



THE CITY OF SAN DIEGO Manager's Report

DATE ISSUED: September 11, 2003 REPORT NO. 03-186

ATTENTION: Land Use and Housing Committee
Agenda of September 17, 2003

SUBJECT: Condominium Conversions

SUMMARY

Issue - What measures should be taken in response to the recent increase in condominium conversions and to the recommendations of the Affordable Housing Task Force (AHFT) regarding condominium conversions?

Manager's Recommendations – 1) Direct preparation of an ordinance to require that when the rental vacancy rate is below seven percent, condominium conversion applicants provide a relocation/down payment assistance payment of three months current rent to residents of units being converted who earn less than the Area Median Income (AMI); 2) direct preparation of an amendment to the Inclusionary Housing Ordinance to rescind the exemption for condominium conversions; and, 3) assure units undergoing conversion meet all applicable local and state building and zoning standards.

Planning Commission Recommendation - On April 25, 2003, the Planning Commission voted unanimously to recommend an amendment to the Inclusionary Housing Ordinance to remove the exemption for condominium conversions.

Environmental Impact - No significant environmental impacts are anticipated from the proposed recommendations. An environmental review will be done in conjunction with preparation of recommended ordinances.

Fiscal Impact - The amount of money collected in fees would depend on the level of condominium conversion activity and how many conversion applicants choose to provide affordable units versus pay an in-lieu-fee. Collecting and distributing relocation/down payment assistance would result in administrative costs at the Housing Commission. These costs would be dependent on the level of conversion activity.

BACKGROUND

During the past few years, there has been a dramatic increase in the number of rental units that have been converted or are proposed to be converted to condominiums. Applications to convert approximately 2000 units in San Diego have been received since 1999, including nearly 600 units in the past 3 months. This figure only includes units that were not initially mapped as condominiums and, therefore, require approval of a condominium map in order to convert. Many other units were initially mapped as condominiums but were operated as rental apartment projects for a number of years before undergoing conversion. The city does not track these units, since no discretionary action is required for them to begin operating as condominiums.

The recent increase in condominium conversions is a market reaction to the severe shortage of affordable, for sale housing in San Diego coupled with some softening in the rental market. During the past few years home prices have increased by 15-20 percent per year in San Diego, one of the fastest appreciation rates in the United States. In many neighborhoods, condominiums have appreciated even more rapidly. Residential rents, by contrast, had been increasing locally at about five to six percent per year, but recently the rate of increase has been slowing. High prices, high rates of appreciation for condominiums and low interest rates have fueled the recent interest in condominium conversions. The Union Tribune reports the average price of a converted condominium unit in San Diego during the first half of 2003 was \$230,364 compared to \$378,215 for a new condominium unit. New units tend to be larger, more luxurious and contain more amenities than converted units.

State law requires condominiums be mapped and establishes certain conditions, including requiring 60 days written notice to tenants of application to file a tentative condominium map. Conversion applicants are required to give 180 days written notice of intention to convert prior to termination of tenancy due to proposed conversion. In addition, state law requires units being converted be offered for sale first to the renters currently occupying the units. For many years, the City of San Diego required that whenever rental vacancy rates were below five percent, applicants for condominium conversions must pay two months current rent as relocation assistance to low income, disabled and elderly tenants who opted not to purchase units. This requirement was not included in the new Land Development Code which took effect on January 1, 2000. In the late 1990s market conditions were quite different from those existing today. Rents and home prices were moving up at roughly the same rate and few if any condominium conversions were taking place. State law on conversions, enacted after the original city regulations were adopted, was thought to be adequate to regulate condominium conversions at that time.

DISCUSSION

The AHTF devoted considerable attention to the condominium conversion issue. Several members of the AHTF described the conversions as a “double-edged sword” with both positive and negative effects. The positive effect they cited is that the conversions are providing home ownership opportunities at a price level significantly below that of any new construction in San Diego and they

often provide the only units affordable by first time homebuyers. Other advantages of condominium conversions include an increased rate of homeownership and higher property taxes. In addition, the relatively low prices of many converted condominiums make them particularly suitable for first time or affordable homebuyer subsidy programs.

The negative effect of conversion is that many current renters of these units cannot afford to buy their unit and are, therefore, being displaced from their units and forced back into a housing market which offers few affordable opportunities for rental or for sale housing. Renter's rights advocates and many members of the AHTF are concerned the rapid increase in condominium conversions is resulting in displacement of low income residents.

The AHTF recommended several actions relating to condominium conversions. These are listed below. Staff analysis and recommendations are provided for each AHTF recommendation.

1. Provide relocation assistance for seniors, disabled, and low income households displaced by condominium conversions and provide down payment assistance to encourage homeownership.

As noted above, the city previously imposed a relocation requirement of two months rent for qualifying residents. This requirement applied to applicants for condominium conversions when the rental vacancy rate was below five percent. This requirement was administered by the Housing Commission, primarily in the 1980s, which was the last period when many condominium conversions were occurring. A similar requirement could be reinstated and would directly benefit lower income people displaced by condominium conversions during periods of tight rental housing supply. To ease the burden on conversion applicants, it is recommended the fee requirement be limited to renters who earn less than the AMI. This would benefit those individuals and families, including the elderly and disabled, who are most negatively impacted by condominium conversions. The money could be used for relocation or for down payment costs to purchase a unit. There would be no limitations on use of the relocation assistance.

Relocation assistance equivalent to three months current rent is recommended because two months rental assistance is often inadequate to cover moving costs, rental application fees, prepayment of first and last month's deposits and other costs associated with relocation. A vacancy rate threshold of seven percent is recommended for the relocation/down payment assistance requirement, because even when an overall vacancy rate of five to seven percent exists (considered a moderate and healthy rate), there is a shortage of vacant units in San Diego affordable to lower income tenants. The median rent in San Diego is now \$1,175 (Union Tribune, September 9, 2003) which is unaffordable to a large segment of the population. There is a two-tier rental market in San Diego with older, smaller, less expensive units located primarily in older communities, and newer, larger, more expensive units concentrated in newer communities.

During the past decade most of the new apartments constructed have been higher-end luxury

units. Although the market for the higher-end units in San Diego has recently softened, units affordable by people earning less than a median income remain very difficult to find. Unfortunately, the smaller less expensive apartment complexes are usually not included in rental and vacancy surveys.

2. Apply the recently adopted inclusionary housing requirement to condominium conversions.

Applying the city's recently adopted inclusionary housing provisions to condominium conversions would require applicants for conversions to either offer ten percent of the converted units at a price affordable to residents earning 100 percent or less of AMI, provide the same number of affordable units at an off-site location, or pay an in-lieu-fee. Units with two or more bedrooms being sold for less than 150 percent of AMI would be exempt from any inclusionary requirement. Applicants seeking an exemption will be required to enter into an agreement with the Housing Commission that the sale price will not exceed this level. (Subsequent sales of these units would not be price restricted.) Advantages of this recommendation would be to add affordable units to the housing stock or provide money for future construction of affordable units. The exemption criteria would encourage relatively modest sales prices. It is recommended those projects that fulfilled an inclusionary requirement at the time of initial construction be exempted from a second inclusionary requirement at the time of conversion.

Administering the recommended inclusionary requirement and the recommended relocation/down payment assistance fee would result in some increase in workload and staff time at the Housing Commission. In addition, these requirements would modestly increase the costs of conversion and could potentially deter some conversions. However, staff believes the increased equity and other benefits of these proposals, enumerated above, outweigh the costs and, therefore, both measures are recommended.

3. Require that converted properties must meet building and zoning requirements in effect at the time of construction. Plumbing, mechanical, electrical systems must be in good working order. Roof systems must be inspected by a licensed contractor or home inspector. Walls and roof should have insulation or meet Title 24 requirements at the time of construction.

The AHTF recommendations regarding building and zoning code requirements and standards for mechanical, electrical, plumbing, roof and wall systems cover areas already comprehensively regulated by the city and/or governed by rules set forth by the State Department of Real Estate. All condominium conversion projects must have been constructed in accordance with city codes in effect at the time of initial construction. In addition, the State Department of Real Estate requires an inspection of the project's condition as a requirement of establishing a homeowner's association. Staff does not believe any additional requirements

in these areas are necessary for conversions but does recommend all condominium conversions be carefully scrutinized to assure all applicable local and state building and zoning standards are being adhered to.

Respectfully Submitted,

Elizabeth C. Morris
Chief Executive Officer
San Diego Housing Commission

Approved: P. Lamont Ewell
Assistant City Manager

S. Gail Goldberg, AICP
Planning Director

SSG/BM/ah

Note: Attachments 1 and 2 are not available in electronic format. A copy is available for review in the Office of the City Clerk.

- Attachments:
1. Article in San Diego Union Tribune by Mike Freeman, August 3, 2003
 2. Article in San Diego Union Tribune by Emmet Pierce, September 9, 2003
 3. [Condominium Conversion Statistics, Development Services Department](#)