LEGISLATIVE ANALYST REPORT

TO:	The Honorable Board of Supervisors
FROM:	Carmen Chu, Clare Nolan, and Adam Van de Water, Office of the Legislative Analyst
DATE:	August 26, 2002
RE:	**Condo Conversions: HOPE Initiative and Legislation** (File # 020934, 020936)

SUMMARY AND SCOPE OF REQUEST

Supervisor McGoldrick through the Board of Supervisors submitted a request to the Office of the Legislative Analyst (OLA) to conduct research on several issues regarding the Home Ownership Program for Equity legislation (HOPE-L) currently pending in the Transportation and Commerce Committee and a very similar initiative entitled the Home Ownership Program for Everyone (HOPE-I) on the November 2002 ballot. The legislation and the initiative exhibit significant overlap and are generally referred to as HOPE in this document unless specifically stated otherwise below. Specifically, the Board asked the Legislative Analyst for 1) a comparison between HOPE and the current subdivision code, 2) a study of similar legislation enacted in Santa Monica called the Tenants Ownership Rights Charter Amendment (TORCA), and 3) an analysis of the impacts of HOPE on San Francisco's rental community and affordable housing stock. To address these questions, this report provides background information on condominium (condo) conversions in San Francisco; lays out the key differences between HOPE and the current subdivision code; analyzes the outcomes of TORCA in Santa Monica; and projects potential outcomes of the legislation and initiative in San Francisco.

EXECUTIVE SUMMARY

Under current City code, 2-6 unit residential rental properties can convert to condos through a process governed by the City's Subdivision Code and the State's Subdivision Map Act. Under the City's Subdivision Code, no existing residential property exceeding 6 units may convert to condominiums. The current subdivision code limits conversions to a pool of 200 units, and to a second pool of 200 units that may convert subject to re-sale price and other restrictions. An unlimited number of 2-unit buildings may convert subject to certain restrictions. In addition, non-purchasing tenants in the second pool and disabled and senior tenants in the first pool have the right to lifetime leases (also subject to certain restrictions) that provide all of the protections of the San Francisco Rent Ordinance.

HOPE would alter existing conversion policy by creating a new, separate process for the conversion of multi-unit rental properties to condos. The new process would open conversions to buildings of any size, including those with more than 6 units. If enacted, HOPE would increase the number of annual allowable conversions by setting the conversion at one percent of the housing stock in San Francisco for a period of 25 years (an annual average of over 3,500 units). In order to apply for conversion under HOPE, signed intent to purchase forms would be required by 40% of tenants in 2-6 unit buildings; 33% of tenants in 7-12 unit buildings; and 25% of tenants in buildings with 13 or more units. Non-purchasing tenants would have the right to a lifetime lease that limits rent increases and limits the grounds for eviction.

This report uses 1) local housing data, 2) information regarding similar legislation enacted in Santa Monica, CA (e.g., TORCA), and 3) a review of documents pertinent to a similar condominium conversion policy in San Francisco from 1979-82 under earlier tenant protection laws to project potential outcomes of HOPE. Key findings from this analysis include:

- The maximum number of conversions that could occur under HOPE over the next 25 years is 88,649 units, assuming a continued net increase of 1,000 housing units per year. The Office of the Legislative Analyst finds that the number of conversions in San Francisco will likely be lower – an estimated 53,189 units. Based on these projections, the HOPE legislation could result in the loss of between 25-42% of the City's rent-controlled units over a period of many decades.
- In estimating the purchase price of condos converted under HOPE, it is likely the median sale price will fall somewhere between that of condos sold during the past year in San Francisco (a "ceiling" price of $500,000) and that of the per unit price of units in multi-unit buildings (a "floor" price of $285,000).
- When considering mortgage payments alone, a household would have to earn over $125,000 to afford the "ceiling" price ($500,000). Similarly a household would have to earn over $75,000 to afford the "floor" price ($285,000). According to Census 2000 data, approximately 37% of San Francisco households had an income of $75,000 or more in 1999 and 25% had a household income of $100,000 or more. In addition, potential owners would have to be able to afford the average down payment (typically 20% in San Francisco), other up-front costs associated with purchasing a home, and monthly or annual payments for condominium or homeowner's association dues.
- A 1993 evaluation report of Santa Monica's TORCA legislation suggests that there was a substantial loss of affordable units as a result of TORCA. Nonetheless, the legislation did make homeownership opportunities available for median and moderate-income households within a price range otherwise not available in the housing market.
- Although good information on the proportion of original tenants who purchased units converted through TORCA was not available, available data suggests that the actual proportion is close to 12%.
- According to the TORCA evaluation report, 20% of tenants participating in a phone survey indicated that they had been pressured to sign conversion forms and 17% indicated that they were offered money to move out of their units. The actual number of tenants experiencing these events is likely to be higher, due to methodological issues with the report's research design.
- From 1979 to 1982, San Francisco allowed a maximum of 1,000 conversions per year provided that 40% of tenants indicated intent to purchase their units. Documentation indicates that the policy was changed in 1982 in response to several concerns, including a small proportion of tenants purchasing their units; a large number of unsold condominiums relative to low rental vacancy rates; the conversion of large rental buildings; and the difficulty of enforcing tenant protections.

BACKGROUND

CURRENT CITY POLICY ON CONDOMINIUM CONVERSIONS

Multi-unit rental properties can be converted into condos through a process governed by the City's Subdivision Code and the State's Subdivision Map Act. According to the Department of Public Work's (DPW) Condominium Conversion application package, a condo is characterized as consisting of an "individually owned 'unit' and a 'common area'. The unit is the space within the walls, floors and ceilings of a particular dwelling and the common area is the remainder of the property."[1] Typically, owners pay their own mortgages, property taxes, and utilities in addition to monthly homeowner association dues to cover repair and provide insurance for the common areas. Condos differ from apartment buildings or multi-unit rental complexes in that condos can be separately sold to individual purchasers. Currently, San Francisco limits condo conversions to residential rental properties of 2-6 units. San Francisco restricts conversions to an annual pool of 200 units, and to a second pool of 200 units that may convert subject to re-sale price and other restrictions. An unlimited number of 2-unit buildings may convert subject to certain restrictions.

The Board of Supervisors enacted the McGoldrick tenancies-in-common law on August 8, 2001, which is reflected in the current conversion process. A lawsuit has postponed the implementation of a portion of the new regulations, but others have taken effect. In effect, the law has increased tenant participation requirements for conversion; allowed two-unit buildings to bypass the conversion lottery if either unit is occupied for one year by an owner of at least 25% interest in the property; and provisions allowing an additional pool of 200 units to convert subject to certain tenant participation requirements and resale price restrictions. Elements of the law that will not go into effect until litigation is resolved include the ability of 3-6 unit buildings in which all units were owner-occupied on July 15, 2001 to bypass the lottery during a special two-year amnesty program and restrictions on the formation of tenancies-in-common which will also be required to go through the conversion process.

CURRENT STATUS OF THE LEGISLATION AND INITIATIVE

The Home Ownership Program for Equity (HOPE-L) was assigned to the Public Works and Public Protection Committee on March 3, 2002 and subsequently transferred to the Transportation and Commerce Committee on April 24, 2002. As of May 23, 2002, HOPE-L (Board of Supervisors File # 020489) is pending committee action in the Transportation and Commerce Committee. If passed, the HOPE legislation would amend the San Francisco Subdivision Code by adding Article 11, consisting of Sections 1399.1 through 1399.16 to permit the conversion of existing residential buildings to residential condominium or other ownership subject to certain requirements.

Joe Capko, co-founder of Tenants for Homeownership, subsequently filed notice of an intention to circulate a petition for the purpose of enacting the similar initiative ordinance, Home Ownership Program for Everyone (HOPE), with the San Francisco Department of Elections on April 26, 2002. On July 19, 2002, the Department of Elections determined that HOPE had received enough signatures to qualify for the November 2002 ballot.

According to staff from the sponsor's office (Supervisor Hall), the legislation (HOPE-L) will "with 99.9% certainty" be withdrawn now that the initiative (HOPE) has successfully qualified for the ballot. However, as of the writing of this report, HOPE-L remains active at the call of the chair of the Transportation and Commerce

[1] City and County of San Francisco, Department of Public Works, "Condominium Conversion in San Francisco," Sept. 17, 2001. It should be noted here that while this report refers to individual units or condos throughout, it does not necessarily mean one bedroom or one tenant units. In many instances with multi-bedroom units, therefore, there may be multiple tenants with leases or subleases.

Committee. Except as noted in key provisions below, the HOPE-L legislation and HOPE-I initiative are significantly similar to refer to them collectively as HOPE in the remainder of this document.

COMPARISON OF CURRENT SUBDIVISION CODE AND HOPE

1. SUMMARY

HOPE would alter existing conversion policy by creating a new, separate program for the conversion of multi-unit rental properties to condos governed by a new set of regulations and requirements. The existing condo conversion process would continue to co-exist with HOPE. In order to gain an understanding of the initiative, this section compares the current subdivision code to that proposed under HOPE.

Briefly stated, the new process would open conversions to buildings of any size, including those with more than 6 units. HOPE would increase the number of annual allowable conversions by setting the maximum number of conversions at one percent of the housing stock in San Francisco for a period of 25 years (an annual average of over 3,500 units[2]). Similar to certain provisions of the current code, HOPE would require signed intent to purchase forms by a specific proportion of tenants. Under HOPE, all non-purchasing tenants have the right to lifetime leases that limit rent increases and contain eviction protections. Under the current code, tenant lease rights differ according to which method is used to satisfy eligibility requirements. In some cases, all non-purchasing tenants have the right of a lifetime lease. In other cases, only senior and disabled tenants have the right to lifetime leases and other non-purchasing tenants have the right to a one-year lease. Leases pursuant to the current code provide all of the protections of the San Francisco Rent Ordinance. Under amendments to the Costa Hawkins Act the rent control protections continue to apply after conversion if the unit is not "separately sold." However, if the unit is sold after conversion, the provisions of the Rent Ordinance would no longer apply. Finally, the HOPE initiative (HOPE-I), unlike the legislation, may limit City Code compliance to only those applicable laws that were in effect for similar multi-resident structures in the City as of the date the building was constructed

Exhibit 1 summarizes these and other differences between key provisions of the current subdivision code and HOPE. Further detail on these differences is provided in the narrative section following the chart.

Exhibit 1. Differences in Key Provisions of the Current Subdivision Code and HOPE

Topic	Current Subdivision Code	HOPE
Limit on Conversions	400 units per year (200 in Pools B & C, 200 in restricted Pool A), plus an unlimited number of 2-unit conversions subject to certain restrictions; unused conversions do not carry forward to subsequent years	An estimated 3,546 units per year for the next 25 years; 200 units per year thereafter; unused conversions carry forward to subsequent years
Limit on Property Size	2-6 unit properties	None
Tenant Intent to Purchase Requirements	1) Owner-Occupancy method (Pools B & C): one tenant in 3-4 unit buildings or 2 tenants in 5-6 units buildings 2) Renter-Buyer method (Pool A): 50% of tenants. Tenants may not be owners of the buildings to qualify.	40% of tenants in 2-6 unit buildings; 33% in 7-12 unit buildings; and 25% in 13 or more unit buildings. Tenants may be an owner of the building.
Non-Purchasing	1) Owner-Occupancy method: All non-purchasing	All non-purchasing tenants have a right to a lifetime

[2] Please refer to Appendix A for the calculation of this estimate.

Tenant Lease Rights	tenants have right to one-year lease; disabled and senior tenants have right to lifetime lease 2) Renter-Buyer method: All non-purchasing tenants have right to lifetime lease Leases provide all of the protections of the current Rent Ordinance, including limits on rent increases and eviction protections described below.	lease that limits rent increases and provides eviction protections described below.
Non-Purchasing Tenant Eviction Protections	Limited evictions permitted as allowed by statute, including Owner-move-in. Senior, disabled and terminally ill tenants protected from Owner-move-in evictions.	Limited evictions permitted as allowed by statute. Owner-move-in is not included in list of permitted evictions.
Conformity with Code	For Final Map approval, in addition to requirements of State law, all applicable provisions of City's Codes: • Must be met or violations corrected • Or, funds be adequately escrowed or bonded to assure completion of corrective work prior to the closing of escrow of any unit in the project	The HOPE legislation and initiative differ in this respect. Under the initiative, a building may be required to comply only with the applicable laws that were in effect for similar multi-resident structures in the City as of the date the building was constructed, along with reasonable health or safety requirements. The legislation has no corresponding provision.

2. LIMIT ON NUMBER OF CONDO CONVERSIONS

Under the current code, 200 units may convert after winning an annual lottery process. If there are fewer units being converted than the allowable limit for any given year, the remainder may not carry over into subsequent years. Applications are accepted for an additional pool of 200 units subject to re-sale price, tenant income levels and other restrictions. Two-unit buildings may convert without participating in the lottery process if an owner of at least a 25% interest in the property occupies either unit for one year.

HOPE would increase the annual allowable conversion limit by one percent of the housing stock in San Francisco, as reported in the Planning Department's *Housing Inventory*, for the first 25 years that the legislation is in effect. Thereafter, HOPE conversions would be limited to 200 units per year (in addition to the existing subdivision process). If there are fewer units being converted than the allowable limit for any given year, the remainder may carry over to subsequent years. Based on housing stock projections, HOPE would allow an average of 3,546 conversions per year for the next 25 years[3].

3. ELIGIBILITY REQUIREMENTS

This section describes eligibility requirements that must be met in order for a rental property to qualify for participation in the condo conversion process under the current code and those proposed under HOPE.

a. Eligible Properties

Under the current code, only 2-6 unit properties may convert. HOPE would allow buildings of any size to convert. HOPE also requires that owners seeking to convert a property shall not have 1) performed an Owner-move-in eviction[4] in the past five years; 2) given a tenant compensation to vacate in the past five years, or 3) performed an Ellis Act eviction[5] for the past 10 years.

[3] Please refer to Appendix A for the calculation of this estimate.

[4] Owner-move-in, or owner-occupancy evictions, occur when an owner wishes to occupy a unit s/he is currently renting to a tenant. Such evictions are governed by a set of regulations pertinent to both the owner and the tenant.

[5] The Ellis Act is a state law, which became operative July 1, 1986 and requires municipalities to allow property owners to go out of the rental business.

b. Tenant and Owner Participation

Current Code – Under the current code, there are three methods by which tenant and/or owner participation requirements may be satisfied:

- Owner-Occupancy: Under this method, signed intent to purchase forms are required by tenants of at least one unit in a 3-4 unit building and at least two units in a 5-6 unit building. An intent to purchase form states that the tenant intends to buy his/her unit as a condo. S/he may later decide not to buy the unit. This method applies when one unit has been owner-occupied for three years prior to lottery entry.

- Renter-Buyer: Under this method, two requirements must be met: 1) signed intent to purchase forms are required by all tenants in at least 50% of the units, and 2) all non-purchasing renters have been given the right to lifetime leases. Each of the purchasing renters must have lived at the property for one year prior to lottery entry and a certain percent of the tenants must qualify as median income. No owner-occupants are required for participation under this method.

- Lottery Bypass: Two-unit buildings may bypass the conversion lottery if either unit is occupied by an owner of at least a 25% interest in the property for one year prior to application. In addition, certain tenancies-in-common that were 100% owner-occupied as of a certain date may bypass the lottery. This provision is on hold pending the resolution of the litigation over the tenancies-in-common legislation mentioned in the Background section on page 3.

In both the Owner-Occupancy and Renter-Buyer methods, tenants may not have an ownership interest in the building. In addition, under both Owner-Occupancy and Renter-Buyer methods, intent to obtain a lifetime lease by tenants aged 62 or older, or by permanently disabled tenants, is acceptable in place of minimum intent to purchase requirements.

HOPE – In order to apply for conversion under HOPE, signed intent to purchase forms are required by the following percentage of tenants who have continuously occupied a unit at the property for the previous two years:

- 2-6 unit buildings – at least one eligible purchaser from 40% of the units
- 7-12 unit buildings – at least one eligible purchaser from 33% of the units
- 13 or more unit buildings – at least one eligible purchaser from 25% of the units

A person may qualify as an eligible purchaser under HOPE if they: (1) are an owner or a tenant with an express written or oral agreement directly with the owner, (2) currently reside at the property, (3) have done so continuously for the previous two years, and (4) apply only once within a seven-year period.

4. TENANT RIGHTS AND PROTECTIONS

This section describes tenant rights and protections pursuant to the conversion process under the current subdivision code and those proposed under HOPE.

a. Leases and Rents for Non-Purchasing Tenants

Under the current code, lease requirements differ according to which method is used to satisfy the participation requirements. Under the Owner-Occupancy method, all non-purchasing tenants have the right to one-year rent controlled leases and all disabled and senior non-purchasing tenants have the right to lifetime rent controlled leases. Under the Renter-Buyer method, non-purchasing tenants have the right to lifetime leases. These leases provide tenants with all of the protections of the Rent Ordinance, including limits on rent increases, capital improvement passthroughs, eligibility for Rent Board arbitration and counseling, and eviction protections (discussed below).

Under HOPE, all non-purchasing tenants have the right to a lifetime lease that limits rent increases to that rent charged on the date the application is submitted, plus any subsequent annual increases. The legislation and the initiative differ on the annual allowable increases in rent. The HOPE legislation (HOPE-L) limits these subsequent annual increases to those permitted by the Rent Ordinance. In the event the Rent Ordinance is no longer in effect, increases are limited to the percent increase in the regional Consumer Price Index and may not be made more than once per year. The HOPE initiative (HOPE-I) limits these increases to 60% of the regional Consumer Price Index. Lifetime leases associated with both versions of HOPE also contain eviction protections, described in the following section.

The HOPE initiative (HOPE-I) does not address tenant rights and protections afforded in certain multi-tenant situations. For example, it is unclear what protections, if any, would be afforded to a non-eligible tenant (one for instance without an express oral or written agreement with the owner) in a three bedroom unit where all other eligible tenants decline to purchase.

b. Eviction Protections

Under the current Rent Ordinance, tenants can be evicted only for 14 "Just Cause" reasons for eviction. Owner-move-in is included within the 14 "Just Cause" reasons. Under HOPE, tenants with lifetime leases can be evicted only for reasons included on a list of "Permitted Evictions." The following list includes evictions that are included in the 14 "Just Cause" reasons under the current Rent Ordinance, but *would not be permitted* under HOPE:

- Owner occupancy (e.g., Owner-move-in) [6]
- Tenant refusal to renew lease
- Unapproved subtenant
- Condominium conversion or demolition of property
- Temporary tenant relocation due to capital improvements, rehabilitation or lead remediation/abatement
- Withdrawal of rental units contained in a detached physical structure

Ellis Act evictions are not included in the 14 "Just Cause" reasons or in HOPE's "Permitted Evictions," as they are provided for by state law[7].

c. Right to Purchase

Under the current code, tenants have the right of first refusal in purchasing their units at a price established by the owner. After waiver or termination of this right, owners can sell to outside purchasers.

Under HOPE, each tenant has the right to purchase his or her unit; owners can not sell to outside purchasers until escrow has closed on sales to "eligible purchasers" of 25% of the units in the building. With respect to tenants who sign an intent to purchase form, the right to purchase shall be at a price negotiated between the two parties and stated on the form. With respect to tenants who did not sign an intent to purchase form, the selling price shall be no greater than the price at which the unit would be offered to the general public.

[6] Under the current code, senior, disabled, and terminally ill tenants are protected from Owner-move-in evictions.

[7] The Ellis Act is a state law effective July 1, 1986, which requires municipalities to allow property owners to go out of the rental business.

Specifically, under HOPE the subdivider must notify the tenant of the right to purchase within 30 days of the Department of Real Estate's issuance of the Final Subdivision Public Report for 5+ unit properties or the recordation of the subdivision map for 4-or-fewer-unit properties. The tenant then has 180 calendar days following the date the offer to purchase is made to execute a binding, non-contingent purchase and sale agreement.

d. Right to Use Common Areas

Under the current code, all condos must submit a document describing the rights and duties of the owners that includes information regarding how common areas are used. Under HOPE, non-purchasing tenants retain their pre-conversion rights to use certain common areas of the property.

5. ANTI-SPECULATION CLAUSES

Speculation typically refers to taking large risks in the hopes of making quick, large gains. The current code contains no specific anti-speculation clauses. Under HOPE, condo purchasers who resell their units during a two-year period following conversion must pay a fee calculated as a percentage of net profit – 20% if the unit is sold within 12 months, or 10% if unit is sold between 13 and 24 months. Owners who demonstrate that they did not or could not reasonably foresee that they might be required to resell their unit are exempted from payment. Fees shall be paid to a fund to be used for purposes specified by the Mayor's Office of Housing. The name of this fund differs between the legislation and the initiative. The legislation (HOPE-L) calls this fund the Citywide Affordable Housing Fund whereas the initiative (HOPE-I) calls this the First-Time Buyer Downpayment Assistance Loan Fund.

6a. APPLICATION OF RENT CONTROL TO CONVERTED UNITS

Rent protections can be afforded both to units and to tenants. Rent control applies specifically to units whereas other rent protections described below apply to specific tenants.

There is no difference between the application of rent control to units converted under the current code and those that would be converted under HOPE.

The application of local and state rent control laws differs according to whether a unit was built after or before 1979. Buildings built after 1979 are not subject to rent control. Similarly, converted units in buildings built after 1979 are not subject to rent control. With respect to converted units in buildings built before 1979, units that *have not been sold* separately by the subdivider to a bonafied purchaser for value fall under the provisions of local and state rent control laws. Converted units that *have been sold* separately by the subdivider to a bonafied purchaser for value who meet certain criteria do not.

6b. OTHER RENT PROTECTIONS

Under the current code, non-purchasing tenants in Pool A (the Renter-Buyer method) and non-purchasing senior and disabled tenants in Pools B and C (the Owner-Occupancy method), have the right to lifetime leases. Non-purchasing tenants in Pools B and C who do not qualify as senior or disabled have the right to one-year leases.

Under HOPE, all non-purchasing tenants have the right to a lifetime lease.

7. APPLICATION PROCESS

This section lists documents required under the current subdivision code that would not be required under HOPE and summarizes key differences in the procedural requirements.

a. Information Required Under Current Code, Not Required Under HOPE

The following information is required under the current subdivision code, but would not be specifically required under HOPE: Building Inspector's report; list of planned repairs and improvements; copies of management documents; existing uses of the property, including existing tenancies and the conditions and terms thereof; Geologic Conditions Statement or a Soil Report; declaration that all applicable provisions of City Housing, Building, and Planning Codes have been met or corrected, or that funds are adequately escrowed to complete necessary corrective work; rental history; list of tenant contacts; and sales and leasing prices. For additional information on the function and purpose of such information, please refer to Appendix C.

b. Procedural Requirements and Deadlines

The procedural requirements and deadlines under HOPE would differ from those of the current subdivision code in three primary ways, as detailed below:

- *Tenant Notice* – Responsibility for mailing notice to tenants of a HOPE application submittal and a document detailing their rights will change though not significantly. Under the current code, the subdivider is responsible for providing the information. Under HOPE, the Director of the Department of Public Works (DPW) would be responsible. In both cases the applicant will be required to submit addresses and the Department will send out the notices.
- *Public Hearing* – HOPE puts a limit on the number of days that the Director of DPW would have to hold a public hearing regarding a HOPE conversion. After receipt of a hearing request, the Director would have 21 days to hold a hearing under HOPE, whereas the current code provides no deadline except that it must occur prior to the Department's issuance of tentative approval.
- *Time to Determine Complete* – HOPE shortens the days within which the Director of DPW must notify a HOPE applicant of the items necessary to complete an application from 30 days to 15 days. If notification is not given within 15 days under HOPE, the application will be deemed filed on the 15th day.

Additional information on procedural requirements and deadlines and the role and function of City Agencies under HOPE can be found in Appendices D and E.

8. CONFORMITY WITH CODE

Under the current code, in addition to requirements of state law, for Final Map approval, all applicable provisions of City's Codes must be met or corrected or funds must be adequately escrowed or bonded to assure completion of corrective work prior to the closing of escrow of any unit in the project.

The HOPE legislation (HOPE-L) has no language specific to code conformity. Section 1399.12 of the HOPE initiative (HOPE-I) states that, "The building may be required to comply only with the applicable laws, including the building, safety, and zoning codes, that were in effect for similar multi-resident structures in the City as of the date the building was constructed, along with reasonable health or safety requirements…" The impact and enforceability of this Section, should the initiative be approved by the voters in November, is beyond the scope of this report.

CASE STUDY 1: SANTA MONICA'S TORCA LEGISLATION

1. BACKGROUND

In an effort to better gauge the potential outcomes of the HOPE initiative, the Board of Supervisors requested the Legislative Analyst to examine similar legislation that was passed in Santa Monica, CA. In 1984, Santa Monica voters approved the Tenant Ownership Rights Charter Amendment (TORCA). This legislation allowed the unlimited conversion of existing apartment buildings to condos, provided that a sufficient number of tenants agreed to purchase their units and a sufficient number approved of the conversion. The provisions of the TORCA law ended on June 30, 1996 due to a sunset provision included in the amendment. Properties that submitted conversion applications prior to that date remained eligible for conversion.

According to the text of the charter amendment, TORCA had three primary objectives:

- To permit tenants to enjoy the stability, security and financial benefits of ownership
- To provide protection to participating tenants who choose not to purchase their units
- To promote affordable housing opportunities for low and moderate income households

At the time that the TORCA legislation was in effect, Santa Monica exhibited characteristics similar to San Francisco's current housing situation. First, Santa Monica and San Francisco were similar in terms of the proportion of owner- and renter-occupied units. According to data from the 1990 Census, 28% (12,340) of Santa Monica's occupied units were owner-occupied and 72% (32,520) were renter-occupied[8]. Second, Santa Monica exhibited high housing prices. The median value for all owner-occupied housing in Santa Monica in 1990 was over $500,000, the highest category reported on the U.S. Census[9]. Third, the majority of Santa Monica's renter-occupied units were rent-controlled[10]. However, state law pursuant to vacancy decontrol[11] was not in effect in Santa Monica during the TORCA time period and Ellis Act evictions became operative July 1, 1986, two years after the initial approval of TORCA.

2. COMPARISON OF TORCA AND HOPE

Similar to HOPE, the TORCA legislation allowed conversion of existing rental units to condos provided that a specific proportion of tenants indicated intent to purchase their units. Nonetheless, there are differences between key provisions of TORCA and HOPE. The following table summarizes these differences.

Exhibit 2. Comparison of Key Provisions of TORCA and HOPE

Topic	Santa Monica's TORCA Legislation	HOPE
Tenant Agreement to Conversion	Conversion application must be signed by at least 2/3 of eligible tenants agreeing to the conversion.	No corresponding provision.
Tenant Intent to Purchase	Intent to purchase forms must be submitted by at least one eligible purchaser from 50% of units.	Intent to purchase forms must be submitted by at least one eligible purchaser from a percentage of tenants: • 2 – 6 units: at least 40% • 7 – 12 units: at least 33% • 13+ units: at least 25%
Annual Allowable	Unlimited.	For the first 25 years, 1% of the housing stock may

[8] *City of Santa Monica Community Profile.* Lee Mizell, RAND Institute, March 2002. Santa Monica, CA. According to the 2000 U.S. Census, 35% of San Francisco's occupied units were owner-occupied and 65% were renter-occupied.
[9] *Analysis of Impediments to Fair Housing Choice.* Santa Monica City Attorney's Office, April 2002.
[10] Phone interview with Mary Ann Yurkonis, Director, Santa Monica Rent Control Board, June 24, 2002.
[11] Vacancy decontrol allows a landlord to charge market rent to a new tenant who moves in to fill a vacancy.

Conversions		convert per year. Thereafter, the cap is at 200 units per year. Unused conversions may carryover to subsequent years.
Rent Control Protections for Non-Purchasing Tenants	Converted units were to remain under rent control permanently. However, subsequent state laws limited rent control on converted condos[12].	Non-purchasing tenants have the right to a lifetime lease that limits rent levels.
Eviction Protections for Non-Purchasing Tenants	Senior and disabled non-purchasing tenants may not be evicted under Owner Move-In, the Ellis Act[13] or for demolition of the unit. All other non-purchasing tenants may not be evicted under the Ellis Act or for demolition of the unit for a period of 5 years or under Owner Move-in.	Tenants with lifetime leases may only be evicted on specific grounds. Ellis Act and Owner Move-In evictions are not included in the list of permitted evictions.
Tax	City may collect an amount equal to 12 times the monthly maximum allowable rent for each converted unit, to assist low and moderate income tenants with homeownership and to increase the supply of affordable housing. (Note: These programs are discussed below.)	No corresponding provision.
Right to Purchase	Non-purchasing tenants retain the exclusive right to purchase their unit at the originally offered sales price for a period of 2 years.	A tenant who has signed an intent to purchase form retains the right to purchase at the price agreed upon in the form for 180 calendar days following the date the offer to purchase was made. A tenant who has not signed an intent to purchase form may purchase his or her unit at a price offered to the general public.
Resale Controls	Individuals permitted to re-sell units.	Individuals who re-sell units during the 2 year period after conversion must pay a fee, unless they can demonstrate that they did not or could not reasonably foresee that they might be required to resell their unit.

3. OUTCOMES OF THE TORCA LEGISLATION

Based on existing reports and memorandums as well as interviews with City of Santa Monica staff, this section summarizes outcomes of the TORCA legislation, where information was available. In particular, this section addresses the number of units that converted under TORCA, tenant purchase of converted units, purchase price and affordability of TORCA units, etc.

a. Number of Converted Units

As of June 30, 2001, the Santa Monica Planning Commission and City Council had approved the conversion of 324 properties containing 3,243 total units under TORCA[14]. On average, the TORCA legislation resulted in the approval for conversion of 0.6% of Santa Monica's housing stock each year during the twelve-year period that

[12] For more information on the impact of state laws on TORCA, please refer to the section of this report titled *Legal Challenges to TORCA.*
[13] The Ellis Act is a state law effective July 1, 1986, which requires municipalities to allow property owners to go out of the rental business.
[14] Rent Control Board Annual Report: July 2000 through June 2001. Santa Monica Rent Control Board, February 7, 2002.

the legislation was in effect[15]. Buildings converted under TORCA ranged from two to 72 units, with an average project size of 11 units and a median project size of 7 units[16].

b. Trends in Condo Conversions

Prior to TORCA, Santa Monica municipal code prohibited condo conversions[17]. The TORCA charter amendment altered this provision to allow condo conversions approved in accordance with its provisions. In addition, the legislation stated that, "The General Plan of the City shall at all times contain a provision that the Tenant Ownership Rights Charter Amendment shall be the only procedure by which a multifamily conversion may be approved[18]." Now that the TORCA legislation has expired, condo conversions are again prohibited until "rental units demolished or converted in 1978 and 1979 are replaced[19]."

c. Converted Units Purchased by Tenants Residing in Rental Units Prior to Conversion

Current information on the percentage of converted units purchased by tenants residing in rental units prior to conversion is not available. Santa Monicans for Renter's Rights (SMRR), a tenant advocacy organization, estimates that 8% of all units converted under TORCA were purchased by their renter-occupants[20]. However, no source documentation is available for that number at this time. An evaluation report conducted by the City of Santa Monica in 1993 estimates the percentage of *sold* TORCA units purchased by participating tenants (40%), but does not estimate the percentage of *converted* units purchased by participating tenants[21]. However, several methodological issues suggest that this number is imprecise. For example, tenants who owned or partially owned the building prior to conversion were included in the calculation.

While it is impossible to accurately state the proportion of converted units bought by tenants, available data suggests that the actual proportion is close to 12%[22].

It may be possible to obtain a more current estimate by cross-referencing TORCA conversion applications on file with the Santa Monica Planning Department with property tax records held by the Los Angeles County Assessor's Office; these records may be recalled for a fee. Such an analysis would require manual review of paper files in Santa Monica and matching of individual case records by hand, a process that could not be conducted in the time period necessary for completion of this report.

d. Purchase Prices of Converted Units

According to an evaluation report issued in 1993, sales prices of TORCA units ranged from $16,500 to $742,000, while the average price was $196,990. The median price was $185,000[23]. These calculations include tenants that had an ownership interest in the building prior to conversion. It is possible that purchase prices for

---

[15] This figure is calculated by dividing the number of conversions approved (3,385 units) by the number of years the legislation was in effect (12 years), and dividing the result by the number of units in the housing stock (47,437 units).
[16] *TORCA Evaluation Report.* Land Use and Transportation Management Department, Program and Policy Development Division, City of Santa Monica, February 1993.
[17] Santa Monica Municipal Code, Article 20 § 9.04.16.02.010(j).
[18] Santa Monica Municipal Code, Article 20 § 18.
[19] Santa Monica Municipal Code, Article 20 § 9.04.16.02.010(j). 1979 was the year Santa Monica's Rent Ordinance went into effect.
[20] *SMRPH: Snake Oil with a 99-Year Scent.* Denny Zane and Michael Tarbet, Santa Monicans for Renter's Rights. http://www.smrr.org/
[21] *TORCA Evaluation Report.* Land Use and Transportation Management Department, Program and Policy Development Division, City of Santa Monica, February 1993.
[22] Please refer to Appendix F for the calculation of this estimate.
[23] *TORCA Evaluation Report.* Land Use and Transportation Management Department, Program and Policy Development Division, City of Santa Monica, February 1993.

these tenants were lower than for tenants with no ownership interest, which would under-estimate the purchase prices paid by tenants who did not own or partially own the property.

The same report includes an analysis comparing TORCA purchase prices to prices of comparable condos. Purchase prices of TORCA units were first compared to non-TORCA condos built during the same time period. The authors of the evaluation report observed, "Buildings originally built as condominiums have more parking, more amenities, and frequently more interior living and storage space than buildings originally constructed as apartments. Thus, TORCA condominiums are generally believed to be somewhat different from non-TORCA condominiums."

They also compare the prices of TORCA units to condos that were converted from rental units in nearby coastal communities. The report concluded that, "Prices of non-TORCA condominiums in Santa Monica are approximately double the prices of TORCA units, while the prices of [converted units in nearby coastal communities] are much closer to the TORCA units[24]."

e. Mortgages and Downpayments

The City of Santa Monica did not track mortgages or downpayments on TORCA units. However, assuming a downpayment equal to 20% of the sale price, an interest rate of 8% and a 30-year mortgage period (all common for the time period), it is possible to estimate these figures[25]. Using data from the 1993 evaluation report, the following table provides these estimates. These estimates do not include closing costs, utilities, home insurance, condo association dues, property taxes, mortgage payment tax deductions, or other costs and benefits of home ownership, which can be significant.

Exhibit 3: Estimated Homeownership Payments on TORCA Units

Sales Price Category	Sales Price	Estimated Downpayment	Estimated Monthly Mortgage Payment
Average	$ 196,990	$ 39,398	$ 1,156
Median	$ 185,000	$ 37,000	$ 1,086
Minimum	$ 16,500	$ 3,300	$ 97
Maximum	$ 742,000	$ 148,400	$ 4,356

f. Comparison of Mortgage Payments to Rent Payments

The City of Santa Monica does not have information on the rent payments of tenants prior to purchase and the subsequent rent payments of non-purchasing tenants. However, the 1993 evaluation report indicates that 1991 maximum allowable rents set by the Rent Control Board ranged from $26 to $2,855, while the average price

[24] The average price of a two-bedroom TORCA unit was $167,295, the average price for non-TORCA condominium unit in Santa Monica was $310,910 and the average price for a condo conversion in nearby coastal communities was $193,164.

[25] The formula used to calculate monthly mortgage payments is p= [(r*m)/(1-[(1+(r/n))^(-nt)])]/n, where p=monthly payment; m=principle or loan amount; r=interest rate; n=number of payments per year; t=number of years mortgages (ie. 30 year mortgage) from www.sosmath.com. This analysis assumes a 20% down payment, 8% interest rate and 30 year mortgage, based on a similar analysis conducted for the 1993 *TORCA Evaluation Report*. NOTE: While traditional lenders have required that home buyers make a down payment of at least 20% of the purchase price, low down payment mortgages backed by mortgage insurance are increasingly popular. These mortgage arrangements would reduce the estimated downpayment and increase the monthly mortgage payment.

was $626[26]. The median price was $561. The following exhibit compares estimated mortgage payments of tenants who purchased TORCA units between 1984 and 1993 and rent payments of tenants in 1991. Rent payments of non-purchasing tenants who remained in their units until 2001 are estimated using this latter information and the general rent adjustments permitted by the Santa Monica Rent Control Board since that time[27]. Again, these estimates do not include closing costs, utilities, home insurance, condo association dues, property taxes, and other costs and benefits such as tax exemptions associated with homeownership.

Exhibit 4: Comparison of 1991 and 2001 Rent Payments to Mortgage Payments

Category	Estimated Monthly Mortgage Payment	Estimated Rent Payment, 1991	Estimated Rent Payment, 2001
Average	$ 1,156	$ 626	$ 913
Median	$ 1,086	$ 561	$ 834
Minimum	$ 97	$ 26	$ 249
Maximum	$ 4,356	$ 2,855	$ 3,468

g. Sources of Financing

The TORCA legislation adopted in 1984 required that the City of Santa Monica implement an ownership assistance program for low and moderate-income households renting TORCA units at the time of conversion to assist them in purchasing their units. The TORCA Shared Appreciation Loan Program is funded by a portion of the taxes levied on units that have converted to condos through the TORCA process. Program guidelines have been amended on several occasions to expand the eligibility guidelines for qualifying households in order to attract more loan program participants[28].

Under the loan program currently in place, the City makes loans to qualifying low and moderate-income households residing in TORCA units, to assist them in purchasing their units[29]. These loans are available both to tenants who were present at the time of conversion and subsequent tenants of TORCA units. Loans are available for up to $75,000, depending on household size, condo size, purchase price and household income.

As of June 2001, approximately $9.2 million had been collected for the loan program[30]. However, only 50 loans totaling $2.7 million had been disbursed, leaving over $6 million in unused finds. In addition, these 51 loans represent less than 2% of converted units. Low loan volume has been attributed to several factors, including delays in loan processing; complexity of the application process; lack of qualified applicants; subsidy

[26] *TORCA Evaluation Report.* Land Use and Transportation Management Department, Program and Policy Development Division, City of Santa Monica, February 1993.
[27] Estimated 2001 rent payments are based on the general rent adjustments permitted by the Santa Monica Rent Control Board from 1992 to 2001, listed on their web site. http://www.santa-monica.org/rentcontrol/rent_levels/surcharges%202001.pdf This method of analysis is because the majority of units that converted were rent-controlled.
[28] Staff Report: Modifications to the TORCA Shared Appreciation Loan Program Guidelines. Santa Monica Housing Division, July 23, 2002.
[29] TORCA Shared Appreciation Loan Program 2002 Information Package. Santa Monica Housing Division, April 11, 2002.
[30] Staff Report: Background Information Concerning Tenant Participating Conversion Tax Revenues. Santa Monica Housing Division, June 21, 2001.

size; escalating condo prices; and a strong real estate market whereby owners have been able to find buyers who qualify for private financing[31, 32].

Because loan volume is less than anticipated, Santa Monica's Mayor and City Council are currently reviewing staff recommendations to further modify the loan program and to re-allocate funds available for TORCA loans to other projects[33].

h. Current Value of TORCA Condominiums

The City of Santa Monica does not track information regarding the current value of tenant-purchased condos. According to the Santa Monica office of Coldwell Banker Real Estate[34], the value of tenant-purchased condos in Santa Monica has never been tracked separately from the value of all condos. Therefore, it is not possible to determine the increase in value of tenant-purchased condos and the consequent equity increase of tenants who purchased TORCA units.

i. Beneficiaries of TORCA – Original Tenants vs. Prospective Buyers

The Board of Supervisors requested that the Office of the Legislative Analyst identify the likely beneficiaries of HOPE – existing tenants living in units to be subdivided or prospective buyers who will move into units after offering incentives for existing tenants to move out of their apartments – based on Santa Monica's experience with TORCA. Because the City of Santa Monica did not collect information on such transactions, it is not possible to assess likely beneficiaries in this manner.

j. Legal Challenges to TORCA

According to Barry Rosenbaum, Senior Land Use Attorney for the City of Santa Monica, no provisions of TORCA have ever been judicially invalidated[35]. However, the original TORCA legislation included a provision mandating that converted units remain subject to Santa Monica's rent control ordinance, both for non-purchasing tenants and all subsequent tenants of converted units. When TORCA was first passed, Santa Monica possessed a very strict rent control ordinance regulating all multi-unit residential buildings built before April 1979. Enacted as the result of a citizen initiative, the law provided that the legal rent for controlled units be equal to the base rent from 1978 plus any subsequent increases approved by the Rent Control Board. In addition, the law did not permit vacancy decontrol, whereby a landlord may charge market rent to a new tenant who moves in to fill a vacancy.

A State law passed in 1996, known as the Costa-Hawkins Act, mandated vacancy decontrol for all rent-controlled units. The Act also exempted all condos from rent control, except for those units with tenants that began their tenancy prior to January 1996. Consequently, the Santa Monica Rent Board amended their regulations to remain consistent with this State law[36]. As a result, converted units rented by tenants not present at the time of conversion were no longer rent-controlled. However, recent State legislation introduced by

[31] Staff Report: Modifications to the TORCA Shared Appreciation Loan Program Guidelines. Santa Monica Housing Division, July 23, 2002.
[32] Staff Report: Background Information Concerning Tenant Participating Conversion Tax Revenues. Santa Monica Housing Division, June 21, 2001.
[33] E-mail communication with Ellen Alderman-Comis, Santa Monica Housing Division, July 10, 2002.
[34] Phone Interview with Gaby Schkud, Coldwell Banker Real Estate Corporation, Santa Monica, August 26, 2002.
[35] Phone Interview with Barry Rosenbaum, Senior Land Use Attorney, Santa Monica City Attorney's Office, June 26, 2002.
[36] Phone Interview with Barry Rosenbaum, Senior Land Use Attorney, Santa Monica City Attorney's Office, July 30, 2002.

Senator Sheila Kuehl (SB985) now mandates that rents of any unsold converted units must become rent-controlled again. Once these units are sold to individual purchasers, their rent levels are no longer controlled[37].

k. Effect of Legislation on Number of Rent-Controlled Units

The Santa Monica Rent Control Board tracks information on the number of TORCA units that have filed for rent level decontrol. Staff of the Rent Control Board indicates that 488 units "have had their rent levels decontrolled as of June 30, 2002. Rent level decontrol on these separately sold condominiums may be because the unit is: 1) owner-occupied; 2) vacant; or 3) occupied by a tenant who moved in on or after January 1, 1996.[38]" The Rent Control Board estimates that approximately 30,000 rental units were rent-controlled during the period in which TORCA was in effect. Consequently, the TORCA legislation has decreased Santa Monica's rent-controlled units by 1.6%.

In addition, it is possible to estimate the *eventual* impact of the legislation on the number of units that have their rent levels controlled for the following reasons:

- All TORCA lifetime leases with rent level control will eventually expire.
- All tenancies that began before January 1996 will eventually expire.
- All converted units will eventually be sold to individual purchasers and will no longer be rent-controlled.

As stated previously, TORCA conversions had been approved for 324 properties containing 3,243 total units as of June 30, 2001[39]. At a maximum, the TORCA legislation may decrease the number of rent-controlled units by 10.8%. The actual number will be slightly less due to the fact that the Santa Monica Rent Control Charter Amendment does not apply to a small number of properties (e.g., properties built after 1979 and properties that were approved for conversion but were subsequently purchased by a nonprofit affordable housing provider)[40].

4. FINDINGS FROM OTHER SOURCES

The Board of Supervisors requested the Office of the Legislative Analyst to identify other data, analysis or reports prepared by the City of Santa Monica and its departments related to their experience with TORCA. This section concerns findings from the following sources:

- *1993 evaluation report* – additional findings on the effect of TORCA, including affordability of units, selling prices and tenant protections

- *Santa Monica City Attorney memorandums and staff reports* –information on implementation issues that triggered amendments to the TORCA legislation

a. Affordability of TORCA Units

The evaluation report analyzed the affordability of pre-conversion maximum allowable rents, initial sale prices of TORCA units and subsequent sale prices of TORCA units. The authors concluded the following:

[37] Staff Report: Proposed Amendments to Various Regulations in Chapters 3, 8, 11and 13 Necessitated by SB 985 (Kuehl), Plus Miscellaneous Amendments to those Chapters Proposed by Staff. Santa Monica Rent Control Board, December 6, 2001.
[38] Phone interview with Tracy Condon, Public Information Manager, Santa Monica Rent Control Board, July 8, 2002.
[39] Rent Control Board Annual Report: July 2000 through June 2001. Santa Monica Rent Control Board, February 7, 2002.
[40] Phone interview with Tracy Condon, Public Information Manager, Santa Monica Rent Control Board, July 8, 2002.

- There was a "substantial decline in the proportion of units affordable to lower-income households [when comparing pre-conversion rent payments to post-conversion rent and mortgage payments] – from 67.5% under rent control to 10.7% upon [sale to participating tenants]."

- A substantial portion (42%) of the first sale prices of TORCA units (e.g., sales to participating tenants) was affordable to median and moderate-income households.

- Upon subsequent sales (e.g., sales of TORCA units by participating tenants who re-sold their unit), there was a "substantial decrease in the proportion of TORCA condominiums that are affordable to any household earning less than 120 percent of the median County income – [from 48% to] 15%."

Taken together, these points suggest that there was a substantial loss of affordable units as a result of TORCA. Nonetheless, the authors noted that TORCA increased homeownership opportunities for median and moderate income households, stating that, "TORCA units satisfy a demand for ownership housing within a certain price range that is otherwise not satisfied in the local Santa Monica housing market." An analysis of data from a telephone survey of purchasing tenants revealed that very low and low-income households were under-represented in TORCA units. A survey of non-purchasing tenants who remained in their units indicated the primary reasons for non-purchase was affordability.

b. Protecting Participating Tenants

According to the evaluation report, 20% of participants in a phone survey conducted by the City of Santa Monica indicated that they had been pressured to sign intent to purchase and agreement to conversion forms. Of these 31 respondents, five indicated that they were threatened with eviction, four with building demolition and three with stoppage of maintenance. Verbal pressure to sign the forms was also frequently mentioned by respondents. Another 17% of survey participants indicated that they were offered money or other incentives to move out of their units.

Two methodological issues concerning the survey influences the validity of these results. First, 10% of the participants had a prior ownership interest in the building[41]. It is unlikely that these tenants experienced pressure to sign conversion forms and other types of threats or incentives. Second, phone surveys were only conducted with non-purchasing tenants who remained in their units. Tenants who had vacated the building were *not* included in the survey because the authors of the report could not reach a significant number of this group. It is possible that some of the tenants who left did so because of the types of experiences described above. Consequently, both these factors suggest that the percentages estimated (20% and 17%) may have been higher if a representative sample of non-purchasing tenants had been interviewed.

c. Owner Buy-Outs of Tenant Right to Purchase

According to a report prepared by the Santa Monica City Attorney, some owners of rental properties offered to pay participating tenants to release all rights to purchase a rental unit in the building when obtaining their signatures on agreement to conversion and intent to purchase forms[42]. According to the report, "Once tenants vacate their units under this option, the owner is entitled to sell the unit at the prevailing market rate. Buy-out

---

[41] This figure is lower than that used in the calculation of the proportion of original tenants who purchased their units because the sample includes tenants who continued to rent as well as those who purchased their units. This figure was obtained by dividing the number of survey participants with prior ownership interest by the number of participants who were present at the time the TORCA application was filed. Due to small sample size, the margin of error for this calculation may be significant..

[42] *Staff Report: Proposed Amendments to Tenant Ownership Rights Charter Amendment, Santa Monica City Charter Section 2000 et seq.* Prepared by City Attorney's Office for the Mayor and City Council. May 8, 1990.

arrangements of this nature effectively defeat the goal of TORCA since tenants do not purchase their units and the supply of affordable housing accommodations is not maintained." To address this problem, TORCA was amended to require a declaration by property owners that no such offer was made or agreed to as part of the conversion application package.

d. Capital Improvement Increases

According to the minutes of a Santa Monica City Council meeting, a Council member requested City staff to respond to the concern that non-purchasing tenants in TORCA buildings "suffer from capital improvement rent increases where the capital improvements have been in some fashion necessitated by the TORCA process[43]." To address this issue, TORCA was amended to include a provision that prohibited rent increases due to capital expenditures associated with the conversion process.

e. Conversion Tax

As mentioned previously, owners of buildings converted under TORCA must pay a tax on converted units equal to 12 times the maximum allowable rent. A portion of this tax is dedicated to the TORCA loan program. Another portion is dedicated to increasing the supply of housing affordable to low and moderate-income households. These funds resulted in the collection of $8.45 million as of June 2001. Of this money, approximately $7 million has been expended on low-income housing developments, $1 million has been committed to low-income housing developments, and the balance has not yet been committed[44].

CASE STUDY 2: PAST CONDOMINIUM CONVERSION POLICY IN SAN FRANCISCO

1. BACKGROUND

Past condominium conversion policy in effect between July 1979 and December 1982 in San Francisco also allowed conversion of existing rental units to condos provided that a specific proportion of tenants indicated an intent to purchase their units much like HOPE. Beginning in 1981, the code limited annual conversions to 1,000 units per year[45]. Before that time, condominium conversions were not limited by City code.

This section of the report describes specific provisions of this code and summarizes research conducted at the time regarding the outcomes of this condo conversion policy. It also provides information regarding the Board's amendment of the Code in December 1982, which limited condo conversions to owner-occupied buildings of six units or less, and limited the number of allowable conversions to 200 per year, a change that formed the basis of the City's current condominium conversion policy.

2. PROVISIONS OF THE SUBDIVISION CODE, 1979-1982

a. Participation Requirements

In order to qualify for conversion of rental property to condos, 40% of tenants at a property had to indicate their intent to purchase[46]. Units where non-purchasing tenants aged 62 or older and/or permanently disabled tenants indicated intent to obtain a renewable lifetime lease could be included in the calculation of the total number of units necessary to satisfy this provision.

---

[43] City Council Meeting, Abbreviated Meeting Minutes. City of Santa Monica. February 11, 1992.
[44] Staff Report: Background Information Concerning Tenant Participating Conversion Tax Revenues. Santa Monica Housing Division, June 21, 2001.
[45] San Francisco Subdivision Code, 1981, Article 9 §1396.
[46] San Francisco Subdivision Code, 1979, Article 9 §1388.

b. Tenant Rights and Protections

All tenants present at the date of filing the conversion application had the right to purchase their units at a price no greater than the price offered to the general public[47]. Following conversion approval, all non-purchasing tenants had the right to enter into or renew a lease agreement to occupy their units for one year and all non-purchasing tenants aged 62 or older and/or permanently disabled had the right to a lifetime lease agreement[48]. Such agreements were subject to rent control limitations in place at the time. Property owners were required to bear the cost of moving expenses (up to a maximum of $1,000) as well as the cost of relocation assistance requested by tenants.

c. Preservation of Low and Moderate Income Housing

The code required that the City Planning Commission review conversion applications to determine whether any units to be converted were part of the City's low or moderate income housing stock. If the Commission deemed units to be part of this stock, then the code required the following:

> *"The price of the unit upon conversion shall not be such as to remove it effectively from said low or moderate income housing stock and shall be no greater than two and one half (2.5) times the highest income level for low and moderate income households... and as adjusted for household size[49]."*

The owner of the property was required to make the unit available to low and moderate-income households at such a price for a twelve-month period. In the event that the unit did not sell during this period, the owner could offer the unit to the general public with no price limitation.

3. OUTCOMES OF THE SUBDIVISION CODE, 1979-1982

Few documents exist that detail the outcomes of the subdivision code in effect from 1979 to 1982. Information from the few existing documents are summarized below.

In December 1981, the Department of City Planning presented findings from a report entitled *Condominium Research: Preliminary Progress Report* to the Planning, Housing and Development Committee of the Board of Supervisors[50]. This report addressed outcomes of condo conversion policy in place from 1979 to 1981. The report was based on an examination of files from the Departments of City Planning and Public Works as well as assessor records of sales for newly constructed condos and condo conversions.

With regard to the percentage of tenants purchasing their units, the Department found, "Only fourteen percent of [tenant intent to purchase] signers have purchased their units," during the time period of the study. The report also found that 61% of units that had received conversion approval between January 1979 and March 1981 remained unsold at the time the report was released. In addition, the report included the following observation:

> *"Forty-one percent (41%) of condominium purchasers have claimed [a homeowner's tax exemption]; 59% have not done so. This indicates that the majority of condominiums have been sold to investors, buyers of second homes or homeowners neglecting to file exemption forms."*

---

[47] San Francisco Subdivision Code, 1979, Article 9 §1387.
[48] San Francisco Subdivision Code, 1979, Article 9 §1391(a) and (c).
[49] San Francisco Subdivision Code, 1979, Article 9 §1385.
[50] *Condominium Research: Preliminary Progress Report.* San Francisco Department of City Planning, December 1981.

In March 1982, Dean L. Macris, Director of Planning, submitted a letter in response to a request by the Planning, Housing and Development Committee of the Board that included additional findings subsequent to release of the report. The following statement by Mr. Macris refers to both newly constructed condos and condo conversions:

> *"Since release of our survey, the final figures from the 1980 U.S. Census were released showing a city-wide rental vacancy rate of 2.68%. The census also revealed that in April of 1980 the City had 6,258 condominium units – 1,863 of these were renter occupied, 548 were vacant and for sale and 506 were vacant for other reasons. This means that, considering all condominium units in the city, nearly half are either renter occupied or vacant[51]."*

Mr. Macris submitted another letter to the Board of Supervisors in November 1982 raising concerns about the current condo conversion policy, again referring to a large number of unsold condos on the market relative to low rental vacancy rates [52]. The letter also discusses the Department's difficulty enforcing tenant protections, a task that may not be as difficult under HOPE due to prohibitions on conversion of properties with recent Ellis Act and Owner-move-in activity as well as tenant protections prohibiting payoffs. Mr. Macris stated,

> *"This Department has had great difficulty in enforcement of those provisions of the present Subdivision Code which attempt to discourage pre-application manipulation of tenants to facilitate a conversion. Some buildings have been cleared of all tenants before an application was filed in order to avoid opposition on the 40% intent to purchase requirement. This negates all tenant protections in the Code and frustrates its intent."*

In November 1982, Raymond Wong, Manager of the Division of Surveys and Mapping within the Department of Public Works, also presented information to the Board regarding departmental data on condo conversions. The notes of his speech indicate, "Of the number of buildings registered for conversion in 1983, about 60% are four units or less and about 80% are ten units or less. In other words, the majority of the would-be converters are small property owners." Mr. Wong also reported that registrations for conversions between 1979 and 1983 ranged from 611 units to 4,000 units. These fluctuations were likely in response to market conditions, proposed and actual changes to local condo conversion law, and enactment of the Rent Ordinance in 1979.

4. AMENDMENT OF THE CODE

In response to such issues and public concern, the Board of Supervisors approved subsequent legislation to place a moratorium on condo conversions in San Francisco. However, Mayor Dianne Feinstein vetoed the legislation because of the potential negative impact on property owners who had already made investments in the condo conversion process. She urged the Board to reconsider legislation limiting the types and number of allowable conversions. She offered the following rationale for approval of this legislation in a November 1982 letter to the Board[53]:

---

[51] Letter from Dean L. Macris, Director of Planning, to the Board of Supervisors regarding proposed condominium legislation, March 15, 1982.

[52] Letter from Dean L. Macris, Director of Planning, to the Board of Supervisors regarding proposed condominium legislation, November 8,1982.

[53] Letter from Mayor Dianne Feinstein to the Board of Supervisors regarding Condominium Conversion Prohibition Ordinance and Annual Limitation of Conversions Ordinance, November 29,1982.

1. *"[The recommended legislation] once and for all sets the standard that large complexes built for rental housing and inhabited by tenants will no longer be threatened annually by the possibility of conversion."*
2. *"It limits condominium conversion to owner-occupied buildings of six units or less and the number of such conversions to 200 per year. It is my understanding that the figure 200 is realistic under present economic conditions in that it covers the actual number of residential units converted in the past two years in this category."*

Consequently, the Board of Supervisors approved an ordinance (598-82) in December 1982 amending the subdivision code to 1) limit condo conversions to owner-occupied buildings of six units or less, and 2) limit the number of allowable conversions to 200 per year.

POTENTIAL OUTCOMES OF THE HOPE INITIATIVE

Based on a review of information pertinent to Santa Monica's TORCA legislation as well as documents concerning past San Francisco condominium conversion policy, this section projects potential outcomes of the HOPE ordinance. Characteristics of San Francisco's housing stock are discussed prior to projections related to HOPE.

1. SAN FRANCISCO'S HOUSING STOCK

a. Housing Stock and Occupancy

According to the 2000 U.S. Census, there were approximately 346,527 housing units in San Francisco County. A housing unit is defined by the American Housing Survey as a "house, apartment, group of rooms, or single room occupied or intended for occupancy as separate living quarters". Of the 346,527 units, it is estimated that 329,700 (95 %) were occupied[54]. Of these occupied units, approximately 115,391 (35 %) were owner-occupied and 214,309 (65%) were renter-occupied[55].

The Planning Department's *Housing Inventory* records 339,579 total housing units as of December 31, 2000 and categorizes these units by building type. Single family homes represented 31% of the housing stock, 2-4 units 24%, 5-9 units 11%, 10-19 units 11% and 20+ units represented 23% of the total housing stock.

According to *Housing Inventory* figures, between 34% and 45% (115,457 to 152,811 units) of San Francisco's housing stock are in buildings that have more than 6 units. Of these 115,457-152,811 units, the number of additional buildings that would be eligible for condo conversion under HOPE would decrease by the number of units that are ineligible or unable to convert such as units already designated as existing condos. Similarly using Housing Inventory figures, there are 234,310 total housing units in buildings with 2 or more units inclusive of buildings that may not meet other eligibility requirements for conversion. In a slightly lower estimate of the number of multi-unit buildings, the *Housing Databook* estimates that there are 191,193 units in San Francisco that are classified as "multifamily rental", representing 36,922 total properties[56].

---

[54] U.S. Census 2000. Table DP-1. Profile of General Demographic Characteristics: 2000.
[55] Ibid.
[56] Bay Area Economics (BAE), *San Francisco Housing Databook*, 2002; FARES, 2000.

By the end of 2001, the housing stock increased to approximately 341,596—about 2,017 housing units were added to the housing stock including new units built and units added or lost through demolitions and alterations[57]. Net additional units added to the housing stock in 2002 will not be available until early 2003.

b. Geographic Distribution of Higher Density Buildings

The *2000 Housing Inventory* reports that, "the housing stock distribution is slowly moving toward a larger percentage of higher density buildings." Between 1991-2000, 70% of new construction was of buildings with 10 or more units compared with 18% of construction in single family and two-unit buildings.

The San Francisco Planning Department tracks the geographic distribution of different-sized buildings by planning districts[58]. Data provided in the *2000 Housing Inventory* show that the Downtown, Northeast, Western Addition, South of Market and Marina planning districts comprise a majority of the City's higher density buildings. The five planning districts, alone, comprise close to 78% of the housing units in buildings with 20+ units and close to 72% of the housing units in buildings with 10+ units. Detailed charts of each planning district's share of different-sized buildings is included in Appendix G.

c. Demographic Characteristics by Planning Districts

The Board asked the Legislative Analyst to describe the demographic characteristics of tenants of different-sized buildings. While specific demographic information of tenants residing in different-sized buildings is not recorded, cross referencing tract-level data from Census 2000 files with the City's planning districts can provide a sketch of the likely demographic characteristics of the area residents and perhaps of the tenants. Using the *Housing Databook*'s list of Census tract identification numbers by planning districts, several charts summarizing demographic characteristics, including population and housing data, are included in the appendix (Appendices H, I and J).

2. NUMBER OF CONVERSIONS

The one percent limit specified in HOPE would be calculated by taking one percent of the total housing stock, as defined by the Planning Department's *Housing Inventory*. If the November initiative passes and is implemented beginning January 1, 2003, the one-percent limit would be calculated using 2002 inventory figures for the first year. The maximum number of condo conversions for the subsequent 24 years would be calculated based on updated housing inventory data.

One method for estimating the maximum number of conversions allowable under HOPE for the first 25 years involves accounting for the annual average net increase in the City's housing stock. The Planning Department estimated 341,596 total housing units by the end of 2001. Over the past decade, the San Francisco housing stock has increased by an average of approximately 1,000 housing units each year[59]. Holding that increase constant, the maximum number of conversions would be limited to approximately 88,649 units over the next 25 years; unused conversions in any year carry over to subsequent years[60]. Running the same calculation conservatively, if we assume no annual net increase in housing units (meaning the housing stock remains steady at 2001 figures), the maximum number of conversions would be limited at 85,399 units.

---

[57] San Francisco Planning Department. Teresa Ojeda, Planner.

[58] See http://www.ci.sf.ca.us/rentboard/housingdatabook/Appendices202.pdf for planning district map.

[59] San Francisco Planning Department. *2000 Housing Inventory*. Note, from 1991 to 2000, the net annual increase in San Francisco's housing stock averaged 946 additional units.

[60] See appendix A for calculation worksheet.

To clarify, these calculations illustrate the *maximum* number of conversions under HOPE, holding net annual increases in the housing stock steady. They do not estimate the *actual* number of conversions; the actual number may be fewer depending on the number of buildings actually eligible for conversion and depending on tenant and owner willingness to participate in the condo conversion process.

Santa Monica's experience with TORCA may be helpful in terms of estimating the *actual* number of conversions likely to take place under HOPE. TORCA did not set a limit on the maximum allowable number of condo conversions, however, approximately 0.6% of Santa Monica's housing stock converted to condos on average each year TORCA was in effect. As a conservative estimate, assuming no net annual increase in San Francisco's housing stock, applying the 0.6% conversion rate Santa Monica experienced would yield a maximum of 51,239 total conversions after 25 years[61]. The same calculation, assuming a net annual increase of 1,000 housing units, would yield a maximum of 53,189 conversions.

However, limitations to the direct application of Santa Monica's conversion percentage to estimate the likely number of condo conversions in San Francisco through HOPE should be noted. In particular, differences between Santa Monica and San Francisco's total housing stock, application of rent control, housing market and surrounding housing markets may be factors influential enough to make a direct comparison incompatible.

Another estimate of the demand for condo conversion may be told through statistics from DPW's conversion lottery process. Currently, condo conversions are limited to 200 units per year. In the past three condo conversion lotteries, DPW recorded an average of 351 lottery applications; this represented an average of 1091 housing units[62]. The higher conversion limit set by HOPE would increase the ability to completely accommodate this demand for conversions from units in 3-6 unit buildings (2-unit buildings can currently bypass the lottery system). Additional demand for conversions may be found in the population of 6-plus unit buildings (those additional units that would be allowable under HOPE).

3. RENT-CONTROLLED UNITS

The Office of the Legislative Analyst found several estimates of the number of rent-controlled units in the City of San Francisco. Perhaps the most accurate is the Rent Board's estimates of approximately 187,000 units operating under the rent ordinance based on paid billings for the Rent Board fee each year; 17,000 of those units are residential hotel guest rooms [63]. The Planning Department's *Housing Databook* estimates another figure at approximately 145,000 rent-controlled units using earlier 1998 American Housing Survey data. However, the *Housing Databook's* further characterizes the rent-controlled stock by building type:[64]

Exhibit 5. Rent-controlled Units by Building Type

Units in Building	Number of Rent-controlled Units	% of Total Rent-controlled Units	Number of Market Rate Units	% of Market Rate Units	Number of Other Rental Units	% of Other Rental Units
1	22,200	15.25%	17,200	74.78%	n/a	n/a
2 to 4	47,100	32.35%	2,000	8.70%	n/a	n/a
5 to 9	22,500	15.45%	--	0%	n/a	n/a
10 to 19	22,100	15.18%	1,000	4.35%	n/a	n/a

[61] See Appendix B for calculation worksheet.
[62] Department of Public Works. John Martin, County Surveyor.
[63] Rent Board. Joe Grubb, Study Moderator for *San Francisco Housing Databook.*
[64] BAE. *San Francisco Housing Databook*, "Rent Control Status of San Francisco Rental Units," 2002.

20 plus	31,700	21.77%	2,900	12.61%	n/a	n/a
Total	**145,600**	**100.00%**	**23,000**	**100.00%**	**36,500**	**100.00%**

Applying these composition percentages to the total number of rent-controlled units estimated by the Rent Board (187,000 units), we can further describe the City's rent-controlled stock. This application yields: 28,518 rent-controlled units in 1-unit buildings, 60,495 units in 2-4 unit buildings, 28,892 units in 5-9 unit buildings, 28,387 units in 10-19 unit buildings and 40,710 units in 20+ unit buildings.

a. Estimated Effect of HOPE on San Francisco's Rent-Controlled Units

As discussed previously, the application of local and state rent control laws differs according to whether a unit was built after or before 1979. Buildings built after 1979 are not subject to rent control, nor are converted units in such buildings. Among buildings built before 1979, application of rent control differs according to whether converted units have been sold to subsequent purchasers. Converted units that *have not been sold* to a bonafied purchaser for value fall under the provisions of local and state rent control laws. Converted units that *have been sold* to bonafied purchasers for value do not. In addition, units occupied by tenants who moved in on or after January 1, 1996 are subject to state and local rent control laws.

Using projections of the number of conversions under HOPE (85,399) and the proportion of rent-controlled units (88%)[65], it is possible to provide a rough estimation of the eventual impact of HOPE on the number of rent-controlled units in San Francisco[66]. However, it is important to remember that the effect of the measure would be delayed over many decades due to the application of rent control laws discussed in the previous paragraph. For example, 3,243 units have been approved for conversion under Santa Monica's TORCA legislation[67]. Even though that legislation sunsetted in 1996, only 488 units have had their rent levels decontrolled as of June 30th, 2002[68]. Nevertheless, the legislation is likely to result in a net decrease of over 3,000 of Santa Monica's rent-controlled units once all lifetime leases expire, all tenancies that began before January 1996 expire, and converted units are sold to individual purchasers.

The following analysis assumes that rent-controlled units in San Francisco would convert in the same proportion as market-rate units. If a greater proportion of rent-controlled units converted than market-rate units, the decrease in the number of rent-controlled units as a result of HOPE conversions would be higher. If a greater proportion of market-rate units converted, the decrease in the number of rent-controlled units would be lower.

Based on data from the *Housing Databook*, rent-controlled units account for 87.9% of the rental housing stock containing two units or more in San Francisco[69]. The eventual effect of HOPE conversions on the number of rent-controlled units in the City may be estimated by applying this proportion to the various projections of the amount of conversions that would occur under HOPE (provided in a previous section). Using the maximum allowable conversions and assuming no annual net increase in housing units, HOPE could result in the conversion of 60,633 rent-controlled units over the next 25 years[70]. This would represent a 41.6% reduction of San Francisco's rent-controlled units. Assuming no annual net increase in housing units and applying the 0.6%

[65] Ibid.
[66] This analysis concerns the number of units subject to San Francisco's Rent Ordinance. Consequently, the term "rent-controlled units" excludes units where rent levels are controlled under the terms of a lifetime lease.
[67] Rent Control Board Annual Report: July 2000 through June 2001. Santa Monica Rent Control Board, February 7, 2002.
[68] Phone interview with Tracy Condon, Public Information Manager, Santa Monica Rent Control Board, July 8, 2002.
[69] Bay Area Economics (BAE), *San Francisco Housing Databook*, 2002; FARES, 2000. Although the Rent Board's estimate of the proportion of rent-controlled units may be more accurate, the Board does not track information on the number of market-rate units. Therefore, data from the *San Francisco Housing Databook* is used instead.
[70] 85399 * .71 = 60,633

conversion rate experienced by Santa Monica, HOPE could result in the conversion of 36,380 rent-controlled units over the next 25 years. This would represent 25.0% reduction of the City's rent-controlled units.

4. SALE PRICE AND AFFORDABILITY

a. Sale Price

The *Housing Databook* shows that the median sales price for a single-family home in San Francisco was $525,000; this figure was calculated using all single-family residence sales showing market-rate sales prices from January 2001 through September 2001[71]. Between July 2001 and June 2002, the median sale price of a condo in the City of San Francisco was $500,000 and the median sale price of multi-unit buildings was approximately $830,000, representing 766 properties [72]. For buildings with 2-4 units, the per-unit (not per building) price was close to $365,000 and for buildings with greater than 5 units, the per-unit price was approximately $163,000. Overall, the data shows that the per-unit price in multi-unit buildings was a little more than $285,000[73].

In assessing the affordability of home ownership, several methods have been used to estimate the likely sale price of units that would be converted to condos under HOPE. The two more popular proxies include the median sale price of recently sold condos and the price of multi-unit buildings divided by the total number of units in a building. However, the real sale price will likely lie between those two proxies.

The median sale price of condos in San Francisco can be considered a "ceiling" for estimating the likely sale price of condos that would be converted under HOPE. As mentioned previously, the median sale price of condos in the past year was $500,000. This figure is the median sale price of all condos sold including new condos, and condos converted under the existing subdivision code. Price differentials between new and converted condos may not be significant; Mr. David Parry, President of the San Francisco Association of Realtors, indicates that new condos and converted condos may not have significant or systematic differences in pricing because converted units may have architectural characteristics that are desirable[74]. Conversely, new units may be built with more modern features or more "updated" amenities.

Mr. Parry believes that the likely actual cost of condos converted under HOPE would be less than the median sale price of condos. Pressures that act to drive down the price include the savings owners would incur from selling directly to existing tenants. Owners would not have to pay commissions to market or "fix-up" units to attract new buyers. Owners would also continue to receive rental payments up to the close of escrow or change of ownership, preventing any loss of rental income. In addition, since tenants are the only eligible purchasers, they may be positioned more favorably when negotiating a purchase price with owners.

However, the bargaining position of tenants will depend on several factors. Currently, HOPE sets requirements for tenant participation in the form of intent to purchase forms. If the application for conversion meets these

---

[71] Bay Area Economics (BAE). *San Francisco Housing Databook*, "Recent Condo & Single-Family Home Sales," 2002.
[72] Ibid. Note price of multi-unit buildings and average number of units provided by San Francisco Association of Realtors. Properties include those listed in the multiple listings system for the City of San Francisco. Data does not include units or properties directly sold between owners and buyers; nor does it include properties listed where the sale was allowed to expire or the record was withdrawn because sales data was not entered. One property selling for $1,000 was omitted. The estimated median price may be slightly higher because properties not listed may have been negotiated at better prices. For example, sales that were directly made between owner and buyer may be lower if both parties do not have to pay a sales commission to a real estate agent, etc.
[73] Ibid.
[74] Interview. David Parry, President, San Francisco Association of Realtors. July 19, 2002.

requirements, as well as other requirements, owners can begin the process for condo conversion. The conversion process is not complete unless 25% of eligible purchasers close escrow on the purchase of their units. Eligible purchasers are defined as any occupant of the building for at least two years; an owner-occupant would count as an eligible purchaser. In cases where the owner-occupant alone meets the purchase requirements necessary to complete the conversion, the potential tenant purchaser may experience reduced "bargaining position". In situations where the owner-occupant does not constitute the 25% purchase requirement or in situations where the owner does not occupy the building, the owner may have an incentive to negotiate a below-market price for the condos. Yet, this too will depend on the tenants residing in the building. Tenants choosing to negotiate together for purchase prices may have more leverage in negotiating a lower purchase price. If the 25% purchase requirement is met by tenants willing and able to pay a high purchase price, then sales for those units and for subsequent units may be negotiated at higher prices.

On the lower end, some have used the per-unit price in multi-unit buildings ($285,000) to estimate the likely sale price of converted units. Sources, however, indicate that the likely sale price of units converted into condos would be higher than this "floor" price. According to Mr. Parry, the price per square foot of condos is generally twice as much as that of a comparable undivided, multi-unit building for larger buildings with 5 or more units. In 2-unit buildings, the price differential between selling the building undivided and selling the entire unit as a condo is approximately 10%; for 3-4 unit buildings the differential is approximately 35%-40%. Depending on the situation and bargaining positions of the owner and purchaser, the "markup" may be shared by the owner and tenants, or may be weighted towards one or the other.

Upward pressures on the "floor" price consist primarily of the costs associated with the condo conversion process[75]. Owners pursuing a condo conversion must pay various direct fees including those for surveys, mapping, legal services and other application fees. Owners are also responsible for repairs or other alterations to bring buildings up to health and safety codes. In addition, owners may incur other indirect costs or time costs of pursuing a condo conversion. The condo conversion process currently takes more than one year to complete, not yet including time spent qualifying for a conversion through the participation in a lottery.

b. Affordability

The Mayor's Office of Housing (MOH) states that, "first-time homebuyers find it extremely difficult to buy a home in San Francisco"[76]. The median renter household income in the City of San Francisco was in the range of $43,000-$60,000 in 1998; the median household income was $43,000 for households in rent-controlled units and $60,000 for households in market-rate units[77]. HUD estimates that the median household income for a four-person household in the San Francisco primary metropolitan statistical area (PMSA) was $86,100 in 2002[78].

Assuming an interest rate of 6.75% and a downpayment of 10%, a four-person household earning the PMSA median income would be able to afford a $300,000 home[79]. Between July 2001 and June 2000, sales data of

[75] Interview. David Parry, President, San Francisco Association of Realtors. July 19, 2002.
76 Mayor's Office of Housing (MOH), "San Francisco Affordable Housing Fact Sheet," www.ci.sf.us/moh/housing.htm.
77 BAE. *San Francisco Housing Databook*, "Household Income by Rent Control Status," 2002.
78 MOH, "2002 Income Limits for Housing Programs." Note that San Francisco is defined as San Francisco PMSA including San Francisco, San Mateo and Marin Counties.
79 MOH. "2002 Maximum Purchase Price Limit Calculations,' www.ci.sf.ca.us/moh/moh_6_2.htm. Note, estimation at 6.75% provided by Joe Latorre, Deputy Director, MOH.

2,115 condo sales showed that only 611 sales (29%) sold for below $399,999[80]. A substantial majority of condos for sale in San Francisco were priced out of the reach of median income households.

Turning back to our high and low estimates, a household would have to earn over $125,000 to afford the "ceiling" or high estimate ($500,000), as detailed below. Similarly a household would have to earn over $75,000 to afford the "floor" or low estimate ($285,000). In San Francisco County, approximately 121,376 (36.7%) of households had an income of $75,000 or more in 1999; approximately 81,407 (24.6%) households had a household income of $100,000 or more[81].

Generally, homebuyers in San Francisco pay a downpayment of approximately 20% of the purchase price; some first time homebuyers have been able to put as little down as 3% or 5% of the purchase price, while others have increased their downpayment in order to lower monthly mortgage payments[82]. Using the low and high ($285,000 and $500,000) purchase price estimates, this would require between $57,000 to $100,000 for downpayment. The remaining $228,000 and $400,000 would be financed typically through a 30-year mortgage. Assuming the current interest rate of approximately 6%, a household can expect to pay $1366.97 to $2398.20 in monthly mortgage payments alone[83]. Monthly condo association fees of $200, property taxes of $237.50 or $416.66, and monthly insurance costs of $66.50 or $116.66 would require a total of $1871 to $3131 in homeownership expenses[84]. This does not include utilities, other insurance and costs or benefits, such as tax exemptions associated with home ownership.

Since, "federal affordability guidelines consider housing to be 'affordable' if households spend no more than 30% of their gross monthly income on all housing costs, including utilities," purchasers would have to earn a monthly household income over $6,200 or $10,400 to consider the housing units "affordable"[85]. These monthly income figures translate to approximately $75,000 and $125,000 annually.

While illustrative, the analysis above does not consider the number of households that can save and afford the average downpayment and up-front closing costs associated with the purchase of a new unit. However, there are financial assistance programs such as the Mortgage Credit Certificate Program (MCC) and the Downpayment Loan Assistance Program (DALP) available through the Mayor's Office of Housing and other sources. Participation in these programs is restricted through income and sale price requirements and depends on available funding (see Appendix M for detailed program descriptions). The analysis uses median purchase

---

[80] Note price of multi-unit buildings and average number of units provided by San Francisco Association of Realtors. Properties include those listed in the multiple listings system for the City of San Francisco. Data does not include units or properties directly sold between owners and buyers; nor does it include properties listed where the sale was allowed to expire or the record was withdrawn because sales data was not entered. The estimated median price may be slightly higher because properties not listed may have been negotiated at better prices. For example, sales that were directly made between owner and buyer may be lower if both parties do not have to pay a sales commission to a real estate agent, etc.

[81] US Census, 2000. "Table Dp-3. Profile of Selected Economic Characteristics: 2000 for San Francisco County".

[82] Interview. David Parry, President, San Francisco Realtors. July 19, 2002.

[83] Interest rate information estimated by David Parry, President, San Francisco Realtors. Note, formula used to calculate monthly mortgage payments is p= [(r*m)/(1-[(1+(r/n))^(-nt)])]/n, where p=monthly payment; m=principle or loan amount; r=interest rate; n=number of payments per year; t=number of years mortgages (ie. 30 year mortgage) from www.sosmath.com.

[84] Monthly property tax and insurance estimates provided by www.classicsfproperties.com, "Mortgage Calculator". Condo association fee estimate from American Housing Survey for the San Francisco Metropolitan Area, 1998 "Financial Characteristics". Note, survey estimates the median condominium and cooperative fee to be $200+ in 1998.

[85] MOH. "San Francisco Affordable Housing Fact Sheet," www.ci.sf.us/moh/housing.htm for affordability quotation. Note, monthly income is calculated by taking monthly costs of purchasing a unit and dividing by 0.30 (or 30%); it does not include other monthly homeownership expenses such as insurance, utilities, etc.

price estimates; certainly condos will sell below and above the median. The *Housing Databook* shows that actual sale prices ranged from less than $200,000 to $800,000 and above:

Exhibit 6. Sale Prices of Condominiums, by Price Categories

Sale Price	Condominiums	Percentage of Total
Less than $200,000	11	1.7 %
$200,000-$299,999	64	9.7 %
$300,000-$399,999	123	18.6 %
$400,000-$499,999	135	20.4 %
$500,000-$599,999	107	16.1 %
$600,000-$699,999	82	12.4 %
$700,000-$799,999	44	6.6 %
$800,000 and Above	97	14.6 %
Total	**663**	
Median Sale Price	**$499,000**	

Source: Bay Area Economics. San Francisco Housing Databook, 2002

Finally, the analysis considers immediate affordability as compared to long-term affordability. The key difference between renting and purchasing is that homebuyers are able to build equity over time. MOH finds that "housing costs for homeowners vary dramatically depending mainly on how long they have owned their home. Longtime homeowners may have mortgage payments and other housing costs that are much lower than current rents for a comparable unit."

Between 1989 and 1999, the median rent for a 2-bedroom unit increased from $928 to $1940, an increase of 109%[86]. In 2002, the fair market values of rent in the San Francisco PMSA were $1,248 for a studio, $1,616 for a one bedroom, $2,043 for a two bedroom, $2,808 for a three bedroom and $2,965 for a four bedroom rental unit[87].

Many factors drive the decision on whether to rent or buy. These include, but are not limited to, a tenant's current rent level, annual allowable rent increases under the rent ordinance, purchase price of a home, appreciation rates of homes, tax savings from home ownership and the number of years a homebuyer expects to stay in the home. The lower the rental rate compared to the monthly costs of homeownership, the more time is needed to make homeownership a more affordable option[88]. As appreciation of home values in San Francisco continue to rise, homeownership also becomes more attractive over the long run as homebuyers are able to experience higher returns in equity.

5. EFFECT ON CITY AGENCIES

The Board of Supervisors requested the Office of the Legislative Analyst to examine the potential impact of the legislation on City agencies that would be charged with administering portions of the new legislation. This section of the report describes feedback from relevant agencies on the potential effect of this measure.

In a letter to Acting Director of Elections John Arntz, the Controller estimated that, "should the proposed initiative [HOPE, Proposition R] be approved by the voters, in my opinion, property transfer tax and general property tax revenues in the City could increase by approximately $3 million in the first year, growing to $14

[86] MOH. "San Francisco Affordable Housing Fact Sheet," website:www.ci.sf.ca.us/moh/housing.htm.
[87] MOH. "2002 Rent Limits for Housing Programs," www.ci.sf.ca.us/moh/moh_6_5.htm.
[88] Ginnie Mae. "Buy vs. Rent Calculator," www.ginniemae.gov. See Appendix L for comparison scenarios set at a purchase price of $499,000 with rents starting at $1248, $1616 and $2043 with annual allowable increases of 2.7% (the annual allowable increase set by the Rent Board for rent-controlled units effective March 1, 2002 to February 28, 2003).

million by year seven and continuing to grow thereafter."[89] The City may also set user fees to cover the costs of administering this program.

Department of Public Works (DPW)

DPW performs several functions pursuant to the current conversion code, including conversion lottery administration, application review, tenant notice of application filing and rights, holding of public hearings, approval/disapproval of conversion, and recording of tentative and final maps. Based on an analysis of their current workload and staffing levels as well as department projections of potential HOPE applicants, staff of the Street Use and Mapping section estimate that DPW would need between 15 and 29 additional staff members to process HOPE conversions[90]. DPW would need a dispensation from the City's current hiring freeze to accomplish this. Funding for office space, equipment and job training would be necessary to accommodate this increase in staff. Because the HOPE initiative mandates that DPW hold a lottery within 90 days of the date the legislation is effected, DPW will require initial funding (separate from condo conversion fees assessed on applicants) to perform its functions.

HOPE would require DPW to hold public hearings on a conversion application within 15 days of a tenant's request. Under the current code, there is no time limit. Staff of DPW noted that, because they rely on the subdivider to provide them with a list of tenant names, addresses, mailing envelopes and stamps, their ability to perform this function within the specified time period is impeded. Staff also observed that HOPE does not require many documents required under the current code. Some of these documents contain information that DPW uses to verify tenant intent to purchase and other requirements of the code (e.g., description of existing uses of the property, existing tenancies and the conditions and terms thereof, rental history, tenant contacts, sales and leasing prices). In addition, these documents provide protections for property owners and tenants in the event of a dispute concerning the subdivision process.

Planning Department

Staff of the Planning Department estimates that HOPE would triple the number of conversion applications they process and review. In addition, staff believes that the review process for HOPE applications may be more extensive than that of current applications, due to the likely increase in the number of units involved at each property. Consequently, funding for office space, equipment and job training would be necessary to accommodate this increase in staff.

Department of Building Inspection (DBI)

DBI is currently responsible for inspecting properties that undergo conversion in order to identify violations of state and local building code requirements. They are also charged with conducting follow-up inspections to ensure that violations are corrected. Although the HOPE legislation does not explicitly require a building inspector's report listing code violations, staff of DBI noted that issuance of a Certificate of Final Completion and Occupancy (necessary to record final map) requires that an inspection and any necessary follow-up has been performed[91]. Staff of DBI commented, "If buildings inspections are not required prior to recordation of the final map, there should not be a significant impact on DBI staffing levels. However, if inspections are required, then impacts on staffing levels will be significant."

---

[89] Letter from Controller Ed Harrington to John Arntz, Acting Director or Elections, August 15, 2002.

[90] Interview with Todd Huntington, Director of Street Use and Mapping, and John Martin, County Surveyor, Department of Public Works.

[91] Memoranda submitted by the DBI staff to Eugene Tom, Department of Elections, July 26, 2002.

In addition, staff noted, "The [current condo conversion procedures were adopted when DBI was still a part of DPW and all fees were collected by DPW. The new Article 11 legislation also authorizes DPW to collect administrative fees, but does not mention how fees would be distributed to DBI or Planning for any expenses they may incur for inspections, plan reviews, record searches, etc." Generally stated, DBI would require appropriate staff and funding to accommodate an increased number of conversion applications.

Mayor's Office of Housing (MOH)

MOH does not currently play a role in overseeing the current conversion process. If HOPE is enacted, the legislation designates MOH as the agency which will 1) determine the anti-speculation fee amount due to the City if a converted unit is re-sold within a two year period, and 2) administer and expend fees collected as a result of this determination. With regard to these duties, MOH Deputy Director Joe LaTorre, observed[92],

> *"It is not possible to estimate the amount of additional responsibilities created by the measure, since they depend on the number of sales within the first two years of conversion. The measure does not specify any process for monitoring whether sales have taken place. If the intent is that [MOH] monitor ownership during the first two years, this role will create additional administrative responsibilities for MOH. The level of such responsibilities will depend on the volume of conversions in each year."*

6. SPECULATION

Speculation typically refers to taking large risks in the hopes of making quick, large gains. As described previously, HOPE includes two provisions to discourage speculation. First, HOPE imposes a fee on condo owners who resell their units during a two-year period following conversion. The amount of the fee is calculated as a percentage of net profit – 20% if the unit is sold within 12 months of conversion, and 10% if the unit is sold between 13 and 24 months. Owners who demonstrate that they did not or could not reasonably foresee that they might be required to resell their unit are exempted from payment. This limits tenants' potential to gain windfall profits for two years after the conversion, that arise due to their unique right to purchase their units. Second, HOPE mandates that escrow on the sale of a unit to the general public may not close until escrow has closed on at least 25% of the units to eligible purchasers. In essence, this provision discourages landlords from extracting intent to purchase forms from tenants whom they believe will not be able to effectuate a purchase upon conversion, in the hopes of selling these units to outside purchasers at a higher price.

The Board of Supervisors asked the Office of the Legislative Analyst to describe possible scenarios for speculation beyond those discouraged under HOPE. Based upon a review of Santa Monica's experience with TORCA, additional scenarios are possible. First, some owners of rental properties in Santa Monica offered to pay participating tenants to release all rights to purchase a converted unit when obtaining their signatures on agreement to conversion and intent to purchase forms. This allowed property owners to sell the converted units at market rate prices minus the amount of the tenant buy-out. Second, some owners of rental properties in Santa Monica that converted under TORCA attempted to pass through costs of capital improvements associated with the conversion to tenants. Tenants unable to bear the costs of such passthroughs could effectively be forced out of their units. This would allow the property owner to sell the converted unit at the market-rate price. Third, there was at least one instance in Santa Monica where a tenant offered false proof of tenancy in order to qualify as a purchasing tenant under TORCA[93]. In such a scenario, a property owner could knowingly allow an

---

[92] Letter from Joe LaTorre, Deputy Director of MOH, to Eugene Tom, Department of Elections, August 1, 2002.

[93] Staff Report: Complaint Concerning Tenant Participating Conversion #126 and Vesting Tentative Tract Map #50120 at 2072 11th Street. Santa Monica Department of Planning, February 19, 1991.

individual to misrepresent his or her length of tenancy in order to sell the converted unit at market rate price to that individual.

In addition, speculation could occur on the part of tenants of units participating in the HOPE process. Although no evidence indicates that this happened in Santa Monica, tenants may have incentive to sign intent to purchase forms even if they are unwilling or unable to purchase their units. This is because lifetime leases, which benefit tenants by providing protections from Owner-move-in evictions not provided for under the Rent Ordinance, arise to all tenants including those who signed intent to purchase forms. It is possible that some tenants will sign these forms even though they will not purchase their units in the hopes of garnering these additional protections. Furthermore, if a large proportion of tenants did this, it could prevent the property owner from being able to sell any units to the general public, since such sales are prohibited until escrow has closed on at least 25% of the units to eligible purchasers. Alternatively, a tenant could purchase his or her unit and rent the unit out at market rate since the unit would no longer be subject to the Rent Ordinance. In this scenario, the tenant would reap the benefits of owning a market-rate rental unit.

7. POTENTIAL LEGAL CHALLENGES

The Board asked the Legislative Analyst to determine, "the possibility that any provisions of this measure will be struck down in court, and if certain provisions are struck down what would be the overall effect on the remainder of the measure."

In partial answer, the anti-severability clause of the HOPE initiative (HOPE-I) provides that if the control of rent levels under the lifetime lease section (Section 1399.5(b)) is found invalid, the entire legislation would be struck down. There is no anti-severability clause for any other provision of HOPE-I. Thus, if a court found any other provision of the legislation to be invalid, the remaining provisions of HOPE-I could stand. The HOPE legislation (HOPE-L) before the Transportation and Commerce Committee does not contain an anti-severability clause, but provides that the general severability clause of the San Francisco Subdivision Code applies. Thus, if any portion of HOPE-L is found invalid, it is likely that the remainder of the legislation would stand.

Assessing the possibility that any provisions of the measure would be struck down in court or challenged is outside the scope of this report. Questions by the Board of Supervisors pertaining to the legality of the HOPE-L legislation before the Board may be referred to the City Attorney.

8. INFORMATION AND PROCESSES TO ASSESS HOPE

The Board of Supervisors asked the Office of the Legislative Analyst what information and processes would be needed to assess the impacts of HOPE. The City would need to collect information related to outcomes of interest to San Franciscans. Based on questions included in the current request, such outcomes may include: 1) proportion of tenants who purchase their units; 2) efficacy of tenant protections; 3) affordability of converted units; 4) effect on affordable housing stock; 5) effect on number of rent-controlled units; and 6) characteristics of participating buildings (e.g., number of units, neighborhood, demographic characteristics of tenants). Based on a preliminary analysis, the City would need to track information such as the following:

- *Pre-conversion tenants* – names; demographic characteristics including income; pre- and post- conversion rental rates; whether they have an ownership interest in the buildings; whether they signed intent to purchase forms and purchase price stated on form; whether they exercised right to lifetime lease; contact information for all tenants, including those who vacate the building subsequent to conversion; qualitative / quantitative feedback on conversion process from pre-conversion tenants

- *Converted units (information from first post-conversion sale and all subsequent sales)* – number of conversion applications received; purchaser names; date of purchase; actual purchase price; down payment and closing costs; gross monthly housing costs including mortgage payments and condo association fees; pre- and post-conversion rent control status; amount and types of financing received by pre-conversion tenants; previous renter/owner status of subsequent purchasers; previous residence of subsequent purchasers and renters; number of bedrooms; neighborhood
- *Housing market conditions* – condo purchase prices; prices of rental units in multi-unit buildings; converted condo purchase prices

City agencies involved in the conversion process as well as the Assessor's Office would likely be the agencies involved in data collection. If such an effort is undertaken, Santa Monica's 1993 evaluation report and the Planning Department's 1981 study of condo conversions in San Francisco should inform this process. Additional funds may be needed to carry out data collection, entry and analysis. In addition, a sufficient amount of time should be allocated for the study period in order to account for the lengthy process of conversion and sale of units.

CONCLUSION

In closing, HOPE would significantly change San Francisco's current condo conversion policy as well as the administration of that policy by City agencies. Based on Santa Monica's experience with TORCA and past condominium conversion policy in San Francisco, HOPE would have a number of impacts on the City's housing stock and the availability of homeownership opportunities for residents. The goals of HOPE are to increase homeownership opportunities for San Francisco tenants while protecting tenants who do not wish to purchase their units. If enacted, the Board should monitor the implementation and outcomes of this measure to ensure that it is achieving its goals and in order to capture other important consequences. To this end, the Board should examine ways to monitor the impacts of this legislation.

APPENDIX A: Maximum Conversion Estimates

HOPE sets the *maximum* annual allowable condo conversions at 1% of the total housing stock as reported in San Francisco Planning Department's *Housing Inventory*. The 2000 Housing Inventory reported 339,579 total housing units as of December 31, 2000. According to information provided by Teresa Ojeda, the net increase in San Francisco's housing stock in 2001 was 2,017, bringing the housing stock to a total of 341,596 units as of December 31, 2001. The net increase in 2002 will not be available until early 2003.

Assuming no net annual increase in the housing stock as a conservative estimate, the maximum allowable conversions under HOPE would be 85,399 units with an average of 3,416 units per year.

Conservative Estimate (assumes no net annual additions to housing stock):

Base Year	Base Year Housing Units	1% of Base Year	Maximum Allowed (25 Years x 3,416 units)
2001, 2002, ...	341,596	3,416	85,399

Factoring in net annual increases in the housing stock at a steady rate for 25 years, the maximum allowable conversions under HOPE would be 88,649 with an average of 3,546 conversions per year. The average net annual increase in the housing stock from 1991-2000 was 946 units, or approximately 1,000 units.

Annual Net Add'tl Units: 1,000

Base Year	Base Year Housing Units (1,000 annual increase)	1% of Base Year	Maximum Allowable (based on previous year's 1% calculation)	Year Program in Effect
2001	341,596			
2002	342,596	3,426		
2003	343,596	3,436	3,426	1
2004	344,596	3,446	3,436	2
2005	345,596	3,456	3,446	3
2006	346,596	3,466	3,456	4
2007	347,596	3,476	3,466	5
2008	348,596	3,486	3,476	6
2009	349,596	3,496	3,486	7
2010	350,596	3,506	3,496	8
2011	351,596	3,516	3,506	9
2012	352,596	3,526	3,516	10
2013	353,596	3,536	3,526	11
2014	354,596	3,546	3,536	12
2015	355,596	3,556	3,546	13
2016	356,596	3,566	3,556	14
2017	357,596	3,576	3,566	15
2018	358,596	3,586	3,576	16
2019	359,596	3,596	3,586	17
2020	360,596	3,606	3,596	18
2021	361,596	3,616	3,606	19
2022	362,596	3,626	3,616	20
2023	363,596	3,636	3,626	21
2024	364,596	3,646	3,636	22
2025	365,596	3,656	3,646	23
2026	366,596	3,666	3,656	24
2027	367,596	3,676	3,666	25
		Max Condo Conversions (25 yrs sum):	**88,649**	
		Avg. Annual Allowable Conversions (25 yrs):	**3,546**	

APPENDIX B: Conversion Estimates Based on Santa Monica's TORCA

HOPE sets the *maximum* annual allowable condo conversions at 1% of the total housing stock as reported in San Francisco Planning Department's *Housing Inventory*. The 2000 Housing Inventory reported 339,579 total housing units as of December 31, 2000. According to information provided by Teresa Ojeda, the net increase in San Francisco's housing stock in 2001 was 2,017, bringing the housing stock to a total of 341,596 units as of December 31, 2001. The net increase in 2002 will not be available until early 2003.

One way to estimate the *actual,* not the *maximum,* number of conversions through HOPE is to apply the conversion rate Santa Monica experienced through it's TORCA legislation (0.6%). Assuming no net annual increase in the housing stock as a conservative estimate, the estimated *actual* number of conversions is 51,239 units with an average of 2,050 units per year.

Conservative Estimate (assumes no net annual additions to housing stock):			
Base Year	**Base Year Housing Units**	**0.6% of Base Year**	**Maximum Allowed (25 Years x 3,416 units)**
2001, 2002...	341,596	2,050	51,239

Factoring in net annual increases in the housing stock at a steady rate for 25 years, the estimated *actual* number of conversions is approximately 53,189 with an average of 2,128 conversions per year. The average net annual increase in the housing stock from 1991-2000 was 946 units, or approximately 1,000 units.

Annual Net Add'tl Units:	**1,000**			
Base Year	**Base Year Housing Units (1,000 annual increase)**	**0.6% of Base Year**	**Maximum Allowable (based on previous year's 1% calculation)**	**Year Program in Effect**
2001	341,596			
2002	342,596	2,056		
2003	343,596	2,062	2,056	1
2004	344,596	2,068	2,062	2
2005	345,596	2,074	2,068	3
2006	346,596	2,080	2,074	4
2007	347,596	2,086	2,080	5
2008	348,596	2,092	2,086	6
2009	349,596	2,098	2,092	7
2010	350,596	2,104	2,098	8
2011	351,596	2,110	2,104	9
2012	352,596	2,116	2,110	10
2013	353,596	2,122	2,116	11
2014	354,596	2,128	2,122	12
2015	355,596	2,134	2,128	13
2016	356,596	2,140	2,134	14
2017	357,596	2,146	2,140	15
2018	358,596	2,152	2,146	16
2019	359,596	2,158	2,152	17
2020	360,596	2,164	2,158	18
2021	361,596	2,170	2,164	19
2022	362,596	2,176	2,170	20
2023	363,596	2,182	2,176	21
2024	364,596	2,188	2,182	22
2025	365,596	2,194	2,188	23
2026	366,596	2,200	2,194	24
2027	367,596	2,206	2,200	25
		Max Condo Conversions (25 yrs sum):	**53,189**	
		Avg. Annual Allowable Conversions (25 yrs):	**2,128**	

APPENDIX C: Informational Requirements for Conversion

Exhibit 1. Comparison of Informational Requirements Under the Current Subdivision Code and the Subdivision Code Proposed under HOPE

Topic	Current Subdivision Code	Proposed Subdivision Code (HOPE)
Building History	Building history, including date of construction; major uses and repairs since construction; current ownership of buildings; and proposed ownership upon conversion	Same
Residential Record Report	Report of residential record obtained from the Bureau of Building Inspection	Same
Building Inspector's Report	Building inspector's report listing any current, incipient or potential Building Code violations	No corresponding provision
Planned Repairs / Improvements	List of planned repairs and improvements to be made prior to conversion and the project cost	No corresponding provision
Management Documents	Copies of management documents submitted to the CA State Department of Real Estate	No corresponding provision
Tentative Map and Documents	Tentative Map, prepared by a registered civil engineer or a registered land surveyor, and required documents including a written statement describing the existing uses of the property, including whether or not there are existing tenancies and the conditions and terms thereof	Same, except written statement describing the existing uses of the property, including whether or not there are existing tenancies and the conditions and terms thereof not required
Geologic Report	Geologic Conditions Statement or a Soil Report in addition to requirements set forth in State law	Compliance required only as set forth in State law
Conformity with Code	For Final Map approval, in addition to requirements of State law, all applicable provisions of City codes must be met or violations corrected or, funds be adequately escrowed or bonded to assure completion of corrective work prior to the closing of escrow of any unit in the project	Compliance required only as set forth in State law
Rental History	Rental history for each unit, including monthly rental rate for last 5 years, monthly vacancy for last 3 years, and names of the current tenant(s) for each unit	No corresponding provision
Tenant Contacts	Tenant contacts, including all meetings held with tenants; all information provided about the project and the tenant options; list of all tenants who have expressed a desire to buy; proposed methods of dealing with tenants who do not buy; any proposed program for relocation services	No corresponding provision
Sales/Leasing Prices	List of the proposed sales prices for each unit (which can only be increased subject to certain conditions) including whether the units will be sold or leased; estimated condo association dues; rental rates if leasing is proposed; and statement of the proposed sales program	Sales prices for tenants who signed intent to purchase forms
Intent to Purchase	Required number of intent to purchase forms	Same

As detailed in the previous chart, not all of the documents that are required under the current subdivision code would be required under HOPE. The following list details the function of the documents no longer required[1]:

- *Building Inspector's report* – This report aids the Department of Building Inspection in enforcing code violations in order to maintain the health and safety of residents and the quality of the housing stock.
- *List of planned repairs and improvements* – This information aids the City in ensuring that code violations will be corrected.
- *Copies of Management documents* – To ensure compliance with state law, these documents are required by the California Department of Real Estate[2]:
    1) Proposed Articles of Incorporation or Association – These documents give existence to a corporation or an agreement between natural persons which establishes an unincorporated association. They serve to establish the homeowner's association as a legal entity.
    2) Proposed Bylaws – The bylaws set forth the basic method of running the homeowners' association. They serve to ensure that the homeowner's association acquires proper control over its assets and that it can function in a democratic and effective manner for the good of all owners.
    3) Covenants, Conditions and Restrictions Presently Recorded – This is a compilation of all qualifications and imitations on the use of the property, binding the present owner, the subdivider and future owners. It is required because it protects the potential purchaser against potential losses.
- *Existing uses of the property, including existing tenancies and the conditions and terms thereof* – This information aids the City in ensuring that tenant participation requirements have been met.
- *Geologic Conditions Statement or a Soil Report* – These documents may be substituted for the required Soil and Geologic Reconnaissance Report when neither new buildings nor major additions to existing facilities are indicated in the Tentative Map. This allows property owners to satisfy the requirements using information from U.S. Geologic Maps rather than hiring a soil engineer or registered engineering geologist to collect information on potentially hazardous soil and geologic conditions that could impact construction[3].
- *All applicable provisions of City's Codes 1) must be met or violations corrected or, 2) funds be adequately escrowed or bonded to assure completion of corrective work prior to the closing of escrow of any unit in the project* – ***Ask City Attorney's office purpose of these documents. John Martin, Street Use and Mapping, indicates that there are no City codes beyond those required by state law, so he's not sure what the purpose of this is.**
- *Rental History* – This information assists the Planning Department in monitoring changes in the housing stock, particularly as they relate to the preservation of low and moderate-income housing.
- *Tenant Contacts* – This list provides additional information to the City in the event that a tenant feels his or her rights have been violated in the subdivision process.
- *Sales/leasing prices* – This information aids the City in ensuring that requirements of the current subdivision code pursuant to sale prices of units have been met.

---

[1] Phone interview with John Martin, County Surveyor, Department of Public Works, July 15, 2002.
[2] *Subdivision Public Report Application Guide, 9th Edition.* California Department of Real Estate. Revised October, 1997.
[3] Phone interview with Willy Yau, Plan Reviewer, Department of Building Inspection, July 16, 2002.

APPENDIX D: Procedural Requirements and Deadlines for Conversion

Exhibit 2. Comparison of Procedural Requirements and Deadlines Under the Current Subdivision Code and the Subdivision Code Proposed under HOPE

Topic	Current Subdivision Code	Proposed Subdivision Code (HOPE)
Tenant Notice	Within 5 days of filing an application, the *subdivider* must give written notice to all tenants, and to all persons who lease or reside in units proposed for conversion. The notice must include: • Building condition and sales program report • Management documents submitted to the California State Department of Real Estate • List of tenants' rights	Within 15 days of submitting an application, the *Director of DPW* shall mail notice to each tenant and to all tenants who take occupancy of a unit after an application is submitted. The notice must state that: • Application has been submitted and tenant has right to request a hearing • A copy of the subdivider's declaration submitted as part of the application
DPW Public Hearing	Any interested party may make a written request for a hearing within 10 days of notice. Hearing must be held after Planning Department review, with 10 days advance notice is given, and prior to tentative map approval. If 5 or more units are involved, a public hearing will be held before the City Planning Commission. Notice given to all lessees and tenants by the Planning Department.	A tenant may make a written request for a hearing within 10 days of notice. The Director must hold a public hearing within 21 days of the request. Notice of the hearing must be mailed to tenants at least 10 days before hearing. No corresponding provision
Resubmittal	If an application for conversion is withdrawn by the applicant, there can be no resubmittal for 6 months from the date of withdrawal. If an application for conversion is denied, or a tentative map disapproved, no new submittal for the same building for one year following the date of the denial.	No corresponding provision If a tentative map is disapproved, no new submittal for 18 months following the date of disapproval.
Time to Determine Complete	If submitted in accordance with the Permit Streamlining Act, an application can, if the City does not provide written notice of deficiencies in the application, be deemed complete 30 days after submission.	If Director of DPW fails to notify the applicant of the items required to complete the application within 15 days, it will be deemed filed on the 15th day.
Approval / Disapproval	Within 50 days of filing the tentative map, unless the time is extended by mutual consent, the Director must make a report on the map to the subdivider. The report must approve, conditionally approve or disapprove the tentative map. If the map is disapproved, the report must also state the reasons for disapproval.	The Director of DPW must approve or disapprove an application within 50 days after filing, except in cases of noncompliance with legislation, signatures obtained through fraud or duress, false declarations or failure to meet mandatory state requirements. If the Director fails to approve, conditionally approve, or disapprove a Tentative Map within 50 days after filing, the Tentative Map is deemed approved.
Administrative Fees	Administrative fees authorized plus time and materials.	Same

APPENDIX E: Role and Function of City Agencies

Exhibit 3. Roles and Functions of City Agencies
Under the Current Subdivision Code and the Subdivision Code Proposed under HOPE

Agency	Current Subdivision Code	Proposed Subdivision Code (HOPE)
Department of Building Inspection	Inspects buildings and sites for needed improvements/repairs; follow-up as needed	No corresponding provision
Department of Public Works	• Reviews application for completeness and notifies applicant of incomplete items • Mails written notice of subdivision conferences • Convenes and holds public hearings on map-related issues • Prepares a report on all submitted reviews • Distributes applications to applicable city agencies (City Planning, Bureau of Engineering, Bureau of Building Inspection, etc.) • Submits recommendation to the Board, DPW, subdivider, and City agencies • Holds hearings for subsequent appeals • Approves, conditionally approves or disapproves applications	• Reviews application for completeness and notifies applicant of incomplete items • Notifies tenants of application submission and right to request a hearing; provides copy of the subdivider's declaration • Convenes and holds public hearings if requested, and notifies tenants thereof • Approves, conditionally approves or disapproves applications • Manages subdivision lottery
Planning Department and Commission	Department: • Review all maps to make sure maps meet General Plan and Planning Code conformity • Checks for evidence of illegal construction; past Rent Board complaints; owner occupancy compliance, history of illegal evictions; proof that disabled tenants and seniors offered lifetime leases, etc. Commission reviews maps involving 5-6 units	No corresponding provision
Mayor's Office of Housing	For applicants to lottery pool subject to re-sale price, tenant income levels and other restrictions, MOH determines whether required number of purchasing tenants meet income requirements.	In the event that an individual resells his/her unit within 2 years after close of escrow, MOH determines amount of gross profit in order to assess anti-speculation fee. MOH administers the anti-speculation fee fund.
Controller	Not applicable	Maintains anti-speculation fee fund
Board of Supervisors	Holds hearings for appeals of maps after DPW approval	No corresponding provision
Other Agencies	Applicable City agencies are given opportunity to review and provide recommendations on proposed conversions within 30 days For properties of 5-6 units, subdivider must also have State approval and must obtain a Final Report from the California Department of Real Estate through a separate application package	No corresponding provision

APPENDIX F: Estimation of TORCA Units Purchased by Tenants

Current information on the percentage of converted TORCA units purchased by tenants residing in rental units prior to conversion is not available. However, using data from the 1993 evaluation report that includes a survey of TORCA tenants and an analysis of application and real estate information, it is possible to obtain a rough estimate of the proportion of converted TORCA units that were purchased by participating tenants at that time.

Data

1,192 units approved for conversion
576 sold units based upon receipt of lien due to City upon transfer
465 sold units with sales data available
184 of the 465 units where purchaser name matches tenant name
38.7% of 200 purchasing tenants interviewed in separate survey had prior ownership interest

Estimate Calculation

184 * .613 = 113	- to obtain proportion of non-owning tenants
465 / 576 = 80.7%	- to obtain proportion of units for which sales information was available
1,192 * .807 = 962	- to approximate above proportion for population of converted units
113 / 962 = 12%	- which is non-owning tenants / converted units

Limitations

The actual figure may be slightly higher for the following reasons:

1. The figure from the 1993 report was derived by cross-referencing TORCA application data with purchaser names obtained from county property assessment data. Due to the fact that some households may have used different names on the TORCA application and for tax purposes, the number of purchasing tenants may be higher. This would increase the percentage, but the effect is likely negligible.

2. Sales information on units purchased between 1984 and 1986 were excluded from the analysis. This would increase the percentage, but the effect is likely negligible – due to the lengthy approval process period, the first approvals for TORCA conversions did not take place until Fall and Winter 1986. Consequently, it is likely that escrow on sales of units at those properties did not close until 1987 or later.

3. Many tenants of converted units that had not been sold were still in the two-year period of time during which the tenant could exercise his or her option to buy. This would increase the percentage, but the effect is likely negligible according to staff of the Santa Monica Housing Division. This results from the fact that the majority of tenant purchases took place early on in the two-year option to buy period[4].

However, the actual figure may be slightly lower if tenants who re-sold their properties within the two-year period after purchase were excluded from the analysis. This was not prohibited under TORCA, but would be discouraged under HOPE. The report does not indicate how many tenants resold their units during this period of time, but it does indicate that 32% of tenants who purchased their units resold them.

Finally, due to small sample size, the margin of error for the percentage of TORCA purchasers who had a prior ownership interest in the property (38.7%) is ±14%. Consequently, the final estimate could be either higher or lower.

---

[4] Phone interview with Kim Kemper, Senior Administrative Analyst, Santa Monica Housing Division, July 9, 2002.

APPENDIX G: Share of Different-Sized Buildings by Planning District

Planning District	# Units in 20 plus bldgs	% City	Rank	# Units in 10 plus bldgs.	% City	Rank	# Units in 5 plus bldgs.	% City	Rank	# Units in 2 plus bldgs.	% City	Rank
Richmond	2,020	2.57%	10	6,088	5.25%	7	11,234	7.32%	5	26,525	11.34%	2
South Bayshore	258	0.33%	15	599	0.52%	14	1,512	0.99%	14	3,266	1.40%	15
Bernal Heights	274	0.35%	14	517	0.45%	15	998	0.65%	15	3,979	1.70%	14
Marina	6,034	7.67%	5	13,290	11.46%	4	16,980	11.07%	4	22,865	9.78%	5
Northeast	14,957	19.02%	2	21,620	18.64%	2	28,023	18.27%	1	35,022	14.98%	1
Downtown	22,693	28.86%	1	24,649	21.26%	1	25,156	16.40%	2	25,558	10.93%	4
Western Addition	11,487	14.61%	3	16,229	13.99%	3	20,139	13.13%	3	26,181	11.20%	3
Buena Vista	2,092	2.66%	9	3,915	3.38%	10	7,275	4.74%	9	14,290	6.11%	8
Central	2,348	2.99%	8	4,789	4.13%	8	7,828	5.10%	8	17,873	7.64%	7
Mission	3,787	4.82%	6	6,662	5.74%	6	10,917	7.12%	6	19,692	8.42%	6
South of Market	6,125	7.79%	4	7,294	6.29%	5	8,705	5.67%	7	11,453	4.90%	9
Ingleside	3,757	4.78%	7	4,679	4.03%	9	5,148	3.36%	10	6,582	2.82%	11
South Central	1,077	1.37%	12	1,921	1.66%	12	2,953	1.92%	12	5,665	2.42%	13
Inner Sunset	1,250	1.59%	11	2,591	2.23%	11	4,075	2.66%	11	8,287	3.54%	10
Outer Sunset	487	0.62%	13	1,155	1.00%	13	2,510	1.64%	13	6,575	2.81%	12
Top 5 Planning District's Share of Total	**77.94%**			**71.62%**			**66.16%**			**58.23%**		

Source: San Francisco Planning Department, 2000 Housing Inventory, "Housing Stock by Planning District-Table 25".

APPENDIX H: Housing Units by Building Type and Planning District

Planning District/City	Single Family	2 to 4 Units	5 to 9 Units	10 to 19 Units	20 Plus Units	Total
San Francisco	105,761	80,399	37,451	37,334	78,634	339,579
Richmond	10,206	15,291	5,146	4,068	2,020	36,731
	9.65%	19.02%	13.74%	10.90%	2.57%	10.82%
Marina	2,737	5,885	3,690	7,256	6,034	25,602
	2.59%	7.32%	9.85%	19.44%	7.67%	7.54%
Northeast	1,456	6,999	6,403	6,663	14,957	36,478
	1.38%	8.71%	17.10%	17.85%	19.02%	10.74%
Downtown	90	402	507	1,956	22,693	25,648
	0.09%	0.50%	1.35%	5.24%	28.86%	7.55%
Western Addition	1,554	6,042	3,910	4,742	11,487	27,735
	1.47%	7.52%	10.44%	12.70%	14.61%	8.17%
Buena Vista	1,743	7,015	3,360	1,823	2,092	16,033
	1.65%	8.73%	8.97%	4.88%	2.66%	4.72%
Central	8,143	10,045	3,039	2,441	2,348	26,016
	7.70%	12.49%	8.11%	6.54%	2.99%	7.66%
Mission	2,333	8,775	4,255	2,875	3,787	22,025
	2.21%	10.91%	11.36%	7.70%	4.82%	6.49%
South of Market	2,117	2,748	1,411	1,169	6,125	13,570
	2.00%	3.42%	3.77%	3.13%	7.79%	4.00%
South Bayshore	6,654	1,754	913	341	258	9,920
	6.29%	2.18%	2.44%	0.91%	0.33%	2.92%
Bernal Heights	5,130	2,981	481	243	274	9,109
	4.85%	3.71%	1.28%	0.65%	0.35%	2.68%
South Central	19,491	2,712	1,032	844	1,077	25,156
	18.43%	3.37%	2.76%	2.26%	1.37%	7.41%
Ingleside	15,736	1,434	469	922	3,757	22,318
	14.88%	1.78%	1.25%	2.47%	4.78%	6.57%
Inner Sunset	9,717	4,212	1,484	1,341	1,250	18,004
	9.19%	5.24%	3.96%	3.59%	1.59%	5.30%
Outer Sunset	18,639	4,065	1,355	668	487	25,214
	17.62%	5.06%	3.62%	1.79%	0.62%	7.43%

Source: San Francisco Planning Department, *2000 Housing Inventory*

APPENDIX I: Planning Area Census Tracts

Planning Area Census Tracts, 2000

Planning Area	Corresponding Census Tract ID, 2000
Richmond	133, 154, 156, 401-402, 426-428, 451-452, 476, 477.01-477.02, 478, 479.01-479.02, 602
South Bayshore	230.01-230.03, 231.01-231.03, 232-234, 606, 609-610
Bernal Heights	251-253, 254.01-254.03
Marina	126-132, 134-135
Northeast	101-115, 118-119
Downtown	117, 120-125, 176.01-176.02
Western Addition	151-153, 155, 157-165
Buena Vista	166-171
Central	203-206, 211-218
Mission	177, 201-202, 207-210, 228.01-228.03, 229.01-229.03
South of Market	178, 179.01, 180, 226, 227.01-227.03, 607
Ingleside	307, 309-314, 331, 332.01-332.02, 604
South Central	255-259, 260.01-260.04, 261-262, 263.01-263.03, 264.01-264.04, 605.01-605.02
Inner Sunset	301.01-301.02, 302.01-302.02, 303.01-303.02, 304-306, 308
Outer Sunset	326-330, 351, 352.01-352.02, 353-354

APPENDIX J: Demographic Characteristics by Planning District

Demographic Characteristics													
Planning District	Pop	% White alone	% Black or African American alone	% American Indian and Alaska Native alone	% Asian alone	%Native Hawaiian or Other Pacific Islander alone	% Some other race alone	%Two or more races	# Housing Units	% Occupied Units	% Owner-Occupied	% Renter Occupied	% Renter-occupied with house holder 65 plus years
Richmond	81,493	52.85%	1.83%	0.22%	39.94%	0.12%	1.50%	3.53%	36,207	98.80%	34.85%	62.35%	12.58%
South Bayshore	34,835	9.91%	46.09%	0.40%	26.49%	3.41%	9.65%	4.05%	10,039	96.99%	52.53%	47.47%	14.15%
Bernal Heights	24,952	51.15%	6.93%	0.60%	17.21%	0.48%	17.08%	6.56%	9,212	96.99%	52.77%	47.23%	9.08%
Marina	39,691	85.60%	1.07%	0.16%	9.89%	0.12%	0.98%	2.19%	25,713	94.94%	24.13%	75.87%	11.07%
Northeast	66,141	47.77%	1.47%	0.20%	46.68%	0.15%	1.30%	2.44%	39,187	92.06%	16.29%	83.71%	23.72%
Downtown	44,626	45.27%	9.79%	1.11%	31.86%	0.42%	5.77%	5.78%	27,115	91.26%	2.25%	97.75%	16.68%
Western Addition	53,111	55.33%	19.02%	0.40%	17.42%	0.34%	2.90%	4.59%	28,010	95.31%	18.22%	81.78%	19.40%
Buena Vista	29,880	77.42%	8.45%	0.61%	6.68%	0.18%	2.50%	4.15%	16,066	96.15%	24.52%	75.48%	5.57%
Central	46,804	77.62%	3.46%	0.48%	9.61%	0.19%	4.20%	4.44%	25,449	96.46%	41.65%	58.35%	6.84%
Mission	60,202	52.39%	3.46%	1.20%	11.17%	0.34%	25.06%	6.39%	22,424	96.56%	18.07%	81.93%	11.54%
South of Market	24,740	57.83%	13.82%	0.69%	17.97%	0.77%	4.45%	4.47%	13,164	92.78%	30.25%	69.75%	20.37%
Ingleside	61,362	41.40%	12.24%	0.29%	36.53%	0.31%	4.53%	4.67%	22,298	97.20%	61.77%	38.23%	16.12%
South Central	91,008	25.17%	6.63%	0.39%	48.11%	1.06%	13.77%	4.86%	24,976	97.75%	67.58%	32.42%	12.20%
Inner Sunset	43,392	60.81%	2.39%	0.22%	30.53%	0.19%	1.98%	3.89%	18,694	96.58%	51.91%	48.09%	9.18%
Outer Sunset	70,672	40.32%	1.21%	0.21%	53.46%	0.14%	1.31%	3.35%	25,812	96.96%	59.96%	40.04%	10.63%
San Francisco County	776733	49.66%	7.79%	0.45%	30.84%	0.49%	6.48%	4.28%	346527	95.14%	35.00%	65.00%	14.42%

Source: Census 2000 Summary File 1 (SF 1) 100-Percent Data and San Francisco Planning Department, "2000 Housing Inventory".

APPENDIX K: Residential Multi-unit Building Sales Summary

The San Francisco Association of Realtors provided sales data for multi-unit residential buildings in the City of San Francisco. Sales data from July 2001-June 2002 comes from the multiple listing system. Not all transactions go through the multiple listing system. Data does not include units or properties directly sold between owners and buyers; nor does it include properties listed where the sale was allowed to expire or the record was withdrawn because sales data was not entered. The estimated median prices and calculations below may be slightly higher than the actual median because properties not listed may have been negotiated at lower prices. For example, sales that were directly made between owner and buyer may be lower if both parties do not have to pay a sales commission to a real estate agent, etc. In the analysis of 2-4 unit multi-unit buildings and multi-unit buildings overall, one property sold at a price of $1,000 was omitted as a statistical outlier.

Descriptive stats for all residential multi-unit bldgs	
Total # Units	2665
Total # of Properties	766
Avg # of Units	3.48
Sum of Sales	$760,650,794.00
Avg Sales Price	$993,016.70
Price/unit	$285,422.44
Low Sale Price	$285,000.00
High Sale Price	$14,000,000.00
Median Sales Price	$830,000.00
Range of # of Units	2-115
Median # of Units	2

Descriptive stats for residential 2-4 unit bldgs	
Total # Units	1608
Total # of Properties	670
Avg # of Units	2.40
Sum of Sales	$587,641,807.00
Avg Sales Price	$877,077.32
Price/unit	$365,448.88
Low Sale Price	$285,000.00
High Sale Price	$4,950,000.00
Median Sales Price	$799,000.00
Range of # of Units	2-4
Median # of Units	2

Descriptive stats for residential 5+ unit bldgs	
Total # Units	1057
Total # of Properties	96
Avg # of Units	11.01
Sum of Sales	$173,008,987.00
Avg Sales Price	$1,802,176.95
Price/unit	$163,679.27
Low Sale Price	$625,000.00
High Sale Price	$14,000,000.00
Median Sales Price	$1,427,500.00
Range of # of Units	5-115
Median # of Units	7

APPENDIX K: Renting v. Buying Comparisons (continued)

Renting (Rent-controlled with 2.70% annual increase)						Purchasing											
Assumes rent starts at $1248; 2.7% annual increase						Purchase Price $499,000; 20% Down; 30year; 6%interest; 1.12%property tax; 2% yearly home value increase rate											
YR	Rent	After 12 months	Summary	Months of Rent	Average MO Rent	Price of Home After Appreciation	Remaining Balance	Equity Earned	Tax Savings	Avg. Monthly Payment over time	Total Payment	Difference	Sum Condo Fees @$200/mo	Total Pyment plus condo fees	Diference plus condo fees	Mo payment over time plus condo fees	Verdict
1	$ 1,248.00	$ 14,976.00	$ 14,976.00	12	$ 1,248.00	$ 508,980.00	$ 394,303.00	$ 114,677.00	$ 8,271.00	$ 3,876.00	$ 46,515.00	$ (31,539.00)	$ 2,400.00	$ 48,915.00	$ (33,939.00)	$ 4,076.25	Rent
2	$ 1,281.70	$ 15,380.35	$ 30,356.35	24	$ 1,264.85	$ 519,159.00	$ 389,104.00	$ 130,055.00	$ 16,542.00	$ 2,525.00	$ 60,605.00	$ (30,248.65)	$ 4,800.00	$ 65,405.00	$ (35,048.65)	$ 2,725.21	Rent
3	$ 1,316.30	$ 15,795.62	$ 46,151.97	36	$ 1,282.00	$ 529,542.00	$ 383,584.00	$ 145,958.00	$ 24,814.00	$ 2,060.00	$ 74,181.00	$ (28,029.03)	$ 7,200.00	$ 81,381.00	$ (35,229.03)	$ 2,260.58	Rent
4	$ 1,351.84	$ 16,222.10	$ 62,374.08	48	$ 1,299.46	$ 540,133.00	$ 377,723.00	$ 162,410.00	$ 33,085.00	$ 1,817.00	$ 87,222.00	$ (24,847.92)	$ 9,600.00	$ 96,822.00	$ (34,447.92)	$ 2,017.13	Rent
5	**$ 1,388.34**	**$ 16,660.10**	**$ 79,034.18**	**60**	**$ 1,317.24**	**$ 550,936.00**	**$ 371,501.00**	**$ 179,435.00**	**$ 41,357.00**	**$ 1,661.00**	**$ 99,701.00**	**$ (20,666.82)**	**$ 12,000.00**	**$ 111,701.00**	**$ (32,666.82)**	**$ 1,861.68**	**Rent**
6	$ 1,425.83	$ 17,109.92	$ 96,144.10	72	$ 1,335.33	$ 561,955.00	$ 364,896.00	$ 197,059.00	$ 49,628.00	$ 1,549.00	$ 111,596.00	$ (15,451.90)	$ 14,400.00	$ 125,996.00	$ (29,851.90)	$ 1,749.94	Rent
7	$ 1,464.32	$ 17,571.89	$ 113,715.99	84	$ 1,353.76	$ 573,194.00	$ 357,883.00	$ 215,311.00	$ 57,899.00	$ 1,462.00	$ 122,875.00	$ (9,159.01)	$ 16,800.00	$ 139,675.00	$ (25,959.01)	$ 1,662.80	Rent
8	$ 1,503.86	$ 18,046.33	$ 131,762.32	96	$ 1,372.52	$ 584,658.00	$ 350,437.00	$ 234,221.00	$ 66,171.00	$ 1,390.00	$ 133,509.00	$ (1,746.68)	$ 19,200.00	$ 152,709.00	$ (20,946.68)	$ 1,590.72	Rent
9	$ 1,544.47	$ 18,533.58	$ 150,295.90	108	$ 1,391.63	$ 596,351.00	$ 342,532.00	$ 253,819.00	$ 74,442.00	$ 1,328.00	$ 143,470.00	$ 6,825.90	$ 21,600.00	$ 165,070.00	$ (14,774.10)	$ 1,528.43	Rent
10	**$ 1,586.17**	**$ 19,033.99**	**$ 169,329.89**	**120**	**$ 1,411.08**	**$ 608,278.00**	**$ 334,140.00**	**$ 274,138.00**	**$ 82,714.00**	**$ 1,272.00**	**$ 152,723.00**	**$ 16,606.89**	**$ 24,000.00**	**$ 176,723.00**	**$ (7,393.11)**	**$ 1,472.69**	**Rent**
11	$ 1,628.99	$ 19,547.91	$ 188,877.80	132	$ 1,430.89	$ 620,443.00	$ 325,230.00	$ 295,213.00	$ 90,985.00	$ 1,221.00	$ 161,235.00	$ 27,642.80	$ 26,400.00	$ 187,635.00	$ 1,242.80	$ 1,421.48	Buy
12	$ 1,672.98	$ 20,075.70	$ 208,953.50	144	$ 1,451.07												
13	$ 1,718.15	$ 20,617.74	$ 229,571.25	156	$ 1,471.61												
14	$ 1,764.54	$ 21,174.42	$ 250,745.67	168	$ 1,492.53												
15	$ 1,812.18	$ 21,746.13	$ 272,491.80	180	$ 1,513.84												
16	$ 1,861.11	$ 22,333.28	$ 294,825.08	192	$ 1,535.55												
17	$ 1,911.36	$ 22,936.28	$ 317,761.36	204	$ 1,557.65												
18	$ 1,962.96	$ 23,555.56	$ 341,316.92	216	$ 1,580.17												
19	$ 2,015.96	$ 24,191.56	$ 365,508.47	228	$ 1,603.11												
20	**$ 2,070.39**	**$ 24,844.73**	**$ 390,353.20**	**240**	**$ 1,626.47**	**$ 741,487.00**	**$ 215,770.00**	**$ 525,717.00**	**$ 165,428.00**	**$ 823.00**	**$ 197,706.00**	**$ 192,647.20**	**$ 48,000.00**	**$ 245,706.00**	**$ 144,647.20**	**$ 1,023.78**	Buy
21	$ 2,126.29	$ 25,515.54	$ 415,868.74	252	$ 1,650.27												
22	$ 2,183.70	$ 26,204.46	$ 442,073.19	264	$ 1,674.52												
23	$ 2,242.66	$ 26,911.98	$ 468,985.17	276	$ 1,699.22												
24	$ 2,303.22	$ 27,638.60	$ 496,623.77	288	$ 1,724.39												
25	$ 2,365.40	$ 28,384.84	$ 525,008.61	300	$ 1,750.03												
26	$ 2,429.27	$ 29,151.23	$ 554,159.84	312	$ 1,776.15												
27	$ 2,494.86	$ 29,938.32	$ 584,098.16	324	$ 1,802.77												
28	$ 2,562.22	$ 30,746.65	$ 614,844.81	336	$ 1,829.90												
29	$ 2,631.40	$ 31,576.81	$ 646,421.62	348	$ 1,857.53												
30	**$ 2,702.45**	**$ 32,429.38**	**$ 678,851.00**	**360**	**$ 1,885.70**	**$ 903,869.00**	**$ -**	**$ 903,869.00**	**$ 248,142.00**	**$ 327.00**	**$ 117,866.00**	**$ 560,985.00**	**$ 72,000.00**	**$ 189,866.00**	**$ 488,985.00**	**$ 527.41**	Buy

APPENDIX K: Renting v. Buying Comparisons (continued)

Renting (Rent-controlled with 2.70% annual increase) Assumes rent starts at $1616; 2.7% annual increase						Purchasing Purchase Price $499,000; 20% Down; 30year; 6%interest; 1.12%property tax; 2% yearly home value increase rate											
YR	Rent	After 12 months	Summary	Months of Rent	Average MO Rent	Price of Home After Appreciation	Remaining Balance	Equity Earned	Tax Savings	Avg. Monthly Payment over time	Total Payment	Difference	Sum Condo Fees @$200/mo	Total Pyment plus condo fees	Diference plus condo fees	Mo payment over time plus condo fees	Verdict
1	$ 1,616.00	$ 19,392.00	$ 19,392.00	12	$ 1,616.00	$ 508,980.00	$ 394,303.00	$ 114,677.00	$ 8,271.00	$ 3,876.00	$ 46,515.00	$ (27,123.00)	$ 2,400.00	$ 48,915.00	$ (29,523.00)	$ 4,076.25	Rent
2	$ 1,659.63	$ 19,915.58	$ 39,307.58	24	$ 1,637.82	$ 519,159.00	$ 389,104.00	$ 130,055.00	$ 16,542.00	$ 2,525.00	$ 60,605.00	$ (21,297.42)	$ 4,800.00	$ 65,405.00	$ (26,097.42)	$ 2,725.21	Rent
3	$ 1,704.44	$ 20,453.30	$ 59,760.89	36	$ 1,660.02	$ 529,542.00	$ 383,584.00	$ 145,958.00	$ 24,814.00	$ 2,060.00	$ 74,181.00	$ (14,420.11)	$ 7,200.00	$ 81,381.00	$ (21,620.11)	$ 2,260.58	Rent
4	$ 1,750.46	$ 21,005.54	$ 80,766.43	48	$ 1,682.63	$ 540,133.00	$ 377,723.00	$ 162,410.00	$ 33,085.00	$ 1,817.00	$ 87,222.00	$ (6,455.57)	$ 9,600.00	$ 96,822.00	$ (16,055.57)	$ 2,017.13	Rent
5	**$ 1,797.72**	**$ 21,572.69**	**$ 102,339.13**	**60**	**$ 1,705.65**	**$ 550,936.00**	**$ 371,501.00**	**$ 179,435.00**	**$ 41,357.00**	**$ 1,661.00**	**$ 99,701.00**	**$ 2,638.13**	**$ 12,000.00**	**$ 111,701.00**	**$ (9,361.87)**	**$ 1,861.68**	**Rent**
6	$ 1,846.26	$ 22,155.16	$ 124,494.28	72	$ 1,729.09	$ 561,955.00	$ 364,896.00	$ 197,059.00	$ 49,628.00	$ 1,549.00	$ 111,596.00	$ 12,898.28	$ 14,400.00	$ 125,996.00	$ (1,501.72)	$ 1,749.94	Rent
7	$ 1,896.11	$ 22,753.35	$ 147,247.63	84	$ 1,752.95	$ 573,194.00	$ 357,883.00	$ 215,311.00	$ 57,899.00	$ 1,462.00	$ 122,875.00	$ 24,372.63	$ 16,800.00	$ 139,675.00	$ 7,572.63	$ 1,662.80	Buy
8	$ 1,947.31	$ 23,367.69	$ 170,615.31	96	$ 1,777.24	$ 584,658.00	$ 350,437.00	$ 234,221.00	$ 66,171.00	$ 1,390.00	$ 133,509.00	$ 37,106.31	$ 19,200.00	$ 152,709.00	$ 17,906.31	$ 1,590.72	Buy
9	$ 1,999.88	$ 23,998.61	$ 194,613.93	108	$ 1,801.98	$ 596,351.00	$ 342,532.00	$ 253,819.00	$ 74,442.00	$ 1,328.00	$ 143,470.00	$ 51,143.93	$ 21,600.00	$ 165,070.00	$ 29,543.93	$ 1,528.43	Buy
10	**$ 2,053.88**	**$ 24,646.58**	**$ 219,260.50**	**120**	**$ 1,827.17**	**$ 608,278.00**	**$ 334,140.00**	**$ 274,138.00**	**$ 82,714.00**	**$ 1,272.00**	**$ 152,723.00**	**$ 66,537.50**	**$ 24,000.00**	**$ 176,723.00**	**$ 42,537.50**	**$ 1,472.69**	**Buy**
11	$ 2,109.34	$ 25,312.03	$ 244,572.54	132	$ 1,852.82	$ 620,443.00	$ 325,230.00	$ 295,213.00	$ 90,985.00	$ 1,221.00	$ 161,235.00	$ 83,337.54	$ 26,400.00	$ 187,635.00	$ 56,937.54	$ 1,421.48	Buy
12	$ 2,166.29	$ 25,995.46	$ 270,568.00	144	$ 1,878.94												
13	$ 2,224.78	$ 26,697.34	$ 297,265.33	156	$ 1,905.55												
14	$ 2,284.85	$ 27,418.16	$ 324,683.50	168	$ 1,932.64												
15	$ 2,346.54	$ 28,158.45	$ 352,841.95	180	$ 1,960.23												
16	$ 2,409.89	$ 28,918.73	$ 381,760.68	192	$ 1,988.34												
17	$ 2,474.96	$ 29,699.54	$ 411,460.22	204	$ 2,016.96												
18	$ 2,541.79	$ 30,501.43	$ 441,961.65	216	$ 2,046.12												
19	$ 2,610.41	$ 31,324.96	$ 473,286.61	228	$ 2,075.82												
20	**$ 2,680.89**	**$ 32,170.74**	**$ 505,457.35**	**240**	**$ 2,106.07**	**$ 741,487.00**	**$ 215,770.00**	**$ 525,717.00**	**$ 165,428.00**	**$ 823.00**	**$ 197,706.00**	**$ 307,751.35**	**$ 48,000.00**	**$ 245,706.00**	**$ 259,751.35**	**$ 1,023.78**	**Buy**
21	$ 2,753.28	$ 33,039.35	$ 538,496.70	252	$ 2,136.89												
22	$ 2,827.62	$ 33,931.41	$ 572,428.11	264	$ 2,168.29												
23	$ 2,903.96	$ 34,847.56	$ 607,275.67	276	$ 2,200.27												
24	$ 2,982.37	$ 35,788.44	$ 643,064.11	288	$ 2,232.86												
25	$ 3,062.89	$ 36,754.73	$ 679,818.84	300	$ 2,266.06												
26	$ 3,145.59	$ 37,747.11	$ 717,565.95	312	$ 2,299.89												
27	$ 3,230.52	$ 38,766.28	$ 756,332.23	324	$ 2,334.36												
28	$ 3,317.75	$ 39,812.97	$ 796,145.20	336	$ 2,369.48												
29	$ 3,407.33	$ 40,887.92	$ 837,033.12	348	$ 2,405.27												
30	**$ 3,499.32**	**$ 41,991.89**	**$ 879,025.02**	**360**	**$ 2,441.74**	**$ 903,869.00**	**$ -**	**$ 903,869.00**	**$ 248,142.00**	**$ 327.00**	**$ 117,866.00**	**$ 761,159.02**	**$ 72,000.00**	**$ 189,866.00**	**$ 689,159.02**	**$ 527.41**	**Buy**

APPENDIX K: Renting v. Buying Comparisons (continued)

Renting (Rent-controlled with 2.70% annual increase)						Purchasing											
Assumes rent starts at $2043; 2.7% annual increase						Purchase Price $499,000; 20% Down; 30year; 6%interest; 1.12%property tax; 2% yearly home value increase rate											
YR	Rent	After 12 months	Summary	Months of Rent	Average MO Rent	Price of Home After Appreciation	Remaining Balance	Equity Earned	Tax Savings	Avg. Monthly Payment over time	Total Payment	Difference	Sum Condo Fees @$200/mo	Total Pyment plus condo fees	Diference plus condo fees	Mo payment over time plus condo fees	Verdict
1	$ 2,043.00	$ 24,516.00	$ 24,516.00	12	$ 2,043.00	$ 508,980.00	$ 394,303.00	$ 114,677.00	$ 8,271.00	$ 3,876.00	$ 46,515.00	$ (21,999.00)	$ 2,400.00	$ 48,915.00	$ (24,399.00)	$ 4,076.25	Rent
2	$ 2,098.16	$ 25,177.93	$ 49,693.93	24	$ 2,070.58	$ 519,159.00	$ 389,104.00	$ 130,055.00	$ 16,542.00	$ 2,525.00	$ 60,605.00	$ (10,911.07)	$ 4,800.00	$ 65,405.00	$ (15,711.07)	$ 2,725.21	Rent
3	$ 2,154.81	$ 25,857.74	$ 75,551.67	36	$ 2,098.66	$ 529,542.00	$ 383,584.00	$ 145,958.00	$ 24,814.00	$ 2,060.00	$ 74,181.00	$ 1,370.67	$ 7,200.00	$ 81,381.00	$ (5,829.33)	$ 2,260.58	Rent
4	$ 2,212.99	$ 26,555.90	$ 102,107.56	48	$ 2,127.24	$ 540,133.00	$ 377,723.00	$ 162,410.00	$ 33,085.00	$ 1,817.00	$ 87,222.00	$ 14,885.56	$ 9,600.00	$ 96,822.00	$ 5,285.56	$ 2,017.13	Buy
5	**$ 2,272.74**	**$ 27,272.90**	**$ 129,380.47**	**60**	**$ 2,156.34**	**$ 550,936.00**	**$ 371,501.00**	**$ 179,435.00**	**$ 41,357.00**	**$ 1,661.00**	**$ 99,701.00**	**$ 29,679.47**	**$ 12,000.00**	**$ 111,701.00**	**$ 17,679.47**	**$ 1,861.68**	**Buy**
6	$ 2,334.11	$ 28,009.27	$ 157,389.74	72	$ 2,185.97	$ 561,955.00	$ 364,896.00	$ 197,059.00	$ 49,628.00	$ 1,549.00	$ 111,596.00	$ 45,793.74	$ 14,400.00	$ 125,996.00	$ 31,393.74	$ 1,749.94	Buy
7	$ 2,397.13	$ 28,765.52	$ 186,155.26	84	$ 2,216.13	$ 573,194.00	$ 357,883.00	$ 215,311.00	$ 57,899.00	$ 1,462.00	$ 122,875.00	$ 63,280.26	$ 16,800.00	$ 139,675.00	$ 46,480.26	$ 1,662.80	Buy
8	$ 2,461.85	$ 29,542.19	$ 215,697.46	96	$ 2,246.85	$ 584,658.00	$ 350,437.00	$ 234,221.00	$ 66,171.00	$ 1,390.00	$ 133,509.00	$ 82,188.46	$ 19,200.00	$ 152,709.00	$ 62,988.46	$ 1,590.72	Buy
9	$ 2,528.32	$ 30,339.83	$ 246,037.29	108	$ 2,278.12	$ 596,351.00	$ 342,532.00	$ 253,819.00	$ 74,442.00	$ 1,328.00	$ 143,470.00	$ 102,567.29	$ 21,600.00	$ 165,070.00	$ 80,967.29	$ 1,528.43	Buy
10	**$ 2,596.58**	**$ 31,159.01**	**$ 277,196.29**	**120**	**$ 2,309.97**	**$ 608,278.00**	**$ 334,140.00**	**$ 274,138.00**	**$ 82,714.00**	**$ 1,272.00**	**$ 152,723.00**	**$ 124,473.29**	**$ 24,000.00**	**$ 176,723.00**	**$ 100,473.29**	**$ 1,472.69**	**Buy**
11	$ 2,666.69	$ 32,000.30	$ 309,196.59	132	$ 2,342.40	$ 620,443.00	$ 325,230.00	$ 295,213.00	$ 90,985.00	$ 1,221.00	$ 161,235.00	$ 147,961.59	$ 26,400.00	$ 187,635.00	$ 121,561.59	$ 1,421.48	Buy
12	$ 2,738.69	$ 32,864.31	$ 342,060.90	144	$ 2,375.42												
13	$ 2,812.64	$ 33,751.64	$ 375,812.55	156	$ 2,409.05												
14	$ 2,888.58	$ 34,662.94	$ 410,475.48	168	$ 2,443.31												
15	$ 2,966.57	$ 35,598.84	$ 446,074.32	180	$ 2,478.19												
16	$ 3,046.67	$ 36,560.01	$ 482,634.33	192	$ 2,513.72												
17	$ 3,128.93	$ 37,547.13	$ 520,181.46	204	$ 2,549.91												
18	$ 3,213.41	$ 38,560.90	$ 558,742.36	216	$ 2,586.77												
19	$ 3,300.17	$ 39,602.04	$ 598,344.40	228	$ 2,624.32												
20	**$ 3,389.27**	**$ 40,671.30**	**$ 639,015.70**	**240**	**$ 2,662.57**	**$ 741,487.00**	**$ 215,770.00**	**$ 525,717.00**	**$ 165,428.00**	**$ 823.00**	**$ 197,706.00**	**$ 441,309.70**	**$ 48,000.00**	**$ 245,706.00**	**$ 393,309.70**	**$ 1,023.78**	**Buy**
21	$ 3,480.79	$ 41,769.42	$ 680,785.12	252	$ 2,701.53												
22	$ 3,574.77	$ 42,897.20	$ 723,682.32	264	$ 2,741.22												
23	$ 3,671.29	$ 44,055.42	$ 767,737.74	276	$ 2,781.66												
24	$ 3,770.41	$ 45,244.92	$ 812,982.66	288	$ 2,822.86												
25	$ 3,872.21	$ 46,466.53	$ 859,449.19	300	$ 2,864.83												
26	$ 3,976.76	$ 47,721.13	$ 907,170.32	312	$ 2,907.60												
27	$ 4,084.13	$ 49,009.60	$ 956,179.92	324	$ 2,951.17												
28	$ 4,194.40	$ 50,332.86	$ 1,006,512.78	336	$ 2,995.57												
29	$ 4,307.65	$ 51,691.84	$ 1,058,204.62	348	$ 3,040.82												
30	**$ 4,423.96**	**$ 53,087.52**	**$ 1,111,292.15**	**360**	**$ 3,086.92**	**$ 903,869.00**	**$ -**	**$ 903,869.00**	**$ 248,142.00**	**$ 327.00**	**$ 117,866.00**	**$ 993,426.15**	**$ 72,000.00**	**$ 189,866.00**	**$ 921,426.15**	**$ 527.41**	**Buy**

APPENDIX L: Rent v. Buy Comparison

There are several ways to approach the concept of affordability. One approach is to consider affordability in the long-run. While monthly payments or initial outlays may be more expensive when buying a home (or more specifically, a condo in HOPE's case) as opposed to renting in the short-run, individuals may find purchasing a housing unit more affordable in the long-run. The key difference arises because homebuyers are able to build equity over time and as appreciation of property values in San Francisco continue to rise, homeownership becomes more attractive as homebuyers are able to experience higher returns in equity.

Many factors drive the decision on whether to rent or buy. These include, but are not limited to, a tenant's current rent level, annual allowable rent increases under the rent ordinance, purchase price of a housing unit, appreciation rates of homes/units, tax savings from home ownership and the number of years a homebuyer expects to stay in the home/unit. The lower the rental rate compared to the monthly costs of homeownership, the more time is needed to make homeownership a more affordable option (see following comparison charts).

In running simple comparisons on the average cost of renting in rent controlled units compared to purchasing a housing unit such as a condo, several sources of information were used including: data on current rent levels, median condo sales prices, annual allowable rent increases under the rent ordinance, and a comparison engine found on the Ginnie Mae website (www.ginniemae.gov, "Buy v. Rent Calculator").

Assumptions on rent control are: a constant annual allowable increase of 2.7% (the current annual allowable increase effective March 1, 2001-February 28, 2003); no rent decontrol (meaning the original tenant stays at the current rental unit); and starting rental rates of $1248, $1616 and $2043 (MOH's "2002 Rent Limits for Housing Programs" shows in 2002, the fair market values of rent in the San Francisco PMSA were $1,248 for a studio, $1,616 for a one bedroom, $2,043 for a two bedroom).

Assumptions on the home-buying portion of the comparison include: sale price of $499,000 (median sale price of condos in San Francisco according to Bay Area Economic's *Housing Databook*), downpayment of 20%, 30-year mortgage, 6% interest rate, 1.12% property tax rate, 2% yearly home value increase. The Ginnie Mae "Buy v. Rent Calculator" considers these factors, among others (private mortgage insurance, homeowner insurance cost, loan closing cost, cost of selling a home, property tax, homeowners tax savings) to estimate the price of the home after appreciation, the equity earned, tax savings, and average monthly payment over time. In addition, condo association fees are also factored in (other insurance costs are not) in order to derive the monthly payments over time. A comparison between the monthly payments over time in renting and the monthly payments over time in buying a condo unit is then made (see following comparison scenarios).

(Insert AppK-PartA-C: 3 pre-formatted Excel worksheets)

APPENDIX M: Sources of Financing

Local Programs

The Mayor's Office of Housing (MOH) administers several programs to assist low to moderate-income first time homebuyers. Some programs link first time homebuyers with specific affordable housing units. Others provide financial assistance designed to increase the buying power of first time homebuyers.

Restricted or Below Market Priced Units (Specific Properties)

The City has worked to create and sustain its affordable housing stock since the late 1980s resulting in over 1,000 units that can be considered to be below market rate. The units are "deed restricted for a term of 20-50 years and are made available only to households earning less than 120% of median income". The primary programs include the Condo Conversion program, the Inclusionary program and the City Second Loan Program.

- The Condo Conversion program requires a portion of the units converted from apartment rentals to ownership condominiums be made available at prices affordable to households at either 80 or 120% of the San Francisco median income.
- The Inclusionary program requires at least 10% of newly constructed dwellings (with 10 or more units) be priced affordable to moderate income households. Although the pricing and eligibility guidelines vary, the majority of these units are priced at 100% of median income affordability.
- The City Second Loan program also links first time homebuyers with specific properties. The program offers financial assistance to eligible first time homebuyers with a no interest, deferred payment loan for the purchase of units located in specific developments[5]. In lieu of interest, repayment includes the principle plus a shared appreciation in the value of the property at the time of resale. The applicant's combined household income cannot exceed 120% of median income established by HUD.

Financial Assistance Programs (Non-Specific Properties)

MOH also administers several programs that provide financial assistance for first time homebuyers. The two key financial assistance programs include the Mortgage Credit Certificate Program (MCC) and the Downpayment Assistance Loan Program (DALP):

- The Mortgage Credit Certificate Program provides assistance for first time homebuyers for the purchase of owner-occupied single family homes, duplexes, townhouses and condominiums. Specifically, it "provides the income eligible buyer with an opportunity to reduce the amount of federal income tax otherwise due by an amount equal to 15% of the mortgage interest payments at a dollar for dollar credit. The remaining 85% can be taken as the usual allowable deduction of the itemized return.[6]" The additional tax saving allow first time homebuyers to qualify for a larger mortgage. The MCC program requires participating lenders to take the additional borrowing capacity into account when underwriting mortgages. Participation in "MCC is equivalent to about a 1-1/2 percent reduction in the mortgage interest rate.[7]"

  There are several requirements for the eligible participant. The eligible participant should be a first time homebuyer who is purchasing the property as a primary resident. The participant should also move into the unit within 60 days of close of escrow. If the participant sells the residence within 9 years of purchase, a recapture tax may be assessed. Additionally, the eligible participant's household income should not exceed specified limits dependent upon the location of a property:

	Non-target area	Target area
1 or 2 person household	$101,800	$122,160
3 or more person	$117,070	$142,520

[5] San Francisco Mayor's Office of Housing (MOH), "City Second Loan Program" brochure. Note, specified developments include several located in Potrero Hill, Ingleside, Western Addition, Outer Mission, Haight Ashbury, Mission-Soma, and Downtown.
[6] MOH, "First Time Homebuyer Programs," www.sfgov.org/moh.firsttime.htm.
[7] MOH, "San Francisco 2000 Consolidated Plan".

household		

In terms of building eligibility requirements, the property must not exceed the following maximum sales price (note there also can be different limits depending on whether properties are located in "target areas[8]"):

	Non-target area	Target area
Existing Home (Resale)	$ 537,793	$ 657,303
New Home (Not previously owned)	$ 554,104	$ 677,238
Existing Duplex (Existing Only)	$ 623,921	$ 762,570

Between 1995 and 2000, the city issued approximately 940 MCCs to first time homebuyers. However, the City's ability and flexibility to allocate funds has decreased in recent years because of reduced funding levels and other goals set by the State. In previous years, for example, the City received approximately $18 million for the MCC program. Last year, the City received $9.1 million, which was able to assist 53 homebuyers. In 2002, San Francisco received slightly more at $12.9 million in funding for the MCC program.

- The Downpayment Assistance Loan Program "assists eligible low and moderate income first time homebuyers with a subsidy of up to $100,000 or 30% of the purchase price, whatever is less for households below 80% median income and $50,000 for households between 80-100% of median income." The median income is established by HUD's estimates of metropolitan statistical area median income. HUD estimates that a 4-person household in the San Francisco has a median income of $86,100 for 2002; this median income is adjusted for different household sizes with household income requirements including all income of persons 18 years or older who will be living in the property[9]. The loan operates as a deferred payment for a 40-year term where repayment is based upon the principal plus a share of the appreciation.

  First time homebuyers who have never owned a home as their principal residence can qualify for downpayment loan assistance if they meet the following requirements[10]:
  1. Borrower eligibility requirements- household income cannot exceed 100% of the area median income for the San Francisco Primary Metropolitan Statistical Area (PMSA), as established by HUD; household income include all income of persons 18 years or older who will be living in the property.
  2. Financing requirements- a borrower must have secured a commitment of a first mortgage from a participating lender to purchase property located in the City of San Francisco and must contribute a minimum of 5% of the purchase prices toward the downpayment of the property (3% of the purchase price must be the borrower's own funds).
  3. Owner occupancy requirements- a borrower must occupy the purchased property as his/her principal residence within 60 days after the close of escrow. Properties that have received DALP funding must remain owner-occupied throughout the term of the loan. Also, at the time of funding the borrower's household must be compatible with the property size (so that a one person household can buy a studio or one bedroom unit and a two person household can purchase a unit with two bedrooms or less).
  4. Property eligibility- properties purchased must be single family residences in the City of San Francisco including detached single family units, condos, townhouses, and shared cooperative units. Also the maximum sales prices for properties must be as follows:

Unit Size	Maximum Purchase Price Limits

[8] MOH, "The Mortgage Credit Certificate Program- For First Time Homebuyers". Please note targeted areas are areas the City has identified to encourage growth of home ownership and development; target areas include: North Beach, North of Market, Western Addition, South of Market, Mission, Bayview/Hunters Point, and Visitacion Valley.
[9] MOH, "2002 Income Limits for Housing Programs," Feb 2002.
[10] MOH, "Downpayment Assistance Loan Program" brochure.

Studio	$ 250,000
1 bedroom	$ 300,000
2 bedroom	$ 375,000
3 bedroom	$ 410,000
4 or more bedrooms	$ 445,000

The DALP was funded initially with $15 million through the Affordable Housing and Home Ownership Bond Program (Proposition A). Over the past five years, a majority of the fund has been allocated; less than $400,000 remains as of early July, 2002[11]. The number of loans that can be made depends on the size of the downpayment needed for an applicant's purchase; a maximum of $100,000 can be granted. Previously the program granted between $30,000-50,000 in downpayment assistance. However, as home sale prices have continued to climb, the downpayment assistance was increased to $50,000-100,000. To date, 253 loans have been made through DALP.

Federal Programs

For example, the Federal government has programs administered by the Federal Housing Administration (FHA) that make mortgage credit available to more Americans, including those with low and moderate incomes. Participants who meet FHA Loan credit qualifications may be eligible for a low down payment of 3 percent. Closing costs and fees can also be wrapped into the mortgage. Another program, the FHA's Access 2000 Program, provides zero downpayment loans to qualifying purchasers. Access 2000 does not require the purchaser to be a first time homebuyer, does not have a recapture tax and helps in the purchase of single-family homes and condominiums only. The Access 2000 program assists homebuyers in California and a few counties of Nevada. As an FHA first mortgage the program requires a 3% downpayment, however, Access 2000 provides a 2nd mortgage in the amount of 5% of the purchase price; in all the purchaser receives financing for 102% of the sale price. The loan is fully amortized for 20 years and runs at an interest rate of 7.5%. the 5% covers the 3% downpayment and the remaining 2% covers most of the FHA regulated closing costs associated with purchasing a home. The borrower must fall within income limits set for the county of San Francisco or $72,400 per year. The loan is available through most Federal Housing Administration lenders and through mortgage brokers.

State Programs

California Housing Finance Authority (CHFA) 100% loans or "CHAFA" as it is sometimes known, is designed to provide up to 100% of home loan financing to prospective eligible first-time homebuyers. It generally consists of a standard 97% FHA - CHFA fixed-rate 30-year mortgage and a 3% CHFA down payment assistance second mortgage, which is also called a "sleeping" or "silent" second. The second mortgage is offered for 30 years at 3% simple interest. All payments are deferred on this second mortgage until one of the following happens: the CHFA first mortgage becomes due and payable; the first mortgage is paid in full or refinanced; or, the property is sold.

The CHFA 100% Home Loan Program is available to all low and moderate-income homebuyers in all 58 counties in California. In order to qualify for a CHFA loan, certain eligibility requirements must be met. The eligibility requirements include:

- An annual household/family income that does not exceed income limits for the family size and county in which the home is located and must meet credit, income and loan requirements of the CHFA lender and the mortgage insurer
- Property must be owner-occupied for the term of the loan or until sold
- Be a first-time homebuyer, which is defined as a person(s) who has not had an ownership interest in their primary residence during the previous three years. This requirement is waived if property is located in a federally designated target area
- Have sufficient funds available to meet the required down payment - 3-5% plus closing costs. Some restrictions apply to gift funds, and
- Have the legal right to permanently reside in the United States.

---

[11] Interview. Maggie Davis, Director of Single Family Housing Programs, Mayor's Office of Housing, July, 11, 2002.

CHFA loans are subject to a Federal recapture tax. Recapture is a Federal income tax that borrowers may have to pay if they sell or transfer their CHFA-financed home within 9 years.

Private Programs

Other programs providing financial assistance may be available through private lenders and organizations like Fannie Mae and Freddie Mac. For example, the Fannie Mae (FNMA) Community Lending Programs provide several financing programs for homebuyers. The programs are designed to eliminate the two primary barriers to homeownership for low- and moderate-income people -- lack of down payment funds and qualifying income. As such, some of the key benefits and flexible mortgage and underwriting features include: lower down payment requirements, lower qualifying income, expanded closing-cost assistance, lower cash reserve requirements, and acceptance of nontraditional credit histories. Low and moderate-income borrowers are those borrowers whose income is no greater than 100% of the area median income (AMI) where the home is located. Specially designated high-cost areas and communities targeted for neighborhood revitalization are among the exceptions to this income limit. San Francisco is eligible, as a high-cost area.