

THE SACRAMENTO REPORT

by Greg McConnell

ANTI-CONDO FEVER

I read with interest recent reports that some of the local policy makers in San Diego are considering a possible moratorium on condominium conversions. Apparently, the opponents of condominium conversions see this as an attack on affordable housing. Under their view, every apartment that is converted to ownership is one less housing unit available for tenants. What they don't tell you is that studies have proven that in the San Diego area, first time homebuyers – translation - renters, purchase 75% of the units that are converted to condos.

Anti- conversion themes are also prominent in San Francisco. There, people who had purchased small apartment buildings as Tenants In Common (TICs) attempted to convert them under a proposed special amendment to SF's very stringent conversion laws. The proposed change was rejected. What was very strange about that development was the fact that these were units that had already been removed from rental status under the Ellis Act. As such, converting these TICs to condos would not have reduced the number of rental units in the city.

San Francisco attempted to go one step further. It attempted to prevent owners from Ellis-ing and selling their units to people who would own them under TIC ownership. The courts declared that illegal. SF then tried to increase the amount of money that owners had to pay to tenants in relocation fees so that the costs would be so great that only the wealthiest owners could afford to go out of business and sell their units to groups of TIC owners. That too was declared illegal by the courts.

Berkeley, not to be out done by their regulating sister cities got a little smarter, it decided that since it was illegal to restrict TIC ownership, why not make a little money off of it. It agreed to allow TIC owners to convert their units to condos, if they agreed to pay a hefty fee to the city.

These developments make me think back to my days as director of rent control programs in Washington D.C. and Berkeley, CA. Back then, I also responded to every new rental-housing proposal as a potential back door attack on tenant rights. How wrong I was then and how wrong they are now.

The fundamental flaw in this kind of thinking is that it is premised on the notion that there is no longer an opportunity for people of average means to advance beyond their status. The protectionist ideology is so ingrained in tenant advocacy that any proposed change in the status quo is met with great suspicion and hostility.

The other way to look at conversions is that it gives people a chance to become owners and participate in wealth generation that real estate ownership creates. An additional benefit is that, as owners, former tenants would not need to concern themselves with the plethora of regulations that tenant advocates advance. When people own their housing they don't need rent control, eviction control, extended termination notices, rules about security deposits, etc., etc., etc.

Condo conversions can also benefit low-income tenants. I participated in a recent study on converting a 100 plus unit luxury apartment building. Based upon increased property assessments, the conversion would increase annual tax revenues from that property to the tune of \$800,000 per year. Transfer taxes paid when the units are sold would generate close to \$1.2 million. Additionally, in the study that was being considered, the owner would agree to pay money into a housing trust fund that would generate \$2.6 million dollars for the city to use for affordable housing programs, including affordable housing developments and rent subsidies.

To be sure, most apartment owners got into the business to rent their units and unless government makes it too difficult to do that, they will continue in that business. The thought that some huge percentage of apartment owners is going to wake up in the morning and decide to oust their tenants is just not real. On the other hand, some owners want to convert and a growing number of tenants want to buy. Why should policy makers and advocates stand in the way? Are they protecting tenant interests or their own?

Legislative Update

The following are some of the bills that continue working their way through the legislature. As indicated last month, if you have strong feelings on these issues, you should let your legislative representatives know how you feel. Each bill can be accessed by going to <http://www.leginfo.ca.gov/bilinfo.html>. Enter the bill number and click "search."

AB 769 (Horton) "Landlord School" This bill would create landlord school for owners who don't comply with abatement orders. The schools would be developed by industry groups and sold to cities.

After I reported on this bill last month, several readers contacted me and asked if this was just an income-generating ploy. After all, said those readers, if cities would enforce existing laws this would be unnecessary. My response is that there are always various motivations for legislation and money is always a strong one. Nevertheless, if this legislation helps get rid of slumlords, it may ultimately benefit the industry.

AB 781 (Leno) "Regulating the Right to Go Out of Business". This bill would amend the Ellis Act to provide that owners can only use the Act to go out of business if they have owned the property for a period of five years. It has been pulled from further consideration this year.

SB 51 (Kuehl) "Sixty Day Notices". This bill would permanently require owners to provide sixty day notices for no fault terminations of tenancies. The Administration has announced opposition to the bill. This should increase the chance of a veto if the bill is approved by the Legislature.

Greg McConnell is a rental housing consultant and legislative advocate. He represents and advises apartment associations, property management companies, and individual owners throughout California. For more information please visit www.themcconnellgroup.com.

© This article is copyrighted and cannot be republished without the consent of the author.