MINUTES
CITY COUNCIL AND PLANNING COMMISSION
APRIL 27, 1992
WEST HOLLYWOOD PARK
647 N. SAN VICENTE BOULEVARD
6:00 P.M.

JOINT STUDY SESSION ON HOMEOWNERSHIP PROGRAM

CALL TO ORDER: Mayor Koretz called the meeting to order at 6:05 p.m., at which time the City Clerk administered the Oath of Office and presented him with his Certificate of Election, due to the fact that he was unable to attend the meeting of April 21, 1992.

ROLL CALL: City Council:
PRESENT: Guarriello, Heilman, Land, Lang, Mayor Koretz
Planning Commission:
PRESENT: Behr, Clavan, Crowe, Litz, Richmond, Smith, Zaden
ALSO PRESENT: City Manager Brotzman
Gay Forbes, Debbie Potter, Anne Browning, Department of Community Development
Mark Johnson, Dept. of Rent Stabilization

DISCUSSION OF HOMEOWNERSHIP PROGRAM AND POLICY OPTIONS:
Debbie Potter introduced Nancy Berkow, the intern who developed the report in the packets, and gave a short overview of the process that was used. She stated that now is the time to look at the range of options that are available to the City and decide where the focus should be. Various options were cited for consideration and discussion.
Discussion was held by Councilmembers, Commissioners, and staff on the various assumptions and options contained in the report. The consensus of the Council was that it is the City's goal to preserve long-term affordable housing and protect affordable and moderate priced units in the City. They stated they had no problem with conversion of high-priced units. Further, there was unanimous agreement that money would not be diverted from the non-profit Housing Corporation to assist in a home ownership program, but rather, staff should look at other options and explore other resources.

The consensus was that staff should develop educational programs for tenants on how to get into the marketplace; work with brokers and lenders, etc., on developing outside resources for funding; and later, look at developing a pilot project with luxury units.

The Planning Commission members asked the Council to firm-up the language concerning condominium conversions so they know how to proceed and react in the future. At present, the major criteria is if the owner can pay the fee and it doesn't matter if the tenants agree or can stay in their units.

ADJOURNMENT The meeting was adjourned at 7:45 p.m. to a regular scheduled meeting of the City Council on May 4, 1992 at 6:00 p.m., closed session and 7:00 p.m. regular meeting, and a regular scheduled meeting of the Planning Commission on May 7, 1992, at 7:00 p.m.. Both meetings will be held in West Hollywood Park Auditorium.

JOINT STUDY SESSION APRIL 27, 1992

SUBJECT: DISCUSSION OF HOMEOWNERSHIP PROGRAM AND POLICY OPTIONS

INITIATED BY: PLANNING COMMISSION & COMMUNITY DEVELOPMENT DEPARTMENT

STATEMENT ON THE SUBJECT

Since incorporation, the City has adopted a variety of programs and policies governing housing. These programs and policies range from rent stabilization and inclusionary housing to restrictions on condominium conversions and guidelines for developing new market-rate housing. Building activity governed by these rules and regulations has moved forward and new issues and concerns have been identified. Primary among them is the inability of first-time homebuyers to purchase a home in the City and remain a resident of West Hollywood. This concern led to direction from the Planning Commission and City Council to explore the issue of homeownership and ways the City may be able to assist first-time homebuyers through various programs and policies.

This evening's study session provides an opportunity to discuss the attached "Report on Homeownership Programs and Policies", provide further policy direction on issues connected with homeownership, and direct staff to further explore homeownership programs and policies as contained in the Report's recommendations.

RECOMMENDATIONS

Discuss the attached "Report on Homeownership Programs and Policies"; provide further policy direction regarding the program options outlined in the Report; and, as appropriate, direct staff to move forward with the recommendations contained in the Report.

BACKGROUND

As the City has become more and more successful in working to meet the affordable housing needs of low- and moderate-income residents, through a strong Rent Stabilization Ordinance, an inclusionary housing program, a non-profit development corporation and other programs, a second level of need has

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emerged. This is the need of first-time homebuyers to access assistance in purchasing a home in West Hollywood. With an April, 1992 median purchase price of $239,960 for a two-bedroom condominium, the vast majority of tenants are priced out of the market. The inability of tenants to stay on as homeowners was made clear to Planning Commissioners as projects involving demolition of existing units came before them for approval. Most of the tenants being displaced were not eligible for the City's affordable housing programs, nor could they afford market-rate rents or ownership of new condominiums being built on the sites of their demolished units. Concerns were raised about development trends that could lead to a City of the affluent who could afford market-rate rentals or condominiums and of the poor who could qualify for City programs or reside in affordable rent-controlled units, with no room for those of middle or moderate income. Commissioners were interested in possible programs and policies that would ensure that the City continue to meet the housing needs of all economic sectors.

In addition to those issues, several applications for CUP's to convert to condominiums raised additional questions and concerns regarding the City's condominium conversion requirements. The potential to use the condo conversion process to create homeownership opportunities for residents, while at the same time to protect tenants who cannot or do not want to become homeowners, was also explored.

The attached Report is intended to begin the policy discussion around these issues and is organized to look at the existing housing stock, the results of a homeownership survey (a more detailed description of the survey results is also attached to this staff report), homeownership programs in other cities that may be appropriate for incorporation in a West Hollywood housing program, and recommended next steps.

POLICY OPTIONS AND ANALYSIS

West Hollywood is a built-out community with a resident base that is 88% renters. There is very little vacant land and the typical residential development project involves more intensively developing sites by tearing down rent controlled apartment units and building market-rate condominium projects. Land is very expensive and few areas in the City are zoned for single family homes. Therefore, the most likely opportunity for first-time homebuyers is the purchase of a converted condominium. There are a number of issues that must be explored when looking at condominium conversion. The two most important are displacement of tenants and loss of affordable housing stock (as illustrated in Santa Monica, a condominium converted under the Tenant Participating Conversion process is only affordable once, it reverts to a market price upon any subsequent resale). Other issues include the fact that the majority of the City's housing stock is comprised of singles and one-bedroom units and the most sought-after unit size is two-bedrooms and the cost of a unit. Most first-time homebuyer programs cap the sales price at an amount that is below the median purchase price.

Another concern focuses on the City's financial resources for housing assistance. At this time, funds are directed solely to non-profit developers to build housing affordable to low-income people. Any new funding program for first-time homebuyers would involve reduced funding for low-income housing or generation of new funds to supplement low-income housing efforts. The policy issues revolve around the City's commitment to meet the needs of those least able to afford housing as a first priority versus a commitment to provide housing options to all economic sectors.

In addition to exploring tenant participating conversions and programs that require city subsidies (or subsidies structured from banks or other entities), the Report examines education programs and mortgage credit certificates that may be implemented at no direct cost to the City but involve working with the local Board of Realtors, bankers and others promoting homeownership opportunities.

Given concerns about limited resources and the potential for rapid depletion of the City's stock of affordable rental housing, homeownership programs and policies should be carefully crafted so that they maximize tenant protections and affordability over time. A thorough policy discussion, with an incremental approach to implementing a homeownership program, would be appropriate at this time.

FISCAL IMPACT

There is no fiscal impact in discussing homeownership programs and policies.

A REPORT OF HOMEOWNERSHIP PROGRAMS AND POLICY OPTIONS

Prepared By:

Housing & Economic Development Division

April 20, 1992

EXECUTIVE SUMMARY

Residents of West Hollywood are faced with continued increasing costs of purchasing a home and a decreasing ability to access the home-buyer market. In April of 1992, the median purchase price of a two-bedroom condominium in West Hollywood was $239,960. With the ever-increasing cost of living limiting a person's ability to save for a down payment, it has become more difficult to purchase a house or a condominium. In order to address the needs of the West Hollywood community, the Housing and Economic Development Division has undertaken a study pertaining to programs which could increase accessibility to home ownership.

There are a variety of tools which are used by various levels of governments and private institutions to increase home ownership accessibility. By reducing the percentage of the purchase price required for the down payment, allowing a higher percentage of one's income to be dedicated to housing costs, suspending the requirement for a cash reserve, subsidizing or providing second mortgages, or allowing unsecured financing for closing cost, the ability of a person to qualify for a loan is enhanced. Cities across the state work with other governmental agencies and private financial institutions to develop programs which meet the needs of their communities.

This report contains an overview of homeownership programs being implemented in other localities. While it is not the purpose of this report to document every homeownership program currently in existence, the report does provide possible options for the City of West Hollywood. The five types of homeownership programs which are discussed are: tenant ownership, the Community Home Buyer's Program, down payment assistance, mortgage assistance, and mortgage credit certificates. Each program provides a unique type of assistance which increases access to homeownership.

It is important to bear in mind that any homeownership assistance opportunities would probably include conversion of existing rental housing units. Given the built-out nature of West Hollywood, it is unlikely that ownership assistance for moderate-income buyers will be facilitated through new construction. Homeownership opportunities achieved through a tenant ownership ordinance will inevitably mean loss of rental housing stock and possible displacement of low-and moderate-income tenants who cannot afford to buy their units, even through an established assistance program. Thus, in considering the homeownership issue, it is imperative that West Hollywood policy-makers also address the broader issues of strong tenant protections (especially for seniors who comprise a large proportion of the City's population), unit-displacement policies and the shifting of scarce housing resources from meeting the needs of low-income tenants to homeownership.

With this in mind, the following recommendations should be considered:

A. Examine the current condominium conversion language in the Zoning Code. As it stands, West Hollywood requires approval of 80% of tenants to convert. This makes it difficult for buildings with 2-4 units to convert, since an 80% requirement for buildings of this size translates into a 100% requirement. In addition, the language regarding proof of tenant intent to purchase is vague and may need to be made more specific.

B. If appropriate, further explore development of a tenant ownership ordinance. The experience of Santa Monica should be used in formulating any program. Drawbacks which Santa Monica has experienced, such as lack of a low-income housing dedication, rapid depletion of housing stock, speculation by tenants who sell off their right to purchase, restrictions of the mortgage assistance program, should be addressed and remedied as part of a City tenant ownership program.

C. Discuss the possibility of using Affordable Housing Trust Fund money to accommodate moderate-income people as well as low-income tenants.

D. Set-up a meeting with representatives of the local Board of Realtors to discuss the possibility of pursuing Fannie Mae's Community Home Buyers Program.

E. Set-up a meeting with local lenders to discuss the possibility of establishing a down payment assistance loan pool.

F. Undertake further study of the Mortgage Certificate Program.

I. INTRODUCTION

Acting upon the direction of the City Council and Planning Commission, the following study of possible alternatives for developing a West Hollywood homeownership program has been undertaken by the Housing and Economic Development Division. The recommendation for the study emerged from the Planning Commission's discussions about the need for a one-for-one replacement policy for the removal of affordable housing. While it was determined that a one-for-one replacement policy was not required at this time, the Commission agreed that a home ownership program designed to make ownership more accessible would potentially address the needs of moderate-income tenants displaced by the removal of their units. Both displaced tenants and other West Hollywood residents could benefit from a program which would facilitate the purchase of homes, condominiums, condominium conversions and limited-equity cooperatives.

West Hollywood remains strongly committed to the provision of housing programs for low-income renters. However, if resources and priorities are shifted towards moderate-income buyers (a one-person household in this income category can make a maximum of $36,540, and a two-person moderate-income household can make a maximum of $41,731), there are sure to be certain trade-offs Since West Hollywood is largely built-out, new ownership opportunities would probably occur within existing structures. A very large proportion of West Hollywood's housing stock is comprised of rental units. Conversion of rentals to condominium ownership could ultimately diminish the City's overall rental housing stock. Thus, it is important to recognize that in creating ownership opportunities, this may impact on the City's stock of affordable rental housing.

In order to provide a framework in which to design a program for West Hollywood, the following report includes a summary of West Hollywood housing stock and homeownership needs identified through a survey; a brief outline of a variety of tools which are used by cities, states, and lending institutions to make homeownership a more viable alternative; an overview of programs used by localities; and recommendations for further exploring a homeownership program in West Hollywood.

II. NEEDS OF WEST HOLLYWOOD RESIDENTS

Summary

The Census indicates that in 1990, single-family residences and duplexes comprised only 14.5% of the housing stock. The primary type of units constructed between 1970 and 1980 were multi-family units. Seventy-one percent (71%) of the growth in the housing stock resulted from condominium construction.

As is commonly known, West Hollywood is a renter community, with 88% of its residents being renters in 1980. In order to protect renters from excessive increases in housing costs, a rent stabilization ordinance was enacted. In addition, a condominium conversion ordinance was adopted to ensure that excessive condominium conversion would not adversely affect the supply of rental housing. One requirement of the condominium conversion ordinance is that conversions are only permitted if 80% of the tenants agree to purchase a unit.

Due to pressures from increasing land value, sparse amounts of vacant land for new construction, and the inability to convert low-density rental complexes to condominiums, recycling lots with smaller structures to higher density uses has become more prevalent. The practice of demolishing smaller structures, which often house long-time West Hollywood residents, displaces tenants who may be unable to take advantage of the City's low-income housing programs because their incomes do not qualify. At the same time, these residents are unable to remain in West Hollywood because they cannot find units with rents comparable to their previous units.

The mean market-rate rent for a two-bedroom apartment in West Hollywood is $1,375 and the average purchase price of a two-bedroom home in April, 1992 is $335,776. Average purchase prices for one-and two-bedroom condominiums are $156,181 and $239,960 respectively. These prices are unaffordable to most residents of West Hollywood. The goal of a homeownership program would be to allow households with moderate-income to have access to ownership options.

Tenant Survey

A survey to determine tenant interest in homeownership was distributed in copies of the Fall, 1991 City News. 514 completed surveys were returned to the Housing and Economic Development Division. Respondents expressed a very high level of interest in homeownership. A majority of respondents are single persons who live alone. Most are 21-45 years old. One-quarter of respondents have lived in West Hollywood for 1-3 years, one-quarter have lived here for 3-7 years and another quarter have lived in the City for more than 10 years. Over half of respondents earn $25,000-$50,000. The most highly desired type of unit is the single family home. Condominium/townhouse was the second most preferred type of housing. Over half of the respondents said they would not buy their current units, and when asked to describe why, most indicated their units were not in good physical condition. Over two-thirds of respondents would need two bedrooms in their units.

The most widely cited obstacles to purchasing were down payments and monthly payments in that order. Respondents are most interested in the following types of ownership assistance programs: "Home loans which require less income to qualify" and "Home loans which require a lower percentage of purchase price as down payment." Low interest in programs such as "Federal Tax Credits for Mortgage Interest Payments" may be due to lack of awareness of the benefits of this particular form of assistance.

Cross-tabulations were run for the $25,000-$50,000 income group. Since this group comprised over half of the entire sample, it is not surprising that this sub-group's responses reflected the aforementioned preferences.

Housing Stock Characteristics

Number of units

According to the 1990 Census, there are approximately 23,821 housing units in the City. This figure includes a variety of building types including single family detached homes, duplexes, and multi-family buildings. This figure also includes a variety of ownership forms such as condominium and rentals. It is estimated that approximately 19,000 of these units are subject to the Rent Stabilization Ordinance. The following is a breakdown of the number of units according to building size:

Building Size	Total # Unit	Vacant Units
1, detached	1753	144
1, attached	818	86
2	815	43
3 or 4	1050	75
5 to 9	3730	150
10 to 19	6325	183
20 to 49	5799	293
50 or more	3255	6
Mobile home or trailer	6	0
Other	270	25
Total	23821	1253

The 1990 Census recorded the following unit breakdown according to number of rooms.

1 Room	1713
2 Rooms	3898
3 Rooms	7847
4 Rooms	6094
5 Rooms	3085
6 Rooms	814
7 Rooms	241
8 Rooms	71
9 + Rooms	58

"Rooms" as defined by the Census does not mean number of bedrooms. A one bedroom apartment with a bedroom, living room, and kitchen is probably classified as "3 Rooms" by the Census. A two bedroom apartment is probably classified as "4 rooms". Eventually, a breakdown will be available by bedrooms, but this remains forthcoming from the Census.

Using 1980 census data, a breakdown was created for rent-stabilized units by bedroom size:

# bedrooms	# units
singles	2895
1	9243
2	5142
3	433
4	26
5	5

While these figures comprise a significant proportion of the City's housing stock, they do not include approximately 5000 units. These 5000 units are comprised of single-family detached homes, condominiums and rental units not subject to rent control. It is not known how these respective unit types are comprised proportionally. Obviously, single-family homes and condominiums are not potential targets for condominium conversions. The remaining, yet unknown portion of the 5000 units, are rentals which could potentially be converted to condominiums. Many of these, but not all, are high-rent luxury rentals.

Unit Type

A 1985 survey produced statistics on types of rental units in West Hollywood:

Type of unit	Proportion of Sample
Apartment	87%
Single-Family House	9.5%
Condominium	3.5%

The recent survey of tenant interest in ownership did not ask respondents about their preference in building size. While this variable is not as significant as number of bedrooms, it is, nevertheless, an important variable.

Rent

The 1990 Census provided the following breakdown:

Rent Range	# Units
Less than $100	30
$100 to $140	212
$150 to $199	439
$200 to $249	218
$250 to $299	396
$300 to $349	762
$350 to $399	1011

$400 to $449	1271
$450 to $499	1543
$500 to $549	1971
$550 to $599	1693
$600 to $649	1590
$650 to $699	1282
$700 to $749	1304
$750 to $999	2411
$1000 or more	1159

These data may be a partial indication of people's ability to meet mortgage payments.

Age of Buildings

Age of the housing stock is another useful piece of information. A substantial proportion of the City's housing stock is comprised of older buildings. For example, 19% of the housing stock was constructed prior to 1940 and 12% was constructed during 1940-1949. While it would be useful, we do not have a source which correlates the age of buildings to building size and number of bedrooms.

Building age indicates the likelihood of there being certain amenities. This is of concern, because condominium purchasers are likely to want certain improvements. If renovations are to include certain amenities, this can significantly increase the purchase price.

Information gleaned from the Census and from the West Hollywood tenant survey indicate that the housing stock might not necessarily match homebuyer interest. For example, most tenants who expressed an interest in buying desire two-bedroom units, however, the majority of the rental housing stock is comprised of one-bedrooms and singles. Given the fact that West Hollywood is largely built-out, and there is little new construction, ownership opportunities can realistically only arise through condominium conversions.

III. EFFECTS OF CONDOMINIUM CONVERSION

The effects of condominium conversion are far reaching yet remain little understood. Conversions impact tenants, neighborhoods, the rental housing market and localities.

Displacement varies with different cities and projects. In 1975, in the Washington D.C. area, 82% of all renters in buildings undergoing conversion chose not to purchase their units. Washington D.C. illustrates the range of displacement that can take place within one city. For example, some buildings experienced 33% tenant displacement while others experienced 98% displacement. Of course, these tremendous displacement figures represent the experience of cities which did not have strong tenant protections.

Most tenants do not buy their units simply because they cannot afford to do so. The monthly cost of buying a condominium is typically equal to or higher than their monthly rent payments. In Evanston, Illinois, a city which experienced tremendous condominium conversion in the 1970's, the monthly housing cost, on the average, doubled per unit after conversion. Even if a tenant can afford to make mortgage payments equal to or higher than their rent, they cannot come up with the down payment. Other costs such as the condominium association dues make condominium ownership prohibitively expensive for a majority of tenants. Higher costs may be partially offset by tax deductions on mortgage payments, but this benefit usually does not cover the differential.

Some populations are more severely impacted by conversion than others. The elderly in particular find it extremely difficult to obtain long-term mortgages, and in many cases do not wish to do so. Many older people do not wish to be burdened with membership in a condominium association or with the responsibilities of homeownership. Older people who relocate may be affected by the inconvenience of moving. For this group, the loss of social ties and access to familiar neighborhood services can debilitating.

The impact of conversion on the rental housing market has been intensely debated. The conversion of 366,000 units in the United States between 1970 and 1979 resulted in the following:

*A reduction in the nation's rental housing supply of 231,000 units out of approximately 26.5 million rental units

*A reduction in renter demand by 212,000 households

*A net total of 18,000 previously vacant rental units being occupied by former tenants of converted buildings

Obviously, a one-to-one relationship between conversions and rentals does not exist. Through conversion, the demand for rentals decreases because some of the purchasers of condominium units were former tenants. However, the number of rental apartments demanded is not off-set by the reduction in the number of tenants.

IV. TOOLS TO INCREASE HOMEOWNERSHIP ACCESSIBILITY

It is commonly believed that the largest obstacle to purchasing a home is its high price. There are, however, a variety of factors which influence the cost of purchasing a home. Local and state governments, private organizations, and lending institutions have identified several methods of decreasing the initial cost of purchasing a home without actually changing the price. A few of the tools to increase ownership accessibility are:

* decreasing the percentage of the purchase price required for the down payment;

* subsidizing or providing deferred second mortgages;

* increasing the allowable percentage of income dedicated to housing costs;

* suspending the requirement of a cash reserve; and

* allowing unsecured financing for closing costs;

Cities work in conjunction with other organizations to develop programs which best suit their constituencies.

V. PROGRAMS IN OTHER LOCALITIES

Depending on size, housing stock and demographic profile of the community, cities throughout California have developed a variety of programs which increase accessibility to ownership. These programs have a variety of emphasizes, including:

* Tenant Ownership
* Community Home Buyer's Program
* Down Payment Assistance
* Mortgage Assistance
* Mortgage Credit Certificates

Tenant Ownership in Santa Monica

In 1984, the City of Santa Monica passed Proposition XX, the Tenant Ownership Rights Charter Amendment (TORCA). TORCA allows the conversion of rental units to tenant ownership in the form of limited-equity cooperatives, condominiums, stock cooperatives, or other state ownership sanctioned forms. This type of conversion is known as Tenant-Participating Conversions (TPCs).

TORCA's goal is to facilitate condominium conversions while at the same time to protect the rights of tenants. Under the ordinance, all of the units remain under rent control regardless of whether or not they are purchased by a tenant; all renters are given the option to purchase their unit for up to two years; all participating tenants are protected for five years from unjust eviction, even if rent control is abolished; and all senior and disabled tenants, residing in the building for at least six months prior to the conversion, are protected from unjust eviction, or large rent increases.

The Amendment also benefits the owners because they are able to convert their buildings to condominiums in a timely manner. In addition, they can sell their converted units to non-tenants with no legislated price restrictions, once the two-year sales option period is over. Currently, in West Hollywood, an owner of a building needs the consent of 80% of the residents before a conversion can occur. TORCA requires that 2/3 of the tenants agree to the conversion and that 50% of the tenants are willing to purchase their units.

TORCA's strong tenant protections ensure that tenants cannot be evicted from their units after the building has been converted except for a just cause. All tenants have the first right to buy during the initial two-year period, but they are under no obligation to do so and they may remain in their rent controlled units indefinitely. In the event that the rent control ordinance is repealed, tenants have the right to remain in their units, with controlled rents, for five years from the date the first unit is offered for sale. Senior citizens and disabled tenants have the right to remain in their units for their lifetime or as long as they choose to stay.

Technically, the program provides both affordability and ownership. The City of Santa Monica has also supplemented the program with a Homeownership Assistance Program (HAP) for low-income residents. While the HAP does not target moderate-income households, it does allow persons not previously capable of purchasing a home access to the market. To date, one loan has been made through the HAP. Certain aspects of the HAP are unattractive to both buyers and lenders. Condominiums purchased under the assistance program are subject to a schedule which restricts the amounts by which the unit can increase in price. Buyers find this unattractive because they are restricted in the price which they can exact for their unit upon resale. Lenders are wary of this program because their ability to resell the unit would be limited in the event of foreclosure.

In 1989, the City of Santa Monica surveyed households living in converted units to monitor the effectiveness of the program. The survey found that the majority of the residents had combined incomes of above 120% of the area median and that only 26% of the households would have been eligible for the Housing Assistance Program. Only 40% of the respondents living in units which had been sold had actually participated in the conversion process. Of the respondents living in the units which had not been sold, 98.3% of the respondents occupied their units at the time of conversion. There are more moderate- and low-income households in the units which had not been sold than in those which had been sold.

Advanced Planning staff are once again gearing up for a major evaluation of TORCA. The upcoming study will include two components. One will look at in-house data to determine such information as: maximum sales prices on units, where units are selling, who is buying them, how the maximum sales price compares to the MAR, etc. The second component will be a telephone survey of residents in TORCA buildings to determine how owners and renters have perceived the TORCA process: do tenants feel that their rights have been protected? Were owners coerced into buying? Are they satisfied with their converted units?

City of Santa Monica staff have several concerns about the program. First, tenants have often sold the option to buy their unit. This defeats the goal of providing for tenant ownership. Staff are also concerned with the "double escrow" phenomenon. Many residents sign an agreement to purchase, negotiate a sales price, and then turn around and sell the unit the same day they buy it.

Another concern is that there is no low-income dedication. Once the units are sold, the price of the unit is determined by the market. In retrospect, Santa Monica staff feel that an inclusionary requirement might help mitigate this problem. At this time, the only policy to offset the loss of low-income units is through a tax on units that get sold. So far, this fee has been restricted for the HAP, and approximately five million dollars has been collected. However, only one loan has been made. Frozen funds could be put to better use by allowing a portion of the funds to be allocated toward an affordable housing trust fund. Santa Monica plans to present this option to the electorate when TORCA is up for renewal this June.

As of mid-April, 1992, approximately 1100 units have been converted. Of those, approximately half have been sold. Approximately 1100 additional units have been approved by the City Council, and another 210 projects, totalling about 2000 units, are in the application stage. Staff are disturbed about the rapid pace at which the City's current supply of 34,000 rental units is being depleted. Some cities regulate the loss of rental housing stock by putting an annual cap on the number of units which can convert to condominium ownership. San Francisco, for example, has a 200 unit per year limit and conversion is limited to buildings with no more than six units. Developers apply through a lottery system.

Lenders have a number of concerns with regard to TORCA conversions. They are anxious to see a rapid absorbtion of units. It is important that units sell quickly for a number of reasons. The developer/owner is in charge of the homeowners association until over 50% of the units are sold. Conflicts arise when the developer and tenants have different goals for the building. A developer who has not sold over 50% of the units will probably not wish to spend more than the bare minimum on renovations. In contrast, a homeowners association controlled by tenants will probably want to make certain improvements to the facilities.

Most lenders have a 50% pre-sale requirement before they will make loans on individual condominium units. If purchasers have indicated a commitment to purchasing 50% of the units, then a lead lender will go in and close on the first unit. Once a relationship has been established with a lead lender, then other banks have more incentive to make loans. Developers have adopted the strategy of offering very favorable sale prices to tenants in order to gain the rapid sale of 50% of units. Frequently, developers offer added bonuses such as further discounts or rebates, if purchasers close within three months of an initial offering. The rapid sale of units makes it more favorable for lenders to get involved and it ensures that the control of the homeowners association will transfer from the developer to the residents.

A tenant ownership program could be beneficial to West Hollywood because of the high proportion of tenants residing in the area. If a program could be designed to eliminate the drawbacks of the Santa Monica Program, then it may benefit the West Hollywood community.

Fannie Mae Community Homebuyer's Program

Fannie Mae is a Congressionally chartered, shareholder-owned company and the nation's largest investor in home mortgages. Fannnie Mae works with lenders, mortgage insurers, public agencies, and nonprofit organizations within communities to design housing partnerships for lower income home buyers who otherwise would be priced out of the market.

The Community Home Buyer's Program (CHBP) is a partnership between lenders, GE Mortgage Insurance Companies and Fannie Mae to provide home loans which require less income to qualify and less cash for closing costs. Often times, the local Board of Realtors has taken the initiative to learn about the program and market it to potential customers.

One of the most successful options under the Community Homebuyers Program is the 3/2 Option which allows the buyer to put as little as 3% down. This down payment must come from their own funds. This can then be supplemented by another 2% toward the down payment, obtained as a gift from a family member, or a grant or unsecured loan from a local nonprofit or governmental agency. Under this program, buyers can take advantage of mortgages which require less money down, less income to qualify, less cash for closing, and more lenient qualification guidelines. The home to be purchased must be a single family residence or condominium used as a principle residence with the price not exceeding $202,000 (average sales price for a 2-bedroom condominium in West Hollywood is $239,000). This product is available to moderate-income buyers whose household income is below 115% of the area median, as defined by the U.S. Department of Housing and Urban Development. (115% median income for a 1-person household is approximately $35,017 and for a 2-person household approximately $39,992.)

A number of California cities have participated in the Community Home Buyers Program by contributing the 2% portion of the downpayment. The city's 2% contribution most often comes from redevelopment agency set-aside funds for housing. While West Hollywood does not have a redevelopment agency, one option is for West Hollywood to explore creating a loan pool
to make the 2% loans funded through a consortium of local lenders.

One of the most appealing features of the Community Home Buyers Program is its inclusion of a homeownership and personal finance education program. This is geared especially toward the first-time homebuyer. Each borrower must participate in such a program which provides guidelines on selecting a home, obtaining a mortgage, budgeting to monthly costs and maintaining a home. The lender is required to certify that the borrower has successfully completed the program before a loan can fund under this particular program. This component would be beneficial to West Hollywood since the outreach program is conducted by Fannie Mae or a local realtors board and the City would not have to cover the cost of administration.

The program though, is not without its drawbacks. In order for Fannie Mae to collaborate with the city on a conversion project, it has to pre-approve the conversion. Approval includes inspection by Fannie Mae and submitting an engineer's report. The building must meet condominium standards before Fannie Mae will participate. Lenders are sometimes reluctant to participate because of the restrictive Fannie Mae requirements.

Down Payment Assistance

Many communities have decided to assist first-time home buyers by providing low-interest, deferred second mortgages for down payments. Cities such as Monterey, Simi Valley, Santa Ana, Long Beach and others use either mortgage revenue bonds or funds from redevelopment set-asides to finance up to 15% of the purchase price in down payment assistance. Usually, program applicants can earn a maximum of 120% of the area median income. The loans carry a 5% simple interest rate, with all payments deferred until the time of sale.

In West Hollywood, a 20% down payment on a 2-bedroom condominium would be over $40,000. A study completed by the Joint Center for Housing at Harvard University found that in 1986, 81% of the nation's household aged between 25 and 34 did not even have the funds to finance a down payment of a $70,000 home.

Down payment assistance programs assist only a limited number of households due to the large sum which is required for each participant. On average, the programs have assisted between 10-15 households a year. In addition, West Hollywood does not have a redevelopment agency, and therefore, there is no revenue being generated from redevelopment set-asides. The City would have to rely on bonded indebtedness through the sale of mortgage revenue bonds. Due to these constraints, this option not appear appropriate for the City of West Hollywood.

Mortgage Assistance

The City of Simi Valley and the City of Thousand Oaks have Mortgage Assistance programs. The cities sold tax-free mortgage revenue bonds to provide low-cost mortgage financing.

The maximum allowable income for the Thousand Oaks program is $51,200 for existing homes and $54,240 (1-2 person households) for new homes. A minimum down payment of 10% of the purchase price is required. In addition, program applicants must either live or work in the Conejo Valley and purchase their home in Thousand Oaks.

The mortgage assistance program is supplemented in Thousand Oaks by a down payment assistance program. The city found that by only offering mortgage assistance, the needs of the residents were not sufficiently met. First-time home buyers were still unable to finance the 10% down payment, precluding them from program participation.

Both the down payment and the mortgage assistance programs appear infeasible at this time for West Hollywood. In order to finance these programs, mortgage revenue bonds would need to be sold. One of the conditions of the tax-free mortgage revenue bond allocated by the state is that 60% of the allocation be used for new development. Using mortgage revenue bonds is more feasible in localities with large amounts of new developments of single family residences or condominiums. San Francisco has limited the use of mortgage revenue assistance to persons who purchase affordable owner-occupied units which the city has helped develop. The size of West Hollywood, type of housing stock available and the limitation of vacant land suggest that selling mortgage revenue bonds to finance a home ownership program in West Hollywood would not be an appropriate at this time.

Mortgage Credit Certificates (MCCs)

Mortgage Credit Certificates are a form of assistance which allows a participant to apply a tax credit, proportional to the amount of interest paid during the year on a home mortgage, to his/her federal taxes which then enables the person to apply more money towards housing costs. A local government can exchange a portion, or all, of its authority to issue mortgage revenue bonds for the right to issue mortgage credit certificates. A city receives the authority to issue $ 1.00 of mortgage credit certificates for every $4.00 of mortgage revenue bonds which they exchange. An important aspect of this program is that the requirement to use 60% of the allocation for new development is lifted. Therefore, all of the MCCs can be assigned to persons purchasing resale units.

It has been found that mortgage credit certificates allow more households to be assisted since MCCs do not have large start-up costs. Fewer dollars are needed per person assisted and the "effective buying" power of the participant is increased.

Eligible program participants are generally the same as for other programs. They must be qualified first-time home buyers with a maximum income of 115% of the area gross median. The purchase price for the home cannot be above 90% of the area average purchase price, except for in areas of chronic distress, where the value of the home can be up to 115% of the area median.

The Sacramento Housing and Redevelopment Agency has been successfully implementing a mortgage certificate program for several years and has issued over 3563 MCCs. The city has roughly 100 lenders who participate. In order to market the program, a publication by the California Association of

Realtors recommends that realtors become involved in learning more about MCCs and inform potential participants about the local program. At a minimum, the City could work with local realtors to educate them about this program.

<u>First-time Homebuyer Programs Offered by Local Banks</u>

Recently, as a part of their community reinvestment activities, lending institutions have developed their own home loan programs. For instance, Bank of America has a "Neighborhood Advantage Home Loan" program. Neighborhood Advantage provides more flexible qualifying guidelines, down payments as low as 10%, and no minimum loan amount or cash reserve on owner-occupied purchases. The program targets homes located in census tracts which have an average median income which is 80% of the area median. Two of the West Hollywood census tracts fall into this category.

The Community Reinvestment Act (CRA) statement for First Federal Bank of California indicates that their bank is involved in the Los Angeles Home Loan Counseling Center. The Counseling Center is an independent group of Savings and Loans devoted to increasing the public awareness about obtaining home loans in low and moderate income areas. The Center's primary objective is to counsel the public in order to increase understanding of the home loan process.

V. RECOMMENDATIONS

Based on the information contained in this report, the following recommendations have been developed:

A. Examine the current condominium conversion language in the Zoning Code. As it stands, West Hollywood requires approval of 80% of tenants to convert. This makes it difficult for buildings with 2-4 units to convert, since an 80% requirement for buildings of this size translates into a 100% requirement. In addition, the language regarding proof of tenant intent to purchase is vague and may need to be made more specific.

B. If appropriate, further explore development of a tenant ownership ordinance. The experience of Santa Monica should be used in formulating any program. Drawbacks which Santa Monica has experienced, such as lack of a low-income dedication, rapid depletion of housing stock, speculation by tenants who sell off their right to purchase, restrictions of mortgage assistance program, should be addressed and remedied as part of a City tenant ownership program.

C. Discuss the possibility of using Affordable Housing Trust Fund money to accommodate moderate-income people as well as low-income tenants.

D. Set-up a meeting with representatives of the local Board of Realtors to discuss the possibility of pursuing Fannie Mae's Community Home Buyers Program.

E. Set-up a meeting with local lenders to discuss the possibility of establishing a down payment assistance loan pool.

F. Undertake further study of the Mortgage Certificate Program.

VI. CONCLUSION

This report suggests that there are a number of strategies for creating homeownership assistance programs for moderate-income buyers. It is also obvious that trade-offs may take place and that the City must consider these in formulating a homeownership assistance program. The City should analyze the suggestions included herein and continue to undertake further study of the issue of homeownership.

RESULTS OF TENANT-INTEREST-IN-HOMEOWNSHIP SURVEY

Prepared By:

Housing & Economic Development Division

April 21, 1992

RESULTS OF TENANT- EREST-IN-HOME-OWNERSHIP EY

SUMMARY

Respondents expressed a very high level of interest in home ownership. A majority of respondents are single people who live alone. Most are 21-45 years old. There is a fairly even distribution in terms of tenure, with approximately one quarter of respondents residing in West Hollywood for 1-3 years, one quarter have lived here for 3-7 years and another quarter have lived in West Hollywood for more than 10 years.

Over half of respondents earn $25,000-$50,000. The most highly desired type of unit is the single family home. Condominium/townhouse was the second most desirable choice. Over half of the respondents said they would not buy their current units, and when asked to describe why most indicated their unit was not in good physical condition. Over two thirds of respondents would need 2 bedrooms in their units.

The most widely cited obstacles to purchasing were downpayments and monthly payments in that order. Respondents are most interersted in the following types of ownership assistance programs: "Home loans which require less income to qualify" and "Home loans which require a lower percentage of income as down payment." Low interest in programs such as "Federal tax credits for mortgage interest payments" may be due to lack of awareness about this particular form of assistance.

Cross tabulations were run for the $25,000-$50,000 income group. Since this group comprised over half of the entire sample, it is not surprising that this sub-group's responses reflected the aforementioned preferences.

SURVEY RESULTS FOR ENTIRE SAMPLE

An overwhelming majority (96.3 %) of respondents are interested in owning a single family home or condominium in West Hollywood. This response comes as no surprise given the bias of the survey. High interest in ownership was anticipated based on the assumption that people who took the time to answer the survey would more likely than not be interersted in ownership. Along the same lines, it is likely that those not interested in home ownership would probably not answer the survey.

Question 12 asked respondents "Is West Hollywood the City where you would most like to purchase a home?" 76% of respondents answered "yes", 5.6% answered "no", and 18.4% answered "undecided." A comparison of the results of questions 1 and 12 show that while there is a high level of interest in owning a home in West Hollywood, interest diminishes when respondents are asked where they would most like to purchase a home. Respondents are interested in owning homes in West Hollywood, yet there are other places which are more desirable.

DEMOGRAPHICS

Tenure:
Approximately one fourth of respondents (26.1%) have lived in West Hollywood for 1-3 years, one fourth (24.3%) 3-7 years, and another fourth (26.1%) more than 10 years. Another 8.2% have lived in West Hollywood under 1 year and 15.3% have lived in West Hollywood 7-10 years.

Household description:
Over half of the respondents (56%) are single people living alone. 3.7% are single parents living alone with children residing there full-time or most of the time. Unrelated adults living together comprise 23% of respondents. This survey inadvertently left out a category for domestic partnerships. It is likely that the unrelated adults living together includes domestic partnerships. Unrelated adults living together with children comprised 2.6% of responses. Married couples without children comprised 9.8% of households. Married couples with children accounted for 4.5% of households.

Age:
The highest number of respondents (38%) are in the 21-34 year-old age range. The next largest group (33.7%) are in the 35-44 age range. 13.9% are in the 45-55 age range, 13.5% over 55 and .8% under 21.

Number of people in household contributing to monthly costs:
A majority of households (64%) have only 1 person contributing to monthly housing costs. In 34.3 % of households there are 2 people contributing to monthly costs. Only 1.3% of households have 3 persons to contributing to monthly costs and another .4% of households have 4 persons contributing.

Household Income:
A majority of respondents (52%) earn annual incomes in the $25,000-$50,000 range. Almost one quarter (22%) are in the $10,000-$25,000 range, 15% earn $50,000-$75,000, 6.9% earn $75-000-$100,000 and 3.4% earn more than $100,000.

DESIRED TYPE OF U\ AND CHARACTERISTICS OF N ,HBORHOOD

Type of unit:

Before giving the result for this question, it is important to describe how this question was designed and the problems it poses in the analysis. Survey question 8 reads "What type of units are you interested in buying. The problem arises with the way respondents are asked to answer this question. There are 5 choices and respondents are asked to rank 1st, 2nd, and 3rd choices. Firstly, the survey does not specify whether 1,2,and 3 should reflect descending order of preferene (i.e. 1 is highest preference). While this was not explicitly stated, it was implied. Survey results indicated that respondents ranked choices with 1 being their highest preference. The main problem, however, is that there are 5 possible answers but respondents are only asked to rank the top 3. This means that for each possible answer there is a certain percentage of respondents who did not answer that question. Results can be interpreted in two ways. For example the first possible response was "Single family home." Out of the 368 people who gave this answer a ranking, 199 a percent of the total number of respondents gave it a "1." Expressed as a percent of the total number of respondents, it can be said that 199 out of 514 (38.7%) ranked single-family homes as their first choice. Alternatively, it can be said that out of the total 368 people who gave single-family homes any ranking at all, 54% gave this choice a "1." What further complicates the issue is that some people merely used check marks (recorded as "yes") rather than assigning a value of 1,2, or 3.

For the purposes of this study, we will look at the percentage of 1, 2, and 3's recorded out of the total respondents. This might depress values, but the alternative would highly inflate values. For example, another possible choice for which type of unit desired was mobile homes. Only 18 people in total gave this response any ranking. Clearly, there is very little interest in mobile homes. If the rankings were expressed as the proportion of people who answered the question, results would be: 5.5% gave it a 1, 22.2% gave it a 2, 44.4% gave it a 3, 27.8% gave it a check without a number. Expressed as percentages of the total 514 respondents, the numbers look much different: .2% ranked mobile homes as "1", .8% ranked them as "2", 1.6% "3", and 1% checked mobile homes without giving this choice a ranking.

Another indicator for interest in a particular type of housing unit is the total number of people who answered the question at all.

Single Family Home: 368 people, or 72% of the total respondents, gave this choice some kind of ranking. 54% gave this choice a "1", 15% ranked it "2", 12.2% ranked it "3". Another 13.4% marked this choice with as "yes" without giving it a numerical va... .

Duplex (2 units): 259 or 50.3% gave this choice some kind of ranking. 5.8% gave it a "1", 23% gave it a "2", 18% gave it a "3", and 3.3% wrote in "yes" for this choice.

Condominium/Townhouse: 385 respondents, 74% gave this choice a 1,2,3, or yes. 18.5% ranked it "1", 23.7% ranked it "2", 18.7% ranked it "3" and 14% responded "yes" to this choice.

Apartment Unit in Building: 164 people, (32%) responded to this choice. 3.9% ranked it "1", 8.6% ranked it "2", 12.5% ranked it "3" ;7% responded "yes" to this choice.

Mobile Home: 18 respondents (3.5%) marked this choice. .2% gave it a "1", .8% ranked it a "2", 1.6% ranked it "3", 1% responded "yes" to this choice.

Based on the response to each choice, we can conclude that the highest level of interest is in single family homes with condominium/townhouses eliciting the next highest level of interest.

Would you buy your current apartment if it were converted into a co-op or condominium?

54.9% respondents answered "no"; 45.1% answered "yes."

How many bedrooms would you need in your home?

The majority of respondents, 64.7% would need 2 bedrooms in their units. 17.5% of respondents would need 3 bedrooms. 16.1% need 1 bedroom and 1.6% desire more than 4 Bedrooms:

Neighborhood Characteristics:
The following reflects the order of importance of neighborhood characteristics:

1) Character of neighborhood
2) Low crime rate
3) Availability of housing in your price range
4) Cleanliness of city
5) Availability of housing large enough for your household needs
6) Closeness to jobs
7) Closeness to places you like to shop
8) Closeness to recreation
9) Good public schools

OBSTACLES TO HOME OWNERSHIP & DESIRED HOME OWNERSHIP ASSISTANCE PROGRAMS

What are the obstacles that have kept you from purchasing a home until this point?

This was another one of those questions that asked respondents to rank first, second and third choices. Again, a problem arises in that there were four choices yet respondents were only asked to rank their first three choices.

The four possible responses to this question included: "Could not afford downpayment"; "Could not afford monthly payments"; "Not ready to settle down" and "Could not find any acceptable units."

"Could not afford downpayment" received the highest number of responses, with 392 people (76.3%) giving this choice a ranking of 1,2,3 or "yes". Also, this choice had the highest percentage (35.8%) of "1" rankings. The percentage of "1" rankings for the other choices were as follows: 7.6% "Could not afford monthly payments," 14% "Not ready to settle down," and 2.5% "Could not find any acceptable units."

If the City of West Hollywood were to offer home buying assistance, which of the following programs would be helpful to you?

Six different choices were offered and respondents were asked to rank choices 1 to 5. Again we have the problem of not capturing relative interest since respondents were not ranking all choices.

"Home Loans Which Require Less Income to Qualify" was the choice which received the highest percentage of "1" rankings. 27.8% of all respondents rated this their first choice in home buying assistance programs. The choice which received the second highest proportion of "1" ratings was "Home loans which require a lower percentage of income as down payment." The descending order of preference for the other four choices was: Cooperative Tenant Ownership of Apartment Units; Low interest, deferred second mortgages for down payment; Federal tax credits for mortgage interest payments; and Home Ownership Counseling Workshops.

MODERATE INCOME RESULTS

52% of all respondents were in the $25,000-$50,000 income level. Since this income range comprised a majority of respondents, cross-tabulations were run to obtain information on this particular group. The following provides information on those in the moderate income level.

97% percent of this group are interested in owning a single-family home or condominium in West Hollywood. 3% are not interested.

In response to the question "Is West Hollywood the city where you would most like to purchase a home?" 77.4% answered "yes", 4% answered "no", and 18.6% answered "undecided".

<u>DEMOGRAPHICS</u>

Tenure:
6% have lived in West Hollywood under 1 year, 32.7% 1-3 years, 26.6% 3-7 years, 15.6% 7-10 years, 19% more than 10 years.

Household Description:
57.3% are single persons living alone with no children or children live elsewhere most of the time; 4.0% are single parents living alone, with children living with them full-time or most of the time; 23% are unrelated adults living together without children; 2.5% are unrelated adults living together; 8% are husband/wife without childrend; 5% are husband/wife with children.

Age:
12% are under 21; 42.2% are 21-34 years old; 32% are 35-44 years old; 11.6% are 45-55 years old; 1.5% are over 55.

Monthly Housing Costs:
12.1% pay $300-$600 per month; 42.2% pay $600-$800 per month; 32.2% pay $800-$1200 per month; 11.6% pay $1200-$1600; and 1.5% pay more than $1600.

People Contributing to Housing Costs:
66% have 1 person contributing to housing costs. 32% have 2 people contributing to housing costs; 1 % of respondents have 3 people contributing; .5% have 4 people contributing.

<u>HOUSING TYPE</u>

The most preferred housing type among the $25,000-$50,000 income level is "Single Family Home". 32% of respondents in this income level gave this choice a "1" rating in terms of housing choice. "Condominium/Townhouse" is the choice which reached the second highest proportion of "1" ratings.

55.3% of this income group said they would not buy their current apartments if it were turned into a co-op or condominium. 36.7% said they would not purchase their apartments and 8% are undecided.

13.1% of respondents indicated they would need 1 bedroom; 67.4% need 2 bedrooms; 15.6% need 3 bedrooms; 1.5% need more than 3 bedrooms.

OBSTACLES TO BUYING AND TYPES OF HOME BUYING ASSISTANCE PROGRAMS DESIRED

What are the obstacles that have kept you from purchasing a home until this point?

Responses to this question from the $25,000-$50,000 income group resembled responses from the overall sample of 514 respondents. Among this sub-group, 36% ranked "Could not afford downpayment as their number 1 obstacle to purchasing a home. 8% rated "Could not afford monthly payments" as the biggest obstacle. "Not ready to settle down" was ranked number 1 by 2% of this sample and "Could not find any acceptable unit" was the primary obstacle for 1%.

If the City of West Hollywood were to offer home buying assistance,which of the following programs would be helpful to you?

There was relatively high interest in "Home loans which require a lower percentage of income as down payment" and "Home loans which require less income to qualify". The descending order of prefererence for other programs is as follows: "Cooperative Tenant Ownership of Apartment Units", "Low interest, deferred second mortgages for down payment", "Federal tax credits for mortgage interest payments."