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September 6, 2006

Re: Opposition to condo conversion fee

To Council Member Lowenthal:

We are writing to express our *opposition* to the recently approved motion by the Planning Commission to impose a condo conversion fee in the amount of 1.5% of the sales price. We believe that this excessive fee will have a detrimental effect on revitalization of the City of Long Beach. Please consider the following facts when making a decision on this motion:

1. Urban blight is inversely related to home-ownership so that *an increase in home-ownership reduces blight*. Several studies have documented this^{1,2,3} and providing affordable housing can reduce blight, creating safer neighborhoods.
2. *Condo conversions are currently the only means by which lower income families can afford a home* due to the rapidly increasing prices of existing homes.
3. A study by the Planning Commission in Feb of 2006 reviewed all condo conversions in the City of Long Beach since 2000 and the results demonstrated that *85% of converted condos sold were owner-occupied*. This suggests that condo conversions provide affordable homeownership.
4. Long Beach currently has a *homeownership rate of ~40-45% which is in the BOTTOM 5 percentile* in the State of California. (California State Department of Finance, Jan 2006).

We specialize in converting apartments in blighted areas to affordably priced condos, often times we can convert a 2 bedroom / 2 bath condo and sell them *for less than \$300,000. At this price, over 55% of the residents within a 3 mile radius of the blighted areas can afford the monthly payments for homeownership*. We will bring 43 units in Long Beach to the market within the next 2 months at or near this price.

We support the HTF, but do not believe the funds should be provided by a tax on condo conversions. Condo conversions will increase homeownership, reduce blight, and stimulate the Long Beach economy

¹ Gordon, Colin "Blighting the way: Urban Renewal, Economic Development, and the Elusive Definition of Blight" Fordham Urban Law Journal, Vol. 31, 2004

² Strickland, Donald, et al "Capital Investment in neighborhoods: Theories which inform national urban policy in the United States" Population Research and Policy Review, Vol. 1, No. 1, Jan 1982

³ Better, Shirley "Black Women and Homeownership: The financial Challenge of the '80s" Black Scholar v11 n2 p23-30 Nov-Dec 1979

with construction dollars supporting local businesses. Also, it should be noted that *revenues from property taxes increase 8-10 times when an existing apartment is converted to condos.*

There were discussions in the Planning Commission Hearing that this fee could raise \$1MM for the HTF. However, this calculation was based on using the current volume of conversion applications and assuming this volume will continue for the next year. *This assumption is flawed because a) the real estate market has cooled* and there is additional market risk therefore less conversions will occur next year and *b) a 1.5% fee will significantly reduce the potential profit and discourage others from converting.* Current prices of apartments that can be converted to condos are selling for ~30% greater than those that can not. This provides the condo converter only 10-15% profit margin. Adding a 1.5% fee will decrease the profit margin by 10-15%.

We suggest that funds could be raised through property taxes. Since the revenues from property taxes are increased 8-10 times when a conversion takes place, a portion of this increase should be set aside for the HTF. *Alternatively, a \$10 tax can be placed on all housing units* with the City of Long Beach. With an estimated 175,000 housing units within the city, *\$1.75MM could be raised*, providing almost twice as much money as the proposed condo conversion fee.

We strongly urge you to OPPOSE the fee as written. Condo conversions have proven to increase homeownership in Long Beach and as such will reduce urban blight and provide safer neighborhoods for our children and family. Other methods should be done to raise funds for the HTF that do not negatively impact the already low homeownership rates in Long Beach.

Sincerely,

Scott Ayres, Ph.D., MBA
Principal

Gregory J. Sharp
Principal