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CONDOMINIUM CONVERSION ON A METROPOLITAN SCALE

Housing analysts are just beginning to examine the effects of condominium conversions on rental housing markets. The recent HUD study of condominium conversions focused primarily on the national level, with the metropolitan areas as the unit of analysis.[1] The HUD approach obscures the differential impact of conversions on metropolitan submarkets. While at the regional level, a relatively minute proportion of the multifamily housing stock has been converted from rental to owner-occupancy, intrametropolitan conversion rates vary considerably across submarkets.

This paper briefly reviews aggregate data on condominium and cooperative conversions in California throughout the 1970s. Conversions have been increasing at an exponential rate since 1975. The second part of this paper examines some of the economic factors that explain the relative incidence of conversions across metropolitan submarkets.

Statewide Conversion Trends

Between 1973 and 1980 approximately 85,000 rental apartments in California were converted to condominiums or stock cooperatives. This represents 3.25 percent of the state's existing multifamily housing stock in 1977.

The annual rate of conversions has accelerated sharply in recent years. Only 20.2 percent of all conversions took place before the beginning of 1978. Fifty-five percent of all conversions between 1973 and 1980 have occurred since 1979. (See Table 1.) The same trends are true not only for California as a state but also for different parts of California, for example, Southern California (as shown in Table 2) and the Bay Area (as shown in Table 3). This acceleration is partly the result of an increase in the size of converted projects after 1978. In Southern California, for example, the average project size went from a maximum of 34 units per building for the years 1973-1977 to 54 units per building for the three-year period 1978-1980. Other factors, however, account for the extraordinary increase in conversion rates after 1978. Apartment owners in many California cities rushed to convert in anticipation of conversion moratoria and rent control.

For example, Santa Monica, located west of Los Angeles along the ocean front, boasts a large renter population, with 73 percent of its dwelling units in multifamily structures. Tenant organizations in the city had been growing in strength despite the defeat of a rent-control proposal in the previous municipal election. In expectation of highly restrictive rent and conversion regulations, landlords rushed to convert in 1978. In the year prior to

Table 1

Condominium Conversions in California

1973-1979

Period	Number of Projects	Number of Units	Average Project Size	Cumulative Numbers	Cumulative Percent
Jan.-June 1973	27	820	30.4	820	1.1
Jul.-Dec. 1973	49	1,581	32.2	2,401	3.4
Jan.-June 1974	48	1,818	37.9	4,219	5.9
Jul.-Dec. 1974	83	1,868	22.5	6,087	8.6
Jan.-June 1975	48	934	19.5	7,021	9.9
Jul.-Dec. 1975	48	958	19.5	7,979	11.2
Jan.-June 1976	32	904	28.3	8,883	12.5
Jul.-Dec. 1976	51	1,185	23.2	10,068	14.2
Jan.-June 1977	37	1,561	42.2	11,629	16.4
Jul.-Dec. 1977	56	2,730	48.7	14,359	20.2
Jan.-June 1978	64	2,426	37.9	16,785	32.6
Jul.-Dec. 1978	136	6,772	49.8	23,557	33.2
Jan.-June 1979	156	8,081	51.8	31,638	44.6
Jul.-Dec. 1979	205	10,221	49.8	41,859	59.0
Jan.-June 1980	282	18,641	66.1	60,500	85.2
Jul.-Dec. 1980	323	10,495	32.5	70,995	100.0
TOTAL	1,645	70,995	43.2		

Source: California Department of Real Estate.

Table 2

Condominium Conversion in Southern California

1973-1980

Year	Number of Projects	Number of Units	Average Project Size	Cumulative Number	Cumulative Percent
Jan.-June 1973	1	4	4.0	4	--
Jul.-Dec. 1973	16	598	37.3	602	1.32
Jan.-June 1974	25	979	39.2	1,581	3.40
Jul.-Dec. 1974	43	1,066	24.8	2,647	5.82
Jan.-June 1975	30	689	23.0	3,336	7.33
Jul.-Dec. 1975	24	419	17.5	3,755	8.25
Jan.-June 1976	16	515	32.2	4,270	9.39
Jul.-Dec. 1976	16	747	46.7	5,017	11.03
Jan.-June 1977	18	681	37.8	5,698	12.53
Jul.-Dec. 1977	28	1,732	61.9	7,430	16.33
Jan.-June 1978	30	1,040	34.7	8,470	18.62
Jul.-Dec. 1978	82	5,491	66.4	13,961	30.69
Jan.-June 1979	100	6,707	67.1	20,668	45.43
Jul.-Dec. 1979	118	5,929	50.2	26,597	58.47
Jan.-June 1980	173	10,913	63.1	37,510	82.46
Jul.-Dec. 1980	186	7,980	42.9	45,490	100.00
TOTAL	906	45,490	50.2		

Source: California Department of Real Estate. Southern California includes Imperial, Los Angeles, Orange, Riverside, San Bernardino, San Diego, Santa Barbara, and Ventura counties.

Table 3

Condominium Conversions in the

San Francisco Bay Area

1973-1980

Period	Number of Projects	Number of Units	Average Size of Project	Cumulative Number	Cumulative Percent
Jan.-June 1973	23	715	31.1	715	4.0
Jul.-Dec. 1973	30	872	29.1	1,587	8.9
Jan.-June 1974	21	795	37.9	1,882	13.4
Jul.-Dec. 1974	38	783	10.6	3,165	17.8
Jan.-June 1975	17	231	13.9	3,396	13.9
Jul.-Dec. 1975	22	484	22.0	3,880	21.8
Jan.-June 1976	14	325	23.2	4,205	23.6
Jul.-Dec. 1976	14	354	25.3	4,559	25.6
Jan.-June 1977	14	471	33.6	5,030	28.3
Jul.-Dec. 1977	21	863	41.1	5,893	33.1
Jan.-June 1978	31	1,246	40.2	7,139	40.1
Jul.-Dec. 1978	47	801	17.2	7,940	44.6
Jan.-June 1979	43	827	19.2	8,767	49.2
Jul.-Dec. 1979	70	3,018	43.1	11,785	66.2
Jan.-June 1980	102	4,468	43.8	16,253	91.3
Jul.-Dec. 1980	113	1,551	13.7	17,804	100.0
TOTAL	620	17,804	28.7		

Source: California Department of Real Estate. These data include conversions for the nine-county Bay Area consisting of Alameda, Contra Costa, Marin, Napa, San Francisco, San Mateo, Santa Clara, Solano, and Sonoma counties.

April 1979, the city council granted approvals for conversion of about 2,600 units.[2] This represented nine percent of all units in buildings of five units or more in the community. In April 1979, Santa Monica voters approved a rent-control ballot initiative that prohibited condominium conversion unless approved by the Rent Board, and elected three pro-renter representatives to the City Council. During the following year, by contrast, the City of Santa Monica granted approval for the conversion of only 200 rental units.[3]

The sudden flurry of stock cooperative conversions in 1979 and 1980 occurred because of a loophole in the California Subdivision Map Act, which establishes the authority of local government to regulate conversions.[4] Up until late 1979, the law did not extend to stock cooperatives. This meant that anyone who wished to convert an apartment building to a stock cooperative could get automatic local approval simply by registering a subdivision map, thereby avoiding the costly and often arduous regulatory process involved. Converters of large apartment buildings (100 units or more) took advantage of the loophole because of the intense opposition expected from local government officials and renters to the removal of such large numbers of rental units from the local supply in one fell swoop. As Table 4 shows, the average project size in Southern California for cooperative conversions for

Table 4

Stock Cooperative Conversions in California

1978-1980

	Southern California			Bay Area		
	Projects	Units	Avg. Size	Projects	Units	Avg. Size
Jan.-June 1978	0	0	0.0	0	0	0.0
Jul.-Dec. 1978	2	374	187.0	1	990	990.0
Jan.-June 1979	11	1,222	111.1	0	0	0.0
Jul.-Dec. 1979	41	3,865	94.3	2	120	60.0
Jan.-June 1980	53	3,592	67.7	2	1,398	699.0
Jul.-Dec. 1980	49	1,936	40.0	5	440	88.0
TOTAL	156	10,989	70.4	10	2,949	294.8

Note: There has been a total of 14,005 apartment units converted to stock cooperatives in California since 1978. The distribution is:

Sacramento	68
Bay Area	2,948
Southern California	10,989
Total	14,005

Source: California Department of Real Estate.

1978-1980 was 70.4 units per building, as compared to 50.4 units per building for condominium conversions. In Northern California, the average project size for stock cooperative conversions was 294.8 units per building. In late 1979, the State Legislature amended the Subdivision Map Act and extended it to stock cooperatives, thus closing the loophole.

Conversions in the San Francisco Bay Area

Between 1970 and 1979, Bay Area local communities approved applications for the conversion of 22,597 apartment units to condominiums, or approximately 3.1 percent of the total stock of multifamily housing units in the region in 1979. This estimate was obtained from a survey of 101 city governments throughout the nine-county San Francisco Bay Area conducted by the Association of Bay Area Governments in conjunction with the Department of City and Regional Planning at the University of California, Berkeley.[5] (See Figure 1 for research area.[6])

The survey included both completed and proposed conversions. The appendix at the end of this paper discusses how local government and state conversion numbers may vary and the complex regulatory framework in California that accounts for this variance.

Condominium conversions in the Bay Area exhibit a high degree of geographic constellation. Figure 2 shows the

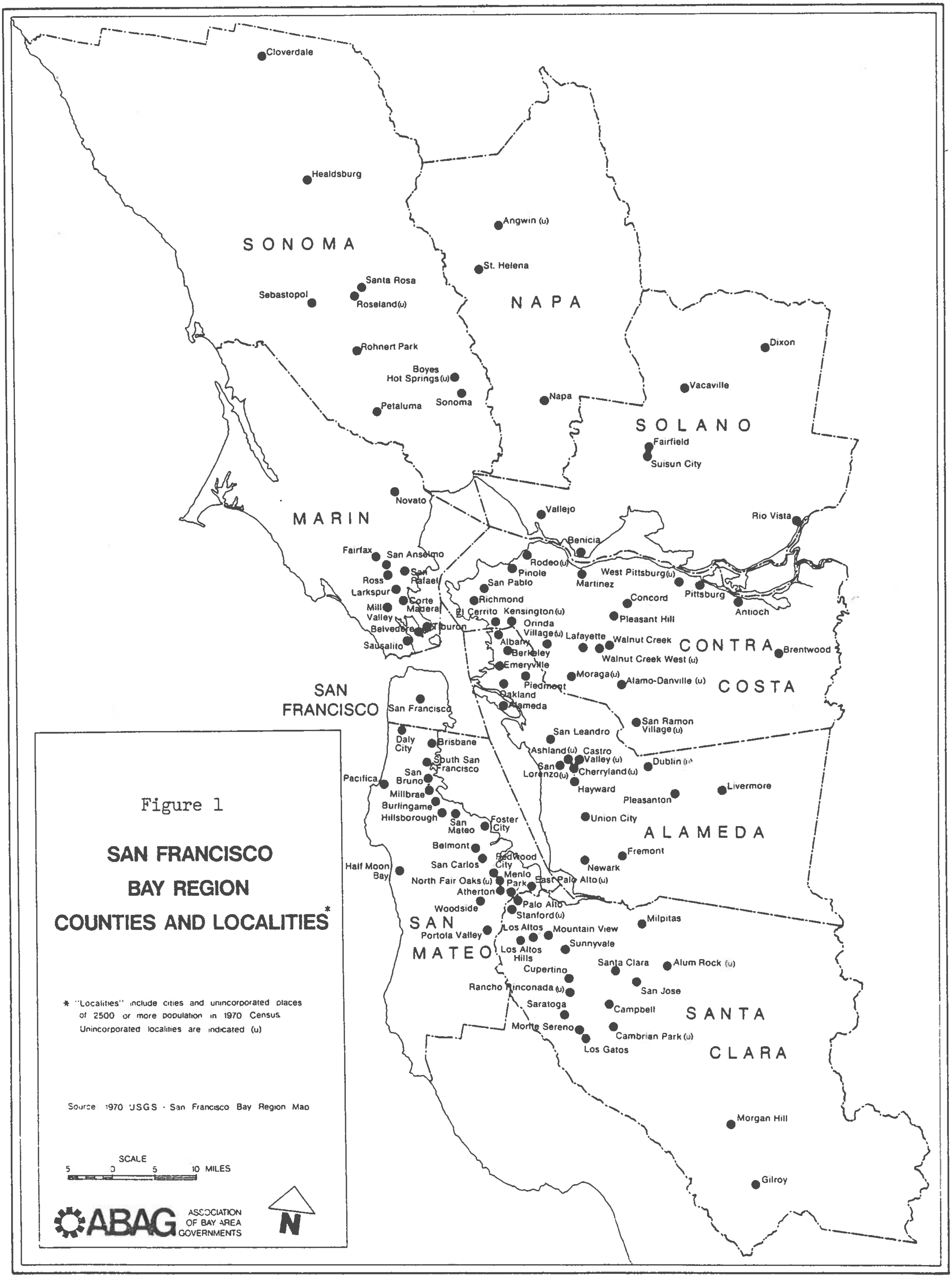

Figure 1

SAN FRANCISCO BAY REGION COUNTIES AND LOCALITIES*

* "Localities" include cities and unincorporated places of 2500 or more population in 1970 Census. Unincorporated localities are indicated (u)

Source: 1970 USGS - San Francisco Bay Region Map

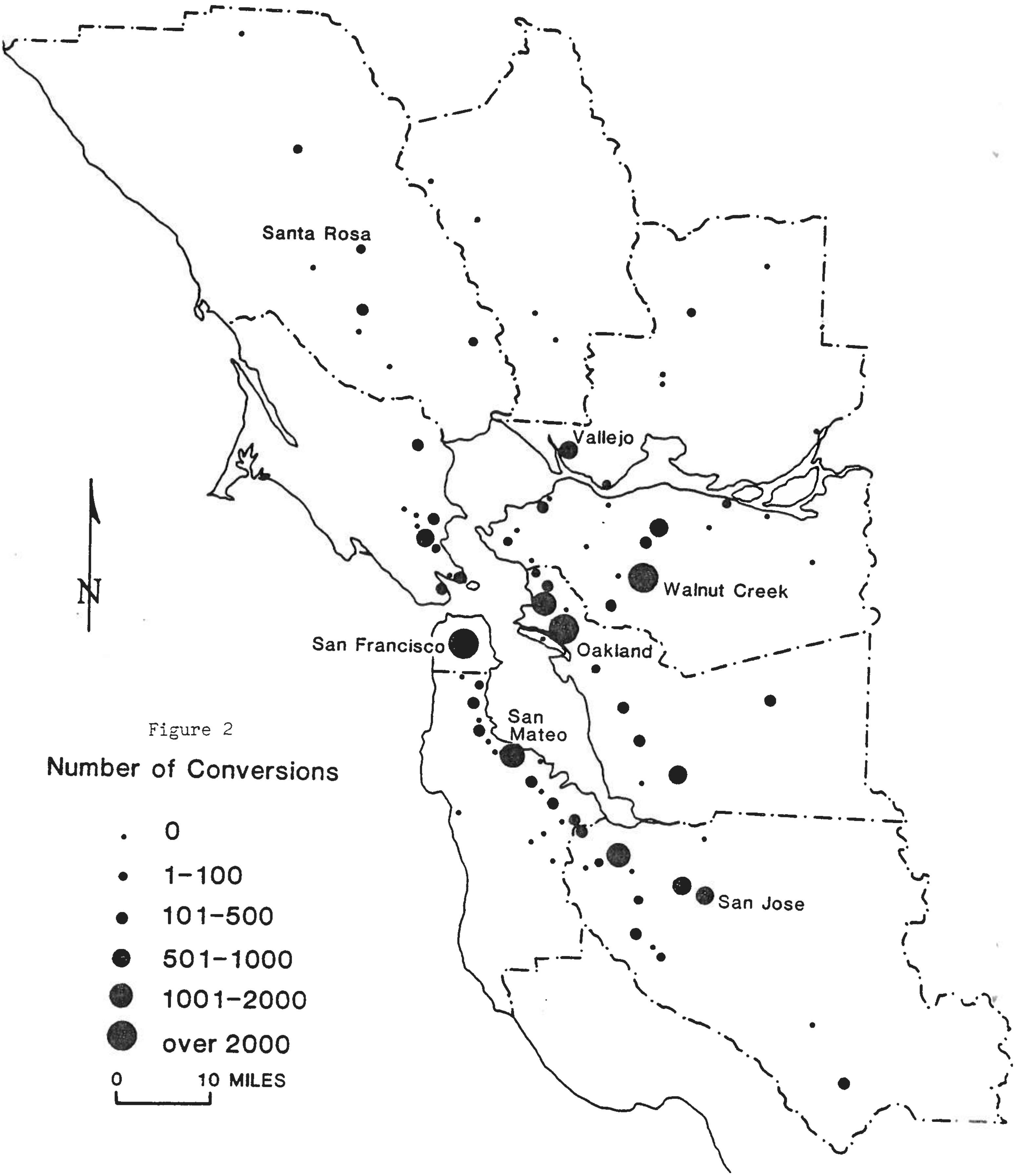

Figure 2

Number of Conversions

location of converted units by city for the entire region.[7] From this map we can identify three main conversion markets:

1. The San Francisco/Oakland SMSA, which includes Larkspur in Marin County, Emeryville in Alameda County, and San Mateo in San Mateo County.

2. The Walnut Creek/Concord Corridor to the East in Contra Costa County.

3. The entire southern portion of the region, or "Silicon Valley," the center of the semiconductor and microprocessor industries in California. Also included in this cluster are Hayward, Fremont, and Union City, across the Bay in the southern part of Alameda County, which are within commuting distance of Silicon Valley.

All three clusters represent major employment centers with industries in which professional and managerial jobs are increasing relative to clerical or blue-collar jobs and where home construction is highly constrained by zoning laws and subdivision controls.

In Table 5 we can examine these separate market clusters more closely. This table reveals a number of differences between converted projects in suburban communities and in central cities. Both San Francisco and Oakland have smaller average project sizes than suburbs like Mountain View, Santa Clara, Fremont, and Walnut Creek. Emeryville is a unique case and deserves some mention.

Table 5

Major Bay Area Conversion Markets,

1970-1979

Market	Number of Projects	Number of Units	Percent of Conversions in the Region	Conversions as a Percentage Average Project Size	Conversions as a Percentage Multifamily Units*
San Francisco-Oakland	270	8,590	38,0	31.8	2.8
San Francisco	132	2,812	12.4	26.3	1.4
Oakland	79	2,597	11.5	32.8	3.2
Emeryville	1	1,249	5.5	1,249.0	64.1
San Mateo	33	1,201	5.3	36.3	6.0
Larkspur	25	711	3.1	27.8	24.3
Contra Costa	54	4,138	18.3	76.6	13.5
Concord	25	1,734	7.7	67.4	8.0
Walnut Creek	15	1,175	5.2	78.5	16.0
Walnut Creek area (unincorporated)	14	1,229	5.4	87.8	8.3
Southern Region	27	4,671	20.7	76.4	4.2
Mountain View	35	1,997	8.8	57.1	11.2
Santa Clara	4	1,094	4.8	273.5	7.0
San Jose	NA	852	3.8	NA	1.4
Fremont	6	520	2.3	86.7	6.1
Union City	3	208	0.9	69.3	5.4
Subtotal	371	17,438	77.2	47.0	3.9
Bay Area	474	22,597	100.0	47.6	3.1

*Multifamily units refer to dwellings in buildings with three units or more as reported by the California Department of Finance in 1979.

As we can see, it is a huge project of 1,249 units. Built on mudflats directly across the Bay from San Francisco near the San Francisco Bay Bridge, the giant Watergate Apartments complex in Emeryville is one of the largest residential conversions to date in Northern California. Emeryville itself is an industrial enclave on the Oakland-Berkeley border. It has little residential housing, aside from the Watergate Apartments, which were developed in 1972. Even given the large size of this project, the average project size for San Francisco/Oakland area conversions is only 33.1 units per building.

In column 5 of Table 5 we have expressed the number of approvals as a percentage of the total number of multifamily units in each community as of 1979. This number can be thought of as an indicator of the impact of conversion on the rental stock. It expresses how much of the multifamily stock has been removed from the rental market by conversion. We would have preferred to use the actual number of rental units in calculating these percentages, but reliable estimates of the rental stock were available only for a few communities. The biggest impact is in Emeryville (64.1 percent of multifamily units) and in Larkspur (24.3 percent). The smallest impact is in the central cities of San Francisco (1.4 percent) and San Jose (1.4 percent).

Percentages for all cities in the region are displayed in Figure 3. This map shows that the decrease in the

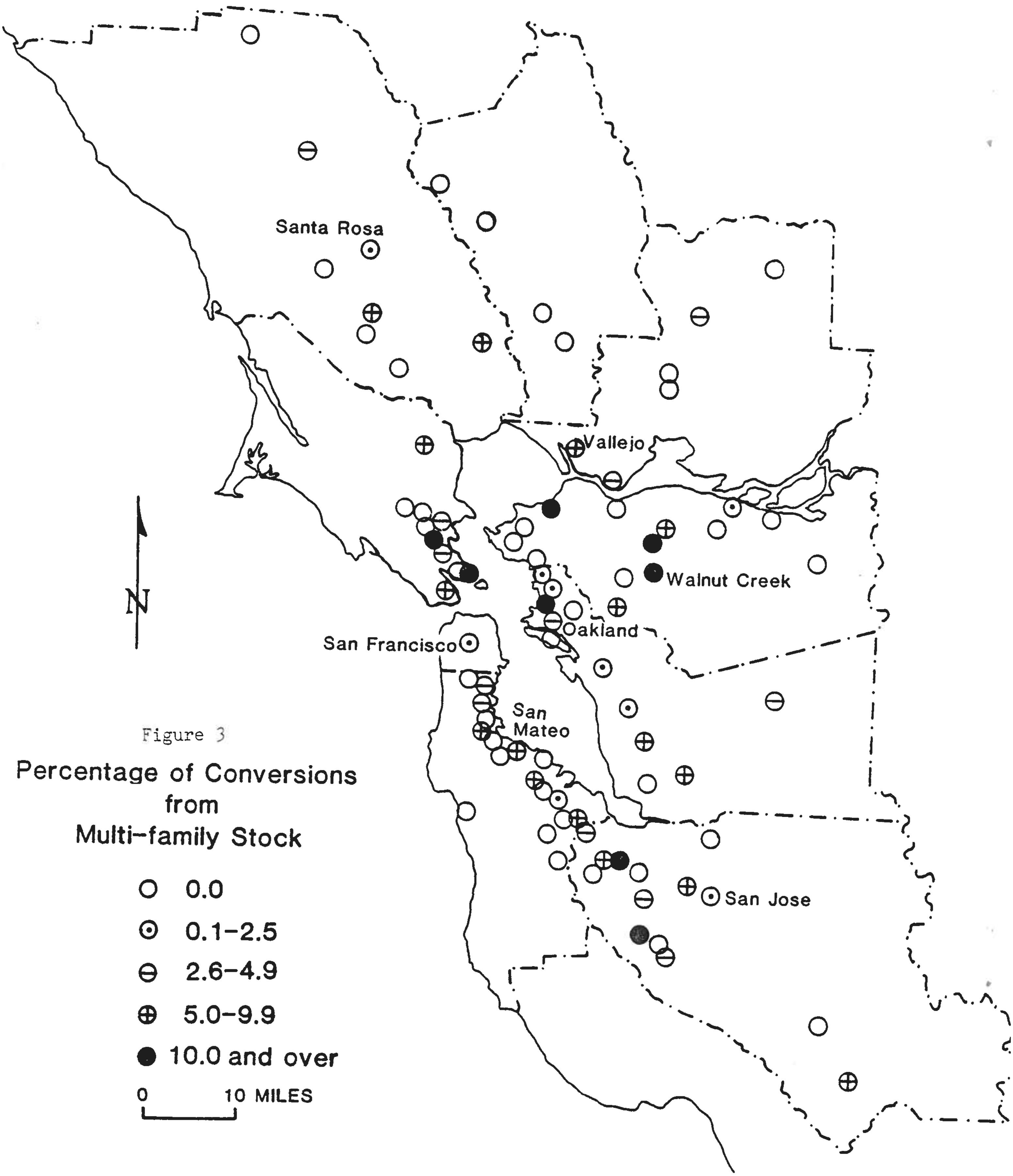

Figure 3

Percentage of Conversions from Multi-family Stock multifamily rental stock as a result of condominium conversions has been most dramatic in the suburbs, particularly in the Walnut Creek/Concord area in Contra Costa County and in Silicon Valley to the south. In fact, the vast majority of units converted throughout the region are located in the suburbs, and not in the central cities as is commonly believed. The central cities of San Francisco, Oakland (including Emeryville), and San Jose account for only 32 percent of total conversions in the nine-county metropolitan region.

To some degree the relatively greater shrinkage of the stock of multifamily rental housing in the suburbs may be the product of the relative size and internal composition of the units of analysis employed, that is, municipalities. San Francisco and Oakland are larger in terms both of population and of geographic area than communities like Walnut Creek and Larkspur. They also have a more diverse stock of multifamily housing in terms of rental value, age, and condition. The sheer size of the big cities also masks the geographical concentration of conversions within their own boundaries.

The impact of conversions in submarkets of larger cities is then probably as great as what we found in the suburban communities of the region. But this bias in our unit of analysis does not help to explain the spatial concentration of conversions in itself, whether it is within a section of the central city or within a whole community. Part of the answer lies in the economics of the conversion process.

Condominium converters package their product as a substitute for the single-family house. A converted unit must be comparable in terms of amenities but sell at a lower price than nearby single-family houses. The buildings most suitable for conversion must contain large, well-equipped, modern units in top condition, located in attractive middle-income neighborhoods.[8] In central cities, these are most often found in high-rent districts in and around the CBD; but the vast majority are to be found in suburban communities, which have more new, high-quality buildings than cities. In the San Francisco/Oakland SMSA, suburbs accounted for 69 percent of all multifamily construction in the 1960s. Out of a total of 49,138 new rental units in buildings of five units or more built between 1970 and 1975 in the SMSA, 38,922--approximately eighty percent--were developed outside central cities.[9]

The relative size and composition of the multifamily stock in suburban communities also influences relative conversion rates between suburbs and central cities. Average project sizes are larger in suburbs. Since these larger projects are converted from a smaller stock of units, conversions as a percentage of the stock of units will tend to be higher in the suburbs.

According to this analysis, suburban communities will experience higher conversion rates because their multifamily housing stock consists of more large new buildings than are found in the central cities.

Conclusion

Our analysis of the nine-county Bay Area shows a substantial increase in the condominium conversion rate after 1978. This trend is also true for California as a whole. The implication of this trend is that the rental stock in the metropolitan area is shrinking. Spatial analysis of the process shows that conversions occur mainly in three clusters: in the San Francisco/Oakland SMSA, in the Walnut Creek/Concord area, and in the southern portion of the region including Silicon Valley. The greatest decline in the multifamily rental housing stock because of conversion has occurred in the inner-ring suburbs of the area.

This points toward a substantial shrinkage of the rental supply in suburban housing markets over the long run. Not only are conversions as a percentage of multifamily dwellings higher today in the suburbs as compared to the central cities, but a larger proportion of the multifamily stock in the suburbs is potentially convertible because of its younger age, better condition, and spacious unit size. If conversions continue at their present rates, much of the present suburban apartment stock will be converted by 1990.

APPENDIX

In California, conversions are regulated at the local level by the Subdivision Map Act, which requires that all subdivisions be consistent with the community master plan. To obtain approval, a subdivider must submit a tentative map of the subdivision and supporting information on the conversion. Some cities set special design and improvement standards for conversion. Many now require converters to comply with tenant and consumer-protection provisions. The State subdivision law requires that a map be disapproved if the coverter does not provide all tenants with a 120-day notice to vacate and a 60-day right of first refusal to purchase their units. If the subdivider meets all requirements, a tentative map is issued by the local planning commission. The tentative map is revised as required by the city and a Final Map is prepared and recorded. Complying with local government regulations and obtaining approval of the tentative map may take anywhere from three months to a year.

Once the tentative map is approved, the subdivider must then apply to the California Department of Real Estate for a "report." The California Department of Real Estate's authority to regulate conversions is derived from the Subdivided Lands Act. This law sets standards for the legal instruments for common interest subdivision, including condominiums, stock cooperatives, limited equity cooperatives, and community apartment conversions. The Department of Real Estate can disapprove the conversion if it determines there is fraud, misrepresentation, inability to deliver title, inadequate access or water supply, inadequate financial arrangements for management of common areas, or failure to disclose restrictions on uses. Upon compliance with these regulations, the Department of Real Estate issues its "white Report." This report entitles the subdivider to begin marketing the converted units and must be presented to all buyers prior to sale of a unit or share. Obtaining a report takes about three to nine months. Only in very few instances do developers fail to complete conversions after the White Report is issued.

Notes

[1]U.S. Department of Housing and Urban Development, Division of Policy Studies, The Conversion of Rental Housing to Condominiums and Cooperatives: A National Study of Scope, Causes, and Impacts. Washington, D.C.: U.S. Government Printing Office, 1980. This is the most comprehensive research on condominium conversion and its social and economic impacts to date.

[2]These show up in the 1979 and 1980 state figures because of the six-to-twelve-month lag between local and California Department of Real Estate approvals.

[3]Los Angeles Times, April 30, 1980.

[4]California Government Code, Section 66427.

[5]The data for this survey were collected by Steve Ishino as part of a report entitled "Condo Conversions in the Bay Area," Department of City and Regional Planning, University of California, 1979 (unpublished).

[6]The source for Figure 1 is Association of Bay Area Governments, Phase I of the Regional Housing Element, San Francisco Bay Area, August 1975.

[7]Figures 2 and 3 were prepared by Mrs. Adrean Morgan, Department of Geography, University of California, Berkeley.

[8]Dennis Richardson, "The Creative Art of Condominium Conversion," Real Estate Review, Vol. 9, No. 2 (Summer 1979), p. 54. See also Ken Wilson, "Profit Potential in Condo Conversion," Real Estate Review, Vol. 4, No. 1 (Spring 1974), pp. 62-64.

[9]Department of Housing and Urban Development, Annual Housing Survey, 1975.