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CC: City Manager and City Attorney

September 18, 2006

Re: Opposition to condo conversion fee

We are writing to express our *opposition* to the proposed amendment to the Long Beach Municipal Code section 20.32 Article 4 which imposes a condo conversion fee in the amount of 1.5% of the sales price. We believe that this fee is inappropriate for the following reasons:

- A. Some wording of the ordinance is vague and open ended with respect to fees and is a difficult fee to administer^{1,2,3,4}
- B. The basis for this fee generating **annually renewable funding** for the HTF is faulty, which will result in the future, gross underfunding of the HTF^{5,6,7}

¹ 20.32.420 is open ended on the administrative charges which may be applied

² 20.32.430 (B) and (C) appraisal fees and approval of an appraiser is open. The date of the appraisal for unsold units is not clear and unfairly imposes the fee regardless of the units being sold or not

³ 20.32.440 The date of implementation creates a hardship on current conversions and should start 3 months after approval or be implemented after the HTF has a clear direction for the use of its funds so this excessive fee can be budgeted for.

⁴ According to the September 19 City Council agenda package this is a difficult fee to administer and could be staff-intensive, which charges would be passed on as an additional component of the fee.

⁵ The assumption of revenue is based on a peak year of a highly cyclical housing product that is already declining in this market phase and more clearly demonstrated in the city's records. A reduced quantity of conversions will cause the HTF to be grossly underfunded. Multiple references are made in the September 19 City Council agenda package of generating \$1 million in revenue from this fee assuming current market conditions continue. It is very clear from all perspectives that real estate markets will not rise and has significant risk of decreasing as it has in NY, Florida and most recently the Coachella Valley.

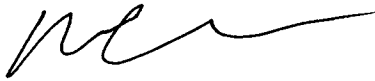
⁶ Condo conversions have fallen off sharply this year after peaking in September 2005 at more than \$4 billion nationally. We are now at pre 2004 levels of \$449.4 million nationally according to Real Capital Analytics.

⁷ The Pacific Property Assets Winter 2006 newsletter references Hendricks & Partners, Quarterly Update that "In Long Beach the vacancy rate increased from 3.4% to 4.5% principally due to the completion of construction on several large class "A" properties on Ocean Boulevard. Average rental rates in Long Beach increased over the last year by 11% to \$1,276 per month" However, I would like to note if the class "A" properties on Ocean Boulevard are greatly increasing the vacancy, they are also increasing the average rent. The reality is that less desirable areas of Long Beach are not experiencing such high rents or increases. Depending on how this data is used, it can skew the perception of affordability in Long Beach. The September 19 City Council Agenda package makes reference to 2 bedroom rents of \$1,373 and using a 30% affordability standard to exemplify the housing affordability mismatch. This is inappropriately skewed use of data to promote a desired outcome. The market rents in our 2 bedroom units prior to conversion range from \$950 - \$1050 per month (per current property management companies) and most residents of California are paying more than 30% of their income for rent or ownership as evidenced by

- C. The fee will have many undesirable housing and economic consequences which run counter to stated positions in the Strategic Plan and other housing documents developed by the City by reducing the viability and quantity of conversions. These goals are primarily removing blight, improving communities and increasing home ownership to 50% of housing. These goals are nearly impossible to achieve without condo conversions.^{8,9,10,11,12}
- D. The ordinance, as proposed, is a violation of Proposition 218, the Right to Vote on Taxes Act, Articles XIII C and D of the California Constitution.
- E. The ordinance, as proposed, constitutes a disguised and improper sales tax
- F. The ordinance, as proposed, violates State and Federal Constitutional Guarantees of equal protection and due process of law because of its unequal impact on citizens and unfair implementation

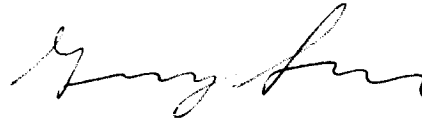
We strongly urge you to OPPOSE the fee as written. Condo conversions are well aligned with the LB Strategic Plan goals of 50% ownership, removing blight and improving communities and this fee will reduce the number of conversions and make it harder for the city to reach its stated goals.

Sincerely,



Scott Ayres, Ph.D., MBA
Principal

MARK CHAU for SCOTT AYRES



Gregory J. Sharp
Principal

the ratios used by lenders to get people qualified to purchase a home in California. Please note that affordability and the poverty level are still a major issue we hope the HTF can address.

⁸ Condo conversions support the clearly stated goals of the City of Long Beach Housing Action Plan FY 2005-2009 Adopted June 2004 on pages 3, 5, 21, 23, 24, 25, 26, 30, 35. Take special note of exhibit 14 on page 21, Renters – Unit Size vs. Household Size (Supply vs. Demand) for 1 and 2 bedroom units. There is an oversupply of 1 and 2 bedroom units, which are the primary target for condo conversions. The housing shortage creating the overcrowding and blighting is rooted in the shortage of Studio and 3+ bedroom units.

⁹ Condo conversions support the clearly stated goals of the City of Long Beach Strategic Plan – 2010 on pages 9-11, 19 and 22. The most notable goal is a 50% rate of home ownership on page 11 under the heading of “Goal 5: Improve the quality and availability of housing.”

¹⁰ Condo conversions support the clearly stated goals of The Redevelopment Agency of the City of Long Beach, Feb and May 2006 Newsletters

¹¹ Within the notes of the September 19 City Council package much of the blight is caused by an overabundance of 8-10 unit apartment buildings built in the 1980’s. Excluding the 142 units on Pacific Avenue in 2004 the average units per building converted in 2004 was 23.7 and in 2005 is 8.7 units. These blighted 8-10 unit properties are the primary target of condo conversions because they make economic sense to convert.

¹² Previous attempts by the City to address these issues turned out to be very costly vis-à-vis the Junipero Childcare Center and converting an 8 unit building at 435 Almond to 4 units. These projects are not nearly effective as condo conversions in rejuvenating neighborhoods, which do it without government funds