



CITY OF LONG BEACH

THE DEPARTMENT OF PLANNING AND BUILDING

R-34

333 W. Ocean Boulevard

Long Beach, California 90802

562-570-6194 FAX 562-570-6068

January 23, 2007

HONORABLE MAYOR AND CITY COUNCIL
City of Long Beach
California

RECOMMENDATION:

Authorize the City Manager to: (1) adjust Housing Trust Fund to include all existing City affordable housing funding sources except Housing Authority Funding, and (2) request The Long Beach Housing Development Company to annually review the need for potential Housing Trust Fund sources and report out to the City Council as necessary. (Citywide)

DISCUSSION

Background

On September 19, 2006, the City Council considered the adoption of a condominium conversion fee to provide funding for the Housing Trust Fund (HTF). After public testimony and Council discussion, Council requested staff to return to Council with a summary of the options available to fund the HTF.

This report presents a summary of the HTF funding options and an outline of the proposal and funding currently available to support the efforts to increase the availability of affordable housing within Long Beach.

Funding Options

On June 11, 2002, the City Council requested the City Manager to prepare a report regarding the feasibility of establishing a Housing Trust Fund (HTF) and to identify potential revenue sources. The City contracted with David Paul Rosen and Associates (DRA) to prepare the report, which was completed in July 2003.

In conducting the study, staff instructed DRA to investigate only new revenue sources that did not take away funds from the General Fund, inasmuch as that was the time when the City's General Fund account was in dire need of revenue. The report concluded that a commercial linkage fee (\$10-15 per square foot) for new non-residential development, and inclusionary housing requirements for new residential development of 10% for rental housing and 15% for ownership housing was feasible. In lieu fees, for projects that did not provide the on-site housing, \$14,000 per rental unit and \$12,000 per ownership unit were suggested in the study.

On October 11, 2005, the City Council approved the creation of a HTF and requested the City Attorney to prepare an ordinance to establish, fund, and administer the HTF. The initial funding for the HTF included \$3 million from the Douglas Park project mitigation fund (to be transferred over time), and annual transfers of \$500,000 of transient occupancy taxes (TOT), if funds are available. In addition, the City Council also requested the City Attorney to prepare an ordinance to establish an on-going funding source through a new condominium conversion fee to be reviewed by the Planning Commission and return with a recommendation to City Council.

On June 15 and July 20, 2006, the Planning Commission discussed the creation of the new condominium conversion fee as a component of on-going funding for the HTF. Fees of approximately \$4,000 per unit in either a flat fee or as a percentage of sales prices were considered. The Planning Commission recommended that a fee of 1.5% of the sales price of converted condominiums be set as a fee.

On September 19, 2006, the City Council considered a series of zoning code and related amendments, including the condominium conversion fee funding for a portion of the HTF. At that time, the funding anticipated from the condominium conversion fee was estimated to total approximately \$1 million per year. The City Council deferred action on the ordinance and requested staff to reexamine the breadth of possible funding sources available for the HTF, and come back with an evaluation of the relative feasibility of these revenue sources.

Potential Funding Sources for the Housing Trust Fund

A number of funding options exist to support the HTF. These include both new revenue sources and earmarking of existing funds available for affordable housing programs or other purposes. These sources include:

- **Redevelopment Housing Set-Aside** – State law requires the Redevelopment Agency (RDA) to set-aside 20 percent of the tax increment revenues it receives to use for affordable housing purposes. The RDA currently transfers this money to the City's Housing Development Fund. Over the last several years this source of funding has been as follows:
 - FY 2002: \$ 4,550,774
 - FY 2003: \$ 6,457,675
 - FY 2004: \$10,429,604
 - FY 2005: \$12,744,239
 - FY 2006: \$15,851,560
 - FY 2007: \$16,879,000 (estimate)

This represents a substantial source of funding for affordable housing and is approximately one-third of the total funding for the Housing Services Bureau (HSB).

- **Douglas Park** – As part of the November 2004 development agreement between the City of Long Beach and the McDonnell Douglas Corporation (AKA Boeing) (General Provision 8.30), Boeing Realty is required to contribute \$3 million to the Housing Development Fund (HDF). The initial funding was \$250,000 at the execution of the agreement. The remainder of the funding is required when milestones of residential and infrastructure

improvements are undertaken. At the initial inception of the HTF last year, \$250,000 of HDF revenue from the Boeing Mitigation fee was identified and a source for the HTF and was transferred into the HTF. As development progresses at Douglas Park, funds collected from future phases are scheduled to be transferred to the HTF.

- **Real Property Transfer Tax (RPTT)** – The RPTT is a tax of \$0.275 per \$500 on the selling price of any real property assessed over \$100 under provisions of the California Revenue and Taxation Code (Section 11901). Revenue generated and deposited into the General Fund by the RPTT has been as follows:
 - FY 2002: \$1,463,541
 - FY 2003: \$1,686,109
 - FY 2004: \$2,288,974
 - FY 2005: \$2,898,321
 - FY 2006: \$2,330,140
 - FY 2007: \$1,180,000 (estimate)

Options for the RPTT include establishing a baseline funding level, and transfer all or a portion of the revenues over that baseline amount into the HTF. However, this would negatively impact the General Fund. An increase in the RPTT taxation rate would require a 2/3 vote of the electorate.

- **Transient Occupancy Tax (TOT)** – The TOT is a tax of 12 percent charged on occupancy of hotel guest rooms.
 - FY 2002: \$12,446,746
 - FY 2003: \$13,133,441
 - FY 2004: \$14,088,242
 - FY 2005: \$15,527,753
 - FY 2006: \$16,547,963
 - FY 2007: \$17,289,661 (estimate)

One-half of the tax is deposited into the General Fund, and the other half is split between the Redevelopment Agency (RDA) and the Special Advertising and Promotions (SAP) Fund. The non-General Fund portion is restricted as to use, with the RDA portion committed to the Aquarium bonds and the SAP portion only available for promoting and marketing the City.

The General Fund contributed \$500,000 in FY05 and again in FY06, because it was determined at the end of each fiscal year that funds were available. The FY07 General Fund budget does not include a transfer; determination of available funds cannot be made until the end of the fiscal year.

Some low-cost motels serve as transitional or long-term housing at affordable rates for lower income residents. TOT is not allowed to be collected for extended stays of over 30 days.

- **Condominium Conversion Fee** – The Planning Commission discussed a condominium conversion fee in June and July 2006. Discussion focused on the level and mechanism (percentage versus fixed amount) for the fee. Upon deliberation, the Planning Commission recommended a 1.5% fee on the sales price of individual converted condominiums.
- **Commercial Linkage Fee** – A commercial linkage fee has not been established by the City Council. The DRA Study (July 2003) concluded that a fee in the range of \$10-15 per square foot of new non-residential development to fund affordable housing projects and programs could be supported. However, since that time development costs and other fees applied to new development have increased. Therefore, if this approach is considered, new analysis to establish the appropriate fee is required.
- **Inclusionary Housing Requirement** – A requirement for affordable housing to be included in residential development of a certain size is an effective way to ensure that affordable rental and ownership units are being produced within a community. The DRA Study (July 2003) concluded an inclusionary housing requirement for residential development of 10% for new rental housing and 15% for new ownership housing is feasible. In lieu fees for projects that did not provide the on-site housing units of \$14,000 per rental unit and \$12,000 per ownership unit were suggested in the study.

Current Support for Affordable Housing Programs

The City of Long Beach has two separate but related programs in place to provide affordable housing. The Community Development Department includes two bureaus that are committed to providing housing opportunities for low to moderate-income families. A council memorandum dated September 18, 2006 highlighting the existing programs is attached.

Affordable housing programs target subsidies and other programs based on the percentage of income compared to the Area Median Income (AMI) or Median Family Income (MFI). Very low income is defined as below 50% of AMI, with moderate income defined as 120% of AMI, and low income in between.

The Housing Authority Bureau is wholly funded by Federal Housing and Urban Development funds. In FY2007, \$65 million in funding is earmarked for the programs including Housing Choice Voucher (formerly known as Section 8), helping 6,250 households, and Family Self-Sufficiency serving 1,150 participants with referrals for training, job development, childcare, and transportation assistance, among other programs.

The Housing Services Bureau has FY2007 funding of nearly \$124 million, which includes carryover revenues from prior fiscal years. The larger components of the revenues include redevelopment set-aside (\$44.3 million), Housing Bond Proceeds (\$49.9 million), and HOME Grants (\$23 million). These funds are targeted toward providing affordable housing opportunities through new construction or rehabilitation of affordable housing units and assistance to qualified homeowners for home improvement loans and to qualified first-time buyers for home purchase. At present, there are four projects providing 158 affordable units under construction, 320 rental apartment units under rehabilitation, and 248 additional affordable units in pre-construction or pre-rehabilitation stage. The Bureau is also in the process of acquiring 16 individual sites for new housing opportunities.

These projects are a response to the City's Regional Housing Needs Assessment (RHNA) allocation from the Southern California Association of Governments. Long Beach has a RHNA allocation of 1,464 housing units for FY 2000-2005. While overall, the RHNA numbers have been exceeded by 365%, production of moderate income housing only reached 32% (94 units produced compared to a RHNA allocation of 296), and 198% for very low-income households.

The Housing Services Bureau is in the process of developing a silent second mortgage home ownership program that will also address the needs of above moderate income households (120% to 150% AMI). This new program will provide supplemental mortgage support to encourage first-time homeownership.

There are also existing fees for affordable housing in the current condominium conversion process. While existing tenants are offered the first opportunity to purchase their units, those that cannot afford to buy the units, or who choose not to, and are income-qualified are offered \$3,700 in relocation benefits. In the coastal zone, a replacement housing in lieu fee of approximately \$30,000 is required for each converted condominium unit that was previously affordable to a low or moderate income tenant, should the developer not provide a replacement housing unit on site.

TIMING CONSIDERATIONS

The City Council action of September 19, 2006, requested staff to return within 90 days. In December, Vice Mayor Lowenthal requested that the item be brought back on January 23, 2007, after the holiday season, so that more focus could be brought to this important item.

The Housing Trust Fund has been established by previous Council action. There are no specific timeframes for identifying additional revenue sources or for the expenditure of those funds.

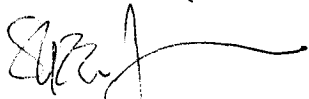
FISCAL IMPACT

The establishment of any new tax revenues will require a 2/3 vote of the electorate to implement. The transfer of existing or future revenues from existing sources will require budgetary amendments, subsequent to considering any negative impacts on the funds.

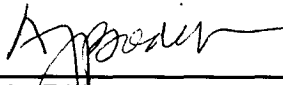
SUGGESTED ACTION:

Approve recommendation.

Respectfully submitted,

BY: 

SUZANNE M. FRICK
DIRECTOR OF PLANNING
AND BUILDING



for PATRICK H. WEST
DIRECTOR OF COMMUNITY
DEVELOPMENT

SF/PW: GC/ET: slg

APPROVED:



GERALD R. MILLER
CITY MANAGER

Attachments:

- 1) City Council Staff Reports and Memorandums
 - September 19, 2006
 - June 13, 2006
 - May 2, 2006
 - October 11, 2005
 - April 12, 2005 (withdrawn)
- 2) Planning Commission Staff Reports
 - July 20, 2006
 - June 15, 2006



CITY OF LONG BEACH

THE CITY PLANNING COMMISSION

333 W. Ocean Boulevard Long Beach, California 90802 562-570-6194 FAX 562-570-6068

September 19, 2006

HONORABLE MAYOR AND CITY COUNCIL
City of Long Beach
California

RECOMMENDATION:

Conduct a public hearing on the proposed Amendments to the Zoning Regulations; and

1. A. Receive the supporting documentation into the record, conclude the public hearing and declare the Ordinance, prohibiting stores greater than 100,000 square feet in size that have greater than 10 percent of floor area dedicated to non-taxable merchandise with exemptions for merchandise clubs that sell primarily bulk merchandise, read the first time and laid over to the next regular meeting of the City Council for final reading (Case No. 0601-10)(Citywide);
- B. Receive the supporting documentation into the record, conclude the public hearing and declare the Ordinance amending PD-25 read the first time and laid over to the next regular meeting of the City Council for final reading;
- C. Receive the supporting documentation into the record, conclude the public hearing and declare the Ordinance amending PD-29 read the first time and laid over to the next regular meeting of the City Council for final reading;
- D. Receive the supporting documentation into the record, conclude the public hearing and declare the Ordinance amending PD-30 read the first time and laid over to the next regular meeting of the City Council for final reading;
2. Receive the supporting documentation into the record, conclude the public hearing and declare the Ordinance, establishing new fees associated with Condominium Conversions, read the first time and laid over to the next regular meeting of the City Council for final reading (Case No. 0601-11)(Citywide);
3. Receive the supporting documentation into the record, conclude the public hearing and declare the Ordinance, reclassifying painting contractors from a prohibited use to a permitted use relative to home occupation uses, read the first time and laid over to the next regular meeting of the City Council for final reading (Case No. 0601-13)(Citywide);

4. Receive the supporting documentation into the record, conclude the public hearing and declare the Ordinance, amending the City's residential density bonus standards to conform with the State of California residential regulations, read the first time and laid over to the next regular meeting of the City Council for final reading (Case No. 0601-14)(Citywide); and
5. Approve a Resolution submitting applicable Ordinance Amendments to the California Coastal Commission as Implementing Resolutions for the City's Local Coastal Plan.

DISCUSSION

The Planning Commission held public hearings on various dates (see attached) to consider various amendments to the Zoning and Subdivision regulations. Amendments to Title 20 (Subdivisions) and Title 21 (Zoning) of the Long Beach Municipal Code may be proposed up to three times a year. This is the first package of amendments for 2006. The amendments generally respond to City Council requests, address changing land use issues in the community, update obsolete regulations, correct typographical errors and cross references, and replace vague language with more specific language. The following constitute the proposed amendments:

Big Box Retail Prohibition

In response to a City Council directive to review the impacts of superstore activity on City infrastructure and the community, the proposed Zoning Ordinance amendment prohibits retail establishments over 100,000 square feet that have 10 percent or more of the floor area dedicated to non-taxable merchandise with exemptions for membership clubs that sell primarily bulk merchandise. Staff researched ordinances from various jurisdictions (including the City of Los Angeles; Alameda County; City of Oakland; Fort Collins, CO; Madison, WI; Moscow, ID; County of Pasco, FL; and Maryland Department of Planning) as well as a study commissioned by the Los Angeles County Community Development Department and a study commissioned by the Governor's Office of Planning and Research. Both research studies support the recommendation to prohibit these types of uses based on the economic impacts of superstore retail establishments.

The Planning Commission conducted a public hearing on June 15, 2006 and continued the item to its July 20, 2006 meeting to allow further review. At its July 20, 2006 meeting, the Planning Commission unanimously recommended that the City Council adopt the amendment to the Zoning Ordinance (See Attachment 1- Planning Commission Staff report and minutes for July 20, 2006).

Condominium Conversion Fee

On October 11, 2005, the City Council requested that the City Attorney prepare a condominium conversion fee ordinance for review and recommendation by the Planning Commission. The fee would be created as a funding component of the City's Housing Trust Fund. At its June 15, 2006 meeting, the Planning Commission reviewed three possible condominium conversion fee structures that included tying the fee to a future sales price of the converted unit, a fixed per unit fee, and waiver of the fee subject to deed restricting some of the units as affordable units. The Planning Commission also reviewed several options for the implementation of the fee including future applications (ie., conversions that have not yet been filed), conversions that have been filed but have not received Tentative Map approval and conversions that have received Tentative Map approval but not Final Map approval (See

Attachment 2- Planning Commission Staff report and minutes for July 20, 2006).

After discussing the item at the June 15, 2006 public hearing, the Planning Commission continued the item to the July 20, 2006 meeting to allow a public study session to be held on the issue. At its July 20, 2006 meeting, the Planning Commission recommended with a 5-1 vote (Commissioner Winn dissenting) that the City Council adopt the amendment to the zoning ordinance with the following:

- That the condominium conversion fee be 1.5 percent of the sales price of the converted unit, to be applied to new applications and applications not deemed complete as of July 20, 2006;
- That the fee be collected through escrow upon the sale of each individual unit, but not later than 18 months after final map approval;
- That the fee be provided exclusively to the Housing Trust Fund with exemptions listed in the proposed Ordinance; and
- That condominium conversion projects providing state-defined affordable housing units for sale will be exempt from a portion of the fees, dependent on the affordability rate and number of units deed-restricted for such purpose as determined by the Housing Services Bureau.

Density Bonus Standards

The Department of Planning and Building is proposing an amendment to Section 21.63 of the Zoning Ordinance, Incentives for Affordable Housing, to update the qualifications for a density bonus and the density bonus limitations. This request is in response to a change in Section 65915 et seq. of the California Government Code that occurred in January 2005. In the case of incentives for affordable housing, State code preempts City code. Therefore, in order to avoid amending the City's Zoning Ordinance every time the State amends its regulations, the proposed amendment ties the City's incentives for affordable housing to the State Government Code.

The Planning Commission conducted a public hearing on June 15, 2006 and unanimously recommended that the City Council adopt the amendment to the Zoning Ordinance (See Attachment 3-Planning Commission staff report and minutes for June 15, 2006).

Reclassification of Painting Contractors

The Department of Financial Management requested an amendment to the zoning regulations to allow painting contractors as home occupation uses. The request is due primarily to the painting industry moving from oil-based paints to water-based paints that do not require the same use of highly flammable and dangerous solvents. This change results in a lower potential threat to residential areas. Both the Fire Department and Building Department have reviewed and concur with the proposal. In addition, the California Franchise Tax Board information indicated that there were at least 112 painting contractors that filed a state income tax return from residential addresses in Long Beach. These businesses represent approximately \$20,000 in annual business license tax for deposit in the City's General Fund.

The Planning Commission conducted a public hearing on April 6, 2006 and unanimously recommended that the City Council adopt the amendment to the Zoning Ordinance (See Attachment 4-Planning Commission staff report and minutes for April 6, 2006).

HONORABLE MAYOR AND CITY COUNCIL

September 19, 2006

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ENVIRONMENTAL ANALYSIS

In accordance with the Guidelines for Implementation of the California Environmental Quality Act, Categorical Exemptions CE 06-115, CE 06-116, CE 06-120, and CE 06-23 have been prepared for the respective amendments.

TIMING CONSIDERATIONS

The Municipal Code requires the Planning Commission recommendation to be transmitted by the Department of Planning and Building to the City Clerk for presentation to the City Council within 60 days following Planning Commission action. However, since the City is the applicant this time frame is not binding.

FISCAL IMPACT

Staff has estimated that the adoption of a Condominium Conversion fee would provide approximately \$1.25 million annually for the Housing Trust Fund. This calculation uses the 262 units approved for conversion in 2005 as the annual average, and the July 2005 citywide average sales price of \$322,000.

This matter was reviewed by Assistant City Attorney Michael Mais on September 13, 2006 and Budget Management Officer David Wodynski on September 8, 2006.

SUGGESTED ACTION:

Adopt recommendation.

Respectfully submitted,

MATTHEW JENKINS, CHAIR
CITY PLANNING COMMISSION

BY:

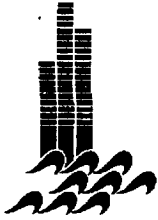


SUZANNE FRICK
DIRECTOR OF PLANNING AND BUILDING

SF:GC:CB:jw

Attachments:

- 1) Planning Commission Staff Report (Big Box Retail) and minutes dated July 20, 2006 (including attachments)
 - 2) Planning Commission Staff Report (Condominium Conversion fee) and minutes dated July 20, 2006 (including attachments)
 - 3) Planning Commission Staff Report (Density Bonus standards) and minutes dated June 15, 2006)
 - 4) Planning Commission Staff Report (Painting Contractors) and minutes dated April 6, 2006)
- Zone Change Amendment Ordinances
Resolution



City of Long Beach

Working Together to Serve

Memorandum

Date: September 14, 2006

To: Larry Herrera, City Clerk

From: Michael J. Mais, Assistant City Attorney, Ext. 82230

Subject: Condominium Conversion Ordinance
Item 2 - September 19, 2006 Agenda

Resolution Submitting Ordinances to the Coastal Commission
Item 5 - September 19, 2006 Agenda

The subject documents are transmitted for placement on the City Council agenda of September 19, 2006.

A redlined version of Item 2 is attached.

If you have any questions, please do not hesitate to contact me.

MJM:kjm

Encls.

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#06-04576

conversion.

B. The disclosure document shall also disclose that the prospective tenant will not be entitled to benefits or rights as required by these regulations. However, any tenant who does not receive such notification shall be entitled to these benefits.

C. Regardless of each prospective tenant being informed of the proposed conversion prior to finalization of any rent or lease agreement, a notice of such intended conversion shall be posted and maintained at all times in a highly visible location on the site. (Ord. C-5975 § 1 (part), 1983).

20.32.240 Parking.

A. A minimum number of parking spaces shall be in compliance with the parking standards as required at the time when the existing use was established, but shall not be less than one space per thousand square feet of gross usable floor area.

B. If the proposed use is different than the existing one, additional parking spaces may be required as determined from the standards of Section 21.41.203 of the zoning regulations.

C. Parking spaces shall be designed and constructed in conformance with standards set forth in the zoning regulations.

D. No conversion shall be permitted if the required parking spaces will be provided by a lease agreement unless the lease period is for at least thirty years. (Ord. C-6686 § 5, 1990; Ord. C-5975 § 1 (part), 1983).

20.32.250 Building code compliance.

The owner seeking conversion shall file a request with the Bureau of Building and Safety for a special code compliance inspection. The report from such inspection of all units to be converted must be received by the Bureau of Planning before an application for a tentative map for a conversion is considered complete. Such report shall list all violations relating to the applicable building, plumbing, fire, housing, electrical, earthquake, and property maintenance codes which may cause health or safety hazards.

The subdivider shall correct all listed violations prior to approval of the final map.

Such fees as are established by City Council resolution shall be paid for the inspection and for any subsequent inspection as is necessary to ensure that corrections have been completed. (Ord. C-5975 § 1 (part), 1983).

20.32.260 Major system corrections.

The owner shall submit with the application for tentative map approval for conversion inspection reports from State licensed contractors for the heating and plumbing systems of the project, as well as reports for an inspection of the roof and an inspection for termites. All such inspections shall have been conducted within three months prior to the submittal of the tentative map. Any corrections or repairs recommended as reasonably necessary within the next five years shall be provided for prior to approval of the final map. (Ord. C-5975 § 1 (part), 1983).

Article 4 Reserved

Article 4. Affordable Housing Conversion Fee

20.32.410 Definitions.

A. For the purposes of this Article, the term "conversion project" means a proposed change in the type of ownership of a parcel or parcels of land, together with the attached structures, from existing residential rental units into condominiums, community apartment projects, or stock cooperatives, regardless of whether substantial improvements have or will be made to such structures. Whenever a permit has been issued by the City for a multifamily dwelling which has been occupied as such, any attempt thereafter to make

the project a condominium, community apartment, or stock cooperative shall constitute a conversion.

B. For the purposes of this Article, the term "dwelling unit" means one or more rooms designed, occupied or intended for occupancy as separate, self-contained, permanent living quarters. Separate housing units are those in which occupants live and eat separately from any other person in the building. Each dwelling unit has direct access from outside the building or through a common hall. Any area with a direct exterior access, a bathtub or shower, and a room other than the bathroom, which can together be locked off from the remainder of the building, will be considered a dwelling unit.

20.32.420 Administration.

The administration of this Article is delegated to the Housing Services Bureau of the Department of Community Development. The Bureau shall adopt appropriate guidelines for administration consistent with the intent of this Article. In addition to the affordable Housing Fee established by this Article, the Bureau may charge applicants, developers, and owners for the administration of this program as reasonably necessary to recover full costs of such administration. A schedule of hourly and other administrative fees shall be adopted by resolution of the City Council.

20.32.430 Affordable housing fee requirement.

A. Any conversion project involving the conversion of a rental dwelling unit pursuant to this Article shall be subject to the payment of an affordable housing fee. The requirement to pay said fee shall be made a part of any entitlements or approvals granted in connection with a conversion project.

B. The affordable housing fee shall be 1.5 percent of the gross sales price of each converted dwelling unit, or the fair market value of said dwelling unit at the time of initial sale, transfer or conveyance, whichever amount is higher. If the converted dwelling unit is sold, transferred or conveyed at less than fair market value, the seller or transferor of said unit shall be responsible for paying a fee based upon the full fair market value of the unit at the time of sale, transfer or conveyance, as determined by a licensed residential real estate appraiser selected by the City.

C. The affordable Housing Fee established by this Article shall be paid upon close of escrow or within thirty (30) days of sale, transfer or conveyance, whichever is sooner. All fees due pursuant to this Article shall be paid no later than eighteen (18) months after recordation of the final map, whether or not individual units have actually been sold, transferred or conveyed. In the event that units are not sold, transferred or conveyed within said eighteen (18) month period, the fee due shall be based upon the fair market value of the unit or units as determined by a licensed residential real estate appraiser selected by the City.

D. An appropriate document or documents, in a form approved by the City, indicating that an affordable housing fee is owed to the City, shall be executed and recorded with the County Recorder. Such document or documents shall include a covenant running with the land, and shall indicate an indebtedness and lien in favor of the City in an amount equal to 1.5 percent of the gross sales price of each converted dwelling unit, or the fair market value of said dwelling unit if the unit is not sold within 18 months of recording the final map, or if the converted dwelling unit is sold, transferred or conveyed at less than fair market value. A release of the lien shall be filed by the City with respect to each unit for which the appropriate fee has been paid.

E. All of the sums collected pursuant to this Article shall be placed in the Housing Trust Fund of the City and shall be used solely for the purposes for which said fund has been established.

20.32.440 Exemptions.

For the purposes of this Article, the term "conversion project" shall not apply to:

A. Any conversion for which an application was deemed complete on or before July 20, 2006;

- B. Applications involving proposed or newly constructed buildings that contain units not previously rented or leased;
- C. Buildings lawfully designed and used for other than residential purposes, including live/work occupancies established in accordance with Title 18.
- D. The conversion of properties which have already been subdivided into condominiums, stock cooperatives or community apartments, which seek to be converted into a different type of subdivision or;
- E. Any converted dwelling unit that will remain affordable to low or very low income households by deed restrictions, satisfactory to the Housing Services Bureau for at least thirty (30) years.

20.32.450 Fraud prohibited.

It shall be unlawful to offer for sale, to offer to purchase, to agree to sell or buy, to sell or buy, or to assist in the sale or purchase of any converted condominium, community apartment or stock cooperative dwelling unit, if the affordable housing fee established herein is not paid to the city within the time limits established by this Article. Any such transaction is hereby declared to be contrary to public policy, and null and void.

20.32.460 Remedies.

A. The City Attorney may bring an action on behalf of the City of Long Beach seeking damages or injunctive relief to restrain or enjoin any violation of this Article. In any such action all relief which may redress a violation of this Article may be awarded including, but not limited to, the amount of the affordable housing fee, costs, attorneys fees and interest. In addition, in any such action, a civil penalty in the amount of ten thousand dollars (\$10,000) for each unit sold or offered for sale in violation of this Article shall be assessed against any seller, and against any person who assists a seller, including any buyer or real estate broker, who knowingly violates the provisions of this Article.

B. The remedies provided by this section shall be in addition to any other remedies provided by law.

Article 5 Reserved

Article 6 Mixed Use Conversions, Exceptions and Special Requirements

20.32.510 Conversions.

In any project in which conversion to mixed residential unit use and commercial/industrial use is proposed, the applicable provisions of Articles 2 and 3, as determined by the City shall apply to the use proposed for each of the individual units. (Ord. C-5975 § 1 (part), 1983).

20.32.520 Exceptions.

Generally, exceptions to any of the requirements of this Chapter 20.32 may be granted, provided that the exception will not be inconsistent with the intent of this Chapter 20.32 or the intent of specific provisions being exempted. (Ord. C-5975 § 1 (part), 1983).

20.32.530 Exceptions. Conversions to limited equity cooperatives.

Conversion of a residential rental project to limited equity cooperatives may be excepted from the requirements of Sections 20.32.110, 20.32.130, 20.32.140, 20.32.150, 20.32.160.D, 20.32.160.E, 20.32.180, 20.32.440, 20.32.460, 20.32.470, 20.32.480, 20.32.490.D and 20.32.490.E. Sections

Robert E. Shannon
City Attorney of Long Beach
333 West Ocean Boulevard
Long Beach, California 90802-4664
Telephone (562) 570-2200

1 ORDINANCE NO.

2
3 AN ORDINANCE OF THE CITY COUNCIL OF THE
4 CITY OF LONG BEACH AMENDING THE LONG BEACH
5 MUNICIPAL CODE BY ADDING ARTICLE 4 TO CHAPTER
6 20.32 RELATING TO CONDOMINIUM, COMMUNITY
7 APARTMENT PROJECT, AND STOCK COOPERATIVE
8 CONVERSIONS
9

10 WHEREAS, the City Council of the City of Long Beach ("City Council")
11 finds and declares that there exists within the City of Long Beach ("City") a serious
12 shortage of decent, safe and sanitary rental housing affordable to extremely low, very
13 low, low, and moderate income households, that such shortage is inimical to the health,
14 safety and welfare of the residents of the City, and that it is an economic benefit to the
15 City, and a public purpose, to encourage the availability of adequate rental housing for
16 extremely low, very low, low, and moderate income households; and

17 WHEREAS, if current trends in rental housing supply continue, extremely
18 low, very low, low, and moderate income households will continue to be forced to pay
19 higher and higher percentages of their household income on housing, causing stress
20 and related social problems, and resulting in less available income for other purchases
21 within the local economy; and

22 WHEREAS, if affordable rental housing continues to decline in numbers,
23 extremely low, very low, low, and moderate income households will also be forced to
24 live at greater distances from their place of employment, causing greater traffic
25 congestion, increased air pollution and more rapid degradation of existing infrastructure;
26 and

27 WHEREAS, the City Council finds and declares that a rental housing
28 shortage exists which is inconsistent with the purposes, goals and policies of the City as

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1 set forth in the Housing Element of the City's General Plan; and

2 WHEREAS, the City Council finds that there is a cause and effect
3 relationship between the condominium, community apartment project, and stock
4 cooperative conversions permitted by Chapter 20.32 of the Municipal Code and the
5 diminution in the supply of rental housing affordable to extremely low, very low, low, and
6 moderate income households; and

7 WHEREAS, the City Council finds that the conversion of existing
8 residential rental units into condominiums, community apartment projects, and stock
9 cooperatives, will create undue hardships for extremely low, very low, low, and
10 moderate income households, and will otherwise adversely affect the availability and
11 cost of housing affordable to lower and moderate income families throughout the City;
12 and

13 WHEREAS, the City Council finds that an affordable housing fee imposed
14 on the conversion of existing residential rental units into condominiums, community
15 apartment projects, and stock cooperatives, is necessary, and that such fee will be
16 used to compensate for the diminution in the supply of rental housing by funding the
17 preservation and development of affordable rental housing for residents in Long Beach;
18 and

19 WHEREAS, the City Council has previously adopted Chapter 3.2 of the
20 Municipal Code and has thereby authorized the creation of a Housing Trust Fund as a
21 source of revenue to meet, in part, the housing needs of the City's extremely low and
22 moderate income households; and

23 WHEREAS, the City Council finds and declares that it would not continue
24 to permit the unchecked conversion of rental housing property into condominiums,
25 community apartment projects, and stock cooperatives, but for the fact that the
26 adverse effects of such conversions on low-income households will be partially
27 mitigated by the affordable housing fee established and described herein.

28 NOW, THEREFORE, the City Council of the City of Long Beach resolves

1 as follows:

2 Section 1. The Long Beach Municipal Code is amended by adding
3 Article 4 to Chapter 20.32, as follows:

4 Article 4. Affordable Housing Conversion Fee

5 20.32.410 Definitions.

6 A. For the purposes of this Article, the term "conversion project"
7 means a proposed change in the type of ownership of a parcel or parcels
8 of land, together with the attached structures, from existing residential
9 rental units into condominiums, community apartment projects, or stock
10 cooperatives, regardless of whether substantial improvements have or will
11 be made to such structures. Whenever a permit has been issued by the
12 City for a multifamily dwelling which has been occupied as such, any
13 attempt thereafter to make the project a condominium, community
14 apartment, or stock cooperative shall constitute a conversion.

15 B. For the purposes of this Article, the term "dwelling unit" means
16 one or more rooms designed, occupied or intended for occupancy as
17 separate, self-contained, permanent living quarters. Separate housing
18 units are those in which occupants live and eat separately from any other
19 person in the building. Each dwelling unit has direct access from outside
20 the building or through a common hall. Any area with a direct exterior
21 access, a bathtub or shower, and a room other than the bathroom, which
22 can together be locked off from the remainder of the building, will be
23 considered a dwelling unit.

24
25 20.32.420 Administration.

26 The administration of this Article is delegated to the Housing
27 Services Bureau of the Department of Community Development. The
28 Bureau shall adopt appropriate guidelines for administration consistent

1 with the intent of this Article. In addition to the affordable Housing Fee
2 established by this Article, the Bureau may charge applicants, developers,
3 and owners for the administration of this program as reasonably
4 necessary to recover full costs of such administration. A schedule of
5 hourly and other administrative fees shall be adopted by resolution of the
6 City Council.

7
8 20.32.430 Affordable housing fee requirement.

9 A. Any conversion project involving the conversion of a rental
10 dwelling unit pursuant to this Article shall be subject to the payment of an
11 affordable housing fee. The requirement to pay said fee shall be made a
12 part of any entitlements or approvals granted in connection with a
13 conversion project.

14 B. The affordable housing fee shall be 1.5 percent of the gross
15 sales price of each converted dwelling unit, or the fair market value of said
16 dwelling unit at the time of initial sale, transfer or conveyance, whichever
17 amount is higher. If the converted dwelling unit is sold, transferred or
18 conveyed at less than fair market value, the seller or transferor of said unit
19 shall be responsible for paying a fee based upon the full fair market value
20 of the unit at the time of sale, transfer or conveyance, as determined by a
21 licensed residential real estate appraiser selected by the City.

22 C. The affordable Housing Fee established by this Article shall be
23 paid upon close of escrow or within thirty (30) days of sale, transfer or
24 conveyance, whichever is sooner. All fees due pursuant to this Article
25 shall be paid no later than eighteen (18) months after recordation of the
26 final map, whether or not individual units have actually been sold,
27 transferred or conveyed. In the event that units are not sold, transferred
28 or conveyed within said eighteen (18) month period, the fee due shall be

1 based upon the fair market value of the unit or units as determined by a
2 licensed residential real estate appraiser selected by the City.

3 D. An appropriate document or documents, in a form approved by
4 the City, indicating that an affordable housing fee is owed to the City, shall
5 be executed and recorded with the County Recorder. Such document or
6 documents shall include a covenant running with the land, and shall
7 indicate an indebtedness and lien in favor of the City in an amount equal
8 to 1.5 percent of the gross sales price of each converted dwelling unit, or
9 the fair market value of said dwelling unit if the unit is not sold within 18
10 months of recording the final map, or if the converted dwelling unit is sold,
11 transferred or conveyed at less than fair market value. A release of the
12 lien shall be filed by the City with respect to each unit for which the
13 appropriate fee has been paid.

14 E. All of the sums collected pursuant to this Article shall be placed
15 in the Housing Trust Fund of the City and shall be used solely for the
16 purposes for which said fund has been established.

17
18 20.32.440 Exemptions.

19 For the purposes of this Article, the term "conversion project" shall
20 not apply to:

21 A. Any conversion for which an application was deemed
22 complete on or before July 20, 2006;

23 B. Applications involving proposed or newly constructed
24 buildings that contain units not previously rented or leased;

25 C. Buildings lawfully designed and used for other than
26 residential purposes, including live/work occupancies established in
27 accordance with Title 18.

28 D. The conversion of properties which have already been

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1 subdivided into condominiums, stock cooperatives or community
2 apartments, which seek to be converted into a different type of subdivision
3 or;

4 E. Any converted dwelling unit that will remain affordable to
5 low or very low income households by deed restrictions, satisfactory to the
6 Housing Services Bureau for at least thirty (30) years.

7
8 20.32.450 Fraud prohibited.

9 It shall be unlawful to offer for sale, to offer to purchase, to agree to
10 sell or buy, to sell or buy, or to assist in the sale or purchase of any
11 converted condominium, community apartment or stock cooperative
12 dwelling unit, if the affordable housing fee established herein is not paid to
13 the city within the time limits established by this Article. Any such
14 transaction is hereby declared to be contrary to public policy, and null and
15 void.

16
17 20.32.460 Remedies.

18 A. The City Attorney may bring an action on behalf of the City of
19 Long Beach seeking damages or injunctive relief to restrain or enjoin any
20 violation of this Article. In any such action all relief which may redress a
21 violation of this Article may be awarded including, but not limited to, the
22 amount of the affordable housing fee, costs, attorneys fees and interest.
23 In addition, in any such action, a civil penalty in the amount of ten
24 thousand dollars (\$10,000) for each unit sold or offered for sale in
25 violation of this Article shall be assessed against any seller, and against
26 any person who assists a seller, including any buyer or real estate broker,
27 who knowingly violates the provisions of this Article.

28 B. The remedies provided by this section shall be in

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addition to any other remedies provided by law.

Sec. 2. The City Clerk shall certify to the passage of this ordinance by the City Council and cause it to be posted in three conspicuous places in the City of Long Beach, and it shall take effect on the thirty-first day after it is approved by the Mayor.

I hereby certify that the foregoing ordinance was adopted by the City Council of the City of Long Beach at its meeting of _____, 2006, by the following vote:

Ayes: Councilmembers: _____

Noes: Councilmembers: _____

Absent: Councilmembers: _____

City Clerk

Approved: _____

Mayor



OFFICE OF THE CITY ATTORNEY
Long Beach, California

~~UB-28~~

ROBERT E. SHANNON
City Attorney

HEATHER A. MAHOOD
Chief Assistant City Attorney

MICHAEL J. MAIS
Assistant City Attorney

June 13, 2006

PRINCIPAL DEPUTIES

Barbara D. de Jong
Dominic Holzhaus
Betinda R. Mayes

DEPUTIES

Gary J. Anderson
Richard F. Anthony
Christine L. Cheel
Alysha Park Choi
Randall C. Fudge
Charles M. Gale
Everett L. Glenn
Donna F. Gwin
Anne C. Lattime
Monte H. Machit
Lisa Peskay Mahnsten
Barry M. Meyers
Cristyl Meyers
J. Charles Parkin
Howard D. Russell
Tiffani L. Shin

HONORABLE MAYOR AND CITY COUNCIL
City of Long Beach
California

RECOMMENDATION:

Recommendation to declare ordinance adding Chapter 3.92 to the Long Beach Municipal Code relating to the establishment of a Housing Trust Fund read for the first time and laid over to the next regular meeting of the City Council for final reading.

DISCUSSION

Pursuant to your request of October 11, 2005, this office has prepared and submits the above-described ordinance for your consideration.

As you may recall, consideration of this ordinance was continued from May 2, 2006. The attached ordinance has been revised to reflect the concerns of the City Council.

SUGGESTED ACTION:

Approve recommendation.

Respectfully submitted,

ROBERT E. SHANNON, City Attorney

By


MICHAEL J. MAIS
Assistant City Attorney

RES:MJM:kdh
Attachment
C:\My Documents\City Council Letters\June 13 Housing Trust Fund.wpd

ORDINANCE NO.

AN ORDINANCE OF THE CITY COUNCIL OF THE CITY OF LONG BEACH AMENDING THE LONG BEACH MUNICIPAL CODE BY ADDING CHAPTER 3.92 RELATING TO THE ESTABLISHMENT OF A HOUSING TRUST FUND

WHEREAS, the City Council of the City of Long Beach ("City Council") has determined that there exists within the City of Long Beach ("City") a serious shortage of decent, safe and sanitary housing affordable to extremely low, very low, low, and moderate income households, that such shortage is inimical to the health, safety and welfare of the residents of the City, and that it is an economic benefit to the City, and a public purpose to encourage the availability of adequate housing for extremely low, very low, low, and moderate income households; and

WHEREAS, extremely low, very low, low, and moderate income households find it difficult to secure safe, decent or affordable rental or ownership housing in the City; and

WHEREAS, if current trends in housing supply continue, extremely low, very low, low, and moderate income households will continue to be forced to pay higher and higher percentages of their household income on housing, causing stress and related social problems, and resulting in less available income for other purchases within the local economy; and

WHEREAS, extremely low, very low, low, and moderate income households will also be forced to live at greater distances from their place of employment, causing greater traffic congestion, increased air pollution and more rapid degradation of existing infrastructure; and

WHEREAS, the City Council has also determined that there also exists a shortage of housing for ~~above moderate income households~~, that such shortage is

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1 preventing employers from attracting good quality applicants, and that it is an economic
2 benefit to the City, and a public purpose to encourage the availability of adequate
3 housing for above-moderate income households; and

4 WHEREAS, State and federal funding sources exist to assist extremely
5 low to moderate income households achieve homeownership and there is no public
6 funding to address the housing needs of above moderate income households; and

7 WHEREAS, the establishment of a Housing Trust Fund carries out the
8 provisions of the Long Beach Housing Element ("Housing Element") which provides, in
9 part, that the City should make special efforts to encourage an increased supply of
10 housing affordable to all income households.

11 NOW, THEREFORE, the City Council of the City of Long Beach ordains
12 as follows:

13 Section 1. Chapter 3.92 is hereby added to the Long Beach Municipal
14 Code to read as follows:

15 Chapter 3.92
16 Housing Trust Fund

17
18 3.92.010 Purpose and Intent.

19 It is the intent of the City Council to create a Housing Trust Fund as
20 a source of revenue to meet, in part, the housing needs of the City's
21 extremely low and above moderate income households.

22 The Housing Trust Fund will serve as a vehicle for addressing the
23 housing needs of extremely low and above moderate income households
24 through a combination of funds as provided for in this Chapter.

25 It is further the intent of the Council to increase ownership
26 opportunities available to extremely low and above moderate income
27 households throughout the City.

28 It is the purpose and intent of this Chapter to preserve and increase

1 renter and ownership housing units which are affordable to extremely low
2 and above moderate income households which are located within the
3 City, including federally assisted units.

4 It is the further intent of the City Council to foster and encourage
5 the private sector to join with the public sector to further the goals of this
6 Chapter.

7
8 3.92.020 Definitions.

9 Unless the context requires otherwise, the words and phrases used
10 in this Chapter shall have the meanings as defined below:

11 A. "Above Moderate Income Household" shall mean a household
12 whose income is greater than 120% of area median income but less than
13 150% of area median income, both as adjusted for family size.

14 B. "Affordable" shall mean a housing unit that has an affordable
15 housing or rental cost.

16 C. "Affordable Housing Cost" shall have the meaning ascribed to
17 that term in Section 50052.5 of the California Health & Safety Code
18 ("Code"), or any successor section thereto.

19 D. "Affordable Rent" shall have the meaning ascribed to that term
20 in Section 50053(a) of the Code, or any successor section thereto.

21 E. "Area Median Income" shall mean the median income in the
22 Long Beach Standard Metropolitan Statistical Area adjusted for family
23 size, as published by the United States Department of Housing and Urban
24 Development.

25 F. "Assisted Unit" shall mean a housing unit that is affordable
26 because of assistance from the Fund.

27 G. "Extremely Low Income Household" shall have the meaning
28 ascribed to that term in Section 50106 of the Code, or any successor

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section thereto.

H. "Housing Trust Fund" shall mean the Long Beach Housing Trust Fund account maintained by the City to fund the activities authorized by this Chapter.

I. "Recipient" shall mean a person or legal entity which receives funds from the Housing Trust Fund other than the Company.

3.92.030 Establishment of the Long Beach Housing Trust Fund and Trust Fund Account.

A. There is hereby established a fund to be known and denominated as the Long Beach Housing Trust Fund ("Housing Trust Fund"). The Housing Trust Fund shall consist of such sums as are directed to the fund by ordinance of the City Council and any other appropriations as determined from time to time by action of the City Council. The Housing Trust Fund shall be administered by The Long Beach Housing Development Company ("Company") pursuant to the provisions of this Chapter, the Program Plan (defined below), the appropriation ordinances and Council policies applicable thereto.

B. All funds received by the Housing Trust Fund, either from special funds or general fund appropriations, shall be deposited in an account to be known and denominated as the Housing Trust Fund Account. Principal and interest from loan repayments, proceeds from grant repayments, forfeitures, reimbursements, and all other income from Housing Trust Fund activities, shall be deposited in the Housing Trust Fund Account unless required otherwise by funding regulations. All funds shall earn interest at least at the same rate as pooled investments managed by the City Treasurer. All interest earnings from the Housing Trust Fund Account shall be reinvested and dedicated to the account. All

1 appropriated funds in the Housing Trust Fund Account shall be available
2 for program expenditures as directed by the Company. The City's annual
3 appropriation ordinance shall provide for the transfer of designated funds
4 to the Housing Trust Fund. Transfers shall be made quarterly or upon
5 direction of the City Manager. Designated funds shall accrue interest from
6 the time of transfer to the Housing Trust Fund Account.

7
8 3.92.040 Purpose and Use of Housing Trust Fund Monies.

9 Funds in the Housing Trust Fund shall be used solely for programs
10 and administrative support approved by the City Council in the Program
11 Plan to meet the housing needs of extremely low and above moderate
12 income households. Funds in the Housing Trust Fund Account shall be
13 allocated according to the following guidelines, to the extent possible:

14 A. Not less than eighty percent (80%) of the funds in the Housing
15 Trust Fund Account shall be expended to provide housing assistance and
16 homeownership opportunities for above moderate income households at
17 affordable costs; and

18 B. Not less than twenty percent (20%) of the funds in the Housing
19 Trust Fund Account shall be expended to provide housing assistance and
20 homeownership opportunities to extremely low income households at
21 affordable housing costs.

22
23 3.92.050 Term of Affordability.

24 A. Whenever funds from the Housing Trust Fund Account are
25 used for the acquisition, construction or substantial rehabilitation of
26 affordable housing, the Company shall impose enforceable requirements
27 on the owner of the housing unit requiring that the unit remain affordable
28 for a minimum of fifty-five (55) years for rental housing and thirty (30)

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years for ownership housing.

B. For programs funded with funds from the Housing Trust Fund which are not described in Subsection A above, the Company shall develop appropriate mechanisms to ensure the continued affordability of the involved units.

C. The affordability restriction requirements described in this section shall run with the land and the Company shall develop appropriate procedures and documentation to enforce these requirements and shall record such documentation in the Official Records of the Recorder of Los Angeles County.

3.92.060 Program Plan.

Prior to the commencement of the fiscal year, the Company shall adopt a plan ("Program Plan") and present it to the City Council for action. The Program Plan shall include:

A. A description of all programs and projects to be funded with funds from the Housing Trust Fund; and

B. The amount of funds budgeted for the programs and projects administered by the Company.

3.92.070 Funding of Supporting Services.

Funds from the Housing Trust Fund may be used in any manner consistent with this Chapter, through loans, grants, or indirect assistance, for the production and maintenance of assisted units and related facilities. Funds shall not be used for the operation of supporting services such as childcare or social services unless:

A. The funds are used in connection with affordable housing; and

B. The recipient can demonstrate to the satisfaction of the

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1 Company that other funds are not available.

2

3 3.92.080 Publication of Program Documents.

4 The Company shall publish such administrative rules and
5 guidelines as are necessary and desirable to implement the programs
6 approved by the City Council in the Program Plan.

7

8 3.92.090 ~~Semi~~-Annual Report.

9 The Company shall twice each year, at approximate ^{1 yr}~~six (6)~~ month
10 intervals, prepare and submit a report to the City Council on the activities
11 undertaken with funds from the Housing Trust Fund. The report shall
12 contain the information necessary to support the findings specified in
13 Section 66001 of the California Government Code.

14

15 3.92.100 Financial Management.

16 The City Treasurer shall maintain and report within the City's
17 accounts a separate Housing Trust Fund Account and any required
18 related subsidiary funds for all related financing transferred from the City
19 and any related income. Such funds shall be accounted for and reported
20 separately on the Company's annual financial report, and such funds shall
21 be audited for compliance with this Chapter and related policies and
22 regulations. The Company shall prepare any other reports legally
23 mandated for financing sources of the Housing Trust Fund.

24

25 Sec. 2. The City Clerk shall certify to the passage of this Ordinance by
26 the City Council and cause it to be posted in three conspicuous places in the City of
27 Long Beach, and it shall take effect on the thirty-first day after it is approved by the
28 Mayor.

1 I hereby certify that the foregoing Ordinance was adopted by the City
2 Council of the City of Long Beach and its meeting of _____, 2006, by the
3 following vote:

4 Ayes: Councilmembers: _____

5 _____

6 _____

7 _____

8 Noes: Councilmembers: _____

9 _____

10 Absent: Councilmembers: _____

11 _____

12
13 _____
14 City Clerk

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16 Approved: _____

17 Mayor

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CITY OF LONG BEACH

DEPARTMENT OF COMMUNITY DEVELOPMENT

333 WEST OCEAN BOULEVARD • LONG BEACH, CALIFORNIA 90802

ORD-27

May 2, 2006

HONORABLE MAYOR AND CITY COUNCIL
City of Long Beach
California

RECOMMENDATION:

Declare ordinance adding Chapter 3.92 to the Long Beach Municipal Code relating to the establishment of a Housing Trust Fund read the first time and laid over to the next regular meeting of the City Council for final reading.

DISCUSSION

On October 11, 2005, the City Council requested the City Attorney to prepare an ordinance establishing a Housing Trust Fund (HTF) for the City of Long Beach (see Attachment) in accordance with the following parameters:

A. Target Population and Uses

- 80 percent of funds for above moderate-income households, those with incomes not exceeding 150 percent of area median income (workforce housing), to be used for homeownership programs and projects
- 20 percent of funds for extremely low-income households, those with incomes not exceeding 30 percent of area median income, to be used for rental or ownership programs and projects

B. Length of Affordability Restrictions on HTF-Assisted Units

- Rental - 55 years
- Ownership - 30 years

C. Potential Funding Sources

- General Fund transient occupancy taxes (TOT) in the amount of \$500,000 per year
- Condominium conversion fee of 1 percent of sales price of unit being converted from rental to homeownership (assuming an average condominium sales price of \$322,000 in July 2005 multiplied by an average of 300 converted units, this could generate an estimated revenue of about \$950,000 per year)
- Boeing Realty contribution for Douglas Park (\$3,000,000 over 5 years)
- Other contributions and donations – could include potential contributions from major employers, charitable organizations, foundations, or other sources, if any

D. Administration

- The Long Beach Housing Development Company will administer the HTF pursuant to established parameters and will submit a semi-annual report to City Council to apprise them of the status of the HTF.

At the October 11, 2005 meeting, City Council also requested the City Attorney to prepare a condominium conversion fee ordinance and to refer the ordinance to the Planning Commission for review and recommendation to City Council. This matter is anticipated to be brought before the Planning Commission on May 18, 2006.

This letter was reviewed by Deputy City Attorney Everett Glenn on April 27, 2006, and Budget Management Officer David Wodynski on April 26, 2006.

TIMING CONSIDERATIONS

Council action is requested on May 2, 2006 in order to establish the HTF and deposit monies into the HTF Account.


FISCAL IMPACT

City Council's adoption of the proposed ordinance will result in the creation of a Housing Trust Fund. As proposed, \$500,000 of General Fund TOT revenue, if available, or other funding sources as appropriate will be deposited into the HTF annually.

SUGGESTED ACTION:

Approve recommendation.

Respectfully submitted,



for PATRICK H. WEST
DIRECTOR OF COMMUNITY DEVELOPMENT

PHW:ES:ET
U:\SHARE\CITY COUNCIL ITEMS\2006\5-2-05 HTF ordinance.doc

APPROVED:

for 
GERALD R. MILLER
CITY MANAGER

Attachment: Ordinance, Housing Trust Fund

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ORDINANCE NO.

AN ORDINANCE OF THE CITY COUNCIL OF THE
CITY OF LONG BEACH AMENDING THE LONG BEACH
MUNICIPAL CODE BY ADDING CHAPTER 3.92 RELATING
TO THE ESTABLISHMENT OF A HOUSING TRUST FUND

WHEREAS, the California State Legislature has declared that there exists
a severe shortage of housing affordable to extremely low, very low, low, moderate and
above moderate income households, that such shortage is inimical to the health, safety
and welfare of the residents of the State, and that it is an economic benefit to the State,
and a public purpose to encourage the availability of adequate housing for extremely
low, very low, low, moderate and above moderate income households; and

WHEREAS, extremely low, very low, low, moderate and above moderate
income households find it difficult to secure safe, decent or affordable rental and
ownership housing in the City of Long Beach ("City"); and

WHEREAS, if current trends in housing supply continue, extremely low,
very low, low, moderate and above moderate income households will continue to be
forced to pay higher and higher percentages of their household income on housing,
causing stress and related social problems, and resulting in less available income for
other purchases within the local economy; and

WHEREAS, extremely low, very low, low, moderate and above moderate
income households will also be forced to live at greater distances from their place of
employment, causing greater traffic congestion, increased air pollution and more rapid
degradation of existing infrastructure; and

WHEREAS, State and federal funding sources exist to assist extremely
low to moderate income households and there is no public funding to address the
housing needs of above moderate income households; and

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1 WHEREAS, the establishment of a Housing Trust Fund carries out the
2 provisions of the Long Beach Housing Element ("Housing Element") which provides, in
3 part, that the City should make special efforts to encourage an increased supply of
4 housing affordable to extremely low and above moderate income households.

5 NOW, THEREFORE, the City Council of the City of Long Beach ordains
6 as follows:

7 Section 1. Chapter 3.92 is hereby added to the Long Beach Municipal
8 Code to read as follows:

9 Chapter 3.92

10 Housing Trust Fund

11
12 3.92.010 Purpose and Intent.

13 It is the intent of the City Council to create a Housing Trust Fund as
14 a source of revenue to meet, in part, the housing needs of the City's
15 extremely low and above moderate income households.

16 The Housing Trust Fund will serve as a vehicle for addressing the
17 housing needs of extremely low and above moderate income households
18 through a combination of funds as provided for in this Chapter.

19 It is further the intent of the Council to increase ownership
20 opportunities available to extremely low and above moderate income
21 households throughout the City.

22 It is the purpose and intent of this Chapter to preserve and increase
23 renter and ownership housing units which are affordable to extremely low
24 and above moderate income households which are located within the
25 City, including federally assisted units.

26 It is the further intent of the City Council to foster and encourage
27 the private sector to join with the public sector to further the goals of this
28 Chapter.

1 3.92.020 Definitions.

2 Unless the context requires otherwise, the words and phrases used
3 in this Chapter shall have the meanings as defined below:

4 A. "Above Moderate Income Household" shall mean a household
5 whose income is greater than 120% of area median income but less than
6 150% of area median income, both as adjusted for family size.

7 B. "Affordable" shall mean a housing unit that has an affordable
8 housing or rental cost.

9 C. "Affordable Housing Cost" shall have the meaning ascribed to
10 that term in Section 50052.5 of the California Health & Safety Code
11 ("Code"), or any successor section thereto.

12 D. "Affordable Rent" shall have the meaning ascribed to that term
13 in Section 50053(a) of the Code, or any successor section thereto.

14 E. "Area Median Income" shall mean the median income in the
15 Long Beach Standard Metropolitan Statistical Area adjusted for family
16 size, as published by the United States Department of Housing and Urban
17 Development.

18 F. "Assisted Unit" shall mean a housing unit that is affordable
19 because of assistance from the Fund.

20 G. "Extremely Low Income Household" shall have the meaning
21 ascribed to that term in Section 50106 of the Code, or any successor
22 section thereto.

23 H. "Housing Trust Fund" shall mean the Long Beach Housing
24 Trust Fund account maintained by the City to fund the activities authorized
25 by this Chapter.

26 I. "Low Income Household" shall have the meaning ascribed to
27 that term in Section 50079.5 of the Code, or any successor section
28 thereto.

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J. "Moderate Income" shall have the meaning ascribed to that term in Section 50093 of the Code, or any successor section thereto.

K. "Recipient" shall mean a person or legal entity which receives funds from the Housing Trust Fund other than the Company.

L. "Very Low Income Household" shall have the meaning ascribed to that term in Section 50105 of the Code, or any successor section thereto.

3.92.030 Establishment of the Long Beach Housing Trust Fund and Trust Fund Account.

A. There is hereby established a fund to be known and denominated as the Long Beach Housing Trust Fund ("Housing Trust Fund"). The Housing Trust Fund shall consist of such sums as are directed to the fund by ordinance of the City Council and any other appropriations as determined from time to time by legislative action of the City Council. The Housing Trust Fund shall be administered by The Long Beach Housing Development Company ("Company") pursuant to the provisions of this Chapter, the Program Plan (defined below), the appropriation ordinances and Council policies applicable thereto.

B. All funds received by the Housing Trust Fund, either from special funds or general fund appropriations, shall be deposited in an account to be known and denominated as the Housing Trust Fund Account. Principal and interest from loan repayments, proceeds from grant repayments, forfeitures, reimbursements, and all other income from Housing Trust Fund activities, shall be deposited in the Housing Trust Fund Account unless required otherwise by funding regulations. All funds shall earn interest at least at the same rate as pooled investments managed by the City Treasurer. All interest earnings from the Housing

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1 Trust Fund Account shall be reinvested and dedicated to the account. All
2 appropriated funds in the Housing Trust Fund Account shall be available
3 for program expenditures as directed by the Company. The City's annual
4 appropriation ordinance shall provide for the transfer of designated funds
5 to the Housing Trust Fund. Transfers shall be made quarterly or upon
6 direction of the City Manager. Designated funds shall accrue interest from
7 the time of transfer to the Housing Trust Fund Account.

8
9 3.92.040 Purpose and Use of Housing Trust Fund Monies.

10 Funds in the Housing Trust Fund shall be used solely for programs
11 and administrative support approved by the City Council in the Program
12 Plan to meet the housing needs of extremely low and above moderate
13 income households. Funds in the Housing Trust Fund Account shall be
14 allocated according to the following guidelines, to the extent possible:

15 A. Not less than eighty percent (80%) of the funds in the Housing
16 Trust Fund Account shall be expended to provide housing assistance and
17 homeownership opportunities for above moderate income households at
18 affordable costs; and

>100%
?

19 B. Not less than twenty percent (20%) of the funds in the Housing
20 Trust Fund Account shall be expended to provide housing assistance and
21 homeownership opportunities to extremely low income households at
22 affordable housing costs.

23
24 3.92.050 Term of Affordability.

25 A. Whenever funds from the Housing Trust Fund Account are
26 used for the acquisition, construction or substantial rehabilitation of
27 affordable housing, the Company shall impose enforceable requirements
28 on the owner of the housing unit requiring that the unit remain affordable

1 for a minimum of fifty-five (55) years for rental housing and thirty (30)
2 years for ownership housing.

3 B. For programs funded with funds from the Housing Trust Fund
4 which are not described in Subsection A above, the Company shall
5 develop appropriate mechanisms to ensure the continued affordability of
6 the involved units.

7 C. The affordability restriction requirements described in this
8 section shall run with the land and the Company shall develop appropriate
9 procedures and documentation to enforce these requirements and shall
10 record such documentation in the Official Records of the Recorder of Los
11 Angeles County.

12
13 3.92.060 Program Plan.

14 Prior to the commencement of the fiscal year, the Company shall
15 adopt a plan ("Program Plan") and present it to the City Council for action.
16 The Program Plan shall include:

17 A. A description of all programs and projects to be funded with
18 funds from the Housing Trust Fund; and

19 B. The amount of funds budgeted for the programs and projects
20 administered by the Company.

21
22 3.92.070 Funding of Supporting Services.

23 Funds from the Housing Trust Fund may be used in any manner
24 consistent with this Chapter, through loans, grants, or indirect assistance,
25 for the production and maintenance of assisted units and related facilities.
26 Funds shall not be used for the operation of supporting services such as
27 childcare or social services unless:

28 A. The funds are used in connection with affordable housing; and

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1 B. The recipient can demonstrate to the satisfaction of the
2 Company that other funds are not available.

3
4 3.92.080 Publication of Program Documents.

5 The Company shall publish such administrative rules and
6 guidelines as are necessary and desirable to implement the programs
7 approved by the City Council in the Program Plan.

8
9 3.92.090 Semi-Annual Report.

10 The Company shall twice each year, at approximate six (6) month
11 intervals, prepare and submit a report to the City Council on the activities
12 undertaken with funds from the Housing Trust Fund. The report shall
13 contain the information necessary to support the findings specified in
14 Section 66001 of the California Government Code.

15
16 3.92.100 Financial Management.

17 The City Treasurer shall maintain and report within the City's
18 accounts a separate Housing Trust Fund Account and any required
19 related subsidiary funds for all related financing transferred from the City
20 and any related income. Such funds shall be accounted for and reported
21 separately on the Company's annual financial report, and such funds shall
22 be audited for compliance with this Chapter and related policies and
23 regulations. The Company shall prepare any other reports legally
24 mandated for financing sources of the Housing Trust Fund.

25
26 Sec. 2. The City Clerk shall certify to the passage of this Ordinance by
27 the City Council and cause it to be posted in three conspicuous places in the City of
28 Long Beach, and it shall take effect on the thirty-first day after it is approved by the

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1 Mayor.

2 I hereby certify that the foregoing Ordinance was adopted by the City
3 Council of the City of Long Beach and its meeting of _____, 2006, by the
4 following vote:

5 Ayes: Councilmembers: _____

6 _____

7 _____

8 _____

9 Noes: Councilmembers: _____

10 _____

11 Absent: Councilmembers: _____

12 _____

13 _____

14 _____

15 _____
City Clerk

16 _____

17 Approved: _____
Mayor

18 _____

19 _____

20 _____

21 _____

22 _____

23 _____

24 _____

25 _____

26 _____

27 _____

28 _____

ELG:dfe/MJM:kjm 4/13/06 4/25/06 4/28/06 #05-01355
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CITY OF LONG BEACH

DEPARTMENT OF COMMUNITY DEVELOPMENT

333 WEST OCEAN BOULEVARD • LONG BEACH, CALIFORNIA 90802

~~R-31~~

April 12, 2005

HONORABLE MAYOR AND CITY COUNCIL
City of Long Beach
California

RECOMMENDATION:

- (1) Establish a Housing Trust Fund for the City of Long Beach and request the City Attorney to prepare an ordinance establishing the terms and conditions for administering the Housing Trust Fund; and
- (2) Direct the Planning Commission to prepare an inclusionary housing ordinance. (Citywide)

DISCUSSION

On June 11, 2002, the City Council requested the City Manager to prepare a report regarding the feasibility of establishing a housing trust fund (HTF) for the City of Long Beach, including identification of potential funding sources. A Housing Trust Fund would provide a continuing source of funds to improve and/or increase the supply of affordable rental and ownership housing. Attachment 1 lists the jurisdictions that have established HTFs, including those in California. Attachment 2 lists the revenue sources and eligible uses of the HTFs established in major and selected California cities.

On September 10, 2002, City Council authorized the City Manager to enter into a contract with David Rosen & Associates (DRA) to conduct the study. Preliminary findings were presented to the City's senior management team and, individually, to the Mayor and available City Councilmembers. The preliminary findings were also shared with developers to validate the consultant's assumptions. DRA's final report was completed in October 2003 and concluded that an HTF could be established in Long Beach. The report further recommended adopting an inclusionary housing ordinance. Any in-lieu fees generated would go into the HTF. Another source of funds recommended is a commercial linkage fee, which staff is not proposing at this time.

An inclusionary housing ordinance would require residential developers to provide a percentage of new units at affordable rents or purchase price. The inclusionary units can be provided on site or offsite, or in case of financial infeasibility to provide units, an inclusionary housing in-lieu fee can be paid by the developer and deposited into the Housing Trust Fund. Attachment 3 lists jurisdictions in California that have adopted inclusionary housing policies.

A commercial linkage fee is a development fee based on findings that new non-residential developments create a need for affordable housing. Attachment 4 is a 2003 survey of cities in California with commercial linkage fee ordinances.

Consultant Findings and Conclusions

For inclusionary housing, the study concluded that imposing the following requirements on new residential construction are feasible for most housing prototypes in Long Beach: for rental developments - 10% of the units must be rented at amounts affordable to those earning at or below \$25,000 (2003, family of four); and for ownership developments - 15% of the units must be sold at prices affordable to households earning at or below \$50,000 (2003, family of four). If the developer chooses not to build the units, the inclusionary in-lieu fee equals approximately \$14,000 per unit on all rental units and \$12,000 per unit on all units for ownership housing. Using an average unit size of 1,000 sq. ft., this translates to an in-lieu fee of \$14 per sq. ft. for rental units and \$12 per sq. ft. for ownership units.

For commercial development linkage fee, the study concluded that linkage fees in the range of \$10 to \$15 per sq. ft., on top of current Long Beach fees, are supportable while maintaining residual land values in recent market sales comparables and appraised values (typically \$15 to \$25 per sq. ft., 1998 -2003 data).

Community Outreach

Over the following months, the consultant findings and conclusions on HTF were shared in group or individual meetings with developers, business associations and housing advocates. The reaction regarding the Housing Trust Fund has been positive; almost everyone recognizes the need for more affordable housing. However, there has been mixed reaction concerning the proposed HTF revenue sources, the target population to be served by the HTF, and the proposed fees. Attachment 5 is a matrix showing the recommendations from staff, The Long Beach Housing Development Company (LBHDC), and the Long Beach Housing Trust Fund Coalition (LBHTFC). Attachment 6 is the LBHDC's position statement on the HTF. Attachment 7 lists the recommendations from the LBHTFC.

The LBHDC, LBHTFC, and other groups have strongly suggested other revenue sources that could fund the HTF. Some recommended sources include a percentage of any increase in current real property transfer tax, a percentage of any increase in transient occupancy tax, and an increase of redevelopment housing set-aside over the 20% currently required by law. In their view, looking at other funding sources would mean that the housing development community is not being singled out for these proposed new fees. Attachment 8 is staff's analysis of these other funding sources.

Staff Recommendations

Staff recommends the actions listed below.

1. Establish a Housing Trust Fund with the following general parameters:

A. Uses

- New construction, both rental and ownership
- Acquisition and/or rehabilitation, both rental and ownership
- Rehabilitation loan programs, both rental and ownership
- First-time homebuyer assistance programs
- Special needs projects or programs

B. Target Population

- 40% of funds for extremely low-income households (those with income not exceeding \$13,750 for a 1-person household or \$25,950 for an 8-person household, based on 2005 income levels)
- 60% of funds for moderate-income households (those with income not exceeding \$46,250 for a 1-person household or \$87,250 for an 8-person household, based on 2005 income levels)

C. Length of Affordability Restrictions on HTF-Assisted Units

- Rental - 55 years
- Ownership - 30 years

D. Funding Source

- Inclusionary housing in-lieu fees

E. Administration

- The Long Beach Housing Development Company

2. Direct the Planning Commission to prepare an inclusionary housing ordinance with the following general parameters:

A. Applicability

- New construction, rental and for-sale

B. Exemptions

- Any project that has been submitted for an entitlement including California Environmental Quality Act (CEQA) review, as long as the application package

has been deemed complete by the Department of Planning and Building when the inclusionary housing ordinance is adopted

- Developments of 4 units or less

C. Inclusionary Requirement

- 10% of all new rental units affordable to households with income not exceeding 50% of area median income
- 15% of all for-sale units affordable to households with income not exceeding 120% of area median income

During the first year following the adoption of the ordinance, the inclusionary requirement will be 5% for rental units and 8% for for-sale units. The full inclusionary requirement will start on the second year following the ordinance's adoption.

D. Restriction Period

- 55 years for rental units; 45 years for ownership units

E. Alternatives to On-Site Construction

- Payment of an in-lieu fee
- New unit at another site within a 3-mile radius of the development
- Existing rental unit at another site within a 3-mile radius of the development
- Financial assistance in an amount equal to or greater than the in-lieu fee by developer to a non-profit developer
- Donation of environmentally clean land, developable for housing, with land appraised at a value equal to or greater than the in-lieu fee

F. In-Lieu Fee

- Year 1: \$5 per sq. ft. of living area
- Year 2: \$7.50 per sq. ft., plus a percentage equal to the increase in the median housing sales price in Long Beach in the preceding year
- Year 3: \$10 per sq. ft., plus a percentage equal to the increase in the median housing sales price in Long Beach the preceding year

Attachment 9 provides a comparison of the proposed \$5 in-lieu fee with the fees currently charged in selected California cities with inclusionary housing ordinances.

G. Developer Incentives

- Credit towards the required number of inclusionary units if units are fully handicapped accessible (1.5) and/or visitable (1.25)

HONORABLE MAYOR AND CITY COUNCIL

April 12, 2005

Page 5

- 25% density bonus
- Height bonus
- HTF to advance permit fees; to be paid by developer prior to issuance of Certificate of Occupancy
- Expedited permit processing

Staff does not recommend the implementation of a commercial linkage fee at this time but will likely revisit this issue when nonresidential development in the City appears to be able to sustain additional fees.

This letter was reviewed by Deputy City Attorney Everett Glenn on March 29, 2005, and Budget Management Officer David Wodynski on April 4, 2005.

TIMING CONSIDERATIONS

Council action is requested at the April 12, 2005 meeting in order to move forward with these proposed housing initiatives.

FISCAL IMPACT

City Council's approval of the proposed recommendations may increase revenues for affordable housing. When that happens, the Department of Community Development will request appropriate budget adjustments in the Housing Development Fund (SR 135).

SUGGESTED ACTION:

Approve recommendations.

Respectfully submitted,



MSF
MELANIE S. FALLON
DIRECTOR OF COMMUNITY DEVELOPMENT

MSF/ES/ET/lh

U:\SHARE\City Council Items\2005\CC LTR 4-12-05 Create HTF and Prep IHO.doc

APPROVED:



GERALD R. MILLER
CITY MANAGER

HONORABLE MAYOR AND CITY COUNCIL

April 12, 2005

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Attachments:

Attachment 1 - Jurisdictions with Housing Trust Funds

Attachment 2 - Housing Trust Fund Revenue Sources and Eligible Uses of Ten California Cities

Attachment 3 - List of California Cities and Counties with Inclusionary Housing Policies or Programs

Attachment 4 - Survey of Cities in California with Commercial Linkage Fee Ordinances

Attachment 5 - Matrix of Consultant Conclusions, and Recommendations from Staff and other Stakeholders Regarding Housing Trust Fund, Inclusionary Housing and Commercial Linkage Fees

Attachment 6 - LBHDC's Position Statement on the Housing Trust Fund

Attachment 7 - Long Beach Housing Trust Fund Coalition's Recommendations

Attachment 8 - Other Potential Revenue Sources for the Housing Trust Fund

Attachment 9 - Comparison of Current Residential Development Impact Fees in Selected California Cities with Inclusionary Housing Ordinances

**CITY OF LONG BEACH**

DEPARTMENT OF PLANNING & BUILDING

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ZONING DIVISION

July 20, 2006

CHAIRMAN AND PLANNING COMMISSIONERSCity of Long Beach
California

SUBJECT: Amendment of the Zoning and Subdivision Regulations to Establish a Fee Related to Condominium Conversions to Support the Housing Trust Fund (Continued)

LOCATION: Citywide

BACKGROUND

This is a request for review and recommendation to establish a new fee imposed on condominium conversions as a component of the Housing Trust Fund (HTF).

The item was originally discussed on June 15, 2006. At that time, the Planning Commission asked staff to gather more information on what other jurisdictions are doing on this issue, the financial details of conversion projects, an update on conversion projects in process, and for more details on how the HTF will be implemented in Long Beach.

Percentage vs. Flat Fee

There are several possible funding mechanisms for the condominium conversion fee. Tying the fee to a future sales price of the converted unit is one avenue that has been suggested. The fee would be imposed after the Final Map was approved and the units were offered for initial sale. This would require the City to confirm the sales price and collect the fee for each of the individual condominium units after the initial sale. Units that are held by the developer or that otherwise remain unsold for any reason would not pay the fee until sold. This approach will be difficult to administer since the City is not involved in the sale of units and tracking/monitoring could be staff-intensive. In addition, collection of the fee would be deferred until sale of the unit is complete, which often occurs well after the building was converted.

It has been suggested that a lien against the project and individual units could be established by the applicants at the time the Final Map is requested to facilitate the paying of the fee. The lien would be in a form acceptable to the City, and would be paid as an action of escrow at culmination of the sale. LA County uses this method to collect their fee, but processes less than 10 projects a year on average.

CHAIRMAN AND PLANNING COMMISSIONERS

HOUSING TRUST FUND

July 20, 2006

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Alternatively, a flat fee for each condominium unit could be collected at the time the Final Map was submitted for review. Assuming an average sale price of \$400,000, a fee of \$4,000 per converted unit would yield the equivalent amount as a fee based on the one percent of the sales price.

Using the 262 units approved in 2005, a fixed fee of \$4000 per unit would generate over \$1 million annually. This approach would yield a more predictable revenue stream, and result in more effective tracking and monitoring. The fee could be adjusted administratively each year based on increases in condominium sales price indices throughout Long Beach in order to keep pace with increasing sales prices.

This fee would be required during the project development phase, which makes it part of the cost of the conversion for applicants, creating an additional budgetary burden on conversion projects according to several local developers and recent applicants.

Inclusionary Housing

Many jurisdictions use their inclusionary housing programs to generate low and moderate-income housing units. The review of impact fee requirements (attached) indicates that the majority of jurisdictions use this approach instead of a fee-based approach to generate affordable housing. Inclusionary housing provisions require that a percentage of affordable housing units are required within development projects and conversion projects as a condition of approval.

There are 136 cities in California with inclusionary housing policies or programs. This type of program is often coupled with an in lieu fee that can be paid if the required percentage of affordable housing cannot be provided by an individual project for some reason for specified reasons. Examples of inclusionary housing programs in other jurisdictions include 10-20% of units being made affordable as part of a conversion project.

Project Approval Status

There have been 86 condominium conversion projects with a total of 1,175 units reviewed by the Planning Commission since 2001, an average of 13.7 units per project. The Planning Commission approved 1,033 of these housing units.

The Public Works Department processes all subdivision maps within the City. According to their records of the condominium conversion projects, 329 units have received their Final Map approvals, which establishes the individual ownership and taxation parcel and makes the units available for sale. Whether those units have been made available for sale is at the discretion of the applicant and is not tracked by the City.

An additional 373 units have received Planning Commission approval, and the associated Final Maps have been applied for and not approved. This process is taking from 4 to 14 months, depending on the backlog of projects in Long Beach Public Works or Los Angeles County Public Works, either of which can review a map for Subdivision

CHAIRMAN AND PLANNING COMMISSIONERS

HOUSING TRUST FUND

July 20, 2006

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Map Act requirements. City staff accepts the Final Maps and issues its approval for the County to create the new subdivision and establish the individual taxation parcels. The City receives the updated parcel maps from the County from one to several months after recordation of the Final Map. The taxation assessment lags the subdivision by up to one year, and would be paid by the owner of record of each newly created ownership unit during the normal property tax bill cycle.

432 units are pending Planning Commission approval or have received Planning Commission approval and not yet submitted a request for Final Maps to date. Lastly, 41 units have had no activity toward approval of their Final Maps several years after Planning Commission approval.

Regarding the application of the fee to projects in the pipeline, there are several options to consider. The fee could apply to only new conversions, i.e. conversions that have not yet been filed, to conversions that have been filed, but not received Tentative Map approval, or, to conversions that have received Tentative Map approval, but not obtained Final Map approval. The last approach would be consistent with the City Council's intent to apply the fee at the time of sales, and to maximize the funds collected.

Financial Viability

The Planning Commission requested information to understand the financial structure of conversion projects to get an understanding of the fees for affordable housing that these projects could support. Financial (pro forma) information was requested from local developers and recent conversion applicants and was not provided. Information being compiled by the Housing Services Division's economic consultant will be provided at the study session.

PUBLIC NOTICE

Public notices on the originally scheduled item were sent to recent applicants of condominium conversion projects and those who expressed interest related topics to the condominium conversion policy discussion before the Planning Commission on February 16, 2006.

ENVIRONMENTAL REVIEW

According to the guidelines to implement the California Environmental Quality Act, the proposed action has been determined to be categorically exempt under Section 15305, Minor Alternations in Land Use Limitations, Class 5. This section states that the division of multiple-family residences into common-interest ownership where no physical changes occur can be considered Categorical Exempt (CE). Therefore, CE 06-120 was prepared for this project and is attached for review.

CONCLUSIONS

There are several conclusions that can be drawn from the above analysis.

- **Conversions will continue** – While an increasing number of projects have been processed of the last few years, there remains a large pool of apartments that could be converted to condominiums. Establishing the HTF and funding it in part through a fee from those conversions is consistent with the policy framework for providing affordable housing to both renters and first-time buyers.
- **Timeliness** – The interest in condominium conversions has sparked an increase in the number of cases filed and public inquiries regarding conversions. Given the demand for conversions, the fee is likely to generate substantial funds.
- **Predictable Funding** – Using a percentage of the sales prices assures a fair market price basis for the fee, but requires the fee to be collected well after the approval of conversion. Mechanisms to collect the percentage fee could be implemented to aid administration. A fixed fee could be collected at the time the Final Map is submitted for approval. The fee could be adjusted annually to reflect increases in median sales price. A fixed fee would be the simplest calculation method, but makes the fee as an additional cost of conversion.
- **Need for More Affordable Housing** – Long Beach has a large pool of rental housing. Allowing conversions of some of these units provides more affordable buying opportunities. As long as demand for rental housing is not impacted and relatively affordable rental housing remains available, this policy should continue. Use of an inclusionary housing policy would provide units of affordable housing directly for qualifying projects and could generate more units than a fee at the level being considered would generate.

Planning staff recommends that a fee of \$4,000 per converted unit be established to apply to condominium conversion projects that have not received approval for a Final Map at the time the fee becomes effective. This fee should be adjusted to reflect the annual increase in sales price for condominiums in Long Beach.

CHAIRMAN AND PLANNING COMMISSIONERS

HOUSING TRUST FUND

July 20, 2006

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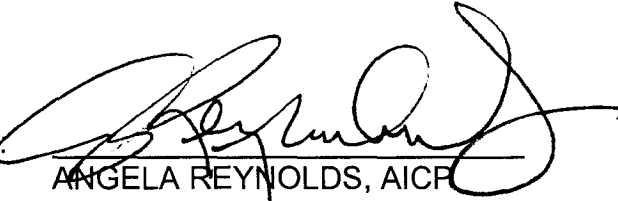
IT IS RECOMMENDED THAT THE PLANNING COMMISSION:

Recommend that the City Council adopt amendments to Title 20.32 (Subdivisions) and Title 21.63 (Zoning Regulations) related to the establishment of a new condominium conversion fee to be used in part to fund the proposed Housing Trust Fund.

Respectfully submitted,

SUZANNE FRICK,
DIRECTOR OF PLANNING AND BUILDING

By: 
STEVE GERHARDT, AICP
COMMUNITY PLANNER

Approved: 
ANGELA REYNOLDS, AICP
PLANNING OFFICER

Attachments:

- Map of Condo Conversion Projects
- Summary of Affordable Housing Impact Fee Requirements for Condominium Conversions

Affordable Housing Impact Fee Requirements for Condominium Conversions

Conversions Subject to Local Inclusionary Ordinance	
Monterey City	15% low and moderate income affordable units for conversion projects with 10 or more units. No allowance for payment of fee.
Napa City	Condo conversions require inclusion of 10% moderate (120% MFI) income affordable units. Option for payment of housing in-lieu fee at discretion of City Council.
Rohnert Park	15% affordable units required for conversions. Payment of in-lieu fee permitted.
San Carlos	15% affordable units required for conversions. Payment of in-lieu fee permitted.
San Diego City	Condo conversions with 2 or more units sold to households earning 150%+ MFI subject to City's inclusionary ordinance, requiring 10% of units to be set aside for households earning up to 100% MFI. Allowance for payment of in-lieu fee, currently set at \$1.25/sq.ft. for projects < 10 units, \$2.50/sq.ft. for projects 10+ units.
San Mateo	10% affordable units. If any inclusionary rental units in project, requirement to convert to inclusionary ownership unit. Payment of in-lieu fee prohibited.
Santa Barbara City	Condo conversions with 10+ units subject to 15% inclusionary housing requirements. Allowance for payment of in-lieu fee. If any deed restricted affordable rental units in conversion project, condition requiring same number and type of affordable units in condo project. Conversions limited to 50 units/year.
South Lake Tahoe	20% affordable units required for conversions.
Walnut Creek	10% affordable units. No fee permitted for conversions with 10+ units. In-lieu fee for 2-9 unit projects ranges from \$2 to \$9/square foot living area.
Conversions Subject to Payment of Flat Affordable Housing Fee	
Pismo Beach	For projects with 8 or more units, charge fee of \$500/unit for affordable housing fund
Roseville	Charges fee of \$5,000/rental unit converted to condo
Santa Cruz County	Follows Coastal Zone requirement of 1:1 replacement of affordable units, or payment of in-lieu fee.
Conversions Subject to Payment of Affordable Housing Fee Based on % of Sales Price	
Berkeley	Fee based on 12.5% of difference between price of a unit, if sold as apartment, and price of converted unit when sold as condo. Conversions limited to 100 units/year.
East Palo Alto	Fee based on 10% of condo sales price at close of escrow, and no lower than 90% of current appraised value. Lien placed on each unit for amount of fee a time of Final Map, and is executed and recorded with County Recorder. Upon payment of fee, release of lien by City.
Los Angeles County	Fee based on 1% of sales price of converted unit. Lien is recorded for each unit at the time of the Final Map as a condition of approval.
Montgomery County, Maryland	Fee based on 4% of sales price of converted unit.

Summary of Condo Conversion Housing Impact Fees

A relatively few number of jurisdictions were identified that charge affordable housing impact fees on condo conversions. While this was not an exhaustive survey, review of approximately 40 jurisdictions' condo conversion ordinances identified only seven which included housing impact fees. More common were jurisdictions with inclusionary housing ordinances to apply these same inclusionary requirements to condo conversions. With 135+ adopted inclusionary housing ordinances in the State and over 80% of these allowing for payment of in-lieu housing fees, such inclusionary in-lieu fees serve as defacto condo conversion impact fees in a potentially significant number of jurisdictions.

The majority of jurisdictions surveyed charge an administrative fee based on the cost to process and inspect the condo conversion. While these fees are often significant (Pasadena's fee is approximately \$2,400/unit), they can only be directed towards covering administrative costs and not affordable housing.

Coastal Zone Provisions Regulating Condo Conversions (Govn Code Section 65590)

Implementation of the Coastal Act can also serve to address the affordable housing impacts of condo conversions.

Conversion of 3 or more dwelling units where at least one unit is occupied by low to moderate income household (up to 120% MFI) triggers replacement requirement. Developer must provide one below market rate unit for each unit occupied by income eligible household, or 20% of the total residential units in project. Replacement units must be available within 3 miles of Coastal Zone, and available for use within 3 years of conversion. If any low/moderate income households are evicted within one year of filing an application to convert, evictions shall be presumed to have been for purpose of avoiding requirements of subdivision, and applicant bears burden of proving evictions were not for purpose of avoiding replacement requirement.

If locality has established in-lieu fee alternative to requiring replacement units in Coastal Zone, the payment of fees must result in the replacement of an equivalent number of dwelling units which would have been required of the applicant. Replacement units provided through collection of in- lieu fees should be provided within the Coastal Zone to the maximum extent feasible, and shall be provided within three years of the conversion.

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DEPARTMENT OF PLANNING & BUILDING

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ZONING DIVISION

June 15, 2006

CHAIRMAN AND PLANNING COMMISSIONERSCity of Long Beach
California

SUBJECT: Amendment of the Zoning and Subdivision Regulations to Establish a Fee Related to Condominium Conversions to Support the Housing Trust Fund

LOCATION: Citywide

BACKGROUND

This is a request for review and recommendation to establish a new fee imposed on condominium conversions as a component of the Housing Trust Fund (HTF).

HOUSING TRUST FUND

On October 11, 2005, the City Council approved the creation of a Housing Trust Fund (HTF). The primary purpose is the creation of an additional funding mechanism to encourage the development of more affordable housing in Long Beach. As part of their action, the City Council also requested the City Attorney to prepare a condominium conversion fee ordinance and refer it to the Planning Commission for review and recommendation back to City Council.

The draft HTF Ordinance was presented to the City Council, on May 2, 2006. The City Council chose to postpone consideration of the HTF ordinance for at least 30 days to allow for additional analysis.

One of the options considered throughout the discussion regarding creating the HTF is a fee of one (1%) of sales price for condominium conversions. In October 2005, the staff report calculated that an average July 2005 sales price of \$322,000 and the sale of an average of 300 converted units would generate nearly \$1 million annually. Consideration of this option for HTF funding existing and potential new affordable housing programs is recognition of the anticipated future interest in condominium conversions and the potential for the City to gain more affordable housing resources from those conversions.

A nexus study is attached to this report that explains the connection between the conversion of apartments to condominiums and the impact on affordable rental and first-time buyer residential property. The nexus report was prepared by Karen Warner, a housing consultant to the Housing Services Bureau.

CHAIRMAN AND PLANNING COMMISSIONERS

HOUSING TRUST FUND

June 15, 2006

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The study finds that the conversion of apartments to condominiums reduces the number of available apartments, and would potentially increase the demand for apartments if there were not a large pool of apartments within the City of Long Beach. The converted condominiums tend to be more affordable than newly constructed condominiums in all areas of the city, making them more affordable to first-time buyers and others in the market looking for more affordable attached housing product.

HOUSING BACKGROUND

According to State Department of Finance, Long Beach had 172,089 housing units in 2000. Of those, approximately forty percent (40%) were detached single family homes. Five percent (5%) were attached single-family units. Fourteen percent (14%) were multifamily units in buildings of two to four (2-4) units. Thirty-eight percent (38%) were multifamily in buildings with 5 or more (5+) units.

In total, there were 100,355 rental units in Long Beach in 2000. Only those buildings that meet the parking standard, without resorting to tandem parking, can be converted to condominiums. No parking variances are typically being granted as part of condominium conversion projects. While an exact number of potential apartment buildings that meet the development standards for conversion is not available, developers and real estate professionals have noted that is getting more difficult to find buildings for potential conversion.

CONDOMINIUM CONVERSIONS FROM 2000-2005

Market forces are driving an increased interest in condominium conversions. The primary factor driving the interest in condominium conversions is the ever-decreasing ability of households to afford the median-priced home. In Los Angeles County, this affordability index has been dropping steadily where now approximately only twelve percent (12%) of households can afford the median-priced home. What this means is that fewer and fewer renters can afford to purchase a home and fewer current homeowners could afford the homes they live in if they had to purchase it today.

The interest in condominium conversions by both developers and potential buyers has increased annually with the number of projects brought before the Planning Commission at least doubling each of the last four (4) years. While the future of the real estate market is impossible to predict, it is likely that this trend will continue for the foreseeable future if market conditions follow current trends.

Because Long Beach has a large supply of rental housing stock, and a relatively low homeownership rate compared with the County as a whole, the general policy direction has been to allow condominium conversions to proceed under the existing regulations. The following table provides a summary of the condominium conversion cases from 2000 to 2005.

CHAIRMAN AND PLANNING COMMISSIONERS

HOUSING TRUST FUND

June 15, 2006

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	2000	2001	2002	2003	2004	2005
Number of Cases	2	5	2	4	13	30
Number of Units	22	60	4	18	426 ^a	262

^a – includes 142 units at 250 Pacific Avenue

Even with the market conditions outlined above, it is increasingly difficult for first-time buyers to purchase converted units. One function of the HTF will be to assist these potential homeowners in making their initial purchase, through down-payment assistance or silent second mortgage loans.

FUNDING MECHANISMS

There are several possible funding mechanisms for the condominium conversion fee. Tying the fee to a future sales price of the converted unit is one avenue that has been suggested. The fee would be imposed after the Final Map was approved and the units were offered for initial sale. This would require the City to confirm the sales price and collect the fee for each of the individual condominium units after the initial sale. Units that are held by the developer or that otherwise remain unsold for any reason would not pay the fee until sold. This approach will be difficult to administer since the City is not involved in the sale of units and tracking/monitoring could be staff-intensive. In addition, collection of the fee would be deferred until sales of the unit, often occurring well after the building was converted.

Alternatively, a flat fee for each condominium unit could be collected at the time the Final Map was submitted for review. A fee of \$4,000 per converted unit would yield the equivalent amount as a fee based on the one percent of the sales price.

Using the 262 units approved in 2005, a fixed fee of \$4000 per unit would generate over \$1 million annually. This approach would yield a more predictable revenue stream, and result in more effective tracking and monitoring. The fee could be adjusted administratively each year based on increases in condominium sales price indices throughout Long Beach in order to keep pace with increasing sales prices.

A third option is to require a fee but allows a waiver of the fee if a project deed restricted some of the units as affordable units. This option would allow an alternative approach in the event the fee could not be paid.

Regarding the application of the fee, there are several options to consider. The fee could apply to only new conversions, i.e. conversions that have not yet been filed, to conversions that have been filed, but not received Tentative Map approval, or, to conversions that have received Tentative Map approval, but not obtained Final Map approval. The last approach would be consistent with the City Council's intent to apply the fee at the time of sales, and to maximize the funds collected.

PUBLIC NOTICE

Public notices on this item were sent to recent applicants of condominium conversion projects and those who expressed interest related topics to the condominium conversion policy discussion before the Planning Commission on February 16, 2006.

ENVIRONMENTAL REVIEW

According to the guidelines to implement the California Environmental Quality Act, the proposed action has been determined to be categorically exempt under Section 15305, Minor Alternations in Land Use Limitations, Class 5. This section states that the division of multiple-family residences into common-interest ownership where no physical changes occur can be considered Categorical Exempt (CE). Therefore, CE 06-120 was prepared for this project and is attached for review.

CONCLUSIONS

There are several conclusions that can be drawn from the above analysis.

- **Conversions will continue** – While an increasing number of projects have been processed of the last few years, there remains a large pool of apartments that could be converted to condominiums. Establishing the HTF and funding it in part through a fee from those conversions is consistent with the policy framework for providing affordable housing to both renters and first-time buyers.
- **Timeliness** – The interest in condominium conversions has sparked an increase in the number of cases filed and public inquiries regarding conversions. Given the demand for conversions, the fee is likely to generate substantial funds.
- **Predictable Funding** – Using a percentage of the sales prices assures a fair market price basis for the fee, but requires the fee to be collected well after the approval of conversion. A fixed fee could be collected at the time the Final Map is submitted for approval. The fee could be adjusted annually to reflect increases in median sales price. A fixed fee would be the simplest calculation method.
- **Need for More Affordable Housing** – Long Beach has a large pool of rental housing. Allowing conversions of some of these units provides more affordable buying opportunities. As long as demand for rental housing is not impacted and relatively affordable rental housing remains available, this policy should continue.

Planning staff recommends that a fee of \$4,000 per converted unit be established to apply to condominium conversion projects that have not received approval for a Final Map at the time the fee becomes effective. This fee should be adjusted to reflect the annual increase in sales price for condominiums in Long Beach.

IT IS RECOMMENDED THAT THE PLANNING COMMISSION:

Recommend that the City Council adopt amendments to Title 20.32 (Subdivisions) and Title 21.63 (Zoning Regulations) related to the establishment of a new condominium conversion fee to be used in part to fund the proposed Housing Trust Fund.

Respectfully submitted,

SUZANNE FRICK,
DIRECTOR OF PLANNING AND BUILDING

By: 
STEVE GERHARDT, AICP
COMMUNITY PLANNER

Approved: 
GREG CARPRENTER
PLANNING BUREAU MANAGER

Attachments:

- Proposed Condominium Conversion Fee Ordinance, draft outline
- Nexus Study Memorandum (April 7, 2006)
- Condominium Conversion Fee Charged by Other Jurisdictions (April 12, 2006)
- Housing Trust Fund Press Release (released May 2, 2006)
- Categorical Exemption 06-120

PROPOSED CONDOMINIUM CONVERSION FEE ORDINANCE

(DRAFT)

PURPOSE

To establish a dedicated continuous source of funding for the City's Housing Trust Fund.

GENERAL PARAMETERS

1. The condominium conversion fee shall become effective 60 days after the Mayor's signing of the ordinance.
2. The applicant or successor in interest shall be required to pay \$4,000 per converted unit, prior to the City's approval of the Final Map. The fee shall be adjusted annually based on the percentage increase in the Citywide Condominium Sales Price Index from year to year.
3. The Housing Services Bureau shall collect the condominium conversion fee.
4. Staff shall report the status of the condominium conversion fee annually to the Planning Commission.

APPLICABILITY

The fee shall apply to all residential units being converted from rental to homeownership that have not yet obtained Final Map approval.

EXEMPTIONS:

Condominium conversion projects providing affordable units for sale will be exempt from a portion of the fee dependant on the affordability rate and number of units deed restricted for such purpose as determined by the Housing Services Bureau.

Date: April 7, 2006

To: Ellie Tolentino, Housing Operations Officer
Housing Services Bureau

From: Karen Warner, AICP
Housing Consultant

For: Department of Planning and Building
City Attorney's Office

Subject: Nexus for Condominium Conversion Fee Ordinance

This memo is intended to provide background on the relationship between condominium conversions and impact on the City's lower income renters and supply of affordable rental housing. This relationship, or "nexus", provides the justification necessary for the City to charge a fee for condominium conversions for deposit into the Housing Trust Fund.

Current Housing Needs of Long Beach Renters

With over 100,000 rental units in Long Beach comprising approximately 60% of the housing stock, Long Beach has a very active rental market. However, the increasing gap between renter incomes and market rents has exacerbated issues of housing affordability for the City's renter population. The 2000 Census documents 46% of the City's renters were spending 30% or more of their incomes on housing (State and federal standards for housing "overpayment"). Approximately one-quarter of Long Beach renters experienced *severe* overpayment, spending more than half of income on shelter. (County-wide, 44% of renter households overpaid, and 22% severely overpaid). This imbalance between renter incomes and market rents has contributed towards increasing levels of household overcrowding (20% of City renter households severely overcrowded¹), resulting in accelerated unit deterioration and neighborhood decline. In addition, renters spending such a high proportion of their incomes on housing are particularly vulnerable to homelessness.

Review of current market rents serves to further highlight the extent of housing affordability mismatch. As of fourth quarter 2005, the average monthly rent in Long Beach was \$1,127 for a one-bedroom unit, \$1,373 for a two-bedroom unit, and \$1,425 for three-bedrooms.² Using the 30% affordability standard, a two person household would need to earn \$47,000 per year to afford the average one-bedroom apartment rent of \$1,127, including \$50 in monthly utilities. This

¹ 2000 Census. Severe overcrowding defined by Census as greater than 1.5 persons per room.

² Casden 2006 Real Estate Economics Forecast, USC Lusk Center for Real Estate.

level of income well exceeds the 2005 Los Angeles-Long Beach MSA very low (\$26,200) and low (\$41,900) income thresholds.

Because Long Beach has a large number of recent immigrants and low paid workers, it is also relevant to evaluate rental affordability for minimum wage workers. At \$6.75 per hour, two minimum wage workers would each need to work approximately 67 hours per week to afford the average \$1,127 one-bedroom apartment rent. Thus, the minimum wage in California is well below that needed to pay average rents in Long Beach, contributing to high levels of renter overpayment and overcrowding.

The USC Lusk Center for Real Estate forecasts that Long Beach apartment rents will increase by more than 6% this year, and that the City's already low 2.8% vacancy rate will further decline. With limited new supply of rental housing and projected losses of existing rental stock resulting from condominium conversions, vacancy rates are expected to shrink and push rents further upward.

Need for additional rental housing

State law requires jurisdictions to provide for their fair share of regional housing needs within their Housing Element. The Southern California Association of Governments (SCAG) determines the projected housing needs for jurisdictions in Southern California, and designates the number of households the City will be expected to accommodate. Housing needs are further broken down by the following four income categories: very low, low, moderate and upper income. Future housing needs reflect the number of new units needed in a jurisdiction (future demand), plus an adequate supply of vacant housing units to assure mobility, and new units to replace losses. These needs were forecast most recently within SCAG's 2000-2005 Regional Housing Needs Assessment (RHNA).³

Long Beach has a regional housing need for an allocation of 1,464 new housing units during the 2000-2005 RHNA planning period, as adopted within the City's Housing Element. According to the City's 2004-2005 Annual Progress Report on implementation of the Housing Element, the City has made the following progress in meeting its RHNA goals:

³ The 2000-2005 SCAG Housing Element planning period has been extended to June 30, 2008 (with no increase to RHNA goals) to correspond with SCAG's Regional Transportation Plan, as allowed per Chapter 696, Statutes of 2004.

**City of Long Beach
2000-2005 Status in Addressing RHNA**

Income Level	RHNA Allocation	Housing Units Permitted FY 2000 – 05	Attainment Percentage
Very Low (0-50% MFI)	411	119*	29%
Low (51-80% MFI)	251	43*	17%
Moderate (81-120% MFI)	296	60*	20%
Upper (above 120% MFI)	506	3,701**	730%
Total	1,464	3,923	268%

Source: Long Beach FY 2005 Housing Element Annual Progress Report, November 17, 2005

* Reflects income restricted housing documented by Long Beach Housing Services Bureau

** Reflects market rate housing production based on building permits issued.

While the City has more than fulfilled its total RHNA goal for the 2000-2005 housing period, it has fallen significantly short in producing housing affordable to very low, low, and moderate income households. This shortfall is reflective of a local housing market that is only producing housing for upper income households, requiring subsidies to bring down the cost of market-rate housing to affordable levels. While the City has committed significant resources and made commendable progress in assisting in the development of affordable housing - in the past year alone three projects totaling 148 units were produced - the need for affordable units well exceeds public subsidy resources.

The prevailing rental rates in most areas of Southern California do not justify a rate of return to build new apartment buildings. Many communities have seen negligible new apartment development in the last 10-20 years. Construction costs simply do not justify the anticipated rental revenue stream in many cases without some form of subsidy.

It is no surprise that renters comprise the majority of Long Beach households earning lower incomes. In fact, according to the City's 2005-2010 Consolidated Plan, 78% of the approximately 72,000 lower income (<80% MFI) households in Long Beach are renters. Therefore, the City's shortfall in producing new housing affordable to lower income groups – as highlighted in its 2004-2005 RHNA Annual Progress Report - has the greatest impact on renter households. Exacerbating this shortfall in rental housing production is the increasing trend towards conversion of existing apartments into condominium ownership.

Impact of Current Condominium Conversion Trends

The market for condominium conversions in Long Beach has increased dramatically over the past several years, with the number of cases brought before the Planning Commission doubling in each of the last four years. The City has allowed condo conversions to continue to provide a lower cost ownership

alternative to single-family homes, consistent with Housing Element goals to increase homeownership.

Similarly, greater Los Angeles was the 12th strongest market in the nation for conversion sales in 2005.⁴ As long as single-family home prices continue to escalate and interest rates remain relatively low, the market for condominium conversions is predicted to remain strong.

**City of Long Beach
Condominium Conversion Cases: 2000-2005**

	2000	2001	2002	2003	2004	2005
Number of Cases	2	5	2	4	13	30
Number of Units	22	60	4	18	426*	262

*Includes 142 units at 250 Pacific Avenue

The City's Condominium Conversion Ordinance offers existing apartment tenants an exclusive right to contract for the purchase of their unit ("right of first refusal"). Purchase terms and conditions are required to be the same or more favorable than those offered to the general public. However, to what extent are existing tenants able to afford to purchase the converted units?

The table on the following page presents median sales price data for all new and existing condominiums sold in Long Beach during 2005. Over 1,300 condominiums were sold for an overall median sales price of \$343,000,⁵ an increase of 30% from the prior year. While converted condominium units are typically smaller and provide less parking than newly built condominiums, developers generally put a high level of improvement into the property to maximize sales prices. Recently converted units can be assumed, on average, to command the Citywide median condominium sales price, which encompasses a range of older units, converted apartment units, and newly constructed units.

Assuming a 5% downpayment, 6.25% fixed rate interest, and 30-year term, the monthly mortgage payment necessary to purchase the median priced (\$343,000) condominium in Long Beach is \$2,000, or approximately \$2,400 once taxes and insurance are included. A household would need to earn at least \$86,000 per year to support this mortgage, assuming they pay no greater than 33% of household income for housing. Based on data from the 2000 Census, only 7% of Long Beach's 96,000 renter households earned this level of income. (In Los Angeles County, only 12% of households can afford the median priced home,

⁴ The Forbes/Slatin Real Estate Report, "Preaching to the Converters," 11/30/05.

⁵ Los Angeles County Home Sales Activity for 2005, as compiled by DataQuick and calculated based on a weighted average of the medians listed for 11 Long Beach City zip codes.

referred to as the "affordability index.")⁶ This data would indicate that very few existing tenants in Long Beach are able to purchase their converted unit without some form of subsidy.

**City of Long Beach
Median Condominium Sales Prices: 2005**

Long Beach Zip Code	Number of Condominiums Sold	Median Condominium Sales Price	% Change in Price from 2004
90802	429	\$360,000	26.3%
90803	169	\$450,000	18.4%
90804	144	\$321,000	28.9%
90805	73	\$200,000	40.8%
90806	13	\$324,000	15.7%
90807	146	\$302,000	17.7%
90808	9	\$369,000	10.1%
90810	41	\$195,000	47.7%
90813	68	\$290,000	49.5%
90814	138	\$365,000	25.9%
90815	73	\$362,000	11.0%
Citywide Total	1,303	\$343,000	30.1%

Source: www.DQNews.com, Los Angeles Times Zip Code Chart

Impacts of Tenant Displacement

Given the disparity in tenant incomes and the market price of converted apartments, the majority of tenants in converted properties in Long Beach will be faced with displacement. The City's Condominium Conversion Ordinance establishes the following tenant noticing and relocation requirements to help mitigate the hardship caused by displacement:

- Written notification at least 60 days prior to filing of tentative map, and at least 10 days prior to the public hearing before the Planning Commission
- Written notification within 10 days of map approval, including information on tenant's rights and benefits, and statement that no evictions will occur as a result of the conversion for at least 180 days
- Written notification at least 10 days prior to consideration of final map before City Council (or director of Public Works, as applicable), including estimate of time prior to eviction

⁶ California Association of Realtors, December 2005.

- Where City determines existing rents are at affordable levels, special relocation benefits (in accordance with Chapter 21.60 of the Zoning Ordinance) provided by the developer to low and very low income households. The current relocation benefit is approximately \$3,600.
- Very low and low income tenants with a handicapped member entitled to additional relocation benefits for replacement of any structural modifications tenant previously paid for in vacated unit

Monetary relocation assistance provided to very low and low income tenants is intended to be reflective of the actual costs likely to be incurred by displaced households, including first and last month's rent, security deposits, moving and storage expenses, and utility deposits. However, the difficulty in finding affordable replacement housing in Long Beach where rental vacancies are extremely limited can be daunting. The severe shortage of affordable rental housing will subject many of these displaced households to housing overpayment and/or overcrowding, and even risk of homelessness.

Numerous research studies show that condominium conversions lead to the displacement of a community's vulnerable populations, such as single-parent households. Furthermore, tenants displaced from their homes through condominium conversions are unlikely to be relocated into adequate and affordable housing. This is particularly true for elderly, non-white, and lower income tenants.⁷

Conclusion

The growing imbalance between tenant incomes and market rents in Long Beach has created a major housing affordability problem for tenants, contributing to increasing rates of household overcrowding and neighborhood deterioration. In addition, despite the commitment of considerable public resources, the City faces a significant shortage in the production of very low, low and moderate income units necessary to address the regional housing needs adopted within the Housing Element.

⁷ Bhatia, R, Housing Needs, Residential Displacement, and Comprehensive Human and Environmental Impact Assessment: A Summary of Research on the Human Health and Social Effects of Residential Displacement and a Review of Population and Housing Impacts in CEQA Policy and Practice (Technical Report, 3/1/04 for the City of County of San Francisco, Dept. of Public Health); Hartman, C. & Robinson, D, "Evictions: The Hidden Housing Problem," Housing Policy Debate, Vol. 14, Issue 4, Fannie Mae Foundation 2003; U.S. Dept of Housing and Urban Development, The Conversion of Rental Housing to Condominiums and Cooperatives: A National Study of Scope, Causes, and Impacts (2001 reprinted 1980 ed.).

Market trends supporting conversion of apartments to condominium ownership are causing tenant displacement and permanent loss of the rental housing stock, further exacerbating the already critical housing needs of Long Beach's lower income tenants. This relationship between condominium conversions and the impact on both tenants and the stock of affordable rental housing, serves as justification for charging a condominium conversion fee for deposit into the City's Housing Trust Fund.

The primary purpose of creating the Housing Trust Fund is to augment the City's existing affordable housing resources. As drafted, the HTF would earmark 80% of its resources to above moderate-income households (\$82,650 for a four-person household in 2005), and 20% for extremely low-income households (\$19,650 for a four-person household in 2005). Affordability benefits would continue for 55 years for rental units, and 30 years for owner-occupied units. The City Council could change these provisions during deliberations to create the HTF. Funding sources for the HTF beyond potential condominium conversion fees include transient occupancy taxes from the General Fund and developer fees from Douglas Park and potentially other large-scale development projects.



Date: April 12, 2006

To: *for* Gerald Miller, City Manager *R.A.*

From: Patrick West, Director of Community Development *PW*

For: Bonnie Lowenthal, Councilmember, 1st District

Subject: Condominium Conversion Fee Charged by Other Jurisdictions

This memo is in response to your request for information regarding the practices of other cities in terms of condominium conversion fees.

Below is the result of our research.

- County of Los Angeles – charges a fee equal to 1% of the sales price of the converted unit.
- Roseville, CA – charges a flat fee of \$5,000 per unit.
- Montgomery County, Maryland - charges a fee equal to 4% of the sales price of the converted unit.
- City of Berkeley, CA – charges 12.5% of the difference between the price of a unit, if sold as an apartment (e.g., \$150,000) and the price of the converted unit when sold as a condo (e.g., \$450,000). Using the numbers in this example, the difference of \$300,000, multiplied by 12.5%, requires a fee of \$37,500. Note that the City limits conversions to 100 units per year.
- City of San Diego, CA – does not charge a fee per se; however, all condominium conversion projects of two or more units that contain units sold to households earning 150% of area median income (AMI) or more, are subject to the City's inclusionary housing ordinance which requires that at least 10% of the units be set aside for households earning no more than 100% AMI or pay in-lieu fees, which are currently \$1.25 per sq. ft. for projects with less than ten units, or \$2.50 per sq. ft. for projects with ten units or more.

In addition to the above, on February 16, 2006, the Department of Planning and Building submitted a report to the Planning Commission regarding condominium conversions. Below is an excerpt from the report that discusses condominium conversions in other jurisdictions.

“A survey of other adjacent communities indicates that Long Beach is one of

Bonnie Lowenthal, Councilmember, 1st District

April 12, 2006

Page 2

the few communities with an active program for condominium conversions. This is a function of the higher percentage of available apartment buildings in Long Beach that meet the City's straightforward existing regulations as discussed above. Other cities allow conversions, and either limit the number or have more stringent requirements that limit the potential of converting existing buildings. The survey included Pasadena, Signal Hill, Anaheim, San Jose, San Francisco, Redondo Beach, Oakland, Lakewood, Seal Beach and Carson, among others.

Adjacent communities have sought to limit or prohibit condominium conversions. The primary reason is that their rental pool is relatively small and the vacancy rate remains low. In Redondo Beach, for example, condominium conversions are allowed, but each year the City conducts a survey to see if the vacancy rate for rental units is above six percent (6%). For the past 18 years, the rate has been in the range of 3 percent (3%), and no condominium conversions have been allowed.

In San Francisco, the City/County issues a limited number of condominium conversion permits by lottery. Because the demand greatly exceeds supply, mortgage lenders and developers in the area have created new financing mechanisms similar to cooperatives to allow individual ownership of multi-family buildings. Under this scenario, the City is not involved in the transfer of ownership and there is no opportunity to determine if the buildings meet current building safety standards."

The full report to the Planning Commission is attached for your reference.

Please call me at x86570 or Ellie Tolentino at x86926 if you have any questions or need additional information.

PW:EMT

✓ cc: Suzanne Frick, Director of Planning and Building
Attachment

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**Press Release**

City of Long Beach Public Information Office
333 W. Ocean Blvd, Long Beach, CA 90802

5/2/2006

FOR IMMEDIATE RELEASE

PRESS RELEASE #CM: 050206

Subject : Agenda Item #27 - Housing Trust Fund Fact Sheet**Contact :** Elizabeth Stochl, Manager, Housing Services Bureau 570.6367

Housing affordability in the City of Long Beach and elsewhere is declining, making it harder and harder for people to buy homes. To increase first-time homebuyers assistance, the City Council on October 11, 2005, asked the City Attorney to prepare an ordinance establishing a Housing Trust Fund (HTF). The City of Long Beach needs more affordable housing, and the HTF would be an effective tool toward achieving that goal.

On May 2, the City Council is scheduled to have the first reading of the Housing Trust Fund Ordinance. A final reading and approval will take place at a subsequent City Council meeting.

Here are some important details:

- The HTF would augment existing affordable housing resources.
- Establishing a HTF would likely help the City of Long Beach receive any future State housing bond funds.
- The HTF would help increase neighborhood stability and vitality.
- 80 percent of HTF funds would be earmarked for above moderate-income households. Based on 2005 income levels, that would be \$82,650 for a four-person household.
- 20 percent of HTF funds would be earmarked for extremely low-income residents. Based on 2005 income levels, that would be \$19,650 for a four-person household.
- Affordability benefits would continue for 55 years with rental units and 30 years for owned units, and would not expire with sale of property.
- The Long Beach Housing Development Company will administer the HTF and will provide the City Council with semi-annual reports.
- HTF's initial funding would come from General Fund transient occupancy taxes, \$500,000 per year, and from Boeing Realty's contribution for Douglas Park development, \$3,000,000 over five years.
- Other funding sources, such as condominium conversion fees, contributions from major employers, charitable organizations, foundations, will be explored.

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CITY OF LONG BEACH

DEPARTMENT OF PLANNING & BUILDING

333 WEST OCEAN BLVD., FIFTH FLOOR • LONG BEACH, CALIFORNIA 90802

NOTICE OF EXEMPTION

CATEGORICAL EXEMPTION CE- 06-120

TO: OFFICE OF PLANNING & RESEARCH
1400 TENTH STREET, ROOM 121
SACRAMENTO, CA 95814

FROM: DEPARTMENT OF PLANNING & BUILDING
333 W. OCEAN BLVD., 5TH FLOOR
LONG BEACH, CA 90802

L.A. COUNTY CLERK
ENVIRONMENTAL FILLINGS
12400 E. IMPERIAL HWY. 2ND FLOOR, RM. 2001
NORWALK, CA 90650

PROJECT TITLE: Zoning Text Amendment

PROJECT LOCATION - SPECIFIC: Citywide

PROJECT CITY: Long Beach PROJECT LOCATION - COUNTY: LOS ANGELES

ACTIVITY DESCRIPTION: Zoning Amendment to establish a new fee imposed on condominium conversions as a component of the Housing Trust Fund (HTF).

Name of Public Agency Approving Project: City of Long Beach

Name of Person or Agency Carrying Out Project: Jeff Winklepleck
(Printed Name)

333 W. Ocean Blvd., Long Beach, CA 90802
(Mailing Address)

(562) 570-6607
(Telephone)

[Signature]
(Signature)

(To Be Completed By City Staff Only)

- Check One:
- LONG BEACH CITY PLANNING COMMISSION
 - DEPARTMENT OF PLANNING AND BUILDING

The above project had been found to be exempt from CEQA in accordance with the State Guidelines Section 15305 (Class 5) Minor Alterations in Land Use Limitations

Statement of Support for this finding: Amendment will support Housing needs in the City.

Lead Agency: _____ Contact Person: Angela Reynolds Area Code/Telephone: 562-570-6357

Signature: Jill Griffiths Date: 6-7-06 Title: Planner IV

- Signed by Lead Agency
- Signed by Applicant (Jill Griffiths for Angela Reynolds)



CITY OF LONG BEACH

DEPARTMENT OF COMMUNITY DEVELOPMENT

333 WEST OCEAN BOULEVARD • LONG BEACH, CALIFORNIA 90802

October 11, 2005

HONORABLE MAYOR AND CITY COUNCIL
City of Long Beach
California

RECOMMENDATION:

- (1) Request the City Attorney to prepare an ordinance establishing a Housing Trust Fund for the City of Long Beach in accordance with the terms and conditions recommended herein; and
- (2) Request the City Attorney to prepare a condominium conversion fee ordinance and refer the ordinance to the Planning Commission for review and recommendation to City Council. (Citywide)

DISCUSSION

On June 11, 2002, the City Council requested the City Manager to prepare a report regarding the feasibility of establishing a Housing Trust Fund (HTF) for the City of Long Beach, including identification of potential funding sources. On September 10, 2002, City Council authorized the City Manager to enter into a contract with David Rosen & Associates (DRA) to conduct the study. After confirmation of assumptions and extensive presentations of the preliminary findings, DRA's final report was completed in October 2003 and concluded that it was appropriate to establish a HTF in Long Beach.

The consultant findings and conclusions on a HTF were shared with developers, business associations and housing advocates. The general reaction regarding the HTF has been positive; almost everyone recognizes the need for more affordable housing. However, there has been mixed reaction concerning the proposed revenue sources, the target population to be served by the HTF, and the proposed uses. The various comments and positions received as a result of the community outreach on the HTF are provided in Attachment "A."

Subsequent to community discussions on the implementation, staff recommends the following:

1. Request the City Attorney to prepare an ordinance establishing a Housing Trust Fund for the City of Long Beach in accordance with the parameters outlined below:

A. Uses

- First-time homebuyer assistance programs (could include assistance that can be layered with other entities' assistance programs)
- Acquisition and/or rehabilitation assistance, both ownership and rental
- New construction, both ownership and rental, including special needs

B. Target Population

- ⁸⁰~~50~~ percent of funds for above moderate-income households (those with income not exceeding 150 percent of area median income [AMI], i.e. \$57,825 for a 1-person household or \$82,650 for a 4-person household, based on 2005 income levels)
- ²⁰~~50~~ percent of funds for extremely low-income households (those with income not exceeding \$13,750 for a 1-person household or \$19,650 for a 4-person household, based on 2005 income levels)

It should be noted that the City's existing resources for affordable housing, such as federal HOME funds and redevelopment housing set-aside, can be used only to benefit those households whose incomes do not exceed 80 percent of AMI, or 120 percent of AMI, respectively.

C. Length of Affordability Restrictions on HTF-Assisted Units

- Rental - 55 years
- Ownership - 30 years

Most state and federal loan programs providing funds for affordable housing development, as well as redevelopment law which governs the use of redevelopment housing set-aside, require 55 years of affordability for rental units and 45 years for ownership units. Many developers and homebuyers find the 45-year restriction very onerous. To promote homeownership, staff recommends a 30-year restriction on HTF-assisted ownership units.

D. Potential Funding Sources

- Transient occupancy taxes (TOT) in the amount of \$500,000 per year
- Condominium conversion fee of 1 percent of sales price of unit being converted from rental to homeownership (assuming an average condominium sales price of \$322,000 in July 2005 multiplied by an average of 300 converted units, this could generate an estimated revenue of about \$950,000 in FY2006)
- Boeing Realty contribution for Douglas Park (\$3,000,000 over 5 years)
- Other contributions and donations – could include potential contributions from major employers, charitable organizations, foundations, or other sources, if any

E. Administration

- The Long Beach Housing Development Company will administer the HTF pursuant to established parameters and will submit a semi-annual report to City Council to apprise them of the status of the HTF.
2. Request the City Attorney to prepare a condominium conversion fee ordinance and refer the ordinance to the Planning Commission for review and recommendation to City Council.

The conversion of apartments into condominiums typically causes displacement and reduces the availability of affordable housing units for low- and moderate-income households. Some jurisdictions have mitigated the impact of condominium conversion by charging an "impact fee" to the developer and using these fees to produce affordable housing. The County of Los Angeles currently charges a "rental housing production fee" equivalent to 1 percent of the purchase price of a converted unit. The City of Roseville, California charges a conversion fee of \$5,000 per unit. Montgomery County in Maryland charges the developer a condominium conversion fee of 4 percent of the converted unit's sales price.

The City of Long Beach has received and processed many requests for condominium conversion. Between January 2004 and July 2005, a total of 625 units have either been approved for conversion or are in process. While condominium conversion may increase homeownership opportunities in the City, there is evidence that shows that low-income tenants are being displaced from these units.

To alleviate the impact of condominium conversion on the supply of affordable housing in the City of Long Beach, staff recommends charging developers a fee equivalent to 1 percent of the purchase price of the converted unit, to be deposited into the HTF.

This letter was reviewed by Deputy City Attorney Everett Glenn on September 6, 2005, and Budget Management Officer David Wodynski on September 7, 2005.

TIMING CONSIDERATIONS

Council action is requested on October 11, 2005 in order to move forward with these proposed housing initiatives.

FISCAL IMPACT

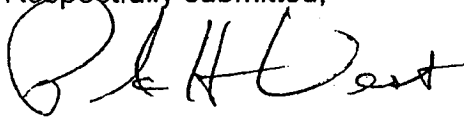
City Council's approval of the proposed recommendations will result in the creation of a Housing Trust Fund and referral of a condominium conversion fee ordinance to the Planning Commission. As proposed, \$500,000 of TOT revenue, if available, or other funding sources as appropriate will be deposited into the HTF annually.

HONORABLE MAYOR AND CITY COUNCIL
October 11, 2005
Page 4

SUGGESTED ACTION:

Approve recommendation.

Respectfully submitted,



PATRICK H. WEST
DIRECTOR OF COMMUNITY DEVELOPMENT

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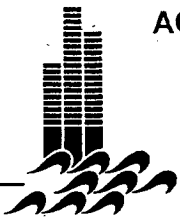
APPROVED:



GERALD R. MILLER
CITY MANAGER

Attachment:

Attachment "A" – Stakeholders' Comments

**CITY OF LONG BEACH**

DEPARTMENT OF PLANNING & BUILDING

333 WEST OCEAN BOULEVARD • LONG BEACH, CALIFORNIA 90802 • (562) 570-6194 FAX (562)570-6068

ZONING DIVISION

July 20, 2006

CHAIRMAN AND PLANNING COMMISSIONERSCity of Long Beach
California

SUBJECT: Amendment of the Zoning and Subdivision Regulations to Establish a Fee Related to Condominium Conversions to Support the Housing Trust Fund (Continued)

LOCATION: Citywide

BACKGROUND

This is a request for review and recommendation to establish a new fee imposed on condominium conversions as a component of the Housing Trust Fund (HTF).

The item was originally discussed on June 15, 2006. At that time, the Planning Commission asked staff to gather more information on what other jurisdictions are doing on this issue, the financial details of conversion projects, an update on conversion projects in process, and for more details on how the HTF will be implemented in Long Beach.

Percentage vs. Flat Fee

There are several possible funding mechanisms for the condominium conversion fee. Tying the fee to a future sales price of the converted unit is one avenue that has been suggested. The fee would be imposed after the Final Map was approved and the units were offered for initial sale. This would require the City to confirm the sales price and collect the fee for each of the individual condominium units after the initial sale. Units that are held by the developer or that otherwise remain unsold for any reason would not pay the fee until sold. This approach will be difficult to administer since the City is not involved in the sale of units and tracking/monitoring could be staff-intensive. In addition, collection of the fee would be deferred until sale of the unit is complete, which often occurs well after the building was converted.

It has been suggested that a lien against the project and individual units could be established by the applicants at the time the Final Map is requested to facilitate the paying of the fee. The lien would be in a form acceptable to the City, and would be paid as an action of escrow at culmination of the sale. LA County uses this method to collect their fee, but processes less than 10 projects a year on average.

CHAIRMAN AND PLANNING COMMISSIONERS

HOUSING TRUST FUND

July 20, 2006

Page 2

Alternatively, a flat fee for each condominium unit could be collected at the time the Final Map was submitted for review. Assuming an average sale price of \$400,000, a fee of \$4,000 per converted unit would yield the equivalent amount as a fee based on the one percent of the sales price.

Using the 262 units approved in 2005, a fixed fee of \$4000 per unit would generate over \$1 million annually. This approach would yield a more predictable revenue stream, and result in more effective tracking and monitoring. The fee could be adjusted administratively each year based on increases in condominium sales price indices throughout Long Beach in order to keep pace with increasing sales prices.

This fee would be required during the project development phase, which makes it part of the cost of the conversion for applicants, creating an additional budgetary burden on conversion projects according to several local developers and recent applicants.

Inclusionary Housing

Many jurisdictions use their inclusionary housing programs to generate low and moderate-income housing units. The review of impact fee requirements (attached) indicates that the majority of jurisdictions use this approach instead of a fee-based approach to generate affordable housing. Inclusionary housing provisions require that a percentage of affordable housing units are required within development projects and conversion projects as a condition of approval.

There are 136 cities in California with inclusionary housing policies or programs. This type of program is often coupled with an in lieu fee that can be paid if the required percentage of affordable housing cannot be provided by an individual project for some reason for specified reasons. Examples of inclusionary housing programs in other jurisdictions include 10-20% of units being made affordable as part of a conversion project.

Project Approval Status

There have been 86 condominium conversion projects with a total of 1,175 units reviewed by the Planning Commission since 2001, an average of 13.7 units per project. The Planning Commission approved 1,033 of these housing units.

The Public Works Department processes all subdivision maps within the City. According to their records of the condominium conversion projects, 329 units have received their Final Map approvals, which establishes the individual ownership and taxation parcel and makes the units available for sale. Whether those units have been made available for sale is at the discretion of the applicant and is not tracked by the City.

An additional 373 units have received Planning Commission approval, and the associated Final Maps have been applied for and not approved. This process is taking from 4 to 14 months, depending on the backlog of projects in Long Beach Public Works or Los Angeles County Public Works, either of which can review a map for Subdivision

CHAIRMAN AND PLANNING COMMISSIONERS

HOUSING TRUST FUND

July 20, 2006

Page 3

Map Act requirements. City staff accepts the Final Maps and issues its approval for the County to create the new subdivision and establish the individual taxation parcels. The City receives the updated parcel maps from the County from one to several months after recordation of the Final Map. The taxation assessment lags the subdivision by up to one year, and would be paid by the owner of record of each newly created ownership unit during the normal property tax bill cycle.

432 units are pending Planning Commission approval or have received Planning Commission approval and not yet submitted a request for Final Maps to date. Lastly, 41 units have had no activity toward approval of their Final Maps several years after Planning Commission approval.

Regarding the application of the fee to projects in the pipeline, there are several options to consider. The fee could apply to only new conversions, i.e. conversions that have not yet been filed, to conversions that have been filed, but not received Tentative Map approval, or, to conversions that have received Tentative Map approval, but not obtained Final Map approval. The last approach would be consistent with the City Council's intent to apply the fee at the time of sales, and to maximize the funds collected.

Financial Viability

The Planning Commission requested information to understand the financial structure of conversion projects to get an understanding of the fees for affordable housing that these projects could support. Financial (pro forma) information was requested from local developers and recent conversion applicants and was not provided. Information being compiled by the Housing Services Division's economic consultant will be provided at the study session.

PUBLIC NOTICE

Public notices on the originally scheduled item were sent to recent applicants of condominium conversion projects and those who expressed interest related topics to the condominium conversion policy discussion before the Planning Commission on February 16, 2006.

ENVIRONMENTAL REVIEW

According to the guidelines to implement the California Environmental Quality Act, the proposed action has been determined to be categorically exempt under Section 15305, Minor Alternations in Land Use Limitations, Class 5. This section states that the division of multiple-family residences into common-interest ownership where no physical changes occur can be considered Categorical Exempt (CE). Therefore, CE 06-120 was prepared for this project and is attached for review.

CONCLUSIONS

There are several conclusions that can be drawn from the above analysis.

- **Conversions will continue** – While an increasing number of projects have been processed of the last few years, there remains a large pool of apartments that could be converted to condominiums. Establishing the HTF and funding it in part through a fee from those conversions is consistent with the policy framework for providing affordable housing to both renters and first-time buyers.
- **Timeliness** – The interest in condominium conversions has sparked an increase in the number of cases filed and public inquiries regarding conversions. Given the demand for conversions, the fee is likely to generate substantial funds.
- **Predictable Funding** – Using a percentage of the sales prices assures a fair market price basis for the fee, but requires the fee to be collected well after the approval of conversion. Mechanisms to collect the percentage fee could be implemented to aid administration. A fixed fee could be collected at the time the Final Map is submitted for approval. The fee could be adjusted annually to reflect increases in median sales price. A fixed fee would be the simplest calculation method, but makes the fee as an additional cost of conversion.
- **Need for More Affordable Housing** – Long Beach has a large pool of rental housing. Allowing conversions of some of these units provides more affordable buying opportunities. As long as demand for rental housing is not impacted and relatively affordable rental housing remains available, this policy should continue. Use of an inclusionary housing policy would provide units of affordable housing directly for qualifying projects and could generate more units than a fee at the level being considered would generate.

Planning staff recommends that a fee of \$4,000 per converted unit be established to apply to condominium conversion projects that have not received approval for a Final Map at the time the fee becomes effective. This fee should be adjusted to reflect the annual increase in sales price for condominiums in Long Beach.

CHAIRMAN AND PLANNING COMMISSIONERS

HOUSING TRUST FUND

July 20, 2006

Page 5

IT IS RECOMMENDED THAT THE PLANNING COMMISSION:

Recommend that the City Council adopt amendments to Title 20.32 (Subdivisions) and Title 21.63 (Zoning Regulations) related to the establishment of a new condominium conversion fee to be used in part to fund the proposed Housing Trust Fund.

Respectfully submitted,

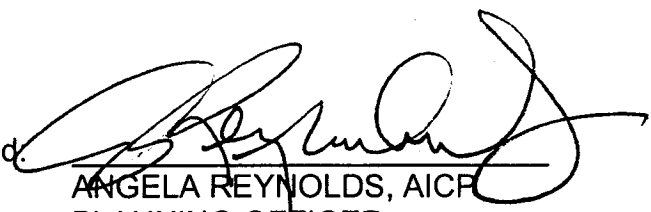
SUZANNE FRICK,
DIRECTOR OF PLANNING AND BUILDING

By:



STEVE GERHARDT, AICP
COMMUNITY PLANNER

Approved:



ANGELA REYNOLDS, AICP
PLANNING OFFICER

Attachments:

- Map of Condo Conversion Projects
- Summary of Affordable Housing Impact Fee Requirements for Condominium Conversions

Affordable Housing Impact Fee Requirements for Condominium Conversions

Conversions Subject to Local Inclusionary Ordinance	
Monterey City	15% low and moderate income affordable units for conversion projects with 10 or more units. No allowance for payment of fee.
Napa City	Condo conversions require inclusion of 10% moderate (120% MFI) income affordable units. Option for payment of housing in-lieu fee at discretion of City Council.
Rohnert Park	15% affordable units required for conversions. Payment of in-lieu fee permitted.
San Carlos	15% affordable units required for conversions. Payment of in-lieu fee permitted.
San Diego City	Condo conversions with 2 or more units sold to households earning 150%+ MFI subject to City's inclusionary ordinance, requiring 10% of units to be set aside for households earning up to 100% MFI. Allowance for payment of in-lieu fee, currently set at \$1.25/sq.ft. for projects < 10 units, \$2.50/sq.ft. for projects 10+ units.
San Mateo	10% affordable units. If any inclusionary rental units in project, requirement to convert to inclusionary ownership unit. Payment of in-lieu fee prohibited.
Santa Barbara City	Condo conversions with 10+ units subject to 15% inclusionary housing requirements. Allowance for payment of in-lieu fee. If any deed restricted affordable rental units in conversion project, condition requiring same number and type of affordable units in condo project. Conversions limited to 50 units/year.
South Lake Tahoe	20% affordable units required for conversions.
Walnut Creek	10% affordable units. No fee permitted for conversions with 10+ units. In-lieu fee for 2-9 unit projects ranges from \$2 to \$9/square foot living area.
Conversions Subject to Payment of Flat Affordable Housing Fee	
Pismo Beach	For projects with 8 or more units, charge fee of \$500/unit for affordable housing fund
Roseville	Charges fee of \$5,000/rental unit converted to condo
Santa Cruz County	Follows Coastal Zone requirement of 1:1 replacement of affordable units, or payment of in-lieu fee.
Conversions Subject to Payment of Affordable Housing Fee Based on % of Sales Price	
Berkeley	Fee based on 12.5% of difference between price of a unit, if sold as apartment, and price of converted unit when sold as condo. Conversions limited to 100 units/year.
East Palo Alto	Fee based on 10% of condo sales price at close of escrow, and no lower than 90% of current appraised value. Lien placed on each unit for amount of fee a time of Final Map, and is executed and recorded with County Recorder. Upon payment of fee, release of lien by City.
Los Angeles County	Fee based on 1% of sales price of converted unit. Lien is recorded for each unit at the time of the Final Map as a condition of approval.
Montgomery County, Maryland	Fee based on 4% of sales price of converted unit.

Summary of Condo Conversion Housing Impact Fees

A relatively few number of jurisdictions were identified that charge affordable housing impact fees on condo conversions. While this was not an exhaustive survey, review of approximately 40 jurisdictions' condo conversion ordinances identified only seven which included housing impact fees. More common were jurisdictions with inclusionary housing ordinances to apply these same inclusionary requirements to condo conversions. With 135+ adopted inclusionary housing ordinances in the State and over 80% of these allowing for payment of in-lieu housing fees, such inclusionary in-lieu fees serve as defacto condo conversion impact fees in a potentially significant number of jurisdictions.

The majority of jurisdictions surveyed charge an administrative fee based on the cost to process and inspect the condo conversion. While these fees are often significant (Pasadena's fee is approximately \$2,400/unit), they can only be directed towards covering administrative costs and not affordable housing.

Coastal Zone Provisions Regulating Condo Conversions (Govn Code Section 65590)

Implementation of the Coastal Act can also serve to address the affordable housing impacts of condo conversions.

Conversion of 3 or more dwelling units where at least one unit is occupied by low to moderate income household (up to 120% MFI) triggers replacement requirement. Developer must provide one below market rate unit for each unit occupied by income eligible household, or 20% of the total residential units in project. Replacement units must be available within 3 miles of Coastal Zone, and available for use within 3 years of conversion. If any low/moderate income households are evicted within one year of filing an application to convert, evictions shall be presumed to have been for purpose of avoiding requirements of subdivision, and applicant bears burden of proving evictions were not for purpose of avoiding replacement requirement.

If locality has established in-lieu fee alternative to requiring replacement units in Coastal Zone, the payment of fees must result in the replacement of an equivalent number of dwelling units which would have been required of the applicant. Replacement units provided through collection of in- lieu fees should be provided within the Coastal Zone to the maximum extent feasible, and shall be provided within three years of the conversion.



CITY OF LONG BEACH

DEPARTMENT OF PLANNING & BUILDING

333 WEST OCEAN BOULEVARD • LONG BEACH, CALIFORNIA 90802 • (562) 570-6194 FAX (562)570-6068

ZONING DIVISION

June 15, 2006

CHAIRMAN AND PLANNING COMMISSIONERS
City of Long Beach
California

SUBJECT: Amendment of the Zoning and Subdivision Regulations to Establish
a Fee Related to Condominium Conversions to Support the
Housing Trust Fund

LOCATION: Citywide

BACKGROUND

This is a request for review and recommendation to establish a new fee imposed on condominium conversions as a component of the Housing Trust Fund (HTF).

HOUSING TRUST FUND

On October 11, 2005, the City Council approved the creation of a Housing Trust Fund (HTF). The primary purpose is the creation of an additional funding mechanism to encourage the development of more affordable housing in Long Beach. As part of their action, the City Council also requested the City Attorney to prepare a condominium conversion fee ordinance and refer it to the Planning Commission for review and recommendation back to City Council.

The draft HTF Ordinance was presented to the City Council, on May 2, 2006. The City Council chose to postpone consideration of the HTF ordinance for at least 30 days to allow for additional analysis.

One of the options considered throughout the discussion regarding creating the HTF is a fee of one (1%) of sales price for condominium conversions. In October 2005, the staff report calculated that an average July 2005 sales price of \$322,000 and the sale of an average of 300 converted units would generate nearly \$1 million annually. Consideration of this option for HTF funding existing and potential new affordable housing programs is recognition of the anticipated future interest in condominium conversions and the potential for the City to gain more affordable housing resources from those conversions.

A nexus study is attached to this report that explains the connection between the conversion of apartments to condominiums and the impact on affordable rental and first-time buyer residential property. The nexus report was prepared by Karen Warner, a housing consultant to the Housing Services Bureau.

The study finds that the conversion of apartments to condominiums reduces the number of available apartments, and would potentially increase the demand for apartments if there were not a large pool of apartments within the City of Long Beach. The converted condominiums tend to be more affordable than newly constructed condominiums in all areas of the city, making them more affordable to first-time buyers and others in the market looking for more affordable attached housing product.

HOUSING BACKGROUND

According to State Department of Finance, Long Beach had 172,089 housing units in 2000. Of those, approximately forty percent (40%) were detached single family homes. Five percent (5%) were attached single-family units. Fourteen percent (14%) were multifamily units in buildings of two to four (2-4) units. Thirty-eight percent (38%) were multifamily in buildings with 5 or more (5+) units.

In total, there were 100,355 rental units in Long Beach in 2000. Only those buildings that meet the parking standard, without resorting to tandem parking, can be converted to condominiums. No parking variances are typically being granted as part of condominium conversion projects. While an exact number of potential apartment buildings that meet the development standards for conversion is not available, developers and real estate professionals have noted that it is getting more difficult to find buildings for potential conversion.

CONDOMINIUM CONVERSIONS FROM 2000-2005

Market forces are driving an increased interest in condominium conversions. The primary factor driving the interest in condominium conversions is the ever-decreasing ability of households to afford the median-priced home. In Los Angeles County, this affordability index has been dropping steadily where now approximately only twelve percent (12%) of households can afford the median-priced home. What this means is that fewer and fewer renters can afford to purchase a home and fewer current homeowners could afford the homes they live in if they had to purchase it today.

The interest in condominium conversions by both developers and potential buyers has increased annually with the number of projects brought before the Planning Commission at least doubling each of the last four (4) years. While the future of the real estate market is impossible to predict, it is likely that this trend will continue for the foreseeable future if market conditions follow current trends.

Because Long Beach has a large supply of rental housing stock, and a relatively low homeownership rate compared with the County as a whole, the general policy direction has been to allow condominium conversions to proceed under the existing regulations. The following table provides a summary of the condominium conversion cases from 2000 to 2005.

CHAIRMAN AND PLANNING COMMISSIONERS

HOUSING TRUST FUND

June 15, 2006

Page 3

	2000	2001	2002	2003	2004	2005
Number of Cases	2	5	2	4	13	30
Number of Units	22	60	4	18	426 ^a	262

^a – includes 142 units at 250 Pacific Avenue

Even with the market conditions outlined above, it is increasingly difficult for first-time buyers to purchase converted units. One function of the HTF will be to assist these potential homeowners in making their initial purchase, through down-payment assistance or silent second mortgage loans.

FUNDING MECHANISMS

There are several possible funding mechanisms for the condominium conversion fee. Tying the fee to a future sales price of the converted unit is one avenue that has been suggested. The fee would be imposed after the Final Map was approved and the units were offered for initial sale. This would require the City to confirm the sales price and collect the fee for each of the individual condominium units after the initial sale. Units that are held by the developer or that otherwise remain unsold for any reason would not pay the fee until sold. This approach will be difficult to administer since the City is not involved in the sale of units and tracking/monitoring could be staff-intensive. In addition, collection of the fee would be deferred until sales of the unit, often occurring well after the building was converted.

Alternatively, a flat fee for each condominium unit could be collected at the time the Final Map was submitted for review. A fee of \$4,000 per converted unit would yield the equivalent amount as a fee based on the one percent of the sales price.

Using the 262 units approved in 2005, a fixed fee of \$4000 per unit would generate over \$1 million annually. This approach would yield a more predictable revenue stream, and result in more effective tracking and monitoring. The fee could be adjusted administratively each year based on increases in condominium sales price indices throughout Long Beach in order to keep pace with increasing sales prices.

A third option is to require a fee but allows a waiver of the fee if a project deed restricted some of the units as affordable units. This option would allow an alternative approach in the event the fee could not be paid.

Regarding the application of the fee, there are several options to consider. The fee could apply to only new conversions, i.e. conversions that have not yet been filed, to conversions that have been filed, but not received Tentative Map approval, or, to conversions that have received Tentative Map approval, but not obtained Final Map approval. The last approach would be consistent with the City Council's intent to apply the fee at the time of sales, and to maximize the funds collected.

PUBLIC NOTICE

Public notices on this item were sent to recent applicants of condominium conversion projects and those who expressed interest related topics to the condominium conversion policy discussion before the Planning Commission on February 16, 2006.

ENVIRONMENTAL REVIEW

According to the guidelines to implement the California Environmental Quality Act, the proposed action has been determined to be categorically exempt under Section 15305, Minor Alternations in Land Use Limitations, Class 5. This section states that the division of multiple-family residences into common-interest ownership where no physical changes occur can be considered Categorical Exempt (CE). Therefore, CE 06-120 was prepared for this project and is attached for review.

CONCLUSIONS

There are several conclusions that can be drawn from the above analysis.

- **Conversions will continue** – While an increasing number of projects have been processed of the last few years, there remains a large pool of apartments that could be converted to condominiums. Establishing the HTF and funding it in part through a fee from those conversions is consistent with the policy framework for providing affordable housing to both renters and first-time buyers.
- **Timeliness** – The interest in condominium conversions has sparked an increase in the number of cases filed and public inquiries regarding conversions. Given the demand for conversions, the fee is likely to generate substantial funds.
- **Predictable Funding** – Using a percentage of the sales prices assures a fair market price basis for the fee, but requires the fee to be collected well after the approval of conversion. A fixed fee could be collected at the time the Final Map is submitted for approval. The fee could be adjusted annually to reflect increases in median sales price. A fixed fee would be the simplest calculation method.
- **Need for More Affordable Housing** – Long Beach has a large pool of rental housing. Allowing conversions of some of these units provides more affordable buying opportunities. As long as demand for rental housing is not impacted and relatively affordable rental housing remains available, this policy should continue.

Planning staff recommends that a fee of \$4,000 per converted unit be established to apply to condominium conversion projects that have not received approval for a Final Map at the time the fee becomes effective. This fee should be adjusted to reflect the annual increase in sales price for condominiums in Long Beach.

CHAIRMAN AND PLANNING COMMISSIONERS

HOUSING TRUST FUND

June 15, 2006

Page 5

IT IS RECOMMENDED THAT THE PLANNING COMMISSION:

Recommend that the City Council adopt amendments to Title 20.32 (Subdivisions) and Title 21.63 (Zoning Regulations) related to the establishment of a new condominium conversion fee to be used in part to fund the proposed Housing Trust Fund.

Respectfully submitted,

SUZANNE FRICK,
DIRECTOR OF PLANNING AND BUILDING

By: 
STEVE GERHARDT, AICP
COMMUNITY PLANNER

Approved: 
GREG CARPRENTER
PLANNING BUREAU MANAGER

Attachments:

- Proposed Condominium Conversion Fee Ordinance, draft outline
- Nexus Study Memorandum (April 7, 2006)
- Condominium Conversion Fee Charged by Other Jurisdictions (April 12, 2006)
- Housing Trust Fund Press Release (released May 2, 2006)
- Categorical Exemption 06-120

PROPOSED CONDOMINIUM CONVERSION FEE ORDINANCE

(DRAFT)

PURPOSE

To establish a dedicated continuous source of funding for the City's Housing Trust Fund.

GENERAL PARAMETERS

1. The condominium conversion fee shall become effective 60 days after the Mayor's signing of the ordinance.
2. The applicant or successor in interest shall be required to pay \$4,000 per converted unit, prior to the City's approval of the Final Map. The fee shall be adjusted annually based on the percentage increase in the Citywide Condominium Sales Price Index from year to year.
3. The Housing Services Bureau shall collect the condominium conversion fee.
4. Staff shall report the status of the condominium conversion fee annually to the Planning Commission.

APPLICABILITY

The fee shall apply to all residential units being converted from rental to homeownership that have not yet obtained Final Map approval.

EXEMPTIONS:

Condominium conversion projects providing affordable units for sale will be exempt from a portion of the fee dependant on the affordability rate and number of units deed restricted for such purpose as determined by the Housing Services Bureau.

Date: April 7, 2006

To: Ellie Tolentino, Housing Operations Officer
Housing Services Bureau

From: Karen Warner, AICP
Housing Consultant

For: Department of Planning and Building
City Attorney's Office

Subject: Nexus for Condominium Conversion Fee Ordinance

This memo is intended to provide background on the relationship between condominium conversions and impact on the City's lower income renters and supply of affordable rental housing. This relationship, or "nexus", provides the justification necessary for the City to charge a fee for condominium conversions for deposit into the Housing Trust Fund.

Current Housing Needs of Long Beach Renters

With over 100,000 rental units in Long Beach comprising approximately 60% of the housing stock, Long Beach has a very active rental market. However, the increasing gap between renter incomes and market rents has exacerbated issues of housing affordability for the City's renter population. The 2000 Census documents 46% of the City's renters were spending 30% or more of their incomes on housing (State and federal standards for housing "overpayment"). Approximately one-quarter of Long Beach renters experienced *severe* overpayment, spending more than half of income on shelter. (County-wide, 44% of renter households overpaid, and 22% severely overpaid). This imbalance between renter incomes and market rents has contributed towards increasing levels of household overcrowding (20% of City renter households severely overcrowded¹), resulting in accelerated unit deterioration and neighborhood decline. In addition, renters spending such a high proportion of their incomes on housing are particularly vulnerable to homelessness.

Review of current market rents serves to further highlight the extent of housing affordability mismatch. As of fourth quarter 2005, the average monthly rent in Long Beach was \$1,127 for a one-bedroom unit, \$1,373 for a two-bedroom unit, and \$1,425 for three-bedrooms.² Using the 30% affordability standard, a two person household would need to earn \$47,000 per year to afford the average one-bedroom apartment rent of \$1,127, including \$50 in monthly utilities. This

¹ 2000 Census. Severe overcrowding defined by Census as greater than 1.5 persons per room.

² Casden 2006 Real Estate Economics Forecast, USC Lusk Center for Real Estate.

level of income well exceeds the 2005 Los Angeles-Long Beach MSA very low (\$26,200) and low (\$41,900) income thresholds.

Because Long Beach has a large number of recent immigrants and low paid workers, it is also relevant to evaluate rental affordability for minimum wage workers. At \$6.75 per hour, two minimum wage workers would each need to work approximately 67 hours per week to afford the average \$1,127 one-bedroom apartment rent. Thus, the minimum wage in California is well below that needed to pay average rents in Long Beach, contributing to high levels of renter overpayment and overcrowding.

The USC Lusk Center for Real Estate forecasts that Long Beach apartment rents will increase by more than 6% this year, and that the City's already low 2.8% vacancy rate will further decline. With limited new supply of rental housing and projected losses of existing rental stock resulting from condominium conversions, vacancy rates are expected to shrink and push rents further upward.

Need for additional rental housing

State law requires jurisdictions to provide for their fair share of regional housing needs within their Housing Element. The Southern California Association of Governments (SCAG) determines the projected housing needs for jurisdictions in Southern California, and designates the number of households the City will be expected to accommodate. Housing needs are further broken down by the following four income categories: very low, low, moderate and upper income. Future housing needs reflect the number of new units needed in a jurisdiction (future demand), plus an adequate supply of vacant housing units to assure mobility, and new units to replace losses. These needs were forecast most recently within SCAG's 2000-2005 Regional Housing Needs Assessment (RHNA).³

Long Beach has a regional housing need for an allocation of 1,464 new housing units during the 2000-2005 RHNA planning period, as adopted within the City's Housing Element. According to the City's 2004-2005 Annual Progress Report on implementation of the Housing Element, the City has made the following progress in meeting its RHNA goals:

³ The 2000-2005 SCAG Housing Element planning period has been extended to June 30, 2008 (with no increase to RHNA goals) to correspond with SCAG's Regional Transportation Plan, as allowed per Chapter 696, Statutes of 2004.

**City of Long Beach
2000-2005 Status in Addressing RHNA**

Income Level	RHNA Allocation	Housing Units Permitted FY 2000 – 05	Attainment Percentage
Very Low (0-50% MFI)	411	119*	29%
Low (51-80% MFI)	251	43*	17%
Moderate (81-120% MFI)	296	60*	20%
Upper (above 120% MFI)	506	3,701**	730%
Total	1,464	3,923	268%

Source: Long Beach FY 2005 Housing Element Annual Progress Report, November 17, 2005

* Reflects income restricted housing documented by Long Beach Housing Services Bureau

** Reflects market rate housing production based on building permits issued.

While the City has more than fulfilled its total RHNA goal for the 2000-2005 housing period, it has fallen significantly short in producing housing affordable to very low, low, and moderate income households. This shortfall is reflective of a local housing market that is only producing housing for upper income households, requiring subsidies to bring down the cost of market-rate housing to affordable levels. While the City has committed significant resources and made commendable progress in assisting in the development of affordable housing - in the past year alone three projects totaling 148 units were produced - the need for affordable units well exceeds public subsidy resources.

The prevailing rental rates in most areas of Southern California do not justify a rate of return to build new apartment buildings. Many communities have seen negligible new apartment development in the last 10-20 years. Construction costs simply do not justify the anticipated rental revenue stream in many cases without some form of subsidy.

It is no surprise that renters comprise the majority of Long Beach households earning lower incomes. In fact, according to the City's 2005-2010 Consolidated Plan, 78% of the approximately 72,000 lower income (<80% MFI) households in Long Beach are renters. Therefore, the City's shortfall in producing new housing affordable to lower income groups – as highlighted in its 2004-2005 RHNA Annual Progress Report - has the greatest impact on renter households. Exacerbating this shortfall in rental housing production is the increasing trend towards conversion of existing apartments into condominium ownership.

Impact of Current Condominium Conversion Trends

The market for condominium conversions in Long Beach has increased dramatically over the past several years, with the number of cases brought before the Planning Commission doubling in each of the last four years. The City has allowed condo conversions to continue to provide a lower cost ownership

alternative to single-family homes, consistent with Housing Element goals to increase homeownership.

Similarly, greater Los Angeles was the 12th strongest market in the nation for conversion sales in 2005.⁴ As long as single-family home prices continue to escalate and interest rates remain relatively low, the market for condominium conversions is predicted to remain strong.

**City of Long Beach
Condominium Conversion Cases: 2000-2005**

	2000	2001	2002	2003	2004	2005
Number of Cases	2	5	2	4	13	30
Number of Units	22	60	4	18	426*	262

*Includes 142 units at 250 Pacific Avenue

The City's Condominium Conversion Ordinance offers existing apartment tenants an exclusive right to contract for the purchase of their unit ("right of first refusal"). Purchase terms and conditions are required to be the same or more favorable than those offered to the general public. However, to what extent are existing tenants able to afford to purchase the converted units?

The table on the following page presents median sales price data for all new and existing condominiums sold in Long Beach during 2005. Over 1,300 condominiums were sold for an overall median sales price of \$343,000,⁵ an increase of 30% from the prior year. While converted condominium units are typically smaller and provide less parking than newly built condominiums, developers generally put a high level of improvement into the property to maximize sales prices. Recently converted units can be assumed, on average, to command the Citywide median condominium sales price, which encompasses a range of older units, converted apartment units, and newly constructed units.

Assuming a 5% downpayment, 6.25% fixed rate interest, and 30-year term, the monthly mortgage payment necessary to purchase the median priced (\$343,000) condominium in Long Beach is \$2,000, or approximately \$2,400 once taxes and insurance are included. A household would need to earn at least \$86,000 per year to support this mortgage, assuming they pay no greater than 33% of household income for housing. Based on data from the 2000 Census, only 7% of Long Beach's 96,000 renter households earned this level of income. (In Los Angeles County, only 12% of households can afford the median priced home,

⁴ The Forbes/Slatin Real Estate Report, "Preaching to the Converters," 11/30/05.

⁵ Los Angeles County Home Sales Activity for 2005, as compiled by DataQuick and calculated based on a weighted average of the medians listed for 11 Long Beach City zip codes.

referred to as the "affordability index.")⁶ This data would indicate that very few existing tenants in Long Beach are able to purchase their converted unit without some form of subsidy.

**City of Long Beach
Median Condominium Sales Prices: 2005**

Long Beach Zip Code	Number of Condominiums Sold	Median Condominium Sales Price	% Change in Price from 2004
90802	429	\$360,000	26.3%
90803	169	\$450,000	18.4%
90804	144	\$321,000	28.9%
90805	73	\$200,000	40.8%
90806	13	\$324,000	15.7%
90807	146	\$302,000	17.7%
90808	9	\$369,000	10.1%
90810	41	\$195,000	47.7%
90813	68	\$290,000	49.5%
90814	138	\$365,000	25.9%
90815	73	\$362,000	11.0%
Citywide Total	1,303	\$343,000	30.1%

Source: www.DQNews.com, Los Angeles Times Zip Code Chart

Impacts of Tenant Displacement

Given the disparity in tenant incomes and the market price of converted apartments, the majority of tenants in converted properties in Long Beach will be faced with displacement. The City's Condominium Conversion Ordinance establishes the following tenant noticing and relocation requirements to help mitigate the hardship caused by displacement:

- Written notification at least 60 days prior to filing of tentative map, and at least 10 days prior to the public hearing before the Planning Commission
- Written notification within 10 days of map approval, including information on tenant's rights and benefits, and statement that no evictions will occur as a result of the conversion for at least 180 days
- Written notification at least 10 days prior to consideration of final map before City Council (or director of Public Works, as applicable), including estimate of time prior to eviction

⁶ California Association of Realtors, December 2005.

- Where City determines existing rents are at affordable levels, special relocation benefits (in accordance with Chapter 21.60 of the Zoning Ordinance) provided by the developer to low and very low income households. The current relocation benefit is approximately \$3,600.
- Very low and low income tenants with a handicapped member entitled to additional relocation benefits for replacement of any structural modifications tenant previously paid for in vacated unit

Monetary relocation assistance provided to very low and low income tenants is intended to be reflective of the actual costs likely to be incurred by displaced households, including first and last month's rent, security deposits, moving and storage expenses, and utility deposits. However, the difficulty in finding affordable replacement housing in Long Beach where rental vacancies are extremely limited can be daunting. The severe shortage of affordable rental housing will subject many of these displaced households to housing overpayment and/or overcrowding, and even risk of homelessness.

Numerous research studies show that condominium conversions lead to the displacement of a community's vulnerable populations, such as single-parent households. Furthermore, tenants displaced from their homes through condominium conversions are unlikely to be relocated into adequate and affordable housing. This is particularly true for elderly, non-white, and lower income tenants.⁷

Conclusion

The growing imbalance between tenant incomes and market rents in Long Beach has created a major housing affordability problem for tenants, contributing to increasing rates of household overcrowding and neighborhood deterioration. In addition, despite the commitment of considerable public resources, the City faces a significant shortage in the production of very low, low and moderate income units necessary to address the regional housing needs adopted within the Housing Element.

⁷ Bhatia, R, Housing Needs, Residential Displacement, and Comprehensive Human and Environmental Impact Assessment: A Summary of Research on the Human Health and Social Effects of Residential Displacement and a Review of Population and Housing Impacts in CEQA Policy and Practice (Technical Report, 3/1/04 for the City of County of San Francisco, Dept. of Public Health); Hartman, C. & Robinson, D, "Evictions: The Hidden Housing Problem," Housing Policy Debate, Vol. 14, Issue 4, Fannie Mae Foundation 2003; U.S. Dept of Housing and Urban Development, The Conversion of Rental Housing to Condominiums and Cooperatives: A National Study of Scope, Causes, and Impacts (2001 reprinted 1980 ed.).

Market trends supporting conversion of apartments to condominium ownership are causing tenant displacement and permanent loss of the rental housing stock, further exacerbating the already critical housing needs of Long Beach's lower income tenants. This relationship between condominium conversions and the impact on both tenants and the stock of affordable rental housing, serves as justification for charging a condominium conversion fee for deposit into the City's Housing Trust Fund.

The primary purpose of creating the Housing Trust Fund is to augment the City's existing affordable housing resources. As drafted, the HTF would earmark 80% of its resources to above moderate-income households (\$82,650 for a four-person household in 2005), and 20% for extremely low-income households (\$19,650 for a four-person household in 2005). Affordability benefits would continue for 55 years for rental units, and 30 years for owner-occupied units. The City Council could change these provisions during deliberations to create the HTF. Funding sources for the HTF beyond potential condominium conversion fees include transient occupancy taxes from the General Fund and developer fees from Douglas Park and potentially other large-scale development projects.



Date: April 12, 2006

To: *for* Gerald Miller, City Manager *R.A.*

From: Patrick West, Director of Community Development *PWest*

For: Bonnie Lowenthal, Councilmember, 1st District

Subject: Condominium Conversion Fee Charged by Other Jurisdictions

This memo is in response to your request for information regarding the practices of other cities in terms of condominium conversion fees.

Below is the result of our research.

- County of Los Angeles – charges a fee equal to 1% of the sales price of the converted unit.
- Roseville, CA – charges a flat fee of \$5,000 per unit.
- Montgomery County, Maryland - charges a fee equal to 4% of the sales price of the converted unit.
- City of Berkeley, CA – charges 12.5% of the difference between the price of a unit, if sold as an apartment (e.g., \$150,000) and the price of the converted unit when sold as a condo (e.g., \$450,000). Using the numbers in this example, the difference of \$300,000, multiplied by 12.5%, requires a fee of \$37,500. Note that the City limits conversions to 100 units per year.
- City of San Diego, CA – does not charge a fee per se; however, all condominium conversion projects of two or more units that contain units sold to households earning 150% of area median income (AMI) or more, are subject to the City's inclusionary housing ordinance which requires that at least 10% of the units be set aside for households earning no more than 100% AMI or pay in-lieu fees, which are currently \$1.25 per sq. ft. for projects with less than ten units, or \$2.50 per sq. ft. for projects with ten units or more.

In addition to the above, on February 16, 2006, the Department of Planning and Building submitted a report to the Planning Commission regarding condominium conversions. Below is an excerpt from the report that discusses condominium conversions in other jurisdictions.

"A survey of other adjacent communities indicates that Long Beach is one of

Bonnie Lowenthal, Councilmember, 1st District

April 12, 2006

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the few communities with an active program for condominium conversions. This is a function of the higher percentage of available apartment buildings in Long Beach that meet the City's straightforward existing regulations as discussed above. Other cities allow conversions, and either limit the number or have more stringent requirements that limit the potential of converting existing buildings. The survey included Pasadena, Signal Hill, Anaheim, San Jose, San Francisco, Redondo Beach, Oakland, Lakewood, Seal Beach and Carson, among others.

Adjacent communities have sought to limit or prohibit condominium conversions. The primary reason is that their rental pool is relatively small and the vacancy rate remains low. In Redondo Beach, for example, condominium conversions are allowed, but each year the City conducts a survey to see if the vacancy rate for rental units is above six percent (6%). For the past 18 years, the rate has been in the range of 3 percent (3%), and no condominium conversions have been allowed.

In San Francisco, the City/County issues a limited number of condominium conversion permits by lottery. Because the demand greatly exceeds supply, mortgage lenders and developers in the area have created new financing mechanisms similar to cooperatives to allow individual ownership of multi-family buildings. Under this scenario, the City is not involved in the transfer of ownership and there is no opportunity to determine if the buildings meet current building safety standards."

The full report to the Planning Commission is attached for your reference.

Please call me at x86570 or Ellie Tolentino at x86926 if you have any questions or need additional information.

PW:EMT

✓ cc: Suzanne Frick, Director of Planning and Building
Attachment

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city of
longbeach CA

Press Release

City of Long Beach Public Information Office
333 W. Ocean Blvd, Long Beach, CA 90802

5/2/2006

FOR IMMEDIATE RELEASE

PRESS RELEASE #CM: 050206

Subject : Agenda Item #27 - Housing Trust Fund Fact Sheet

Contact : Elizabeth Stochl, Manager, Housing Services Bureau 570.6367

Housing affordability in the City of Long Beach and elsewhere is declining, making it harder and harder for people to buy homes. To increase first-time homebuyers assistance, the City Council on October 11, 2005, asked the City Attorney to prepare an ordinance establishing a Housing Trust Fund (HTF). The City of Long Beach needs more affordable housing, and the HTF would be an effective tool toward achieving that goal.

On May 2, the City Council is scheduled to have the first reading of the Housing Trust Fund Ordinance. A final reading and approval will take place at a subsequent City Council meeting.

Here are some important details:

- The HTF would augment existing affordable housing resources.
- Establishing a HTF would likely help the City of Long Beach receive any future State housing bond funds.
- The HTF would help increase neighborhood stability and vitality.
- 80 percent of HTF funds would be earmarked for above moderate-income households. Based on 2005 income levels, that would be \$82,650 for a four-person household.
- 20 percent of HTF funds would be earmarked for extremely low-income residents. Based on 2005 income levels, that would be \$19,650 for a four-person household.
- Affordability benefits would continue for 55 years with rental units and 30 years for owned units, and would not expire with sale of property.
- The Long Beach Housing Development Company will administer the HTF and will provide the City Council with semi-annual reports.
- HTF's initial funding would come from General Fund transient occupancy taxes, \$500,000 per year, and from Boeing Realty's contribution for Douglas Park development, \$3,000,000 over five years.
- Other funding sources, such as condominium conversion fees, contributions from major employers, charitable organizations, foundations, will be explored.

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CITY OF LONG BEACH

DEPARTMENT OF PLANNING & BUILDING

333 WEST OCEAN BLVD., FIFTH FLOOR • LONG BEACH, CALIFORNIA 90802

NOTICE OF EXEMPTION

CATEGORICAL EXEMPTION CE- 06-120

To: OFFICE OF PLANNING & RESEARCH
1400 TENTH STREET, ROOM 121
SACRAMENTO, CA 95814

FROM: DEPARTMENT OF PLANNING & BUILDING
333 W. OCEAN BLVD., 5TH FLOOR
LONG BEACH, CA 90802

L.A. COUNTY CLERK
ENVIRONMENTAL FILLINGS
12400 E. IMPERIAL HWY. 2ND FLOOR, RM. 2001
NORWALK, CA 90650

PROJECT TITLE: Zoning Text Amendment

PROJECT LOCATION - SPECIFIC: Citywide

PROJECT CITY: Long Beach PROJECT LOCATION - COUNTY: LOS ANGELES

ACTIVITY DESCRIPTION: Zoning Amendment to establish a new fee imposed on condominium conversions as a component of the Housing Trust Fund (HTF).

Name of Public Agency Approving Project: City of Long Beach

Name of Person or Agency Carrying Out Project: Jeff Winklepleck
(Printed Name)

333 W. Ocean Blvd., Long Beach, CA 90802
(Mailing Address)

(562) 570-6607
(Telephone)

(Signature)

(To Be Completed By City Staff Only)

- Check One:
- LONG BEACH CITY PLANNING COMMISSION
 - DEPARTMENT OF PLANNING AND BUILDING

The above project had been found to be exempt from CEQA in accordance with the State Guidelines Section 15305 (Class 5) Minor Alterations in Land Use Limitations

Statement of Support for this finding: Amendment will support Housing needs in the City.

Lead Agency Contact Person: Angela Reynolds Area Code/Telephone: 562-570-6357

Signature: Jill Griffiths Date: 6-7-06 Title: Planner IV

Signed by Lead Agency

Signed by Applicant

Jill Griffiths
for Angela Reynolds



CITY OF LONG BEACH

DEPARTMENT OF PLANNING & BUILDING

333 WEST OCEAN BOULEVARD • LONG BEACH, CALIFORNIA 90802 • (562) 570-6194 FAX (562)570-6068

ZONING DIVISION

June 15, 2006

CHAIRMAN AND PLANNING COMMISSIONERS
City of Long Beach
California

SUBJECT: Amendment of the Zoning and Subdivision Regulations to Establish
a Fee Related to Condominium Conversions to Support the
Housing Trust Fund

LOCATION: Citywide

BACKGROUND

This is a request for review and recommendation to establish a new fee imposed on condominium conversions as a component of the Housing Trust Fund (HTF).

HOUSING TRUST FUND

On October 11, 2005, the City Council approved the creation of a Housing Trust Fund (HTF). The primary purpose is the creation of an additional funding mechanism to encourage the development of more affordable housing in Long Beach. As part of their action, the City Council also requested the City Attorney to prepare a condominium conversion fee ordinance and refer it to the Planning Commission for review and recommendation back to City Council.

The draft HTF Ordinance was presented to the City Council, on May 2, 2006. The City Council chose to postpone consideration of the HTF ordinance for at least 30 days to allow for additional analysis.

One of the options considered throughout the discussion regarding creating the HTF is a fee of one (1%) of sales price for condominium conversions. In October 2005, the staff report calculated that an average July 2005 sales price of \$322,000 and the sale of an average of 300 converted units would generate nearly \$1 million annually. Consideration of this option for HTF funding existing and potential new affordable housing programs is recognition of the anticipated future interest in condominium conversions and the potential for the City to gain more affordable housing resources from those conversions.

A nexus study is attached to this report that explains the connection between the conversion of apartments to condominiums and the impact on affordable rental and first-time buyer residential property. The nexus report was prepared by Karen Warner, a housing consultant to the Housing Services Bureau.

CHAIRMAN AND PLANNING COMMISSIONERS
HOUSING TRUST FUND

June 15, 2006

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The study finds that the conversion of apartments to condominiums reduces the number of available apartments, and would potentially increase the demand for apartments if there were not a large pool of apartments within the City of Long Beach. The converted condominiums tend to be more affordable than newly constructed condominiums in all areas of the city, making them more affordable to first-time buyers and others in the market looking for more affordable attached housing product.

HOUSING BACKGROUND

According to State Department of Finance, Long Beach had 172,089 housing units in 2000. Of those, approximately forty percent (40%) were detached single family homes. Five percent (5%) were attached single-family units. Fourteen percent (14%) were multifamily units in buildings of two to four (2-4) units. Thirty-eight percent (38%) were multifamily in buildings with 5 or more (5+) units.

In total, there were 100,355 rental units in Long Beach in 2000. Only those buildings that meet the parking standard, without resorting to tandem parking, can be converted to condominiums. No parking variances are typically being granted as part of condominium conversion projects. While an exact number of potential apartment buildings that meet the development standards for conversion is not available, developers and real estate professionals have noted that is getting more difficult to find buildings for potential conversion.

CONDOMINIUM CONVERSIONS FROM 2000-2005

Market forces are driving an increased interest in condominium conversions. The primarily factor driving the interest in condominium conversions is the ever-decreasing ability of households to afford the median-priced home. In Los Angeles County, this affordability index has been dropping steadily where now approximately only twelve percent (12%) of households can afford the median-priced home. What this means is that fewer and fewer renters can afford to purchase a home and fewer current homeowners could afford the homes they live in if they had to purchase it today.

The interest in condominium conversions by both developers and potential buyers has increased annually with the number of projects brought before the Planning Commission at least doubling each of the last four (4) years. While the future of the real estate market is impossible to predict, it is likely that this trend will continue for the foreseeable future if market conditions follow current trends.

Because Long Beach has a large supply of rental housing stock, and a relatively low homeownership rate compared with the County as a whole, the general policy direction has been to allow condominium conversions to proceed under the existing regulations. The following table provides a summary of the condominium conversion cases from 2000 to 2005.

CHAIRMAN AND PLANNING COMMISSIONERS

HOUSING TRUST FUND

June 15, 2006

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	2000	2001	2002	2003	2004	2005
Number of Cases	2	5	2	4	13	30
Number of Units	22	60	4	18	426 ^a	262

^a – includes 142 units at 250 Pacific Avenue

Even with the market conditions outlined above, it is increasingly difficult for first-time buyers to purchase converted units. One function of the HTF will be to assist these potential homeowners in making their initial purchase, through down-payment assistance or silent second mortgage loans.

FUNDING MECHANISMS

There are several possible funding mechanisms for the condominium conversion fee. Tying the fee to a future sales price of the converted unit is one avenue that has been suggested. The fee would be imposed after the Final Map was approved and the units were offered for initial sale. This would require the City to confirm the sales price and collect the fee for each of the individual condominium units after the initial sale. Units that are held by the developer or that otherwise remain unsold for any reason would not pay the fee until sold. This approach will be difficult to administer since the City is not involved in the sale of units and tracking/monitoring could be staff-intensive. In addition, collection of the fee would be deferred until sales of the unit, often occurring well after the building was converted.

Alternatively, a flat fee for each condominium unit could be collected at the time the Final Map was submitted for review. A fee of \$4,000 per converted unit would yield the equivalent amount as a fee based on the one percent of the sales price.

Using the 262 units approved in 2005, a fixed fee of \$4000 per unit would generate over \$1 million annually. This approach would yield a more predictable revenue stream, and result in more effective tracking and monitoring. The fee could be adjusted administratively each year based on increases in condominium sales price indices throughout Long Beach in order to keep pace with increasing sales prices.

A third option is to require a fee but allows a waiver of the fee if a project deed restricted some of the units as affordable units. This option would allow an alternative approach in the event the fee could not be paid.

Regarding the application of the fee, there are several options to consider. The fee could apply to only new conversions, i.e. conversions that have not yet been filed, to conversions that have been filed, but not received Tentative Map approval, or, to conversions that have received Tentative Map approval, but not obtained Final Map approval. The last approach would be consistent with the City Council's intent to apply the fee at the time of sales, and to maximize the funds collected.

PUBLIC NOTICE

Public notices on this item were sent to recent applicants of condominium conversion projects and those who expressed interest related topics to the condominium conversion policy discussion before the Planning Commission on February 16, 2006.

ENVIRONMENTAL REVIEW

According to the guidelines to implement the California Environmental Quality Act, the proposed action has been determined to be categorically exempt under Section 15305, Minor Alternations in Land Use Limitations, Class 5. This section states that the division of multiple-family residences into common-interest ownership where no physical changes occur can be considered Categorical Exempt (CE). Therefore, CE 06-120 was prepared for this project and is attached for review.

CONCLUSIONS

There are several conclusions that can be drawn from the above analysis.

- **Conversions will continue** – While an increasing number of projects have been processed of the last few years, there remains a large pool of apartments that could be converted to condominiums. Establishing the HTF and funding it in part through a fee from those conversions is consistent with the policy framework for providing affordable housing to both renters and first-time buyers.
- **Timeliness** – The interest in condominium conversions has sparked an increase in the number of cases filed and public inquiries regarding conversions. Given the demand for conversions, the fee is likely to generate substantial funds.
- **Predictable Funding** – Using a percentage of the sales prices assures a fair market price basis for the fee, but requires the fee to be collected well after the approval of conversion. A fixed fee could be collected at the time the Final Map is submitted for approval. The fee could be adjusted annually to reflect increases in median sales price. A fixed fee would be the simplest calculation method.
- **Need for More Affordable Housing** – Long Beach has a large pool of rental housing. Allowing conversions of some of these units provides more affordable buying opportunities. As long as demand for rental housing is not impacted and relatively affordable rental housing remains available, this policy should continue.

Planning staff recommends that a fee of \$4,000 per converted unit be established to apply to condominium conversion projects that have not received approval for a Final Map at the time the fee becomes effective. This fee should be adjusted to reflect the annual increase in sales price for condominiums in Long Beach.

CHAIRMAN AND PLANNING COMMISSIONERS

HOUSING TRUST FUND

June 15, 2006

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IT IS RECOMMENDED THAT THE PLANNING COMMISSION:

Recommend that the City Council adopt amendments to Title 20.32 (Subdivisions) and Title 21.63 (Zoning Regulations) related to the establishment of a new condominium conversion fee to be used in part to fund the proposed Housing Trust Fund.

Respectfully submitted,

SUZANNE FRICK,
DIRECTOR OF PLANNING AND BUILDING

By: 
STEVE GERHARDT, AICP
COMMUNITY PLANNER

Approved: 
GREG CARPRENTER
PLANNING BUREAU MANAGER

Attachments:

- Proposed Condominium Conversion Fee Ordinance, draft outline
- Nexus Study Memorandum (April 7, 2006)
- Condominium Conversion Fee Charged by Other Jurisdictions (April 12, 2006)
- Housing Trust Fund Press Release (released May 2, 2006)
- Categorical Exemption 06-120

PROPOSED CONDOMINIUM CONVERSION FEE ORDINANCE

(DRAFT)

PURPOSE

To establish a dedicated continuous source of funding for the City's Housing Trust Fund.

GENERAL PARAMETERS

1. The condominium conversion fee shall become effective 60 days after the Mayor's signing of the ordinance.
2. The applicant or successor in interest shall be required to pay \$4,000 per converted unit, prior to the City's approval of the Final Map. The fee shall be adjusted annually based on the percentage increase in the Citywide Condominium Sales Price Index from year to year.
3. The Housing Services Bureau shall collect the condominium conversion fee.
4. Staff shall report the status of the condominium conversion fee annually to the Planning Commission.

APPLICABILITY

The fee shall apply to all residential units being converted from rental to homeownership that have not yet obtained Final Map approval.

EXEMPTIONS:

Condominium conversion projects providing affordable units for sale will be exempt from a portion of the fee dependant on the affordability rate and number of units deed restricted for such purpose as determined by the Housing Services Bureau.

Date: April 7, 2006

To: Ellie Tolentino, Housing Operations Officer
Housing Services Bureau

From: Karen Warner, AICP
Housing Consultant

For: Department of Planning and Building
City Attorney's Office

Subject: Nexus for Condominium Conversion Fee Ordinance

This memo is intended to provide background on the relationship between condominium conversions and impact on the City's lower income renters and supply of affordable rental housing. This relationship, or "nexus", provides the justification necessary for the City to charge a fee for condominium conversions for deposit into the Housing Trust Fund.

Current Housing Needs of Long Beach Renters

With over 100,000 rental units in Long Beach comprising approximately 60% of the housing stock, Long Beach has a very active rental market. However, the increasing gap between renter incomes and market rents has exacerbated issues of housing affordability for the City's renter population. The 2000 Census documents 46% of the City's renters were spending 30% or more of their incomes on housing (State and federal standards for housing "overpayment"). Approximately one-quarter of Long Beach renters experienced severe overpayment, spending more than half of income on shelter. (County-wide, 44% of renter households overpaid, and 22% severely overpaid). This imbalance between renter incomes and market rents has contributed towards increasing levels of household overcrowding (20% of City renter households severely overcrowded¹), resulting in accelerated unit deterioration and neighborhood decline. In addition, renters spending such a high proportion of their incomes on housing are particularly vulnerable to homelessness.

Review of current market rents serves to further highlight the extent of housing affordability mismatch. As of fourth quarter 2005, the average monthly rent in Long Beach was \$1,127 for a one-bedroom unit, \$1,373 for a two-bedroom unit, and \$1,425 for three-bedrooms.² Using the 30% affordability standard, a two person household would need to earn \$47,000 per year to afford the average one-bedroom apartment rent of \$1,127, including \$50 in monthly utilities. This

¹ 2000 Census. Severe overcrowding defined by Census as greater than 1.5 persons per room.

² Casden 2006 Real Estate Economics Forecast, USC Lusk Center for Real Estate.

level of income well exceeds the 2005 Los Angeles-Long Beach MSA very low (\$26,200) and low (\$41,900) income thresholds.

Because Long Beach has a large number of recent immigrants and low paid workers, it is also relevant to evaluate rental affordability for minimum wage workers. At \$6.75 per hour, two minimum wage workers would each need to work approximately 67 hours per week to afford the average \$1,127 one-bedroom apartment rent. Thus, the minimum wage in California is well below that needed to pay average rents in Long Beach, contributing to high levels of renter overpayment and overcrowding.

The USC Lusk Center for Real Estate forecasts that Long Beach apartment rents will increase by more than 6% this year, and that the City's already low 2.8% vacancy rate will further decline. With limited new supply of rental housing and projected losses of existing rental stock resulting from condominium conversions, vacancy rates are expected to shrink and push rents further upward.

Need for additional rental housing

State law requires jurisdictions to provide for their fair share of regional housing needs within their Housing Element. The Southern California Association of Governments (SCAG) determines the projected housing needs for jurisdictions in Southern California, and designates the number of households the City will be expected to accommodate. Housing needs are further broken down by the following four income categories: very low, low, moderate and upper income. Future housing needs reflect the number of new units needed in a jurisdiction (future demand), plus an adequate supply of vacant housing units to assure mobility, and new units to replace losses. These needs were forecast most recently within SCAG's 2000-2005 Regional Housing Needs Assessment (RHNA).³

Long Beach has a regional housing need for an allocation of 1,464 new housing units during the 2000-2005 RHNA planning period, as adopted within the City's Housing Element. According to the City's 2004-2005 Annual Progress Report on implementation of the Housing Element, the City has made the following progress in meeting its RHNA goals:

³ The 2000-2005 SCAG Housing Element planning period has been extended to June 30, 2008 (with no increase to RHNA goals) to correspond with SCAG's Regional Transportation Plan, as allowed per Chapter 696, Statutes of 2004.

**City of Long Beach
2000-2005 Status in Addressing RHNA**

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* Reflects income restricted housing documented by Long Beach Housing Services Bureau

** Reflects market rate housing production based on building permits issued.

While the City has more than fulfilled its total RHNA goal for the 2000-2005 housing period, it has fallen significantly short in producing housing affordable to very low, low, and moderate income households. This shortfall is reflective of a local housing market that is only producing housing for upper income households, requiring subsidies to bring down the cost of market-rate housing to affordable levels. While the City has committed significant resources and made commendable progress in assisting in the development of affordable housing - in the past year alone three projects totaling 148 units were produced - the need for affordable units well exceeds public subsidy resources.

The prevailing rental rates in most areas of Southern California do not justify a rate of return to build new apartment buildings. Many communities have seen negligible new apartment development in the last 10-20 years. Construction costs simply do not justify the anticipated rental revenue stream in many cases without some form of subsidy.

It is no surprise that renters comprise the majority of Long Beach households earning lower incomes. In fact, according to the City's 2005-2010 Consolidated Plan, 78% of the approximately 72,000 lower income (<80% MFI) households in Long Beach are renters. Therefore, the City's shortfall in producing new housing affordable to lower income groups - as highlighted in its 2004-2005 RHNA Annual Progress Report - has the greatest impact on renter households. Exacerbating this shortfall in rental housing production is the increasing trend towards conversion of existing apartments into condominium ownership.

Impact of Current Condominium Conversion Trends

The market for condominium conversions in Long Beach has increased dramatically over the past several years, with the number of cases brought before the Planning Commission doubling in each of the last four years. The City has allowed condo conversions to continue to provide a lower cost ownership

alternative to single-family homes, consistent with Housing Element goals to increase homeownership.

Similarly, greater Los Angeles was the 12th strongest market in the nation for conversion sales in 2005.⁴ As long as single-family home prices continue to escalate and interest rates remain relatively low, the market for condominium conversions is predicted to remain strong.

**City of Long Beach
Condominium Conversion Cases: 2000-2005**

	2000	2001	2002	2003	2004	2005
Number of Cases	2	5	2	4	13	30
Number of Units	22	60	4	18	426*	262

*Includes 142 units at 250 Pacific Avenue

The City's Condominium Conversion Ordinance offers existing apartment tenants an exclusive right to contract for the purchase of their unit ("right of first refusal"). Purchase terms and conditions are required to be the same or more favorable than those offered to the general public. However, to what extent are existing tenants able to afford to purchase the converted units?

The table on the following page presents median sales price data for all new and existing condominiums sold in Long Beach during 2005. Over 1,300 condominiums were sold for an overall median sales price of \$343,000,⁵ an increase of 30% from the prior year. While converted condominium units are typically smaller and provide less parking than newly built condominiums, developers generally put a high level of improvement into the property to maximize sales prices. Recently converted units can be assumed, on average, to command the Citywide median condominium sales price, which encompasses a range of older units, converted apartment units, and newly constructed units.

Assuming a 5% downpayment, 6.25% fixed rate interest, and 30-year term, the monthly mortgage payment necessary to purchase the median priced (\$343,000) condominium in Long Beach is \$2,000, or approximately \$2,400 once taxes and insurance are included. A household would need to earn at least \$86,000 per year to support this mortgage, assuming they pay no greater than 33% of household income for housing. Based on data from the 2000 Census, only 7% of Long Beach's 96,000 renter households earned this level of income. (In Los Angeles County, only 12% of households can afford the median priced home,

⁴ The Forbes/Slatkin Real Estate Report, "Preaching to the Converters," 11/30/05.

⁵ Los Angeles County Home Sales Activity for 2005, as compiled by DataQuick and calculated based on a weighted average of the medians listed for 11 Long Beach City zip codes.

referred to as the "affordability index.")⁶ This data would indicate that very few existing tenants in Long Beach are able to purchase their converted unit without some form of subsidy.

**City of Long Beach
Median Condominium Sales Prices: 2005**

Long Beach Zip Code	Number of Condominiums Sold	Median Condominium Sales Price	% Change in Price from 2004
90802	429	\$360,000	26.3%
90803	169	\$450,000	18.4%
90804	144	\$321,000	28.9%
90805	73	\$200,000	40.8%
90806	13	\$324,000	15.7%
90807	146	\$302,000	17.7%
90808	9	\$369,000	10.1%
90810	41	\$195,000	47.7%
90813	68	\$290,000	49.5%
90814	138	\$365,000	25.9%
90815	73	\$362,000	11.0%
Citywide Total	1,303	\$343,000	30.1%

Source: www.DQNews.com, Los Angeles Times Zip Code Chart

Impacts of Tenant Displacement

Given the disparity in tenant incomes and the market price of converted apartments, the majority of tenants in converted properties in Long Beach will be faced with displacement. The City's Condominium Conversion Ordinance establishes the following tenant noticing and relocation requirements to help mitigate the hardship caused by displacement:

- Written notification at least 60 days prior to filing of tentative map, and at least 10 days prior to the public hearing before the Planning Commission
- Written notification within 10 days of map approval, including information on tenant's rights and benefits, and statement that no evictions will occur as a result of the conversion for at least 180 days
- Written notification at least 10 days prior to consideration of final map before City Council (or director of Public Works, as applicable), including estimate of time prior to eviction

⁶ California Association of Realtors, December 2005.

- Where City determines existing rents are at affordable levels, special relocation benefits (in accordance with Chapter 21.60 of the Zoning Ordinance) provided by the developer to low and very low income households. The current relocation benefit is approximately \$3,600.
- Very low and low income tenants with a handicapped member entitled to additional relocation benefits for replacement of any structural modifications tenant previously paid for in vacated unit

Monetary relocation assistance provided to very low and low income tenants is intended to be reflective of the actual costs likely to be incurred by displaced households, including first and last month's rent, security deposits, moving and storage expenses, and utility deposits. However, the difficulty in finding affordable replacement housing in Long Beach where rental vacancies are extremely limited can be daunting. The severe shortage of affordable rental housing will subject many of these displaced households to housing overpayment and/or overcrowding, and even risk of homelessness.

Numerous research studies show that condominium conversions lead to the displacement of a community's vulnerable populations, such as single-parent households. Furthermore, tenants displaced from their homes through condominium conversions are unlikely to be relocated into adequate and affordable housing. This is particularly true for elderly, non-white, and lower income tenants.⁷

Conclusion

The growing imbalance between tenant incomes and market rents in Long Beach has created a major housing affordability problem for tenants, contributing to increasing rates of household overcrowding and neighborhood deterioration. In addition, despite the commitment of considerable public resources, the City faces a significant shortage in the production of very low, low and moderate income units necessary to address the regional housing needs adopted within the Housing Element.

⁷ Bhatia, R, Housing Needs, Residential Displacement, and Comprehensive Human and Environmental Impact Assessment: A Summary of Research on the Human Health and Social Effects of Residential Displacement and a Review of Population and Housing Impacts in CEQA Policy and Practice (Technical Report, 3/1/04 for the City of County of San Francisco, Dept. of Public Health); Hartman, C. & Robinson, D, "Evictions: The Hidden Housing Problem," Housing Policy Debate, Vol. 14, Issue 4, Fannie Mae Foundation 2003; U.S. Dept of Housing and Urban Development, The Conversion of Rental Housing to Condominiums and Cooperatives: A National Study of Scope, Causes, and Impacts (2001 reprinted 1980 ed.).

Market trends supporting conversion of apartments to condominium ownership are causing tenant displacement and permanent loss of the rental housing stock, further exacerbating the already critical housing needs of Long Beach's lower income tenants. This relationship between condominium conversions and the impact on both tenants and the stock of affordable rental housing, serves as justification for charging a condominium conversion fee for deposit into the City's Housing Trust Fund.

The primary purpose of creating the Housing Trust Fund is to augment the City's existing affordable housing resources. As drafted, the HTF would earmark 80% of its resources to above moderate-income households (\$82,650 for a four-person household in 2005), and 20% for extremely low-income households (\$19,650 for a four-person household in 2005). Affordability benefits would continue for 55 years for rental units, and 30 years for owner-occupied units. The City Council could change these provisions during deliberations to create the HTF. Funding sources for the HTF beyond potential condominium conversion fees include transient occupancy taxes from the General Fund and developer fees from Douglas Park and potentially other large-scale development projects.



Date: April 12, 2006

To: *for* Gerald Miller, City Manager *R.H.*

From: Patrick West, Director of Community Development *PWest*

For: Bonnie Lowenthal, Councilmember, 1st District

Subject: Condominium Conversion Fee Charged by Other Jurisdictions

This memo is in response to your request for information regarding the practices of other cities in terms of condominium conversion fees.

Below is the result of our research.

- County of Los Angeles – charges a fee equal to 1% of the sales price of the converted unit.
- Roseville, CA – charges a flat fee of \$5,000 per unit.
- Montgomery County, Maryland - charges a fee equal to 4% of the sales price of the converted unit.
- City of Berkeley, CA – charges 12.5% of the difference between the price of a unit, if sold as an apartment (e.g., \$150,000) and the price of the converted unit when sold as a condo (e.g., \$450,000). Using the numbers in this example, the difference of \$300,000, multiplied by 12.5%, requires a fee of \$37,500. Note that the City limits conversions to 100 units per year.
- City of San Diego, CA – does not charge a fee per se; however, all condominium conversion projects of two or more units that contain units sold to households earning 150% of area median income (AMI) or more, are subject to the City's inclusionary housing ordinance which requires that at least 10% of the units be set aside for households earning no more than 100% AMI or pay in-lieu fees, which are currently \$1.25 per sq. ft. for projects with less than ten units, or \$2.50 per sq. ft. for projects with ten units or more.

In addition to the above, on February 16, 2006, the Department of Planning and Building submitted a report to the Planning Commission regarding condominium conversions. Below is an excerpt from the report that discusses condominium conversions in other jurisdictions.

"A survey of other adjacent communities indicates that Long Beach is one of

the few communities with an active program for condominium conversions. This is a function of the higher percentage of available apartment buildings in Long Beach that meet the City's straightforward existing regulations as discussed above. Other cities allow conversions, and either limit the number or have more stringent requirements that limit the potential of converting existing buildings. The survey included Pasadena, Signal Hill, Anaheim, San Jose, San Francisco, Redondo Beach, Oakland, Lakewood, Seal Beach and Carson, among others.

Adjacent communities have sought to limit or prohibit condominium conversions. The primary reason is that their rental pool is relatively small and the vacancy rate remains low. In Redondo Beach, for example, condominium conversions are allowed, but each year the City conducts a survey to see if the vacancy rate for rental units is above six percent (6%). For the past 18 years, the rate has been in the range of 3 percent (3%), and no condominium conversions have been allowed.

In San Francisco, the City/County issues a limited number of condominium conversion permits by lottery. Because the demand greatly exceeds supply, mortgage lenders and developers in the area have created new financing mechanisms similar to cooperatives to allow individual ownership of multi-family buildings. Under this scenario, the City is not involved in the transfer of ownership and there is no opportunity to determine if the buildings meet current building safety standards."

The full report to the Planning Commission is attached for your reference.

Please call me at x86570 or Ellie Tolentino at x86926 if you have any questions or need additional information.

PW:EMT

✓ cc: Suzanne Frick, Director of Planning and Building
Attachment

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*Pasadena
2400/ projects
100/unit*

**Press Release****City of Long Beach Public Information Office**
333 W. Ocean Blvd, Long Beach, CA 90802

5/2/2006

FOR IMMEDIATE RELEASE

PRESS RELEASE #CM: 050206

Subject : Agenda Item #27 - Housing Trust Fund Fact Sheet**Contact :** Elizabeth Stochl, Manager, Housing Services Bureau 570.6367

Housing affordability in the City of Long Beach and elsewhere is declining, making it harder and harder for people to buy homes. To increase first-time homebuyers assistance, the City Council on October 11, 2005, asked the City Attorney to prepare an ordinance establishing a Housing Trust Fund (HTF). The City of Long Beach needs more affordable housing, and the HTF would be an effective tool toward achieving that goal.

On May 2, the City Council is scheduled to have the first reading of the Housing Trust Fund Ordinance. A final reading and approval will take place at a subsequent City Council meeting.

Here are some important details:

- The HTF would augment existing affordable housing resources.
- Establishing a HTF would likely help the City of Long Beach receive any future State housing bond funds.
- The HTF would help increase neighborhood stability and vitality.
- 80 percent of HTF funds would be earmarked for above moderate-income households. Based on 2005 income levels, that would be \$82,650 for a four-person household.
- 20 percent of HTF funds would be earmarked for extremely low-income residents. Based on 2005 income levels, that would be \$19,650 for a four-person household.
- Affordability benefits would continue for 55 years with rental units and 30 years for owned units, and would not expire with sale of property.
- The Long Beach Housing Development Company will administer the HTF and will provide the City Council with semi-annual reports.
- HTF's initial funding would come from General Fund transient occupancy taxes, \$500,000 per year, and from Boeing Realty's contribution for Douglas Park development, \$3,000,000 over five years.
- Other funding sources, such as condominium conversion fees, contributions from major employers, charitable organizations, foundations, will be explored.

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CITY OF LONG BEACH

DEPARTMENT OF PLANNING & BUILDING

333 WEST OCEAN BLVD., FIFTH FLOOR • LONG BEACH, CALIFORNIA 90802

NOTICE OF EXEMPTION

CATEGORICAL EXEMPTION CE- 06-120

TO: OFFICE OF PLANNING & RESEARCH
1400 TENTH STREET, ROOM 121
SACRAMENTO, CA 95814

FROM: DEPARTMENT OF PLANNING & BUILDING
333 W. OCEAN BLVD., 5TH FLOOR
LONG BEACH, CA 90802

L.A. COUNTY CLERK
ENVIRONMENTAL FILLINGS
12400 E. IMPERIAL HWY. 2ND FLOOR, RM. 2001
NORWALK, CA 90650

PROJECT TITLE: Zoning Text Amendment

PROJECT LOCATION - SPECIFIC: Citywide

PROJECT CITY: Long Beach PROJECT LOCATION - COUNTY: LOS ANGELES

ACTIVITY DESCRIPTION: Zoning Amendment to establish a new fee imposed on condominium conversions as a component of the Housing Trust Fund (HTF).

Name of Public Agency Approving Project: City of Long Beach

Name of Person or Agency Carrying Out Project: Jeff Winklepleck
(Printed Name)

333 W. Ocean Blvd., Long Beach, CA 90802
(Mailing Address)

(562) 570-6607
(Telephone)

(Signature)

(To Be Completed By City Staff Only)

Check One:
 LONG BEACH CITY PLANNING COMMISSION
 DEPARTMENT OF PLANNING AND BUILDING

The above project had been found to be exempt from CEQA in accordance with the State Guidelines Section 15305 (Class 5) Minor Alterations in Land Use Limitations

Statement of Support for this finding: Amendment will support Housing needs in the City.

Lead Agency: Angela Reynolds Area Code/Telephone: 562-570-6357

Signature: Jill Griffiths Date: 6-7-06 Title: Planner IV

Signed by Lead Agency
 Signed by Applicant (Jill Griffiths for Angela Reynolds)