract concessions from the landlord or developer, such as relocation assistance.

Some city-wide tenant groups in Washington claim the city government is non-responsive to their needs and maintain that enough is not being done to help elderly and low income tenants. The groups also seem to suffer from a lack of funds to advocate their cause as well as from fragmentation. Lobbying efforts by city-wide tenant groups have resulted in several bills being introduced by City Council members which contain provisions attempting to meet the demands of all groups. Some of the ideas advocated by groups and incorporated in the bills reduce the credibility of the sounder provisions of the bills.

Tenant groups in moderate to high rent buildings generally have little difficulty organizing, particularly if they are doing so with the idea of purchasing their building. Problems arise from the amount of time required of tenants, and their lack of expertise, particularly in the intricate financing arrangements required to purchase buildings. Most landlords have been willing to offer their buildings to tenants, but there have been at least two tenant groups which have legally challenged their landlords' right to sell buildings to a third party purchaser. To help with the complex arrangements in purchasing buildings and to plead their rights before local courts, tenants are seeking assistance from a growing cadre of Washington lawyers and financial consultants who are developing expertise in the new field of tenants purchase of buildings.

Lower income tenant groups face similar problems when they attempt to purchase their buildings as cooperatives. Their difficulties are intensified by a lack of personal financial resources and the reluctance of Washington's lending institutions to make loans to them. The D.C. Government has allocated $60,000 of Community Development Block Grant money and a $3.14 million HUD Innovative Grant to a fund which will provide start-up assistance to low income tenant groups. Technical assistance is being provided by two community organizations, the Community Association Institute and Ministries United to Support Community Life (MUSCLE). In addition, Saving Association Financial Enterprise (SAFE) a corporation owned and operated by 16 Washington savings and loan organizations, assists groups in securing financing.

A tenant representative noted the principal problem of Montgomery County tenants is their lack of legal expertise which makes it difficult to present proposals to the County Council on the type of legislation needed to regulate conversions. In 1979 tenant representatives, along with county employees, developers, lawyers, and real estate representatives, served on a county task force on conversions which made numerous legislative suggestions for both controlling conversions and providing government assistance to tenants wishing to purchase.

Tenant groups in Arlington are limited by the Virginia condomnium law which restricts the power of local jurisdictions to make laws concerning conversions. Therefore, tenant groups can do little to increase regulation of conversions. They do, however, provide suggestions to the traditionally pro-tenant Arlington County Council for inclusion in the County's legislative package to the State Legislature.

Tenants groups from moderate- to high-rent buildings have purchased or are in the process of purchasing approximately 30 buildings in Washington. It is difficult to give an accurate number of how many buildings have been converted by tenants since the D.C. Government requires that cooperatives (a frequently used form of tenant ownership in the city) be issued only a certificate of eligibility to convert. No record is maintained as to which buildings actually convert to cooperatives.

The cooperative form of ownership was favored in the past by most tenant groups from moderate- to high-rent buildings, primarily because it appeared to be the only option available to tenants. As condominiums became more popular, tenant groups found this form of ownership offered advantages not found with cooperatives. Financing is slightly easier to obtain for condominiums, since lenders believe the risk is less, because they can foreclose on individual condominium units. In addition, the rules governing condominiums are less restrictive in the use owners may make of their units. Tenants have learned, too, that they can buy a condominium unit for a very low price if they purchase and develop the building themselves and that the price to tenants can be lowered even more if some of the units are offered to "outsiders" at the prevailing market rate.

The process of tenant purchase has some drawbacks, particularly if the project is large and requires time consuming, complex arrangements to finance its purchase. For example, one tenant group initially formed with the idea of converting their large complex to a tenant cooperative. To secure sufficient financing, the tenants had to make numerous concessions, with the result that only a fraction of the units will be converted to a tenant cooperative. The balance of the units will be converted to high priced condominiums and some of the land within the complex will be used as the site of expensive, new townhouses and condominiums.

In another large complex, tenants consumed so much time in putting together the financing to purchase the complex as a cooperative, that the owner offered the project to another purchaser. The tenant association is now suing the owner claiming their right to purchase the building. 5/

5/ On January 17, 1980, a D.C. Superior Court judge ruled that the Columbia Plaza Tenants Association was not entitled to purchase the complex because it failed to offer a sales agreement to the landlord within the 90 day period allowed under the D.C. law. The tenant group plans to appeal the decision.

Three low income-tenant groups have successfully purchased their buildings as cooperatives and at least three more groups are attempting to do so. The D.C. Government is encouraging this form of ownership for low-income tenants by offering seed money for technical assistance and, in one instance, secondary financing. Organizations assisting such tenant groups also encourage the groups to form limited equity cooperatives so that tenants are not tempted to sell their share in the cooperative as housing prices escalate. In addition, a limited equity cooperative tends to depress the value of the building so that property taxes are at a level affordable to low income tenants.

The only confirmed suburban tenant purchase to date is that of the Rosemary Village apartments in Montgomery County. However, it is expected that more tenant purchases will occur in the county for two reasons. First, in December 1979, a Montgomery County circuit judge upheld a law that gives tenants a chance to buy their buildings before they are sold to other interested parties. Second, the County's Housing Opportunity Commission just began to offer assistance to tenant groups wishing to purchase their buildings. Such help is aimed at the county's low-income tenants, but it is expected that more affluent residents will emulate the well-publicized tenant purchases which have occurred in Washington. The Montgomery County Executive has also proposed a 4 percent tax on each unit converted to a condominium and that the revenue be used to assist low income tenants purchase their buildings.

In Arlington, tenant purchases may also be on the rise. Arlington County has set aside $100,000 from its current Community Development Block Grant allocation to assist tenants in purchasing their buildings. Two tenant groups are currently using the funds to obtain technical assistance to purchase their buildings. One of the groups has applied for a HUD Neighborhood Self-Help Grant to finance their building's mortgage.

One tenant association in Washington is attempting to include some HUD Section 8 units in its cooperative, but most tenant group conversions have occurred in buildings with at least moderate-income tenants who are usually not eligible for Section 8 Assistance. The D.C. Government has used Community Development Block Grant funds and will be using an Innovative Grant to assist low-income tenants purchase their buildings.

The tenant group which converted the Rosemary Village complex in Montgomery County was able to provide assistance through HUD's Section 8 program to low-income families buying units. In addition, the $4.8 million rehabilitation loan the tenants secured from the State of Maryland was insured by FHA.

Effects on Housing Market

There is no empirical evidence that conversion has led to a tighter or higher priced rental market in Washington or its suburban jurisdictions. However, most experts cited logical or anecdotal information which supports the tighter/higher priced idea, at least for Washington. Since almost no new apartments are being built in Washington and continued conversions are removing existing units from the rental stock, the market is tightening. A 1979 survey of 150 outmovers from 30 buildings converted in 1978 and 1979 showed the median length of time to find new apartments was two months and only 50 percent of the outmovers could find an apartment in the same neighborhood. This could indicate a tightening of the Washington market, or it could indicate, as the survey report concludes, that people were searching for units at a leisurely pace given the amount of time allowed under the D.C. conversion regulations. The same report also noted that tenants had an average 17.9 percent increase in rents, although the units they rented were slightly larger.

Rental units in the Washington suburbs, particularly those close to the city, are also in short supply. As with Washington, this seems largely attributable to the lack of new apartment construction and the continued conversion of apartments, but no empirical evidence supports this idea. Rent levels have risen significantly within the past year in suburban jursidictions. However, the increases appear to have resulted from rising fuel and maintenance costs and the extension of the Metro subway system to areas with high concentrations of apartments, rather than to conversion activity alone.

In Washington, conversions have altered the ownership/rental ratio significantly. One developer noted that in 1972, the ownership/rental ratio was 27:73; by 1979 it had changed to 35:65 and by 1990, the developer predicted that ratio would be 50:50. Other experts agreed that the city was shifting to more owner-occupied housing but said that if some of the measures proposed to preserve rental housing, such as lifetime tenancy for the elderly and handicapped, are implemented, the shift to owner-occupied housing might not be as great as now anticipated.

In suburban jursidictions, where owner-occupied housing is more prevalent than in Washington, the ratio between owner-occupied and rental units has not been altered significantly since only a fraction of suburban rental units have been converted. The ratio is likely to change in the future toward more homeownership in view of the recent upturn in suburban conversions.

Effects on Neighborhoods

In Washington, initial conversions occurred in well-maintained moderate-income neighborhoods where little revitalization was necessary. Within the last three years, conversions have spread to revitalizing neighborhoods, most of which had already experienced the private rehabilitation of single family houses.

Conversion may have a slight effect on neighborhood income, race and age mix. Incomes in neighborhoods experiencing conversion likely rose, but not to a great extent, since the people living in such neighborhoods generally had at least moderate incomes. The racial composition of neighborhoods in which initial conversions occurred changed slightly in that some middle-income blacks purchased condominiums in what had often been all white neighborhoods. With the spread of conversions to other neighborhoods, the white condominium purchaser was likely to join other whites and middle-income blacks who had purchased single-family homes in the neighborhoods. Overall, conversions seem to have had only a slight impact on the racial composition of neighborhoods. Age differences are difficult to judge, too, since some elderly did leave converted buildings but others stayed or moved in as renters or purchasers.

There is little evidence in Washington that conversion activity induces neighborhood reinvestment which might lead to secondary displacement. The areas where most conversions have occurred have either been stable neighborhoods where little reinvestment was taking place or those in which the revitalization of single-family houses had already stimulated private reinvestment. Newspaper accounts have reported that secondary displacement of lower income residents and businesses has accompanied this sort of neighborhood revitalization. Yet, a June 1979 report by the Metropolitan Washington Council of Governments showed that in FY 1978, only 133 households in Washington were displaced because of urban renewal and neighborhood revitalization projects. There is no indication that the displacement was related to conversions since it was either planned as part of urban renewal or occurred in low-income areas where there has been little conversion activity.

Washington's tenant groups frequently charge that secondary displacement of low-income tenants is occurring because conversions are reducing the city's supply of rental housing. They assert that low-income tenants are being forced out of the rental market because they cannot compete for the limited supply of housing in the city. Other than some anecdotal comments, the tenant groups offer little information to substantiate their charges.

Conversions appear to have increased Washington's tax base slightly. Development Economics Group's 1979 report on conversion activity in Washington examined changes in property tax levels between FY 1972 and FY 1979 for 20 buildings containing 1,755 units converted in the late 1970s. The tax bill for the 20 buildings in 1972 was $500,916; by 1979, after conversion, the property taxes rose to $1,091,089, an increase of $590,242. The report pointed out that this 50 percent increase occurred even though households in 1,114 units took advantage of the $9,000 homestead exemption the city instituted in 1977.

Washington also gains additional revenue through the 1 percent recordation tax it imposes on all property transfers. In the third quarter of 1979, 1,106 condominium units were sold in Washington and yielded $760,158 in recordation revenue. No distinction is made by the D.C. tax assessor's office between new and converted condominium units or between initial sales and subsequent sales. However, since few new condominiums are being built in the city and since the sale of newly converted condominiums has continued despite the city's moratorium on some types of conversion, a large share of this revenue is probably attributable to the first sale of converted units.

In suburban jurisdictions, conversion appears to be unrelated to private revitalization of neighborhoods, except to the extent that conversion, itself, is private revitalization. The only suburban jursidiction where significant private revitalization has taken place is in the older section of Alexandria, Virginia, where most dwelling units are single-family houses. Alexandria'a converted apartment complexes and buildings are geographically far enough away from this part of the city to have little relationship to the revitalization.

Suburban conversions have been so scattered that it is difficult to assess their effect on a neighborhood's income/race/age mix. Since suburban jurisdictions do not restrict the conversion of low-rent units as Washington does, and many of the buildings which have been converted were low rent, it is likely that the income levels of neighborhoods have risen when somewhat more affluent individuals purchased apartment units. Age levels may also have decreased in neighborhoods with converted buildings, since a number of the low-income projects favored by the elderly have been converted and the elderly have not always remained as purchasers. Multi-family housing in suburban areas where most conversions have occurred is not highly integrated, nor have projects predominantly occupied by minorities been converted. Therefore, it is doubtful that conversions have had a great effect on racial composition.

Relationship to HUD and Policy Alternatives

There seems to be a slight relationship between Washington conversions and HUD programs. In Washington, $60,000 from HUD's Community Development Block Grant to the city and a $3.14 million Innovative Grant will be used to provide technical assistance and seed money to low-income tenants purchasing their buildings as cooperatives. Some use of HUD's Section 8 program is planned for low-income cooperative units; and some tenant groups have used FHA loan insurance in purchasing their buildings. Little conversion has occurred in Washington's low- to moderate-income neighborhoods targeted for HUD assistance through, for example, the Community Development Block Grant program.

Some previously converted Washington buildings have participated in HUD programs. Five multi-family projects in Washington which participated in HUD's Section 207 mortgage insurance program have converted to either condominiums or cooperatives. In addition, three projects which had been built under HUD Section 220 Rental Project and Improvement Opportunities have been converted or will be converted.

The Community Development Block Grant program was the most frequently recommended means of influencing conversions. It was suggested that localities use CDBG funds for everything from financing technical assistance projects for tenants interested in purchasing their buildings to providing mortgage payment assistance to tenants wishing to purchase units, to helping landlords renovate their buildings. Expanding the use of CDBG funds, according to experts, would increase the supply of sound rental housing as well as provide purchase opportunities for low-income tenants.

Several experts suggested that changes be made in HUD's Section 8 program to assist developers in financing the conversion of units which would be dedicated to Section 8 use. One developer said that an increase in the availability of financing for Section 8 units would serve HUD's goal of dispersing low-income households throughout communities.

Almost every expert suggested at least one new HUD policy. The most frequently stated policy proposals made by experts were that HUD provide, substantial funds to assist tenants in purchasing their buildings; help low-income tenants buy units; and assist landlords in renovating apartment buildings so that they could be retained as rental properties.

Most experts thought it would not be desirable for the Federal government to directly regulate conversion activity since it was a local matter. Many provided suggestions on actions the Federal government could take, short of strong regulation.

One tenant representative suggested setting minimum standards for the number of units which could be converted, and also recommended that a Federal law be enacted to give tenant groups wishing to purchase their buildings the right of first refusal to do so.

A member of Washington's real estate community suggested a Federal prohibition against rent control in local communities. According to this individual, every community with rent control has experienced a reduced supply of housing, abandoned housing, and disinvestment. It then would become the responsibility of the Federal government to pay for the housing needed to replace that provided by the private sector before rent control. Another suggestion this expert made was that a Federal tax of 50 percent or more be imposed on a converter's profit. The obvious effect of the tax would be to slow a developer's incentive to convert.

Federal subsidies to low-income tenants were discouraged by a D.C. Government official who believes that such subsidies would inflate Washington's rental market even more and close out almost all low-income tenants. As an alternative, the official suggested local governments use Federal funds to help low-income tenants form limited equity cooperatives and purchase their buildings. Contractual restrictions on resale prices and income limitations on those who buy and sell their units would prevent the prices from escalating to a point where they were no longer affordable by low-income tenants.

A tenant representative suggested that HUD educate mortgage lenders on current trends and risks in the condominium/cooperative market in an effort to mitigate lenders' reluctance to make loans to tenant groups. The educational approach was also proposed by a market expert who recommended that HUD fund a demonstration project he is designing which will educate tenants on how to purchase, rehabilitate, and obtain the financing to convert their buildings to condominiums or cooperatives.

The Conversion Process

The only thing typical of the conversion process in the Washington SMSA is the great variance from project to project. Four types of conversions will be described to show the differences:

1. Cosmetic rehabilitation of a sound building by a developer. When undertaking such conversions, developers often adopt the name of the building to be converted for the projects. Thus, one large local developer may be converting three buildings, but would be operating, for example, as the Webster House Limited Partnership, the Tunlaw Partnership and the Cathedral Park Partnership. The form of business organization varies, but partnerships are favored because they offer limited liability.

In this type of conversion developers will use lawyers to assist in contractual matters, marketing and advertising firms, and usually a sales organization for end sales. One small, very successful Washington developer has formed a fully-integrated company which provides all services needed for conversion, including general contracting work.

The financing mechanism used depends on the developer's proven financial stability and the size of the project. For a well-regarded developer converting a 100-unit building, construction financing can be obtained from a local bank, with permanent financing coming from a local savings and loan association. Maryland financial institutions are particularly active in the Washington condominium market.

In this process the major actors are the former landlord, the developer, the general contractor and subcontractors, the financial institutions, lawyers, private investors wishing to purchase units or blocks of units, and the D.C. Department of Housing and Community Development, which administers the conversion of buildings and issues all needed documentation. FNMA and FHLMC are involved if mortgages are sold on the secondary market, as is usually the case. HUD involvement is rare, since most units are sold to at least moderate-income people and mortgagees do not usually qualify for FHA insurance or other HUD housing subsidies.

2. Complete rehabilitation of a vacant building. Although usually more expensive and risky, the so-called "gut rehabs" offer the benefit of not being regulated by the D.C. government's conversion laws and not requiring negotiations with tenants. One developer in Washington prefers this type of conversion, but notes it is difficult to locate many empty or near-empty buildings suitable for such rehabilitation.

The same types of business organizations are used as with a cosmetic rehabilitation. Financing is sometimes more difficult to obtain, even when a highly reputable developer is performing the work, because of the greater risk. The risk arises from the uncertainty of what may be encountered in doing a gut rehab, which adds to both the time required and the cost of renovation. For construction loans, local banks may make the initial loan, but then divide it among several other banks, including those out of the immediate area. Gut rehabs, particularly those suffering substantial delays, can turn out much costlier per unit than anticipated. As a result an institution which originally agreed to handle the permanent financing may not have sufficient funds to handle all the financing and a second or third permanent lender may become involved in the project.

Actors are basically the same as with cosmetic rehabilitations. However, the role of the D.C. government is limited to issuing only a statement indicating that a certificate of eligibility is not necessary because of a building's vacancy, and to registering the final structure as a condominium. The general contractor and construction subcontractors, and the architect are very important because more work is required of them in handling a complete renovation and the pace at which they complete work greatly affects the cost of the project. Federal government involvement is limited to FNMA and FHLMC mortgage purchases; and HUD involvement is again rare because of the higher income levels of those likely to purchase units.

3. Tenant conversion of a building to a condominium. Before tenant groups may even offer to purchase their buildings, they must form an organization legally capable of holding real estate. Generally, tenants form a corporation, but one group is considering entering into a joint venture with a developer and another may do the same with its former landlord. Some groups have tried to form partnerships with developers, but have met with no success.

Even the rare tenant group with members having the time and expertise to handle the purchase of its building, generally uses at least a financial consultant to help them purchase their buildings. Lawyers are hired to assist in negotiations with landlords, developers, consultants and other tenants as well as to draft legal documents for the purchase. Washington tenant groups have at times become involved in lawsuits with either landlords or developers and have hired specialized litigation lawyers to handle their court cases.

Tenant groups have a more difficult time securing financing than a developer, but Washington's lenders are expected to become more lenient as the concept of tenant purchase becomes popular and success is shown. The risk factor is very high for such loans and some tenant groups have had to obtain construction financing from several sources. Permanent financing is slightly easier, since individual condominium owners are liable for mortgage payments and a lending institution may foreclose on individuals without affecting other condominium owners.

Tenant groups, particularly the officers and very active members, are extremely important as are the consultants who assist them with the purchase. The architectural firm which prepares engineering reports and other assessments of the major building systems provide important advice which is helpful to the tenants in negotiating a purchase price for the building and outlining the responsibilities of the former landlord for existing systems. Actors who may not be as deeply involved in a developer-conversion, such as financial institutions, may spend much more time assisting tenant groups in arranging the intricate financing of their buildings. HUD programs are infrequently used in tenant condominium conversions, except for the occasional inclusion of some Section 8 units.

4. Tenant Purchase of a Limited Equity Cooperative. There have been only a few such tenant purchases in Washington, and there is great variation among them. However, such cooperatives are being encouraged by the city government as an alternative to the short supply of low-income rental housing in Washington. Low-income tenants, usually at the urging and with the assistance of community groups, form a tenants association which is incorporated and legally able to hold real estate. After the tenant group goes to settlement on the purchase of its building, it incorporates as a cooperative.

Specialists are extremely important to such tenant groups, although the specialists are more likely to be members of non-profit community groups, legal aid services, and churches than the professional, expensive consultants used by more affluent tenant purchasers. In one tenant purchase, an organization funded by local savings and loan associations and representatives from one of the organizations spent a great deal of time arranging tenant financing.

Financing is a major concern for low-income tenant cooperatives, and is so difficult to obtain that only one savings and loan association in Washington will even accept loan application from such groups. One low-income cooperative received a proportion of its construction financing from a non-profit organization capitalized by Washington's savings and loan associations, and another share came from a pool of funds (which includes CDBG and UDAG money) maintained by the D.C. Government to assist low-income people purchase housing.

Appendix 1-II

Federal Programs for Conversion

Appendix 1-II

Federal Programs for Conversion

The Department of Housing and Urban Development, the Veterans Administration, and the Farmers Home Administration in the Department of Agriculture have housing loan, insurance, and guarantee programs which can be used in the conversion of existing rental properties to condominium or cooperative forms of ownership. Some programs involve only project development financing (property acquisition and repair or rehabilitation) or individual unit financing in a completed project; others combine both. Some are used in conjunction with the secondary mortgage market programs of the Government National Mortgage Association (GNMA), the Federal National Mortgage Association (FNMA), and the Federal Home Loan Mortgage Corporation (FHLMC). Other Federal programs, such as the Community Development Block Grant (CDBG), are not specifically intended for condominiums or cooperatives but are sometimes used in conjunction with the conversion of rental properties. Finally, certain HUD property disposition and loan management programs involve the Federal government in condominium or cooperative conversions. These programs, which are briefly described below, are as follows:

A. Federal Housing Programs Available for Use in Conversions 1/

1. Condominium Housing Mortgage Insurance Program (Project and Single Family): Section 234 of the National Housing Act of 1934.

2. Graduated Payment Mortgage (Single Family): Section 245 of the National Housing Act of 1934.

3. Cooperative Housing Mortgage Insurance Program (Existing Project Conversion): Section 213(i) of the National Housing Act of 1934.

4. Cooperative Housing Mortgage Insurance Program (Project): Section 213 of the National Housing Act of 1934.

5. Multi-Family Rental and Cooperative Housing for Low- and Moderate-Income Families (Project): Section 221(d)(3) of the National Housing Act of 1934.

6. Mortgage Insurance for Cooperatives (Single Family): Section 203(n) of the National Housing Act of 1934.

1/ This section does not contain an exhaustive listing of statutory authorities and programs potentially relating to cooperative and condominium conversions.

7. Homeownership Assistance for Low- and Moderate-Income Families (Single Family): Section 235 of the National Housing Act of 1934.

8. Lower-Income Rental Assistance: Section 8 of the National Housing Act of 1934.

9. Guaranteed and Insured Loan Program (Single Family): Veterans Administration.

10. Rural Rental Housing Loan Program (Project and Single Family): Section 515 Program, Farmers Home Administration.

11. The National Consumer Cooperative Bank (Project and Single Family).

B. HUD Loan Management and Property Disposition Programs.

C. Secondary Mortgage Market

1. The Federal National Mortgage Association (FNMA).

2. The Federal Home Loan Mortgage Corporation (FHLMC).

3. The Government National Mortgage Association (GNMA).

D. Other Federal Programs

1. Urban Homesteading: Section 810 of the Housing and Community Development Act of 1974.

2. Rehabilitation Loans: Section 312 of the Housing Act of 1964.

3. Community Development Block Grants (CDBG): Title I of the Housing and Community Development Act of 1974.

4. Innovative Projects Program: Title I of the Housing and Community Development Act of 1974.

5. Urban Development Action Grant (UDAG); Section 119 of the Housing and Community Development Act of 1974.

6. Neighborhood Self-Help Programs: Neighborhood Self-Help Development Act of 1978.

7. Technical Assistance to Tenants (NVACP).

E. Department of Housing and Urban Development Demonstrations.

Federal Housing Programs Available for Use in Conversions

Federal Housing programs that can be used in conjunction with condominium and cooperative conversions divide into the following categories:

	Condominiums	Cooperatives
Project Financing	HUD Sec. 234(d)	HUD Sec. 213 HUD Sec. 213(i) HUD Sec. 221(d)(3) Farmers Home Adm. Sec. 515
Single Family Financing	HUD Sec. 234(c) HUD Sec. 245 HUD Sec. 235 VA loan guarantees	HUD Sec. 203(n)(Resale Only) HUD Sec. 8 HUD Sec. 235

Each program is discussed below.

Section 234. Section 234 of the National Housing Act of 1934 (as amended in 1961) established HUD's principal condominium housing program. HUD's Federal Housing Administration (FHA) provides mortgage insurance for both condominium projects and the individual condominium units.

Section 234 was initially passed in 1961, after representatives from Puerto Rico urged the Housing and Home Finance Agency and the Congress to enact such a program. The purpose was to broaden the financing market for low- and moderate-income housing. Subsequent amendments in 1964, 1968, 1969, 1974, and 1978 were designed to make the program more economical and effective, and resulted in more liberal eligibility requirements and administrative changes.

Under Section 234(d), HUD offers two insurance approaches. One type of insurance is provided for advances on construction or rehabilitation loans and, as well, for the project as a rental if the required 80 percent of the condominium units are not sold prior to closing of the mortgage. The second insurance approach provides mortgage insurance for the condominium units after the completion of construction or rehabilitation work and upon the satisfaction of the HUD unit pre-sale requirement. Under this second approach, there are two forms of processing: one provides insurance for the project as a rental, should the condominiums not sell, while the other form of processing does not.

Section 234(c) provides mortgage insurance for individual units in condominium projects. Eligibility for Section 234(c) mortgage insurance is limited to units in projects: (1) previously insured by FHA (e.g., Section 207, 221(d)(3), Section 221(d)(4)); (2) substantially rehabilitated under Section 234(d); (3) containing less than 11 units; (4) constructed prior to August 1, 1968 and capable of being divided into condominium regimes of 11 units or less; and (5) conventionally financed condominium projects of 12 or more units, the construction of which was completed more than one year prior to the application for mortgage insurance.

HUD generally requires a unit presale equal to 80 percent of the value of the project units, or 85 percent of the total value of individual unit mortgages. Once the presale requirement is met and all structural and legal work finished, HUD will insure the project as a condominium and the developer may sell to individual purchasers.

HUD will insure the lesser of 90 percent of the "as is" value plus the cost of rehabilitation, or the sum of the unit mortgages (a slightly lower amount is insured if presale is not met prior to initial endorsement). The maximum insurable amount for unit mortgages under Section 234(c) is $67,500, with a mortgage term of no less than 10 years or more than 30 years. (In some cases, HUD/FHA will approve a maximum term of 35 years.) Maximum interest rates are the FHA-HUD prevailing rate.

There were 26 FHA insured rental projects that were prepaid between 1974 and 1979 that are conversions: Section 234(d), 1 project; Section 608, 2 projects; Section 221(d)(3), 3 projects; and Section 207, 20 projects.

Table 1 displays the total insurance written 2/ for Section 234(c) for the 37 largest Standard Metropolitan Statistical Areas (SMSAs) 3/ in the Nation between the years 1974 and 1979. The San Jose, Los Angeles-Long Beach, San Diego and Chicago SMSAs experienced the first, second, third, and fourth highest levels of insurance activity, respectively.

While insurance was written for 7,882 single-family condominiums, the number includes both new and converted units. The exact number of converted 234(c) units cannot be determined. If the exact number

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2/ The total insurance written is for those units released from 60 newly constructed and existing projects. HUD's data base does not distinguish between new and converted condominiums.

3/ These SMSAs are examined in greater detail in the body of this report.

of converted units could be determined, it would still represent a small share of the total units which were converted between 1976 and 1979.

Section 245: Graduated Payment Mortgage. The Graduated Payment Mortgage (GPM) program is available to eligible purchasers under Section 234(c) insured condominium units. The GPM program is especially suitable for younger households whose earnings are expected to rise. The program provides lower than normal amortization payments in the first years of the mortgage which increase gradually over a five year time period and then level off.

Section 213(i). Section 213(i) is HUD's cooperative mortgage insurance program for converting existing projects not requiring substantial rehabilitation. This program requires that the mortgagor be a presale management or consumer housing cooperative. Section 213(i) regulations define a "consumer cooperative" as a cooperative corporation which is the current mortgagor of a cooperative housing project, or a non-profit cooperative corporation which has been organized for the purpose of purchasing an existing multi-family rental project. No other type of mortgagor is eligible to participate in this program.

Project eligibility is limited to projects previously insured by HUD and not requiring substantial rehabilitation, or projects of five or more units constructed prior to September 1959. HUD requires that the cost of approved project repairs not exceed the greater of: (1) 25 percent of the mortgage proceeds; (2) 15 percent of the appraised value of the project after repairs have been made; or (3) the number of living units multiplied by $3,000.

Another major characteristic of this program is that HUD makes no dual commitment to insure the project as a rental nor will HUD endorse the mortgage loan until the 70 percent presale requirement is met.

Section 213(i) may also be used to refinance an existing cooperative mortgage. Subsidized cooperative projects are not permitted to be refinanced using Section 213(i) insurance without the consent of the appropriate HUD officials.

The maximum insurable mortgage amount for 213(i) depends upon whether the project is to be refinanced or acquired. If refinanced, HUD will insure 98 percent of the appraised value of the project. If acquired, HUD will insure 98 percent of the purchase price, plus conversion costs, including repairs, legal and marketing fees, and

Table 1

Single-Family Home Insurance Written Under Section 234(c) For New And Converted Units By SMSA

SMSA	Number of Policies Written						
	1979	1978	1977	1976	1975	1974	Total
Anaheim	58	126	71	221	190	75	741
Atlanta	0	0	0	0	0	0	0
Baltimore	64	174	36	35	53	0	362
Boston	0	0	0	0	0	0	0
Buffalo	0	0	0	0	0	0	0
Cincinnati	0	0	0	0	0	0	0
Chicago	61	104	148	121	253	102	789
Cleveland	0	0	0	0	0	0	0
Columbus	5	4	6	0	0	2	17
Dallas	0	0	0	0	0	1	1
Denver-Boulder	0	0	0	0	0	0	0
Detroit	3	11	31	9	4	5	63
Hartford	1	0	0	0	0	0	1
Houston	0	0	1	0	0	0	1
Indianapolis	0	0	0	0	0	0	0
Kansas City, Missouri	0	0	0	0	0	0	0
Los Angeles-Long Beach	72	136	196	232	349	258	1243
Miami	117	3	3	0	6	37	166
Milwaukee	1	0	0	0	0	0	1
Minneapolis-St. Paul	23	53	86	38	5	10	215
Nassau-Suffolk	0	0	0	1	0	0	1
Newark	1	12	1	21	82	0	117
New Orleans	0	0	0	0	0	0	0
New York	1	0	1	0	0	0	2
Riverside	0	75	96	76	77	29	353
Philadelphia	0	0	0	16	0	0	16
Phoenix	61	67	81	21	58	136	424
Pittsburgh	0	0	0	0	0	0	0
Portland, Oregon	1	0	2	0	3	0	6
San Antonio	0	0	0	0	0	0	0
San Diego	217	147	177	178	104	113	936
San Francisco	25	112	70	70	74	31	382
San Jose	141	222	571	349	343	306	1932
Seattle	0	0	0	0	0	0	0
St. Louis	0	0	0	0	0	0	0
Tampa-St. Petersburg	0	0	0	0	0	0	0
Washington, D.C.	32	22	19	12	17	11	113
Total	884	1268	1596	1400	1618	1116	7882

Source: Federal Housing Administration Home Mortgage Operations; 1974 to 1979.

financing charges. HUD will insure the cooperative for a term of 40 years or for three-fourths of the remaining economic life of the project.

Section 213. Section 213 is a new construction, substantial rehabilitation, and existing cooperative housing insurance program. It provides for conversion through its existing cooperative housing program (see Section 213(i) above).

The use of 213 substantial rehabilitation for conversion is available to qualified investor or presale management type sponsors; non-profit sponsors are not eligible to participate in this program. Project eligibility is restricted to those of five or more units. Other requirements of the program depend upon sponsor type. For example, investor-sponsored projects may receive insurance for rehabilitation advances as well as a dual commitment from HUD. Under the dual commitment, HUD will insure the project as a rental, provided the presale requirement of 97 percent is not met within the specified time. In addition, rehabilitation may begin before the presale requirement is met, and the project may continue as a rental during rehabilitation. An investor-sponsor is the mortgagor until rehabilitation is finished, the presale is met, and the sales agreement consummated. After this, the cooperative corporation becomes the mortgagor.

The presale management type sponsor does not receive a dual commitment from HUD and is not given insurance for rehabilitation advances prior to meeting the presale requirement. The cooperative corporation becomes the insured mortgagor once the presale requirement is met and the rehabilitation completed.

For presale management type projects, HUD will insure up to 98 percent of the mortgage for a term of 40 years, or three-fourths of the project's economic life. Investor sponsors, on the other hand, are eligible for only a 90 percent insured mortgage, until the presale requirement is satisfied. The prospective share purchaser is expected to make a down payment of two percent plus a two percent contribution to working capital.

Section 221(d)(3). The Section 221(d)(3) mortgage insurance program is designed to finance the new construction or substantial rehabilitation of multi-family rentals and cooperatives. Cooperative conversions may be made through use of the program's substantial rehabilitation provision.

Non-profit sponsors, investor-sponsors, presale management cooperatives, and public agency mortgagors are eligible for Section 221(d)(3) mortgage insurance. The requirements may vary in accordance with the type of sponsorship. General requirements are the maximum mortgage amount of 100 percent and an initial cash investment from prospective members of one percent of the proportionate value of the membership. The prospective purchaser must make a two percent contribution to working capital. For Section 221(d)(3) projects, the cooperative corporation becomes the mortgagor once the presale requirement is satisfied, the rehabilitation is completed, and the assets are transferred, for all sponsors other than presale management cooperatives. Presale management sponsors do not need to have the physical assets of the project transferred, as they already own the property.

Section 203(n). Section 203(n) mortgage insurance is available as a resale program to help individuals or families obtain stock or membership certificates in cooperative housing projects holding blanket mortgages insured by HUD. Individuals or families who are not already stockholders or members of cooperative housing projects are eligible for 203(n) mortgage insurance. Non-occupant owners are not eligible for this program. HUD will insure mortgages of this type to a maximum amount of $67,500, for a term not to exceed 30 years. To date, three cooperative units have been insured at a commitment value of $102,000, since the program became available for use in June 1979. 4/

Section 235. Section 235 of the National Housing Act of 1934, as amended by the Housing and Urban Development Amendments of 1968, is a mortgage insurance and interest subsidy program for low- and moderate-income home buyers. Under the program, HUD provides mortgage insurance and secures from lenders below market interest rates as low as four percent. Purchasers must make a four percent down payment toward acquisition costs and contribute 20 percent of their adjusted income toward monthly mortgage payments. To be eligible, applicants must have an income below 95 percent of the local median income. There are, however, no restrictions on the applicant's assets.

Legislative and program requirements prior to the Housing and Community Development Amendments of 1979 served to limit the availablity of Section 235 to units in HUD-insured multi-family projects which had been constructed or substantially rehabilitated not more than two years prior to the application for Section 235 assistance. In addition, Section 235 was only available on units which

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4/ The data were provided by HUD's Office of Management, Management Information Systems Division, Single-Family Insured Branch.

had no prior occupant than the mortgagor. Other reasons for its limited use are the mortgage limits of $38,000 for small units and $44,000 for larger ones, and the relatively high down payment requirement. In a proposal for reauthorization of housing and community development programs, HUD plans increases in Section 235 mortgage limits.

In 1979, Congress extended coverage under Section 235 to provide assistance payments to mortgagors who are involuntarily displaced from rental units which are to be converted to a condominium or cooperative project. The assistance can be for the acquisition of a condominium unit or membership in a cooperative association.

Section 8. Section 8 of the Housing and Community Development Act is a rent subsidy program that provides rental assistance payments to households with incomes less than or equal to 80 percent of the area's median income. Under the existing portion of this program, these subsidies enable recipients to rent housing in the private market. Eligible tenants contribute a maximum amount equal to 25 percent of their adjusted income toward the rent. Residents of cooperative projects are eligible for Section 8 assistance. Under Section 8, cooperatives are eligible to receive housing assistance payments. Processing of projects seeking to use Section 8 subsidies in a cooperative conversion is handled on a case-by-case basis. As of October 1979, 83 cooperative projects, including 64 Loan Management Set-Asides, were reportedly receiving Section 8 assistance. 5/

The Veterans Administration: Guaranteed and Insured Loan Program. The Veterans Administration housing program guarantees and insures loans made to eligible military veterans by private lending institutions. Loans may be used for the purchase, construction, refinancing or improvement of homes. In 1978, the VA loan authorization was extended to permit VA loans not only in newly constucted condominiums, but also in existing projects converted to condominiums.

5/ Starting in FY 1976, 64 cooperative projects insured under the Section 221(d)(3) below market interest rate and Section 236 programs received Loan Management Set-Asides which help building owners avoid potential financial problems. The Set-Aside consisted of Section 8 Housing Assistant Payments to cooperative shareholders in these buildings.

For guaranteed loans, the loan amount is limited to the appraised value of the housing unit. Insured loans are limited to the lesser of either: (1) 6-2/3 times the amount of entitlement available to the veteran; or (2) the appraised value of the property. Loan insurance has a term of approximately 30 years.

From 1971 through 1979, the Veterans Administration guaranteed or insured 16,010 loans for the purchase of condominium units, and activity in this area appears to be increasing. It cannot be determined, however, what portion of these loans were used to finance converted, as opposed to newly built, condominiums.

The involvement of the Veterans Administration in cooperatives appears to be minimal since, according to one Veterans Administration official, it is administratively impractical to guarantee or insure loans for cooperative housing units.

Farmers Home Administration: Section 515 Program. The Farmers Home Administration (FmHA) operates the Section 515 rural rental housing loan program. Under this program, loans are made to construct rental units for low- and moderate-income households, senior citizens, and handicapped individuals. Loans are available to individuals, limited and full partnerships, non-profit corporations, public bodies, corporations, and cooperatives. Interest rates for the loans range from one percent for limited-profit borrowers to ten percent for borrowers who will realize a profit.

To date, no Section 515 loans have been made for the conversion of rental units to condominiums or cooperatives, although four loans have been granted for construction of new cooperatives. New program regulations, which will be published during the latter half of 1980, are expected to provide loans for new and converted cooperative housing activity.

The National Consumer Cooperative Bank. Legislation authorizing a National Consumer Cooperative Bank was signed into law on August 20, 1978. The Cooperative Bank makes loans at market interest rates to various types of cooperatives. A Self-Help Development Fund and Technical Assistance program is designed to assist low-income housing cooperatives. After October 1, 1983, 30 percent of the Bank's gross assets may be made available for housing cooperatives. However, to date, the Bank's involvement in cooperative housing loans has been very limited. Those cooperative groups with a sound organizational structure and an ability to repay financial obligation may receive loans from the Bank.

HUD's Loan Management and Property Disposition Programs 6/

HUD's Loan Management Program covers all aspects of loan servicing for HUD-insured (subsidized and unsubsidized) rental properties.

In HUD-insured, unsubsidized, multi-family rental properties, a mortgagor may undertake a conversion without obtaining HUD approval and prepay in full the outstanding mortgage. Once prepayment is made, HUD's regulatory agreement is cancelled, and the mortgagor may convert the property. If an existing mortgagor wishes to sell the property to a second party for conversion and that party wishes to either assume the existing FHA-insured mortgage because of its favorable terms or obtain financing or related assistance from HUD not routinely available, HUD can discourage a conversion by the second party by denying these requests. Although HUD's present policy is not to encourage conversions of unsubsidized, multi-family properties involving mortgage assumptions, requests to HUD concerning mortgage assumption and similar issues are treated on a case by case basis.

Since HUD currently prohibits the prepayment of mortgages on subsidized, multi-family rental properties, the probibition, in effect, prevents the conversion of such properties

HUD's Property Disposition Program deals with the sale of rental properties acquired by HUD following a mortgagor's default on a HUD-insured loan. The Department's principal policy concern in these sales is to prevent the displacement of low- and moderate-income tenants. Therefore, both previously subsidized and unsubsidized HUD-owned properties, which house low- and moderate-income tenants, are sold by HUD only with long-term Section 8 housing assistance commitments attached to them. Thus, conversion of these properties for occupancy by individuals not eligible for Section 8 assistance is prohibited. If, however, a vast majority of the low- and moderate-income tenants of a HUD-owned property are interested in converting the property to a cooperative, HUD will explore this possibility with them. For example, HUD is managing a demonstration in Boston designed to help lower income tenants of HUD-owned buildings purchase the buildings and convert them to cooperatives.

6/ HUD has authority under Section 207(L) of the National Housing Act to dispose of properties it has acquired in the conduct of its program. Its regulations on disposing of property provides for its sale to cooperative associations and as condominium units.

Secondary Mortgage Market Programs

Three secondary mortgage market corporations, the Federal National Mortgage Association, (FNMA) the Federal Home Loan Mortgage Corporation, (FHLMC) and the Government National Mortgage Association, (GNMA) are involved in the buying and/or selling of condominium mortgage loans and cooperative mortgages. In addition, these organizations may impose requirements on condominiums related to structural quality, condition of mechanical systems, and the management of the condominium association, which must be met before they will buy mortgages.

The Federal National Mortgage Association. The Federal National Mortgage Association (FNMA) is a federally-chartered, private corporation serving a public purpose. It buys mortgages from original lenders to increase lender liquidity and thus permit them to assume other obligations. In the past, FNMA bought primarily FHA-insured mortgages; but, more recently, it has entered the conventional mortgage market.

Since 1974, FNMA has purchased condominium mortgages, as well as cooperative blanket mortgages. FNMA's purchase of a condominium mortgage depends on its approval of the unit purchaser, the unit itself, and the condominium developer. No distinction is made in FNMA's data files between new and converted condominiums so that the number of converted unit mortgages it buys cannot be determined.

A few HUD-insured cooperative blanket mortgages have been purchased for the FNMA portfolio. In addition, FNMA has recently received authorization from HUD to purchase conventionally financed cooperative project blanket loans, but the program has not yet been implemented. FNMA also has authority to purchase HUD-insured Section 203(n) loans but, to date, has not done so.

The Federal Home Loan Mortgage Corporation (FHLMC). The mandate of the Federal Home Loan Mortgage Corporation is to develop a dynamic, secondary market for conventional residential mortgages. FHLMC operates in the manner of a private corporation which buys and sells mortgages. FHLMC treats a condominium unit mortgage in the same way as a single-family mortgage, i.e., if the property value supports the mortgage and if the borrower's credit is sound, FHLMC will buy the mortgage. In the secondary mortgage market, FHLMC is a major purchaser of conventional condominium mortgages, but no data are available on the number of mortgages for converted units.

FHLMC has authority, under its multi-family mortgage purchase programs, to purchase cooperative blanket mortgages. A few cooperative mortgages have been purchased, but it is unclear whether any have been conversions. The Federal Home Loan Bank Board (FHLBB) has recently authorized federal savings and loan associations to make loans for cooperative shares for up to 95 percent of the value of the cooperative unit. FHLMC has recently been given authority by Congress to develop a secondary market program for cooperatives, and it may be implemented by late 1980.

Government National Mortgage Association (GNMA). The Government National Mortgage Association (GNMA) was created in 1968 as a government corporation within the Department of Housing and Urban Development to administer mortgage programs which could not be carried out in the private market. GNMA operates in two major areas. Under its Special Assistance Programs activity, GNMA purchases certain types of mortgages to fulfill two statutory objectives: (1) to provide support for types of housing for which financing is not readily available, such as housing for low-income families, and (2) to counter declines in mortgage lending and housing construction. Under its tandem programs, GNMA makes mortgage money available at rates which are more favorable than private lenders would offer. GNMA buys mortgages at below-market rates and then sells them to private investors. Losses from this operation become a debt owed to the Treasury.

Under GNMA's Targeted Tandem Programs (Program 27), individuals or organizations holding mortgages may be eligible for financing at the FHA rate (plus 2 1/2 points). To qualify for the programs, the units must be located in cities eligible for HUD's Urban Development Action Grant program under HUD's Community Development Block Grant program.

Similarly, in cities eligible for Urban Development Action Grants, GNMA's Targeted Tandem program can be used to purchase Section 213 and Section 221(d)(3) projects, HUD-insured mortgages on substantially rehabilitated cooperatives. A Section 213(i) cooperative project is not eligible for this program because GNMA requires substantial rehabilitation or new construction and the Section 213(i) program does not involve either. Finally, if at least 20 percent of the units in a cooperative have Section 8 assistance, GNMA may purchase the cooperative blanket mortgage under its Section 8 Tandem program, Program 25.

Under its Mortgage-Backed Securities Program, GNMA guarantees the timely payment of principal and interest on securities based on pools of government underwritten mortgages and issued by private mortgage institutions. The GNMA guaranty is backed by the full faith and credit of the United States Government. Section 234(c) mortgages are eligible for inclusion in loan pools. Other HUD, VA and FmHA single-family or multi-family cooperative or condominium programs are also eligible to participate in GNMA loan pools.

Other Federal Programs

Urban Homesteading. This program was originally authorized in 1976 as a demonstration project. Under the program, HUD transfers properties it holds in declining neighborhoods to local governments, which have developed revitalization plans for such areas. Local governments then sell the properties for token sums (often $1) to qualifying households. In turn, the households must bring the structure up to local building code standards within 18 months, and agree to occupy the property for at least three years. Once the property meets local building standards, the "homesteader" receives full title to the property. A portion of Section 312 funds (see below) is set aside to help the homesteaders make repairs.

Until recently, the program focused on single-family properties, however, multi-family structures are now eligible for rehabilitation. Most multi-family structures become cooperatives rather than condominiums, possibly because multi-family activity has been concentrated in New York City, where cooperative housing is very popular. Data on the extent of this activity is not available.

Section 312 Rehabilitation Loans. Under this program, authorized by the Housing Act of 1964, HUD provides rehabilitation loans at below market interest rates for use in Federally-aided Community Development Block Grant, Urban Homestead, Urban Renewal and Code Enforcement areas. Property owners who are unable to secure loans on comparable terms and conditions are eligible for the program, and they must demonstrate an ability to repay the loan.

Loans are generally provided at 3 percent interest for a 20-year term, and preference is given to low- and moderate-income applicants. Although loans may not exceed $27,000 per dwelling unit, there is no limit on the number of loans which may be made in each building. HUD sets ceilings on rents that can be charged after rehabilitation financed by Section 312 loans. However, program regulations do not impose sales price ceilings on buildings renovated with these funds.

Although infrequent use has been made of Section 312 loans in condominium and cooperative conversions, current program guidelines do not prohibit the use of these funds to renovate buildings which may later be converted. There are no data available on the use of these funds in conversions.

Community Development Block Grants (CDBG). Title I of the Housing and Community Development Act of 1974 (as amended in 1977) authorizes HUD to award block grants to local governments for a wide range of community development activities. Metropolitan cities and qualified urban counties are guaranteed an entitlement share of funds, based on need. A formula that considers population, poverty, overcrowding, age of housing stock, and growth lag is used to calculate need. Smaller communities compete for the remaining discretionary funds.

Given broad Federal guidelines by which CDBG funds are to be utilized, cities use discretion in allocating funds within their jurisdictions. Eligible activities include financing for housing acquisition and/or rehabilitation. In the past, rehabilitation was generally limited to single-family homes or structures with four or less units. The number of units rehabilitated with CDBG funds and later converted to condominiums or cooperatives is not known at this time. Under current regulations, however, this activity is not prohibited.

Arlington County, Virginia, provides an example of the use of CDBG funds in the conversion process. The county provided a $50,000 grant from CDBG funds to a group of tenants attempting to convert their rental housing to a cooperative. At least 20 percent of the units will be reserved for low- and moderate-income households under the Section 8 program.

The Innovative Projects Program. On November 9, 1979, HUD's Office of Community Planning and Development awarded innovative grants to 12 city and county governments (out of 134 applicants). The grants will be used to aid tenants displaced because of urban revitalization projects. Eligible projects include any innovative product, process, organizational arrangement or technique that clearly addresses the circumstances surrounding the displacement issue. Some examples of relevant projects recently funded are:

1. In Baltimore, a non-profit real estate corporation will identify, acquire, rehabilitate and sell residential properties in specific neighborhoods and provide homeownership and cooperative housing opportunities to low- and moderate-income residents.

2. In Brookline, Massachusetts, households meeting both Section 312 rehabilitation loan and Section 235 mortgage insurance requirements may qualify for equity assistance in the purchase of multi-family units being converted to condominiums.

3. In Columbia, South Carolina, a program will encourage and assist low-income households to establish housing cooperatives by providing rehabilitation loans and Section 8 assistance.

4. In Denver, a public education and technical assistance program will assist tenants, and a fund will provide financing for housing cooperatives.

5. In Fairfax County, Virginia, residents of a rental mobile home park will be assisted in forming a cooperative corporation.

6. In Kings County, Washington, a program will provide for public purchase and ownership of condominiums, and the subsequent rental of the units to low-income, elderly households facing displacement as a result of conversion.

7. In Santa Barbara, California, a cooperative lending program will finance a model cooperative for low-income rental households which may be displaced from revitalizing neighborhoods.

8. In Washington, D.C., where the tenants have the legal first right to purchase their converting units, a program will help low-income tenants to do so.

Urban Development Action Grants (UDAG). The UDAG program is authorized by Section 119 of the Housing and Community Development Act of 1977. Action grants aid severely distressed cities and urban counties in revitalizing their economies and reclaiming deteriorated neighborhoods. A combination of public and private resources are used to finance projects directed toward low- and moderate-income persons and minorities. Private participants must make a written financial commitment to the local jurisdiction prior to the awarding of a UDAG grant. HUD requires two and one-half dollars of private funds for every one dollar of UDAG funding.

UDAG funds may be used for a variety of industrial, commercial and residential redevelopment activities, including housing rehabilitation. Although no precise data are available, HUD program staff members estimate that 10 percent of all UDAG grants to local governments are used for housing rehabilitation programs. Staff members further indicate that current UDAG regulations do not prohibit a property owner who has secured UDAG funding for housing rehabilitation from later converting the property to a condominium or cooperative. For instance, there are currently applications for UDAG funding which would be used to convert commercial or manufacturing buildings to residential use. More systematic data on conversion-related activities are not available at this time.

An example of UDAG use in relation to conversions is the Washington, D.C. Housing Purchase Assistance Program (HPAP), which maintains a pool of funds to provide interest-free down payment loans to low-income persons. Some UDAG funds are included in this funding pool which recently assisted a group of low-income tenants in purchasing their building as a cooperative. Washington's housing officials anticipate that HPAP will be used even more in the future to help lower income tenants buy individual condominium units or shares in a cooperative.

Neighborhood Self-Help Program (NVACP). HUD's Neighborhood Self-Help (NSH) Program awards grants to neighborhood organizations for specific housing, economic, neighborhood conservation and rehabilitation projects in low- and moderate-income neighborhoods. These flexible project grants are designed to encourage local creativity in meeting neighborhood revitalization needs; therefore, few restrictions are placed on the use of project funds.

Eligible activities include: housing rehabilitation; creative use and reuse of existing buildings; neighborhood commercialization and economic development; and energy conservation and weatherization projects.

The initial round of applications for NSH grants were submitted in March 1980. At least one tenant group in Arlington County, Virginia, has requested a grant to assist in the purchase of its apartment complex in order to convert it to a cooperative.

Technical Assistance to Tenants. The Office of Neighborhood Self Development Division is developing materials to assist tenant and neighborhood groups in converting projects. These include manuals on cooperatives and condominium conversions.

Department of Housing and Urban Development Demonstrations

To explore new and improved means of implementing the present programmatic regulations that provide for the insurance of condominium and cooperative mortgages, HUD either has proposed or has in effect two Demonstrations, which are outlined below.

Section 223(f), 221(d)(3) and 234(c). HUD will undertake a demonstration implementing the authority of Section 223(f) pursuant to Section 221(d)(3) and Section 234(c). Starting in the fall of 1980 HUD will put into effect a demonstration to test three purchase and refinancing mechanisms that would preserve multi-family projects for occupancy by low, moderate and middle-income families through providing: (1) continued rental status of the project; (2) conversion of an existing multi-family project to cooperative; and (3) conversion of an existing multi-family project to condominium. The demonstration, will permit the insurance of mortgage loans made in connection with the purchase and refinancing of existing conventinally-financed, multi-family rental projects to condominiums and cooperatives.

The demonstration is limited to 30 projects located in a maximum of six metropolitan areas of the country.

Section 235. In an attempt to alleviate some of the problems facing low- and moderate-income persons whose apartment buildings are undergoing conversion to condominium, Montgomery County, Maryland is currently collaborating with HUD in undertaking a demonstration that provides, through the use of Section 235, insurance and interest subsidies to unit purchasers.

Appendix 1-III

Supplementary Tables

Appendix 1-III

Supplementary Tables

Supplementary tables which are referenced in the main body of the report are contained in this appendix. They are as follows:

TABLE IV-1 App.
CONDOMINIUM AND COOPERATIVE CONVERSIONS
BY SMSA, LOCATION, AND RANK: 1970-1979

	1970-1976	1977	1978	1979 3 Quarters	Subtotal 1977-1979	Total 1970-1979	Rank 1977-1979	Rank 1970-1979
Anaheim-Santa Ana-Garden Grove SMSA Total	551	438	824	703	1,965	2,516	20	21
CC	247	274	745	338	1,357	1,604		
OCC	304	164	79	365	608	912		
Atlanta SMSA Total	2,282	580	407	1,595	2,582	4,864	18	15
CC	839	130	292	963	1,385	2,224		
OCC	1,443	450	115	632	1,197	2,640		
Baltimore SMSA Total	286	174	762 A/	984 A/	1,920	2,206	21	22
CC	286	141	8	528	677	963		
OCC	0	33	754 A/	456 A/	1,243	1,243		
Boston, SMSA Total	4,199	1,250	2,224	1,930	5,404	9,603	11	6
CC	1,877	171	897	201	1,269	3,146		
OCC	2,322	1,079	1,327	1,729	4,135	6,457		
Buffalo SMSA Total	0	371	220	192	783	783	30	32
CC	0	65	0	0	65	65		
OCC	0	306	220	192	718	718		
Chicago SMSA Total	27,405 A/	11,192 A/	11,355 A/	19,509 A/	42,056	69,461	1	1
CC	11,917 B/	4,791 A/	5,159 A/	14,002 A/ D/	23,952	35,869		
OCC	15,488 A/	6,401 A/	6,196 A/	5,507 A/	18,104	33,592		

Note: "A" designates extrapolated data. "B" designates estimated data. "C" designates data for 6 months. "D" designates data for 12 months. "CC" designates the central city for the SMSA. "OCC" designates all areas within the SMSA, but outside the central city.

TABLE IV-1 App.
CONDOMINIUM AND COOPERATIVE CONVERSIONS
BY SMSA, LOCATION, AND RANK: 1970-1979

	1970-1976	1977	1978	1979 3 Quarters	Subtotal 1977-1979	Total 1970-1979	Rank 1977-1979	Rank 1970-1979
Cincinnati SMSA Total	98	56	126	153	335	433	36	35
CC	98	56	126	121	303	401		
OCC	0	0	0	32	32	32		
Cleveland SMSA Total	1,516	720	2,576	1,438	4,734	6,250	12	12
CC	0	5	279	0	284	284		
OCC	1,516	715	2,297	1,438	4,450	5,966		
Columbus SMSA Total	722	397	384	365	1,146	1,868	26	23
CC	164	38	283	341	662	826		
OCC	558	359	101	24	484	1,042		
Dallas-Fort Worth SMSA Total	2,795	1,078	1,020	1,883	3,981	6,776	15	11
CC	2,457	1,078	788	1,883	3,749	6,206		
OCC	338	0	232	0	232	570		
Denver-Boulder SMSA Total	1,197	732	6,743	5,551	13,026	14,223	3	5
CC	685	642	5,894	4,245	10,781	11,466		
OCC	512	90	849	1,306	2,245	2,757		
Detroit SMSA Total	140	7	619	731	1,357	1,497	24	26
CC	43	0	0	11	11	54		
OCC	97	7	619	720	1,346	1,443		
Hartford SMSA Total	0	318 A/	318 A/	737 A/	1,373	1,373	23	29
CC	0	29 A/	29 A/	22 A/	80	80		
OCC	0	289 A/	289 A/	715 A/	1,293	1,293		

Note: "A" designates extrapolated data. "B" designates estimated data. "C" designates data for 6 months. "D" designates data for 12 months. "CC" designates the central city for the SMSA. "OCC" designates all areas within the SMSA, but outside the central city.

TABLE IV-1 App.
CONDOMINIUM AND COOPERATIVE CONVERSIONS
BY SMSA, LOCATION, AND RANK: 1970-1979

	1970-1976	1977	1978	1979 3 Quarters	Subtotal 1977-1979	Total 1970-1979	Rank 1977-1979	Rank 1970-1979
Houston SMSA Total	3,237	5,042	5,615	1,994	12,651	15,888	4	4
CC	3,237	5,042	5,615	1,994	12,651	15,888		
OCC	0	0	0	0	0	0		
Indianapolis SMSA Total	0	0	0	387	387	387	34	37
CC	0	0	0	387	387	387		
OCC	0	0	0	0	0	0		
Kansas City SMSA Total	310	0	412	718	1,130	1,440	27	27
CC	310	0	248	438	686	996		
OCC	0	0	164	280	444	444		
Los Angeles-Long Beach, SMSA Total	1,670	1,159	4,506	986	6,651	8,321	8	8
CC	0	736	1,094	261	2,091	2,091		
OCC	1,670	423	3,412	725	4,560	6,230		
Miami SMSA Total	0	644	1,970	2,972	5,586	5,586	10	14
CC	0	515	526	1,820	2,861	2,861		
OCC	0	129	1,444	1,152	2,725	2,725		
Milwaukee SMSA Total	683	398	294	235	927	1,610	28	25
CC	293	174	132	195	501	794		
OCC	390	224	162	40	426	816		

Note: "CC" designates the central city for the SMSA. "OCC" designates all areas within the SMSA, but outside the central city.

TABLE IV-1 App.

CONDOMINIUM AND COOPERATIVE CONVERSIONS
BY SMSA, LOCATION, AND RANK: 1970-1979

	1970-1976	1977	1978	1979 3 Quarters	Subtotal 1977-1979	Total 1970-1979	Rank 1977-1979	Rank 1970-1979
Minneapolis-St. Paul SMSA Total	1,541	1,333	1,703	2,738	5,774	7,315	9	10
CC	761	142	198	667	1,007	1,768		
OCC	780	1,191	1,505	2,071	4,767	5,547		
Nassau-Suffolk SMSA Total	847	139	401	0	540	1,387	32	28
CC	847	139	401	0	540	1,387		
OCC	N/A	N/A	N/A	N/A	N/A	N/A		
Newark SMSA Total	415	41	7	22	70	485	37	34
CC	0	0	0	4	4	4		
OCC	415	41	7	18	66	481		
New Orleans SMSA Total	18	0	38	466	504	522	33	33
CC	18	0	38	394	432	450		
OCC	0	0	0	72	72	72		
New York SMSA Total	3,790	1,711	5,527	4,922	12,160	15,950	5	3
CC	2,093	901	3,871	4,372	9,144	11,237		
OCC	1,697	810	1,656	550	3,016	4,713		
Philadelphia SMSA Total	782	1,277 A/	1,267 A/	5,042 A/	7,586	8,368	7	7
CC	502	0	0	3,856	3,856	4,358		
OCC	280	1,277 A/	1,267 A/	1,186 A/	3,730	4,010		

Note: "A" designates extrapolated data. "B" designates estimated data. "C" designates data for 6 months. "D" designates data for 12 months. "CC" designates the central city for the SMSA. "OCC" designates all areas within the SMSA, but outside the central city. "N/A" designates not available.

TABLE IV-1 App.
CONDOMINIUM AND COOPERATIVE CONVERSIONS
BY SMSA, LOCATION, AND RANK: 1970-1979

	1970-1976	1977	1978	3 Quarters	Subtotal 1977-1979	Total 1970-1979	Rank 1977-1979	Rank 1970-1979
Phoenix SMSA Total	1,715	92	802	1,776	2,670	4,385	17	17
CC	800	24	195	795	1,014	1,814		
OCC	915	68	607	981	1,656	2,571		
Pittsburgh SMSA Total	1,649	470	781	733	1,984	3,633	19	19
CC	217	116	310	585	1,011	1,228		
OCC	1,432	354	471	148	973	2,405		
Portland SMSA Total	329	24	362	166	552	881	31	31
CC	248	24	84	105	213	461		
OCC	81	0	278	61	339	420		
Riverside-San Bernadino-Ontario SMSA Total	69	101	143	116	360	429	35	36
CC	7	74	5	12	91	98		
OCC	62	27	138	104	269	331		
St. Louis SMSA Total	193	94	100	638	832	1,025	29	30
CC	0	66	30	261	357	357		
OCC	193	28	70	377	475	668		
San Antonio SMSA Total	480 B/	480 B/	480 B/	360 B/	1,320	1,800	25	24
CC	480 B/	480 B/	480 B/	360 B/	1,320	1,800		
OCC	0	0	0	0	0	0		
San Diego SMSA Total	291	928	2,075	349	3,352	3,643	16	18
CC	174	840	1,755	259	2,854	3,028		
OCC	117	88	320	90	498	615		

Note: "A" designates extrapolated data. "B" designates estimated data. "C" designates data for 6 months. "D" designates data for 12 months. "CC" designates the central city for the SMSA. "OCC" designates all areas within the SMSA, but outside the central city.

TABLE IV-1 App.
CONDOMINIUM AND COOPERATIVE CONVERSIONS
BY SMSA, LOCATION, AND RANK: 1970-1979

	1970-1976	1977	1978	1979 3 Quarters	Subtotal 1977-1979	Total 1970-1979	Rank 1977-1979	Rank 1970-1979
San Francisco-Oakland SMSA Total	0	3,207 A/	2,639 A/	1,819 A/	7,665	7,665	6	9
CC	0	910 A/	342 A/	95 A/	1,347	1,347		
OCC	0	2,297 A/	2,297 A/	1,724 A/	6,318	6,318		
San Jose SMSA Total	1,545 A/	578 A/	578 A/	432 A/	1,588	3,133	22	20
CC	240 A/	240 A/	240 A/	180 A/	660	900		
OCC	1,305 A/	338 A/	338 A/	252 A/	928	2,233		
Seattle-Everett SMSA Total	1,417	783	2,828	934	4,545	5,962	14	13
CC	704	421	961	713	2,095	2,799		
OCC	713	362	1,867	221	2,450	3,163		
Tampa-St. Petersburg, SMSA Total	0	329	2,015	2,382	4,726	4,726	13	16
CC	0	154	1,054	1,566	2,774	2,774		
OCC	0	175	961	816	1,952	1,952		
Washington, D.C. SMSA Total	22,139	4,298	3,761	8,609	16,668	38,807	2	2
CC	5,945	532	1,550	4,330	6,412	12,357		
OCC	16,194	3,766	2,211	4,279	10,256	26,450		
Total 37 SMSAs	84,311	40,441	65,882	74,567	180,890	265,201	N/A	N/A
CC	25,219	18,950	33,629	46,304	98,883	134,372	N/A	N/A
OCC	48,822	21,491	32,253	28,263	82,007	130,829	N/A	N/A

Source: Field Interviews, *op. cit.*
Note: "A" designates extrapolated data. "B" designates estimated data. "C" designates data for 6 months. "D" designates data for 12 months. "CC" designates the central city for the SMSA. "OCC" designates all areas within the SMSA, but outside the central city.

TABLE IV-2 App.
CONDOMINIUM AND COOPERATIVE CONVERSIONS IN
THE 37 LARGEST SMSAs, BY LOCATION: 1970-1979 (3RD QUARTER)

SMSA	Condominiums CC	Condominiums OCC	Cooperatives CC	Cooperatives OCC	SMSA Total
Anaheim-Santa Ana-Garden Grove	1,604	912	0	0	2,516
Atlanta	2,224	2,640	0	0	4,864
Baltimore	963	1,243	0	0	2,206
Boston	3,146	6,457	0	0	9,603
Buffalo	65	718	0	0	783
Chicago	45,539	33,592	0	0	79,131
Cincinnati	401	32	0	0	433
Cleveland	284	5,426	0	540	6,250
Columbus	826	1,042	0	0	1,868
Dallas-Fort Worth	6,206	570	0	0	6,776
Denver-Boulder	11,466	2,757	0	0	14,223
Detroit	54	1,443	0	0	1,497
Hartford	80	1,293	0	0	1,373
Houston	15,888	0	0	0	15,888
Indianapolis	387	0	0	0	387
Kansas City	996	444	0	0	1,440
Los Angeles-Long Beach	2,091	6,230	0	0	8,321
Miami	2,861	2,725	0	0	5,586
Milwaukee	794	816	0	0	1,610
Minneapolis-St. Paul	1,470	5,547	298	0	7,315
Nassau-Suffolk	362	N/A	1,025	N/A	1,387
Newark	4	481	0	0	485
New Orleans	450	72	0	0	522
New York City	100	3,499	11,137	1,214	15,950
Philadelphia	4,358	3,511	0	499	8,368
Phoenix	1,814	2,551	0	0	4,385
Pittsburgh	1,228	2,405	0	0	3,633
Portland	461	420	0	0	881
Riverside-San Bernardino-Ontario	98	331	0	0	429
St. Louis	357	668	0	0	1,025
San Antonio	1,800	0	0	0	1,800
San Diego	3,028	615	0	0	3,643
San Francisco-Oakland	1,347	5,297	0	1,021	7,665
San Jose	900	2,233	0	0	3,133
Seattle-Everett	2,799	3,163	0	0	5,962
Tampa-St. Petersburg	2,774	1,952	0	0	4,726
Washington, D.C.	10,899	26,034	1,458	416	38,807
Totals	130,124	127,139	13,918	3,690	274,871
Percent of Total	47.3	46.3	5.1	1.3	100.00

Source: Field Study, Department of Housing and Urban Development, Division of Policy Studies, Fall 1979.

Note: "CC" designates central city of SMSA. "OCC" designates area outside central city but within SMSA. "N/A" designated not available.

TABLE IV-3 App.

CONDOMINIUM AND COOPERATIVE CONVERSIONS IN 12 HIGH ACTIVITY SMSAs: 1970-1979

SMSA	1970-75	1976	1977	1978	1979 (3 Quarters)
Boston	3,376	823	1,250	2,224	1,930
Chicago	22,374	5,031	11,192	11,355	19,509 1/
Denver-Boulder	968	229	732	6,743	5,551
Houston	1,061	2,176	5,042	5,615	1,994
Los Angeles-Long Beach	1,094	576	1,159	4,506	986
Miami	N/A	N/A	644	1,970	2,972
Minneapolis-St. Paul	1,298	243	1,333	1,703	2,738
New York City	3,201	589	1,711	5,527	4,922
San Francisco-Oakland	N/A	N/A	3,207	2,639	1,819
Seattle-Everett	1,286	131	783	2,828	934
Tampa-St. Petersburg	N/A	N/A	329	2,015	2,382
Washington, D.C.	21,258	881	4,298	3,761	8,609
Total	55,916	10,679	31,670	50,886	54,346

Source: Field Interviews, op. cit.

1/ For all 12 months of 1979.

Note: N/A designates not available.

TABLE IV-4 App.
CONDOMINIUM AND COOPERATIVE CONVERSION IN
25 LARGE SMSAs: 1970-1979

SMSA	1970-75	1976	1977	1978	1979 (3 Quarters)
Anaheim-Santa Ana-Garden Grove	185	366	438	824	703
Atlanta	2,230	52	580	407	1,595
Baltimore	187	99	174	762 A/	984 A/
Buffalo	N/A	N/A	371	220	192
Cincinnati	98	0	56	126	153
Cleveland	1,448	68	720	2,576	1,438
Columbus	399	323	397	384	365
Dallas-Fort Worth	2,471	324	1,078	1,020	1,883
Detroit	102	38	7	619	731
Hartford	0	0	318 A/	318 A/	737 A/
Indianapolis	0	0	0	0	387
Kansas City	259	51	0	412	718
Milwaukee	627	56	398	294	235
Nassau-Suffolk	832	15	139	401	0
Newark	355	60	41	7	22
New Orleans	18	0	0	38	466
Philadelphia	737	45	1,277 A/	1,267 A/	5,042 A/
Phoenix	1,715	0	92	802	1,776
Pittsburgh	958	691	470	781	733
Portland	312	17	24	362	166
Riverside-San Bernardino-Ontario	22	47	101	143	116
St. Louis	193	0	94	100	638
San Antonio	0	480 A/	480 A/	480 A/	360 A/
San Diego	193	98	928	2,075	349
San Jose	967	578 B/	578 A/	578 A/	432 A/
Total	14,308	3,408	8,761	14,996	20,221

Source: Field Study, Department of Housing and Urban Development, Division of Policy Studies, Fall 1979.

Note: "A" designates extrapolated data. "B" designates estimated data. "N/A" designates not available.

TABLE IV-5 App.

TOTAL RENTAL HOUSING, TOTAL HOUSING UNITS, AND CONVERSIONS FOR 1970-79 AND 1977-79 AS PERCENT OF RENTAL HOUSING FOR 11 HIGH ACTIVITY SMSAs BY LOCATION 1/

SMSA	Housing Units	Rental Units	Conversions as Percent of Rental 1970-79	1977-79
Boston	873,392	405,357	2.37	1.33
CC	200,201	143,195	2.20	0.89
OCC	673,191	262,162	2.46	1.58
Chicago	2,261,894	1,028,962	6.80	4.09
CC	1,058,629	667,766	5.44	3.59
OCC	1,203,265	361,196	9.30	5.01
Denver-Boulder	500,424	204,338	6.96	6.37
CC	194,822 2/	100,647 2/	8.79 2/	8.11 2/
Denver	194,822	100,647	8.79	8.11
Boulder	N/A	N/A	N/A	N/A
OCC	305,602	103,691	5.19	4.69
Houston	753,397	295,418	5.38	4.28
CC	425,344	218,422	7.27	5.79
OCC	328,053	76,996	0.00	0.00
Los Angeles-Long Beach	2,520,420	1,303,868	0.64	0.51
CC	1,188,477	702,789	0.30	0.30
Los Angeles	N/A	N/A	N/A	N/A
Long Beach	N/A	N/A	N/A	N/A
OCC	1,331,943	601,079	1.04	0.76
Miami	503,710	381,824	1.46	1.46
CC	255,307	214,486	1.33	1.33
OCC	248,403	167,338	1.63	1.63

Note: "CC" designates the central city for the SMSA. "OCC" designates all areas within the SMSA but outside the central city. "N/A" designates data not available.

1/ Data not available for Tampa-St. Petersburg, Florida SMSA.
2/ Data only for Denver.

TABLE IV-5 App.

TOTAL RENTAL HOUSING, TOTAL HOUSING UNITS, AND CONVERSIONS FOR 1970-79 AND 1977-79 AS PERCENT OF RENTAL HOUSING FOR 11 HIGH ACTIVITY SMSAs BY LOCATION

SMSA	Housing Units	Rental Units	Conversions as Percent of Rental 1970-79	1977-79
Minneapolis-St. Paul	613,301	214,119	3.42	2.70
CC	262,530	123,387	1.41	0.80
Minneapolis	N/A	N/A	N/A	N/A
St. Paul	N/A	N/A	N/A	N/A
OCC	350,771	88,732	6.25	5.37
New York City	3,745,075	2,229,632	0.72	0.55
CC	2,613,172	1,924,721	0.58	0.48
OCC	1,131,903	304,911	1.55	0.99
San Francisco-Oakland	1,158,710	552,937	1.39	1.39
CC	416,066	263,992	0.51	0.51
San Francisco	N/A	N/A	N/A	N/A
Oakland	N/A	N/A	N/A	N/A
OCC	742,644	288,945	2.19	2.19
Seattle-Everett	517,866	297,428	2.00	1.53
CC	335,011	216,743	1.29	0.97
Seattle	N/A	N/A	N/A	N/A
Everett	N/A	N/A	N/A	N/A
OCC	182,855	80,685	3.92	3.04
Washington, D.C.	980,991	501,948	7.73	3.32
CC	257,756	180,010	6.86	3.56
OCC	723,235	321,936	8.22	3.19

Source: U.S. Census Bureau, Series H-15, Annual Housing Survey SMSA Reports, 1974-1976, Washington, D.C., 1976-1979.

Note: "CC" designates the central city for the SMSA. "OCC" designates all areas within the SMSA but outside the central city. "N/A" designates data not available.

TABLE V-1 App.
SELECTED INDICATORS OF HOUSING SUPPLY, 37 SMSAs

SMSA	Average Multi-Family Building SMSA 1/	New Single-Family Units SMSA 1/	Single-Family Valuation Per Unit SMSA 2/
Anaheim	7,818	9,576	$ 59,521
Atlanta	2,196	16,597	31,730
Baltimore	3,594	10,561	35,827
Boston	4,076	3,698	40,704
Buffalo	927	2,393	39,889
Chicago	14,130	29,049	50,418
Cincinnati	3,530	6,032	40,987
Cleveland	2,393	5,938	61,088
Columbus	1,864	5,204	46,953
Dallas	16,243	26,199	41,774
Denver	5,451	20,006	38,600
Detroit	5,905	18,625	47,106
Hartford	779	2,605	37,337
Houston	25,900	31,185	40,431
Indianapolis	2,658	5,182	50,479
Kansas City	1,019	7,419	41,364
Los Angeles	20,345	13,911	60,151
Miami	5,051	8,383	48,029
Milwaukee	3,597	4,814	51,147
Minneapolis	4,143	16,471	46,578
Nassau/Suffolk	998	4,760	30,968
Newark	2,873	3,591	47,016
New Orleans	2,156	6,049	38,101
New York City	7,533	5,186	40,155
Philadelphia	3,584	17,968	33,831
Phoenix	5,958	30,919	30,909
Pittsburgh	2,783	6,173	42,511
Portland	3,793	12,084	42,431
Riverside	3,510	24,376	44,072
St. Louis	2,651	12,917	37,581
San Antonio	2,313	3,800	28,860
San Diego	12,383	13,476	52,120
San Francisco	5,418	11,871	57,608
San Jose	2,973	7,007	49,959
Seattle	9,643	13,427	45,153
Tampa/St. Petersburg	4,777	17,616	27,964
Washington, D.C.	5,323	17,945	39,005
Average In Col.	5,683	12,243	43,198

Source: Annual Housing Survey: 1974, 1975, 1976, op. cit.; Housing Assistance Assistance Plans, op. cit.

1/ Average number of units per year between 1976 and 1978.

2/ The total number of permits issued divided by the total cost of putting the units in place.

N/A = Not available.

TABLE V-2 App.
SELECTED MARKET CONDITIONS, 37 LARGEST SMSAs

SMSA	SMSA Average Annual Rate of Removal 1/	Central City Vacancy Rate Mid-1970's	Central City Vacancy Rate 1979	SMSA Median Rent Mid-1970's	SMSA Median Rent 1980
Anaheim	1,000	4.3	3.6	$189	$361
Atlanta	3,260	5.7	4.8	181	295
Baltimore	2,850	4.6	1.0	188	306
Boston	4,413	4.1	4.0	192	355
Buffalo	1,900	3.3	2.4	168	271
Chicago	16,476	4.8	6.0	179	344
Cincinnati	3,700	4.4	3.9	139	265
Cleveland	3,700	4.5	3.4	168	266
Columbus	1,800	10.4	5.7	158	266
Dallas	3,025	11.4	5.9	156	292
Denver	2,620	5.4	3.6	183	330
Detroit	8,850	5.9	8.7	159	332
Hartford	1,240	N/A	8.0	189	281
Houston	4,423	7.6	1.4	192	290
Indianapolis	2,483	8.0	4.1	161	264
Kansas City	3,480	7.5	6.5	161	266
Los Angeles	12,799	4.7	3.5	161	343
Miami	4,347	4.0	5.5	208	395
Milwaukee	1,980	3.4	5.3	171	303
Minneapolis	4,189	3.2	4.2	172	330
Nassau/Suffolk	N/A	N/A	2.4	N/A	415
Newark	3,575	2.1	1.0	186	337
New Orleans	2,640	6.0	4.5	135	290
New York City	26,532	5.1	2.3	207	375
Philadelphia	8,500	3.6	5.0	181	321
Phoenix	2,600	8.3	2.9	175	317
Pittsburgh	4,925	2.8	4.3	130	286
Portland	2,100	5.7	3.6	167	295
Riverside	1,840	3.2	4.1	158	318
St. Louis	6,800	4.8	4.9	157	276
San Antonio	1,440	N/A	6.8	144	286
San Diego	2,240	4.1	5.9	181	347
San Francisco	5,588	5.0	3.4	192	351
San Jose	N/A	N/A	2.4	N/A	380
Seattle	4,161	3.7	2.0	181	324
Tampa/St.Petersburg	N/A	N/A	5.0	N/A	287
Washington, D.C.	3,973	1.8	4.7	192	334

Source: Annual Housing Survey: 1974, 1975, 1976, op. cit.; Housing Assistance Plans, op. cit.

1/ Includes both occupied and vacant units averaged over four recent years.

N/A = Not available.

TABLE VI-1 App.

AGE OF HOUSEHOLD HEAD BY HOUSEHOLD TYPE

Age of Head	Household Type						
	Former Residents %	Tenant Buyers %	Continuing Renters %	Outside Buyers %	New Renters %	Owners %	Renters %
Less than 36	43	35	35	56	69	48	50
36 - 54	20	36	24	28	21	31	23
55 - 65	17	13	17	11	5	12	10
Greater than 65	20	16	24	5	5	9	17
Total Number	100 (273)	100 (180)	100 (141)	100 (318)	100 (127)	100 (448)	100 (268)

Source: Department of Housing and Urban Development, Survey of Current and Former Residents of Converted Buildings, December and January, 1980.

TABLE VI-2 App.

TOTAL HOUSEHOLD INCOME BY HOUSEHOLD TYPE

Total Income	Household Type						
	Former Residents %	Tenant Buyers %	Continuing Renters %	Outside Buyers %	New Renters %	Owners %	Renters %
Less than $12,500	20	10	27	14	17	12	22
12,500 - 21,500	26	21	33	27	31	25	32
$21,500 - 30,000	24	21	21	24	27	24	24
Greater than $30,000	30	48	19	35	25	39	22
Total Number	100 (301)	100 (161)	100 (142)	100 (327)	100 (129)	100 (488)	100 (271)

Source: Survey of Current and Former Residents, *op. cit.*

TABLE VI-3 App.

RACE OF HOUSEHOLD RESIDENTS BY HOUSEHOLD TYPE

Race	Household Type						
	Former Residents %	Tenant Buyers %	Continuing Renters %	Outside Buyers %	New Renters %	Owners %	Renters %
Black	11	13	15	9	14	10	15
Hispanic	1	1	3	2	5	2	4
White	83	82	77	82	78	82	77
Other	5	4	5	7	3	6	4
Total Number	100 (545)	100 (292)	100 (297)	100 (532)	100 (149)	100 (824)	100 (446)

Source: Survey of Current and Former Households, op. cit.

TABLE VI-4 App.

NUMBER OF EMPLOYED ADULTS BY HOUSEHOLD TYPE

Number of Employed Adults	Household Type						
	Former Residents %	Tenant Buyers %	Continuing Renters %	Outside Buyers %	New Renters %	Owners %	Renters %
None	19	20	29	13	17	15	23
One	59	60	55	67	65	65	60
Two or more	22	20	16	20	18	20	17
Total Number	100 (301)	100 (188)	100 (172)	100 (349)	100 (148)	100 (537)	100 (320)

Source: Survey of Current and Former Residents, op. cit.

TABLE VI-5 App.

TYPE OF EMPLOYMENT OF HOUSEHOLD AND SPOUSE BY HOUSEHOLD TYPE

OCCUPATION HEAD	Household Type						
	Former Residents %	Tenant Buyers %	Continuing Renters %	Outside Buyers %	New Renters %	Owners %	Renters %
Professional	31	43	32	48	43	46	37
Managerial	24	23	16	16	21	19	18
Clerical/Sales	14	11	15	15	16	13	15
Skilled/Unskilled/ Service	10	6	12	8	9	7	12
Housewife	4	7	10	3	1	5	5
Retired	17	10	15	10	10	10	13
Total	100	100	100	100	100	100	100
Number	(301)	(185)	(167)	(348)	(145)	(533)	(312)
Spouse							
Professional	19	33	16	40	34	38	24
Managerial	18	18	5	7	13	11	8
Clerical/Sales	15	11	23	20	17	17	21
Skilled/Unskilled/ Service	14	3	12	4	4	3	8
Housewife	22	30	36	18	24	22	31
Retired	12	5	8	11	8	9	8
Total	100	100	100	100	100	100	100
Number	(125)	(61)	(64)	(114)	(53)	(175)	(117)

Source: Survey of Current and Former Residents, op. cit.

TABLE VI-6 App.

NUMBER OF PERSONS IN HOUSEHOLD BY HOUSEHOLD TYPE

Number of Persons	Household Type: Former Residents %	Tenant Buyers %	Continuing Renters %	Outside Buyers %	New Renters %	Owners %	Renters %
One	27	58	48	57	46	57	47
Two	50	33	39	35	38	35	38
Three or more	23	9	13	8	16	8	15
Total Number	100 (301)	100 (189)	100 (173)	100 (352)	100 (265)	100 (541)	100 (438)

GENDER OF ONE PERSON HOUSEHOLDS BY HOUSEHOLD TYPE

Gender	Household Type: Former Residents %	Tenant Buyers %	Continuing Renters %	Outside Buyers %	New Renters %	Owners %	Renters %
Female	68	77	60	51	63	62	62
Male	32	23	40	49	37	38	38
Total Number	100 (81)	100 (83)	100 (109)	100 (122)	100 (201)	100 (310)	100 (205)

Source: Survey of Current and Former Residents, op. cit.

TABLE VI-7 App.

HOUSEHOLD CHARACTERISTICS OF OWNER OCCUPIED UNITS

A. Age of Household Head in Owner-Occupied Units

Age	Frequency %
Under 65	78
65 and over	22
Total	100
Number	(48,765,000)

B. Income of Households in Owner-Occupied Units

Income	Frequency %
Under \$12,500	39
\$12,500 - 20,000	24
\$20,000 - 35,000	27
\$35,000 and over	10
Total	100
Number	(48,765,000)

C. Race of Household in Owner-Occupied Units

Race	Frequency %
Black	7
White	92
Other	1
Total	100
Number	(48,765,000)

D. Number of Persons in Household in Owner-Occupied Units

Number of Persons	Frequency %
One	14
Two	32
Three or More	54
Total	100
Number	(48,765,000)

Source: U.S. Department of Housing and Urban Development, Annual Housing Survey: 1977.

TABLE VI-8 App.

HOUSEHOLD CHARACTERISTICS OF RENTER OCCUPIED UNITS

A. Age of Head of Households in Rental Units

Age	Frequency %
Under 65	83
65 and Over	17
Total	100
Number	(26,515,000)

B. Income of Households in Rental Units

Income	Frequency %
Under $12,500	69
$12,500 - 20,000	19
$20,000 - 35,000	10
$35,000 and over	2
Total	100
Number	(26,515,000)

C. Race of Household Heads in Rental Units

Race	Frequency %
Black	17
White	81
Other	2
Total	100
Number	(26,515,000)

D. Number of Persons in Households in Rental Units

Number of Persons	Frequency %
One	34
Two	29
Three or More	37
Total	100
Number	(26,515,000)

Source: U.S. Department of Housing and Urban Development, Annual Housing Survey: 1977.

TABLE VI-9 App.

LENGTH OF RESIDENCY IN NEIGHBORHOOD OF CONVERSION BY HOUSEHOLD TYPE

Number of Years	Household Type						
	Former Residents %	Tenant Buyers %	Continuing Renters %	Outside Buyers %	New Renters %	Owners %	Renters %
Under 1	7	1	7	14	40	9	19
1 - 5	68	37	41	64	46	52	43
6 - 10	11	27	18	13	4	19	12
10 and over	14	35	34	9	10	20	26
Total	100	100	100	100	100	100	100
Number	(301)	(185)	(161)	(236)	(89)	(421)	(250)

Source: Survey of Current and Former Residents, op. cit.

1/ Households were asked: How long have you lived in the neighborhood (of converted address)?

TABLE VI-10 App.

SEARCH FOR ALTERNATIVE HOUSING BY OWNER TYPE

	Household Type		
	Outside Buyers %	Tenant Buyer %	Owner %
A. Housing Search			
Looked for other housing	79	32	63
Did not look	21	68	37
Total	100	100	100
Number	(350)	(188)	(538)
B. Areas of Search			
Same neighborhood	71	77	72
Other neighborhood	69	47	64
Suburb of this city	43	28	40
Outside the city	24	18	23
Number	(277)	(60)	(337)
C. Tenure Desired			
Buy	91	43	82
Rent	7	43	13
Undecided	2	14	5
Total	100	100	100
Number	(277)	(61)	(338)
D. Type of Housing Desired			
Condominium	87	47	80
Cooperative	10	7	9
Detached House	31	23	30
Apartment	28	69	35
Owner	6	0	5
Did not matter	7	7	7
Number	(277)	(60)	(337)

Source: Survey of Current and Former Households, *op. cit.*

TABLE VI-11 App.

SEARCH FOR ALTERNATIVE HOUSING BY RENTER TYPE

	Household Type		
	New Renter %	Continuing Renter %	Renters %
A. Housing Search			
Looked for other housing	73	33	52
Did not look	27	67	48
Total	100	100	100
Number	(148)	(166)	(314)
B. Areas of Search			
Same neighborhood	75	78	76
Other neighborhood	61	61	61
Suburb of this city	38	35	37
Outside the city	20	28	23
Number	(108)	(55)	(163)
C. Tenure Desired			
Buy	10	13	11
Rent	83	75	80
Undecided	7	12	9
Total	100	100	100
Number	(108)	(55)	(163)
D. Type of Housing Desired			
Condominium	38	20	32
Cooperative	18	5	14
Detached house	25	15	22
Apartment	89	82	87
Other	3	10	6
Did not matter	27	8	20
Number	(108)	(55)	(163)

Source: Survey of Current and Former Households, op. cit.

TABLE VI-12 App.

OWNERS REASONS TO BUY: TOTAL, BY AGE OF HEAD, BY HOUSEHOLD INCOME

Factors		Age				Income			
	Total %	Less Than 36 %	36 - 54 %	55 - 65 %	Greater Than 65 %	Less Than $12,500 %	$12,500 - 21,500 %	$21,500 - 30,000 %	$30,000 and over %
Economic	62	71	61	57	31	48	74	60	64
Lifestyle	11	9	11	14	15	16	9	14	11
Location	11	9	13	10	15	14	7	13	9
Unit, Building	9	9	6	11	7	12	5	7	8
Reluctance to Move	7	2	9	8	32	10	5	6	8
Total Number	100 (520)	100 (245)	100 (159)	100 (63)	100 (53)	100 (58)	100 (122)	100 (113)	100 (190)

Source: Survey of Current and Former Households, op. cit.

1/ Households were asked: Which factor was most important in your decision to buy?

1 Economic: obtained incentives; preferred to purchase; inflation/rising housing costs; tax shelter investment considerations; and single family house was too expensive

2 Lifestyle: preferred condominium/cooperative unit rather than house; liked the service contract; liked security arrangements; liked amenities; and ease of maintenance in condominium/cooperative

3 Location: liked the neighborhood and could not find rental in a preferred area

4 Unit Building: liked the unit and liked the building

5 Reluctance to move: did not want to move

TABLE VI-13 App.

TENANT BUYERS' REASONS TO BUY: TOTAL, BY AGE OF HEAD, BY HOUSEHOLD INCOME

Factors	Total	Age of Head				Household Income			
		Less than 36	36-54	55-65	Greater than 65	Less than $12,500	$12,500-21,500	$21,500-30,000	$30,000 and over
	%	%	%	%	%	%	%	%	%
Economic	47	67	48	39	21	32	63	39	58
Lifestyle	2	2	3	0	0	0	0	3	4
Location	16	13	15	23	17	19	12	29	8
Unit, Building	12	10	10	19	12	12	6	9	10
Reluctance to Move	23	8	24	19	50	37	19	20	20
Total	100	100	100	100	100	100	100	100	100
Number	(181)	(59)	(62)	(26)	(34)	(16)	(33)	(34)	(76)

Source: Survey of Current and Former Households, *op. cit.*

Households were asked: which factor was most important in your decision to buy?

(1) Economic: obtained incentives; preferred to purchase; inflation/rising housing costs; tax shelter/ investment considerations; and single-family house was too expensive.

(2) Lifestyle: preferred condominium/cooperative unit rather than house; liked the service contract; liked security arrangements; liked amenities; and ease of maintenance in condominium/ cooperative.

(3) Location: liked the neighborhood and could not find rental in a preferred area.

(4) Unit, Building: liked the unit and liked the building.

(5) Reluctance to move: did not want to move.

TABLE VI-14 App.

OUTSIDE BUYERS REASONS TO BUY: TOTAL, BY AGE OF HEAD, BY HOUSEHOLD INCOME

Factors	Total	Age of Head				Household Income			
		Less than 36	36-54	55-65	Greater than 65	Less than $12,500	$12,500-21,500	$21,500 30,000	$30,000 and over
	%	%	%	%	%	%	%	%	%
Economic	69	72	67	70	47	55	78	68	68
Lifestyle	16	12	17	24	42	22	12	19	16
Location	8	8	12	0	11	12	6	6	10
Unit, Building	7	8	4	6	0	11	4	7	6
Total Number	100 (339)	100 (186)	100 (97)	100 (37)	100 (19)	100 (42)	100 (89)	100 (79)	100 (114)

Source: Survey of Current and Former Households, op. cit.

Households were asked: which factor was most important in your decision to buy?

(1) Economic: preferred to purchase; inflation/rising housing costs; tax shelters/investment considerations; and single-family house was too expensive.

(2) Lifestyle: preferred condominium/cooperative unit rather than house; liked the service contract; liked security arrangements; liked amenities; and ease of maintenance in condominium/cooperative.

(3) Location: liked the neighborhood and could not find a rental in a preferred area.

(4) Unit, Building: liked the unit and liked the building.

TABLE VI-15 App.

RENTER'S REASONS TO RENT: TOTAL, BY AGE OF HEAD, BY HOUSEHOLD INCOME

Factors	Total	Age of Head				Household Income			
	%	Less than 36 %	36-54 %	55-65 %	Greater than 65 %	Less than $12,500 %	$12,500-21,500 %	$21,500-30,000 %	$30,000 and over %
Economic	13	16	15	9	11	14	9	21	14
Locational	48	50	48	53	45	47	59	41	46
Unit, Building	22	18	19	22	23	21	17	24	14
Rental Pref.	12	7	3	0	6	9	6	3	10
Future Purchase	5	9	15	16	15	9	9	11	16
Total Number	100 (310)	100 (149)	100 (62)	100 (32)	100 (47)	100 (57)	100 (80)	100 (63)	100 (56)

Source: Survey of Current and Former Households, *op. cit.*

Households were asked: which factor was most important in your decision to rent?

(1) Economic: little or no rent increase; live here rent free; cost nearly same as where you were before.

(2) Location: liked the neighborhood; couldn't find rental unit in preferred area; location is convenient to job; location is generally good; unable to find another rental unit nearby.

(3) Unit, bldg: liked the unit; liked the building, repair/maintenance is adequate.

(4) Rental preference: rent for a long period before moving; may buy a unit here; only wanted rent a short time.

(5) Future purchase: could rent with option to buy; may buy a unit here.

TABLE VI-16 App.

NEW RENTERS' REASONS TO RENT: TOTAL, BY AGE OF HEAD, BY HOUSEHOLD INCOME

Factors	Total	Age of Head				Household Income			
	%	Less than 36 %	36-54 %	55-65 %	Greater than 65 %	Less than $12,500 %	$12,500 21,500 %	$21,500 30,000 %	$30,000 and over %
Economic	10	11	8	0	14	17	11	3	17
Location	58	56	64	86	58	66	54	54	53
Unit, building	21	22	16	14	28	4	27	34	17
Rental Preference	7	5	0	0	0	13	8	3	7
Future Purchase	4	6	12	0	0	0	0	6	6
Total	100	100	100	100	100	100	100	100	100
Number	(140)	(99)	(25)	(7)	(7)	(23)	(37)	(35)	(30)

Source: Survey of Current and Former Households, op. cit.

Households were asked: which factor was most important in your decision to rent?

(1) Economic: little or no rent increase and live here rent free.

(2) Location: liked the neighborhood; could not find rental unit in preferred area; location is convenient to job; and location is generally good.

(3) Unit, building: liked the unit and liked the building.

(4) Rental Preference: rent for long period before having to move and management in building is good.

(5) Future Purchase: continue to rent with option to buy and may buy a unit here.

TABLE VI-17 App.

CONTINUING RENTERS' REASONS TO RENT: TOTAL, BY AGE OF HEAD, BY HOUSEHOLD INCOME

Factors	Total	Age of Head				Household Income			
	%	Less than 36 %	36-54 %	55-65 %	Greater than 65 %	Less than $12,500 %	$12,500 21,500 %	$21,500 30,000 %	$30,000 and over %
Economic	17	26	19	12	10	12	7	43	12
Location	39	40	38	44	42	35	63	25	38
Unit Building	22	10	22	24	22	32	9	11	12
Rental Preference	16	10	5	0	8	15	5	3	12
Future Purchase	6	14	16	20	18	6	16	18	26
Total	100	100	100	100	100	100	100	100	100
Number	(170)	(50)	(37)	(25)	(40)	(34)	(43)	(28)	(26)

Source: Survey of Current and Former Households

Households were asked: which factor was most important in your decision to rent?

(1) Economic: little or no rent increase; live here rent free.

(2) Location: liked the neighborhood; couldn't find rental unit in preferred area; location is convenient to job; location is generally good.

(3) Unit, building: liked the unit; liked the building.

(4) Rental preference: rent for a long period before moving; may buy a unit here; only wanted to rent a short time.

(5) Future purchase: could rent with option to buy; may buy a unit here.

TABLE VII-1 App.

CHANGES IN HOUSEHOLD INCOME AND HOUSING TENURE BY INCOME, 1970-1977, WITH PROJECTIONS TO 1985, UNITED STATES
(In Thousands)

Income and Tenure Total United States	1970 Number	1970 Percent	1977 Number	1977 Percent	1977 Expected Number 1/	Annual Net Shift	1985 Net Change Since 1977	Projection Total Household
Less Than $5,000	18,663	100.0	13,552	100.0	13,552	- 730	- 5,840	7,712
Owner	9,329	50.0	6,089	44.9	6,776	- 98	- 3,406	2,683
Renter	9,334	50.0	7,463	55.1	6,776	+ 98	- 2,434	5,029
$5,000 to $9,999	19,589	100.0	15,667	100.0	15,667	- 560	- 4,480	11,187
Owner	11,308	57.7	8,177	52.2	9,040	- 123	- 3,323	4,854
Renter	8,281	42.3	7,490	47.8	6,627	+ 123	- 1,157	6,333
$10,000 to $14,999	14,332	100.0	13,899	100.0	13,899	- 48	- 384	13,515
Owner	10,404	72.6	8,571	61.7	10,091	- 217	- 1,973	6,598
Renter	3,928	27.4	5,328	38.3	3,808	+ 217	1,589	6,917
$15,000 to $24,999	8,396	100.0	19,127	100.0	19,127	+1,533	12,264	31,391
Owner	6,762	80.5	14,498	75.8	15,397	- 128	8,272	22,770
Renter	1,634	19.5	4,629	24.2	3,730	+ 128	3,992	8,621
$25,000 or More	2,464	100.0	13,034	100.0	13,034	+1,510	12,080	25,114
Owner	2,083	84.5	11,431	87.7	11,014	+ 60	11,075	22,505
Renter	381	15.5	1,603	12.3	2,020	- 60	1,106	2,609
Median Income								
Owner	9,700		16,000					
Renter	6,300		8,800					

Source: U.S. Census Bureau, National Housing Survey, Series H-150-77, U.S. Government Printing Office, Washington, D.C., 1977.

1/ 1970 percentages applied to 1977 total.

TABLE VII-2 App.

HOUSEHOLD CHARACTERISTICS OF SHORT AND LONG TERM OWNERS OF CONVERTED UNITS BY LOCATION, 1980

Household Characteristics	In SMSA-Central Cities: Short Term Owners Number	Short Term Owners Percent	Long Term Owners Number	Long Term Owners Percent	Total Owner Sample Number	Total Owner Sample Percent	In SMSA-Not in Central Cities: Short Term Owners Number	Short Term Owners Percent	Long Term Owners Number	Long Term Owners Percent	Total Owner Sample Number	Total Owner Sample Percent
Household Income												
Total	162	100	111	100	273	100	159	100	49	100	208	100
Less than $5,249	8	5	3	3	11	4	8	5	0	0	8	4
$5,250 to $12,499	10	6	12	11	22	8	15	9	1	2	16	8
$12,500 to $16,999	19	12	10	9	29	11	20	13	5	10	25	12
$17,000 to $25,999	46	28	29	26	75	27	52	33	11	23	63	30
$26,000 or More	79	49	57	51	136	50	64	40	32	65	96	46
Don't Know, Refused	9		14		23		15		13		28	
Sex of Head-												
Total	170	100	125	100	295	100	174	100	63	100	237	100
Male	91	54	64	51	155	52	90	52	37	59	127	54
Female	79	46	61	49	140	48	84	48	26	41	110	46
Age of Head												
Total	170	100	125	100	295	100	174	100	63	100	237	100
Under 25	15	9	1	1	16	5	17	10	2	3	19	8
25-34	64	38	36	29	100	34	75	43	13	24	90	38
35-44	30	18	23	18	53	18	30	17	12	19	42	18
45-64	48	28	34	27	82	28	37	21	24	38	61	26
65 or Over	13	7	31	25	44	15	15	9	10	16	25	10
Median Age	37		46		41		34		46		37	
Household Composition	170	100	125	100	295	100	174	100	63	100	237	100
Married Couple	54	32	31	25	85	29	49	28	27	43	76	32

TABLE VII-2 App. (cont'd)

HOUSEHOLD CHARACTERISTICS OF SHORT AND LONG TERM OWNERS OF CONVERTED UNITS BY LOCATION, 1980

Household Characteristics	In SMSA-Central Cities						In SMSA-Not in Central Cities					
	Short Term Owners		Long Term Owners		Total Owner Sample		Short Term Owners		Long Term Owners		Total Owner Sample	
	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent
Other Male or Female Head	14	8	15	12	29	10	28	16	6	9	34	14
Single Males and Females	102	60	79	63	181	61	97	56	30	48	127	54

Source: Survey of Condominium and Cooperative Conversions, Division of Policy Studies, Department of Housing and Urban Development, Winter/Spring, 1980.

TABLE VIII-1 App.

NUMBER OF YEARS POST-CONVERSION AND FORMER RESIDENTS OF CONVERTED BUILDINGS LIVED IN CONVERSION NEIGHBORHOODS

Post-Conversion Residents:

Years	Central City %	Suburbs %
0 to 1	27	39
1 to 2	18	16
2 to 3	9	9
3 to 4	5	6
4 to 5	6	4
5 to 10	15	11
Over 10	20	15
Total	100	100
Number	453	392

Former Residents:

Years	Central City %	Suburbs %
0 to 1	23	32
1 to 2	16	31
2 to 3	12	12
3 to 4	10	3
4 to 5	11	1
5 to 10	19	6
Over 10	9	15
Total	100	100
Number	101	159

SOURCE: Survey of Current and Former Residents, op. cit.

TABLE VIII-2 App.

PRE AND POST CONVERSION CONDITION OF UNIT AS PERCEIVED BY CONTINUING RESIDENTS

Unit Condition Now[1/]

	Central City	Suburbs
	%	%
Little or no repairs	53	41
Minor repairs	38	50
Major repairs	9	9
Total	100	100
Number	203	175

Comparison of Unit Condition Now with Condition Before Conversion[2/]

	Central City	Suburbs
	%	%
Much better	8	8
Somewhat better	12	16
About the same	78	73
Somewhat worse	2	3
Much worse	0	0
Total	100	100
Number	192	144

SOURCE: Survey of Current and Former Residents, op. cit.

Households were asked: [1/]What do you think about the condition of this unit?
[2/]Generally, how would you compare the condition of this unit with your unit before the conversion?

TABLE IX-1 App.

FREQUENCY DISTRIBUTION OF METHOD OF CONVERSION NOTIFICATION, BY HOUSEHOLD TYPE

	HOUSEHOLD TYPE		
Method of Notification	Continuing Renters %	Tenant Buyers %	Former Residents [1/] %
No Notification	4	0	1
Written Notification	86	96	95
Informed by Landlord or Building Manager	8	12	13
News Meaia	2	5	1
Neighbors	16	13	11
Other	5	6	5
Don't Know	2	0	0
Total [2/]	123	132	126
Number	(167)	(188)	(301)

Source: Department of Housing and Urban Development, Survey of Current and Former Residents of Converted Buildings, Dec. 1979 and Jan. 1980.

[1/] Percentages are based on weighted data; the number of responses is unweighted.

[2/] These figures add to more than 100 percent becuase of multiple responses.

TABLE IX-2 App.

LENGTH OF NOTICE TO BUY AND TO MOVE BY HOUSEHOLD TYPE

	Length of Notice to Buy			Length of Notice to Move
Number of Days Notice:	Continuing Renter	Tenant Buyer	Former Resident [1/]	Former Resident [1/]
	%	%	%	%
30 or less	27	16	18	26
31 - 60	22	24	26	20
61 - 90	21	29	24	21
91 - 120	8	5	14	10
121 - 180	12	17	13	18
More than 180	10	9	5	5
TOTAL	(100)	(100)	(100)	(100)
NUMBER	(131)	(174)	(261)	(230)
MEDIAN	(60)	(70)	(70)	(80)

Source: Survey of Current and Former Residents, op. cit.

[1/] Percentages are based on weighted data; the number of responses is unweighted.

TABLE IX-3 App.

PERCENT OF HOUSEHOLDS OFFERED ASSISTANCE AND INDUCEMENTS BY BY CONVERTERS AND GOVERNMENT AGENCIES

Inducements[1]	Continuing Renters (n = 132) [2] %	Tenant Buyers (n = 175) [2] %	Former Residents (n = 273) [2] %
Lower interest rate mortgage	16	17	11
Reduced downpayment	14	22	25
Discount on purchase price	74	87	66
Deferred downpayment	6	4	6
Payment of part or all of real estate taxes	1	6	2
Additional renovation	22	22	27
Other	4	15	8
Assistance	(n = 133) [2]	(n = 118) [2]	(n = 265) [2]
Converter provided non-monetary relocation assistance	21	20	13
Converter provided funds for relocation assistance	14	13	4
Government agency provided assistance	2	3	5

Source: Survey of Current and Former Residents, op. cit.

[1] These figures add to more than 100 percent because of multiple responses.

[2] The actual sample sizes (N) for each group varied by response. The number shown is the smallest number who responded to all questions. The former resident percentages are based on weighted responses; the "N" shown is the unweighted sample size.

TABLE IX-4 App.

SUMMARY OF TENANT PERCEPTIONS AND CONVERTER ACTIONS DURING NOTIFICATION PERIOD, BY SELECTED TENANT CHARACTERISTICS (PERCENT SAYING, "YES")

Background Characteristics	Pressure to Decide			Offered Discount			Offered Other Inducements			Relocation Assistance
	Cont. Renters	Tenant Buyers	Former Residents	Cont. Renters	Tenant Buyers	Former Residents	Cont. Renters	Tenant Buyers	Former Residents	Former Residents
Age										
Head Under 60	28	18	74	78	85	70	37	49	45	12
	(102)	(135)	(205)	(93)	(135)	(89)	(108)	(137)	(207)	(176)
Head 60 or over	30	28	72	63	91	54	34	41	36	15
	(56)	(46)	(90)	(52)	(46)	(83)	(56)	(46)	(90)	(87)
Race										
Head is White	30	22	70	73	87	70	33	47	47	13
	(135)	(155)	(256)	(122)	(155)	(237)	(141)	(158)	(256)	(226)
Head is not White	19	14	95	79	86	42	48	46	22	9
	(31)	(28)	(41)	(29)	(28)	(36)	(31)	(28)	(43)	(39)
Income										
Hsld. Income Less Than $12,500	31	44	70	67	81	54	31	50	27	25
	(35)	(16)	(64)	(33)	(16)	(54)	(39)	(16)	(64)	(60)
Hsld. Income Greater Than or Equal to $12,500	29	19	74	83	87	69	39	46	47	10
	(101)	(144)	(210)	(94)	(144)	(109)	(103)	(145)	(212)	(184)
Family Status										
Hsld. Has Children	21	27	66	80	77	69	40	50	36	10
	(24)	(22)	(42)	(20)	(22)	(39)	(25)	(22)	(42)	(35)
Hsld. Has No Children	29	20	76	73	88	65	34	47	44	13
	(142)	(163)	(256)	(131)	(163)	(234)	(148)	(166)	(259)	(230)

SOURCE: Household Survey of Current and Former Residents, op. cit.

TABLE IX-5 App.

ATTITUDE OF FORMER RESIDENTS AND TENANT BUYERS TOWARDS CONVERSION, AS PERCEIVED BY INTERVIEWERS, BY AGE AND HOUSEHOLD HEAD

Attitude	Less Than 60 Years %	60 Years or Older %
Angry	52	70
Satisfied	20	14
Noncommittal	20	4
Other	8	12
Total	100	100
Number	202	86

Source: Survey of Current and Former Residents, op. cit.

TABLE IX-6 App.

DISTRIBUTION OF TOTAL MOVING COSTS FOR FORMER RESIDENTS

Moving Costs	Percentage
$0-99	39
$100-299	32
$300-499	12
$500 or more	17
Total	100
Number	256
Median	$145

Source: Survey of Current and Former Residents, op. cit.

TABLE IX-7 App.

WHETHER MOVING COSTS WERE A BURDEN FOR FORMER RESIDENTS, BY SELECT CHARACTERISTICS

Characteristics	Were costs a burden? Yes %	No %	Total %	Number
Age				
Less than 60	28	72	100	191
60 or more	36	64	100	77
Race				
Non-white	20	80	100	39
White	31	69	100	230
Income				
Less than 12,500	33	67	100	59
12,500 or more	26	74	100	193
Family Status				
Has Children	38	62	100	40
Doesn't have Children	27	73	100	229
All Former Residents	30	70	100	269

Source: Survey of Current and Former Residents, op. cit.

TABLE IX-8 App.

WHETHER FINDING A NEW RESIDENCE WAS EASY OR DIFFICULT FOR FORMER RESIDENTS, BY SELECTED BACKGROUND CHARACTERISTICS

Background Characteristics	Was Finding a New Residence Easy or Difficult? Easy %	Difficult %	Total %	Number
Age				
Less than 60	53	47	100	193
60 or more	39	61	100	76
Race				
Non-white	39	61	100	40
White	52	48	100	230
Income				
Less than $12,500	44	56	100	59
$12,500 or more	52	48	100	194
Family Status				
Has Children	61	39	100	41
Doesn't have Children	47	57	100	229
All Former Residents	50	50	100	270

Source: Survey of Current and Former Residents, op. cit.

TABLE IX-9 App.

PERCENTAGE DISTRIBUTION OF SATISFACTION WITH CURRENT UNIT AND BUILDING, BY HOUSEHOLD TYPE

Level of Satisfaction	Satisfaction with Unit			Satisfaction with Building		
	Former Residents	Tenant Buyers	Outside Buyers	Former Residents	Tenant Buyers	Outside Buyers
	%	%	%	%	%	%
Very Satisfied	52	66	59	44	64	51
Fairly Satisfied	21	19	24	24	20	23
Satisfied	17	13	15	22	13	20
Fairly Dissatisfied	9	1	1	8	1	4
Very Dissatisfied	1	1	1	2	2	2
TOTAL	100	100	100	100	100	100
NUMBER	296	188	349	220	188	348

Source: Survey of Current and Former Residents, *op. cit.*

TABLE IX-10 App.

EVALUATION OF RESIDENCE BY SELECTED CHARACTERISTICS OF FORMER RESIDENTS

Background Characteristics	Better	Same	Worse	Total	Number
	%	%	%	%	
Age					
Less than 60	59	23	18	100	202
60 or more	54	28	18	100	89
Race					
Non-white	52	20	28	100	41
White	58	25	17	100	251
Income					
Less than $12,500	52	20	28	100	61
$12,500 or more	59	24	17	100	209
Family Status					
Has Children	76	4	20	100	40
Doesn't Have Children	53	29	18	100	254

Source: Survey of Current and Former Residents, *op. cit.*

TABLE IX-11 App.

EVALUATION OF SPECIFIC ATTRIBUTES OF PRE- AND POST-CONVERSION RESIDENCES BY HOUSEHOLD TYPE

Attribute Comparison	HOUSEHOLD TYPE Former Resident %	Outside Buyer %
Heating		
Better	33	36
Same	39	47
Worse	28	17
Total	100	100
Number	291	346
Air Conditioning		
Better	40	42
Same	44	44
Worse	16	14
Total	100	100
Number	177	229
Plumbing and Wiring		
Better	26	25
Same	60	56
Worse	14	19
Total	100	100
Number	291	344
Condition of Walls, Ceilings, Floors		
Better	50	39
Same	36	45
Worse	14	16
Total	100	100
Number	299	346
Exterior Condition of Building		
Better	44	39
Same	40	48
Worse	16	13
Total	100	100
Number	293	339

TABLE IX-11 CONTINUED

Attribute Comparison	HOUSEHOLD TYPE Former Resident %	Outside Buyer %
Appearance of Landscaping and Grounds		
Better	42	46
Same	34	40
Worse	24	14
Total	100	100
Number	295	331
Security		
Better	39	54
Same	36	29
Worse	25	18
Total	100	100
Number	286	322
Over-all Size of the Unit		
Better	57	46
Same	16	27
Worse	27	27
Total	100	100
Number	297	338
Major Appliances		
Better	38	43
Same	42	37
Worse	20	20
Total	100	100
Number	296	348
Recreational facilities		
Better	28	51
Same	30	33
Worse	42	16
Total	100	100
Number	237	284

Source: Survey of Current and Former Residents, op. cit.

TABLE IX-12 App.

PERCENT OF FORMER RESIDENTS CHANGING NEIGHBORHOODS

Response	Percent
Yes	28
No	72
Total	100
Number	300

Source: Survey of Current and Former Residents, *op. cit.*

TABLE IX-13 App.

PROXIMITY TO FRIENDS AND RELATIVES OF FORMER RESIDENTS

Proportion of Close Friends and Relatives Who Live in Same Neighborhood	Pre-Conversion Neighborhood %	Present Neighborhood %
All or most of them	16	10
Some	54	50
None	30	40
Total	100	100
Number	(210)	(213)

Source: Survey of Current and Former Residents, *op. cit.*

TABLE IX-14 App.

CHANGE IN ACCESSIBILITY TO FRIENDS AND RELATIVES OF FORMER RESIDENTS

Is it easier or harder to visit friends and relatives?	Percent
Easier	21
No difference	58
Harder	21
Total	100
Number	290

SOURCE: Survey of Current and Former Residents, *op. cit.*

TABLE IX-15 App.

CHANGE IN ACCESSIBILITY TO FRIENDS AND RELATIVES BY SELECTED CHARACTERISTICS FOR FORMER RESIDENTS

	Is it easier or harder to visit friends and relatives?				
Characteristics:	Easier	No Difference	Harder	Total	Number
	%	%	%	%	
Age					
Less than 60	19	59	22	100	200
60 or more	31	53	16	100	87
Race					
Non-white	19	47	34	100	40
White	22	59	19	100	248
Income					
Less than $12,500	21	50	29	100	60
$12,500 or more	21	59	20	100	195

SOURCE: Survey of Current and Former Residents, *op. cit.*

TABLE IX-16 App.

PERCEIVED QUALITY OF NEIGHBORHOOD BY RACE AND INCOME OF FORMER RESIDENTS

	Race		Income	
	White	Non-White	Less than $12,500	$12,500 or more
Police Protection				
Better/Same	91	62	96	82
Worse	9*	38	4	18
Total	100	100	100	100
Number	149	28	32	135
Medical Facilities				
Better/Same	82	63	73	81
Worse	18*	37	27	19
Total	100	100	100	100
Number	149	29	34	131
Shopping				
Better/Same	76	55	75	75
Worse	24*	45	25	25
Total	100	100	100	100
Number	172	33	43	148
Safety				
Better/Same	86	60	80	84
Worse	14*	40	20	16
Total	100	100	100	100
Number	175	35	44	151
Privacy				
Better/Same	87	93	60	93
Worse	13	7	40*	7
Total	100	100	100	100
Number	176	36	44	163
Proximity of Friends or Relatives				
Better/Same	77	55	71	72
Worse	23*	45	29	28
Total	100	100	100	100
Number	176	36	45	152

Source: Household Survey of Current and Former Residents. op. cit.

*Difference is statistically significant at .05 level

TABLE IX-17 App.

PERCEIVED CHANGE IN ACCESSIBILITY TO VARIOUS SERVICES, BY AGE OF HOUSEHOLD HEAD

Is it easier or harder to get to various services than it was in converted buiding?	Age: Less Than 60	Age: 60 or More
	%	%
Grocery Shopping		
Easier	34	55
No difference	49	29
Harder	17	16
Total	100	100
Number	202	89
Other Shopping		
Easier	37	49
No difference	41	35
Harder	22	16
Total	100	100
Number	202	88
Medical Care		
Easier	15	33
No difference	66	55
Harder	19	12
Total	100	100
Number	198	86
Social Services		
Easier	19	38
No difference	70	51
Harder	11	11
Total	100	100
Number	143	67
Public Transportation		
Easier	30	49
No difference	47	31
Harder	23	20
Total	100	100
Number	173	76

SOURCE: Survey of Current and Former Residents, *op. cit*.

TABLE IX-18 App.

PERCENT OF FORMER RESIDENTS UNABLE TO QUALIFY FOR PURCHASE

Purchase Price	Former Residents Unable to Afford	
	%	N
Under $30,000	14	29
$30,000-$39,999	37	62
$40,000-$49,999	38	60
$50,000-$69,999	53	57
$70,000 and over	68	34
Total Sample	42	242

Source: Survey of Current and Former Residents, op. cit.

Calculated on the basis of two-and-one-half times income equals maximum affordable purchase price, all else being equal.

TABLE IX-19 App.

PERCENTAGE DISTRIBUTION OF ABILITY TO AFFORD FOR FORMER RESIDENTS

Characteristics	Former Residents	
	Cannot Afford	Can Afford
	%	%
Income 1/	(n = 260)	(n = 260)
Under $12,500	63	37
$12,500 or over	42	58
Age	(n = 281)	(n = 281)
Under 25	75	25
25 - 35	45	55
36 - 54	47	53
55 - 65	29	71
Over 65	51	49

SOURCE: Survey of Current and Former Residents, op. cit.

1/ A more detailed grouping by income shows that the perception of affordability increases as income increases across all household types.

TABLE IX-20 App.

PURCHASE PRICES OF CONVERTED UNITS BY HOUSEHOLD TYPES

Purchase Price	Former Residents	Tenant Buyers	Outside Buyers	Continuing Renters
	%	%	%	%
Under $30,000	13	18	14	19
$30,000 to $39,999	26	22	28	21
$40,000 to $49,999	30	23	24	23
$50,000 to $69,999	19	23	23	23
$70,000 and Over	12	14	11	14
TOTAL	100	100	100	100
NUMBER	(260)	(163)	(323)	(126)
MEDIAN PRICE	$43,000	$44,000	$42,700	$45,000

Source: Survey of Current and Former Residents, op. cit.

TABLE IX-21 App.

CURRENT RESIDENTS' PERCEPTION OF NEED FOR REPAIRS

	Household Type				
Building Needs	Continuing Renter	Tenant Buyer	New Renters	Outside Buyers	Total Current Residents
	%	%	%	%	%
Little or no repairs	33	40	48	44	42
Minor Repairs	44	40	40	42	41
Major Repairs	23	20	12	14	17
Total	100	100	100	100	100
Number	160	182	139	345	826

Source: Survey of Current and Former Residents, op. cit.

TABLE IX-22 App.

SELLERS UNDERESTIMATION OF COSTS BY SELECTED HOUSEHOLD TYPES

Costs were:	Tenant Buyers %	Outside Buyers %
Lower Than Estimated	4	4
About the Same	67	67
Higher than Estimated	29	29
TOTAL	100	100
NUMBER	(157)	(314)

Source: Survey of Current and Former Residents, op. cit.

TABLE IX-23 App.

SATISFACTION WITH UNIT AND BUILDING, FOR CURRENT RESIDENTS OF CONDOMINIUMS

	Satisfaction With Unit (in percent)				Satisfaction With Buildings (in percent)			
	Outside Buyers	New Renters	Tenant Buyers	Continuing Renters	Outside Buyers	New Renters	Tenant Buyers	Continuing Renters
Very satisfied	59	49	66	49	51	50	64	46
Fairly satisfied	24	19	19	25	23	23	20	27
Satisfied	15	24	13	20	21	21	13	15
Fairly dissatisfied	1	7	1	3	4	4	1	8
Very dissatisfied	1	1	1	3	1	2	2	4
Total	100	100	100	100	100	100	100	100
Number	349	147	188	173	348	147	188	172

Source: Survey of Current and Former Residents, op. cit.

TABLE IX-24 App.

SERVICES TO TENANTS PROVIDED THROUGH MEMBERSHIP IN CONDOMINIUM ASSOCIATION, PAYMENT OF A SERVICE CONTRACT, OR A MAINTENANCE FEE

	Outside Buyers	Tenant Buyers	New Renters	Continuing Renters
	%	%	%	%
YES	92	88	12	3
NO	8	12	88	97
TOTAL	100	100	100	100
NUMBER	(348)	(187)	(146)	(170)

Source: Household Survey of Current Residents, op. cit.

TABLE IX-25 App.

SATISFACTION WITH SERVICES PROVIDED BY MANAGEMENT 1/

	Outside Buyers	Tenant Buyers	New Renters
	%	%	%
Very Satisfied	28	29	40
Satisfied	58	56	45
Dissatisfied	14	15	15
TOTAL	100	100	100
NUMBER	(313)	(159)	(20)

Source: Household Survey of Current Residents, op. cit.

1/ Only those respondents who received services responded to this question. Long-term renters were excluded since so few received services from a condominium association.

TABLE IX-26 App.

EXISTENCE OF CONFRONTATION BETWEEN BUYERS AND RENTERS

	Outside Buyers	Tenant Buyers	New Renters	Continuing Renters
	%	%	%	%
Yes	11	11	5	13
No	89	89	95	87
TOTAL	100	100	100	100
NUMBER	(274)	(155)	(107)	(125)

Source: Household Survey of Current and Former Residents, op. cit.

TABLE IX-27 App.

PREFERENCE OF BUYERS TO LIVE IN BUILDINGS WITHOUT RENTERS

	Outside Buyers	Tenant Buyers
	%	%
Yes	48	48
No	20	14
No Preference	32	38
Total	100	100
Number	(307)	(173)

Source: Survey of Current and Former Residents, op. cit.

TABLE XII-1 App.

LOCAL OFFICIALS REPORTS OF REACTION TO CONVERSION ACTIVITY

Nature of Reaction	Percent Reporting 1/		Percent Reporting Level of Opposition as "Some" or "Considerable" 2/	
	%	(N) 3/	%	(N) 3/
Complaints from Individuals in Converted Buildings	47	(206)	77	(109)
Lobbying of Organized Tenant or Citizen Groups	19	(213)	78	(74)
Complaints from Condo/Coop Residents about Quality of Renovations	19	(209)	36	(42)
Complaints from Condo/Coop Residents about Quality of Management and Services	17	(209)	25	(36)
Complaints from Condo/Coop Residents about High Association and/or Service Fees	15	(214)	68	(28)

Source: Department of Housing and Urban Development, Telephone Survey of 442 Local Officials, February 1980.

1/ Officials in jurisdictions with conversion activity were asked: Recently or in the past has there been any opposition to conversion which has taken any of the following forms?

2/ Those officials who indicated that there had been some incidence of any specific form of opposition were then asked of that form: Has the opposition been considerable, some, or very little?

3/ The (N) represents the total number of local officials responding to the particular question. To obtain the number of those falling into each of the categories, multiply the percentage figure by the (N) for the relevant question.

TABLE XII-2 App.

PASSAGE OF LOCAL CONDOMINIUM ORDINANCE BY INCIDENCE OF COMMUNITY OPPOSITION 1/

	Communities Reporting Opposition	Communities Not Reporting Opposition
	%	%
Local Ordinance	37	7
No Local Ordinance	62	93
Total	100	100
Number	(98)	(126)

Source: Telephone Survey of Local Officials, op. cit.

1/ Weighted data.

TABLE XII-3 App.

PROPORTIONS OF CITY AND COUNTY CONVERSION-RELATED ORDINANCES CONTAINING VARIOUS PROVISIONS 1/

Type of Provision	Jurisdiction Type: County %	(N)	City %	(N)	Combined %	(N)
Moratorium	45	(6)	36	(45)	37	(51)
Requiring tenant notification	93	(15)	71	(81)	74	(96)
Linking conversion to rental vacancy rate	7	(1)	19	(22)	18	(23)
Restricting conversion of certain building types	7	(1)	31	(37)	28	(38)
Discouraging speculative or investor purchase	20	(3)	9	(10)	10	(13)
Requiring property report filing	31	(9)	61	(70)	55	(79)
Requiring relocation assistance	18	(5)	27	(32)	26	(38)
Protecting elderly renters	18	(5)	20	(23)	20	(28)
Protecting low-income renters	4	(1)	18	(20)	15	(27)
Other provisions	11	(3)	30	(34)	26	(37)

Source: Telephone Survey of Local Officials, op. cit.

1/ The data is weighted. Only those local government officials who report passage of local ordinances related to conversion responded to these questions.

TABLE XII-4 App.

PASSAGE OF LOCAL CONDOMINIUM ORDINANCE BY NUMBER OF RENTAL UNITS CONVERTED SINCE 1970 1/

		Local Ordinance		
		Yes %	No %	(N)
None 2/		9	91	(17)
Low	(1-61 Units)	10	90	(38)
Moderate	(62-216 Units)	12	88	(54)
High	(217+ Units)	30	70	(117)
	Average	16	84	
	Number	(56)	(170)	

Source: Telephone Survey of Local Officials, op. cit.

1/ Weighted data.

2/ These 17 jurisdictions reported some conversion activity during the interview conducted with the chief executive or his/her representative. However, closer questioning in separately conducted interviews with local officials of the same community established that no conversions has been recorded.

TABLE XII-5 App.

TYPES OF FUTURE CONVERSION ORDINANCES PREDICTED BY LOCAL OFFICIALS 1/

Ordinance Type	Percentage Reporting
Moratorium	30
Notification requirements	69
Conversion linked with rental vacancy rates	37
Eviction ban	26
Special protections for elderly renters	65
Special protection for low-income renters	47
Public provision of purchase help to renters	41

Source: Telephone Survey of Local Officials, op. cit.

Note: Percentage totals do not include "Don't Know" response.

1/ Weighted data.
Only those local government officials who expect some kind of future local legislation responded to this question.

TABLE XII-6 App.

PREFERENCES OF LOCAL OFFICIALS IN ALL JURISDICTIONS FOR GOVERNMENT INVOLVEMENT IN CONVERSION ACTIVITY 1/

	Level of Government		
Type of Involvement	Local %	State %	Federal %
Encourage conversion	16	11	15
Remain neutral			
Discourage conversion	61	75	74
Other involvement	11	5	6
Total	100	100	100
Number	(425)	(421)	(422)

Source: Telephone Survey of Local Officials, op. cit.

1/ All officials were asked: Do you feel that local government should encourage conversion, not be involved/stay neutral, or discourage conversion? The question was asked again substituting "state government" and "Federal government" for "local government."

TABLE XII-7 App.

PREFERENCES OF LOCAL OFFICIALS IN JURISDICTIONS WITH AND WITHOUT CONVERSIONS SINCE 1970 FOR GOVERNMENT INVOLVEMENT IN CONVERSION ACTIVITY

Tpe of Involvement	Local Government Involvement		State Government Involvement		Federal Government Involvement	
	Jurisdictions with Conversion %	Jurisdictions without Conversions %	Jurisdictions with Conversions %	Jurisdictions without Conversions %	Jurisdictions with Conversions %	Jurisdictions without Conversions %
Encourage conversion	17	16	10	17	7	16
Remain neutral	44	64	65	77	75	75
Discourage conversion	22	9	13	3	10	5
Other involvement	17	11	12	9	9	4
Total	100	100	100	100	100	100
Number	(128)	(294)	(127)	(292)	(130)	(285)

Source: Telephone Survey of Local Officials, op. cit.

TABLE XII-8 App.

PREFERENCES OF LOCAL OFFICIALS IN THE 37 LARGEST SMSAS FOR GOVERNMENT INVOLVEMENT IN CONVERSION ACTIVITY BY LOCATION OF JURISDICTION 1/

Type of Involvement	Local Government Involvement			State Government Involvement			Federal Government Involvement		
	Total %	Outside Central City %	Central City %	Total %	Outside Central City %	Central City %	Total %	Outside Central City %	Central City %
Encourage conversion	15	29	11	9	21	8	7	16	6
Remain neutral	51	39	54	72	55	73	76	63	77
Discourage conversion	17	7	19	10	0	10	7	5	7
Other involvement	17	25	16	9	24	9	10	16	10
Total	100	100	100	100	100	100	100	100	100
Number	(220)	(41)	(179)	(535)	(42)	(493)	(539)	(43)	(496)

Source: Telephone Survey of Local Officials, op. cit.

1/ Officials in the 37 largest SMSAs were asked: Do you feel that local government should encourage conversion, not be involved/stay neutral, or discourage conversion? The question was asked again substituting "state government" and "Federal government" for local government.